REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

RA 6657
BIR Ruling No. 350-13
#179-2016 5-16-2016

DIVINIA B. MASA
Barleta Subdivision
San Pablo City

Madam:

This refers to your letter dated April 11, 2006 duly indorsed by Revenue Region No. 9-San Pablo City dated September 17, 2007 relative to the request for confirmation that the disturbance compensation in the form of land granted to Martina D. Veherano is exempt from taxes and all other fees.

Documents submitted disclose that Divinia B. Masa is the registered owner of a parcel of land located at Brgy. San Rfael, San Pablo City consisting of the total area of Fourteen Thousand Five Hundred Thirty Two square meters (14,532 sq.m.) covered by Original Certificate of Title (OCT) No. and Free Patent No.

On October 13, 2003, a Donation of Real Property Inter Vivos was executed, whereby the owner transferred and conveyed, by way of disturbance compensation, to Martina D. Veherano, Four Hundred square meters (400 sq.m.) portion of the above-mentioned property, as a result of the extinguishment of tenancy relationship between the parties, evidenced by "Sinumpaang Salaysay sa Pagsasauli ng Karapatan bilang Mag-aalaga" executed by Martina D. Veherano dated October 13, 2003). Certification was issued by Municipal Agrarian Reform Office (MARO) of San Pablo City, stating that the Four Hundred square meters (400 sq.m.) portion of the property covered by OCT No. is actually a disturbance compensation under Section 66 of Republic Act (RA) No. 6657.

In reply, please be informed that since the conveyance of the owner is in the form of disturbance compensation brought by the extinguishment of tenancy relationship between the parties, the transfer is exempt from capital gains tax and documentary stamp tax pursuant to Section 66 of RA No. 6657 otherwise known as the "Comprehensive Agrarian Reform Law of 1988" which provides, viz:

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"Sec. 66. Exemption from Taxes and Fees of Land Transfers. Transactions under this Act involving a transfer of ownership, whether from natural or juridical persons, shall be exempted from taxes arising from capital gains. These transactions shall also be exempted from the payment of registration fees, and all other taxes and fees for the conveyance or transfer thereof. Provided, That all arrearages in real property taxes, without penalty or interest, shall be deductible from the compensation to which the owner may be entitled."

Attached to the records is a Certification dated October 29, 2012 from the MARO, San Pablo City, certifying that the Four Hundred square meters (400 sq.m.) portion of the above-mentioned property covered by OCT No. was verified as disturbance compensation of tenant, Matrina D. Veherano pursuant to RA 6657 (CARP Law).

Be it noted that Section 36 (1) of RA 3844, as amended, allows disturbance compensation to a tenant in case of termination of tenancy-relationship by reason of the conversion of the agricultural land into non-agricultural uses. Only Section 35 of RA 3844 was expressly repealed by RA 6657 or the CARP Law. Thus, transfer of land to a tenant by way of disturbance compensation due to extinguishment of tenancy relationship between the parties, as in this instance, is still considered one of the transactions contemplated under Section 66 of RA 6657.

Accordingly, the transfer by the owner of Four Hundred square meters (400 sq.m.) portion of the property covered by OCT No in the form of disturbance compensation is exempt from capital gains tax and documentary stamp tax pursuant to the aforecited provision. (BIR Ruling No. 350-13 dated September 11, 2013)

This ruling is being issued on the basis of the foregoing facts as represented. However, if upon investigation, it will be disclosed that the facts are different, then this ruling shall be considered null and void.

Very truly yours,

KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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