REPUBLIC ACT NO. 7353, OTHERWISE KNOWN AS THE RURAL BANKS ACT OF 1992, PROVIDING FOR THE CREATION, ORGANIZATION AND OPERATION OF RURAL BANKS AND FOR OTHER PURPOSES.

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SECTION 1. Scope - Pursuant to Section 245 in relation to Section 4 of the National Internal Revenue Code (NIRC) as amended, these regulations are hereby promulgated to implement the provisions of Sections 15, 20 and 21 of R.A. No. 7353 granting tax exemptions to rural banks, and Section 25 of the said Act.

SECTION 2. Taxes covered by the Exemption -

A. All rural banks created and organized under the provisions of the Act and rural banks already in operation as of the date of approval thereof on April 2, 1992, shall be exempt from the payment of all taxes, fees and charges of whatever nature and description, except the corporate income tax and local taxes, fees and charges. (Sec. 15, R.A. 7353)

The corporate income taxes which rural banks are liable to pay are the following:

- 35% corporate income tax as provided for under Section 24 (a) of the NIRC

- 20% final withholding tax (FWT) on interest income derived from Philippine currency bank deposits and yield or any other monetary benefit from deposit substitutes, trust funds and similar arrangements, and royalties derived from sources within the Philippines. (Section 24 (e)(1), NIRC);

- Creditable expanded withholding tax (EWT) on sales, exchanges or transfers of real properties (whether classified as ordinary or capital asset) by Rural Banks consummated on or after January 1,1990 (RMC 7-90);

- Capital gains tax (CGT) on capital gains realized from the sale, exchange or disposition of (i) shares of stock in any domestic corporation under Section 24 (e)(2), NIRC; and (ii) as statutory seller of acquired real property through mortgage foreclosure sale, whether judicial or extrajudicial under Revenue Memorandum Order No. 6-92 dated January 15, 1992, the creditor-rural bank representing the owner-mortgagor of the real property becomes liable to pay the capital gains tax due on such foreclosure sale based on the bid price in the auction sale; and

- All other income taxes as provided for and imposed under Title II of the NIRC.

B. Exemption from gross receipts tax - All rural banks are exempt from the tax (GRT) imposed under Section 119 of the NIRC, on gross receipts derived from sources within the Philippines.

C. Exemption from documentary stamp tax - Rural banks are exempt from the documentary stamp taxes collectible under existing laws on any loan or transaction extended by them in an amount not exceeding fifty thousand pesos (P50,000) or such amount as the Secretary of Finance upon recommendation of the Monetary Board may prescribe as may be necessary to promote and expand the rural economy.

c.1. Any city or municipal trial court judge in his capacity as notary public ex officio shall administer the oath to or acknowledge the instruments of any rural bank and its borrowers or mortgagors, free from all charges, fees and documentary stamp tax collectible under existing laws relative to any loan or transaction not exceeding fifty

thousand pesos (P50,000).

c.2. Any Register of Deeds shall accept from any rural bank and its borrower and mortgagors for registration, free from all charges, fees and documentary stamp tax collectible under existing laws any instrument, whether voluntary or involuntary relating to loans or transactions extended by a rural bank in an amount not exceeding fifty thousand pesos (P50,000).

SECTION 3. Liability of Rural Banks to Documentary stamp tax - All Rural Banks shall be liable to the payment of documentary stamp tax on that portion of the loaned amount in excess of fifty thousand pesos (P50,000). On instruments related to assignments of several mortgages consolidated in a single deed, if any, the documentary stamp tax shall be levied and collectible only on the amount in excess of P50,000 of the consideration in the assignment of each mortgage, or such amount as the Secretary of Finance, upon recommendation of the Monetary Board, may prescribe as may be necessary to promote and expand the rural economy. Such tax shall be paid by the person making, signing, issuing, accepting or transferring the document, and at the same time such act is done or transaction had, provided that whenever one party to the taxable document enjoys exemption from the documentary stamp tax herein imposed, the other party thereto who is not exempt shall be the one directly liable for the tax.

SECTION 4. Rural Banks Acting as Agents of the Philippine National Bank (PNB), Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) - All rural banks organized and oeprated under the provisions of the Act, acting as agents of the PNB, LBP and DBP in areas where these banks have no offices or branches, subject to accreditation guidelines as provided for under Section 25 of the Act, are not exempt from the payment of taxes where their principals are subject to tax.

SECTION 5. Rural Banks as withholding agents - A Rural bank shall be constituted as withholding agent for the government if it acts as an employer and its employees received compensation income subject to the withholding tax under Section 72 (a), Chapter 10, Title II of the NIRC as implemented by Revenue Regulations No. 6-82 as amended, or if it makes income payments to individuals or corporations subject to the expanded withholding tax pursuant to Section 50 (b) of the NIRC, as amended, and as implemented by Revenue Regulations No. 6-85, as amended.

SECTION 6. Liability of any City/Municipal Trial Court Judge or Register of Deeds - Any city/municipal trial court judge or register of deeds who shall demand or accept, directly or indirectly, any gift, fee, commission or other form of compensation in connection with the service, or shall arbitrarily or without reasonable cause delay the acknowledgement or administration of oath or the registration of documents required to be performed by said judge as provided in Section 20 and by said register of deeds as provided in Section 21 of this Act, shall be punished by a fine of not more than One thousand pesos (P1,000) or by imprisonment for not more than one (1) year, or both, at the discretion of the court.

SECTION 7. Period of Exemption - All rural banks created and organized under the provisions of the Act shall be exempt from the payment of all taxes, fees and charges of whatever nature and description, except the corporate income tax imposed under Title II of the NIRC and as specified in Section 2 (A) of these regulations for a period of five (5) years from the date of commencement of operations; while for rural banks which are already existing and operating as of the date of approval of the Act (April 2, 1992), the tax exemption shall be for a period of five (5) years reckoned from the date of such approval.

For purposes of these regulations, date of commencement of operations shall be understood to mean the date when the rural bank was registered with the Securities and Exchange Commission*.

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However, R.A. 7353 although approved on April 2, 1992, was published in the Official Gazette on May 25, 1992; hence, said Act took effect only after fifteen (15) days following its publication or on June 9, 1992, pursuant to Article 2 of the New Civil Code of the Philippines and in line with the Supreme Court decision in the case of Tañada, et. al. vs. Tuvera, 146 SCRA 446.

SECTION 8. Repealing Clause - All regulations, orders, and other issuances, or portions thereof, contrary to or inconsistent with the provisions of these regulations are hereby modified, amended and/or revoked accordingly.

SECTION 9. Effectivity - These regulations shall take effect fifteen (15) days after publication in a newspaper of general circulation.

Adopted: 22 Apr. 1993

(Sgd.) ERNEST LEUNG
Acting Secretary

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* Or the date when the Certificate of Authority to operate was issued by the Monetary Board of the Central Bank, whichever comes later.

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