REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

REVENUE MEMORANDUM CIRCULAR NO. 66-2012

SUBJECT : Taxation of Rural Banks Formed Through Consolidation

TO : All Revenue Officials, Employees and Others Concerned

I. BACKGROUND:

Republic Act (RA) No. 7353, otherwise known as the *Rural Banks Act of 1992*, was enacted to encourage and assist in the establishment of a rural banking system in the Philippines designed to make needed credit available and readily accessible in the rural areas on reasonable terms. In furtherance of this policy, Section 15 of the Act exempts (1) all rural banks created and organized under its provisions; and (2) rural banks already in operation as of the date of its approval on April 2, 1992, from the payment of all taxes, except corporate income taxes and local taxes, fees and charges. This exemption is for a period of five (5) years from the date of commencement of operations or from approval of the Act, as the case may be.

It has been observed, however, that certain existing rural banks, after having fully enjoyed the tax exemption under RA 7353, are able to extend their period of tax exemption beyond the prescribed five (5)-year period through the process of *consolidation*. As defined, *consolidation* refers to "*the union of two or more existing corporations to form a new corporation called the consolidated corporation. It is a combination by agreement between two or more corporations by which their rights, franchises, and property are united and become those of a single, new corporation, composed generally, although not necessarily, of the stockholders of the original corporations*."[1]

In this case, certain rural banks already in existence and have previously availed of the tax incentives under RA 7353 consolidate themselves into single rural banks. Relying on Section 15 of RA 7353, these rural banks established through *consolidation* ("consolidated rural banks") avail of another five (5) years to be exempt from payment of internal revenue taxes, such as gross receipts tax (GRT).

However, the tax exemption may no longer be availed by consolidated rural banks for the following reasons:

First, the processes of *consolidation* involve existing and operating rural banks that already cater to the public. For this reason, these processes do not significantly promote the policy enunciated in RA 7353. It merely prolongs the exemption beyond the period prescribed by law, thereby depriving the government of much-needed revenues.

---

[1]McLeod vs. NLRC, et. al., G.R. No. 146667 dated January 23, 2007; Cesar Lapuz Villanueva, Philippine Corporate Law, 2001, pp. 606-607.

Second, Section 80 of the Corporation Code sets forth the effects of *consolidation* which includes the following:

1. The surviving or **the consolidated corporation shall possess all the rights, privileges, immunities** and powers and shall be **subject to all the duties and liabilities** of a corporation under this Code;

2. The surviving or **the consolidated corporation shall thereupon and thereafter possess all the rights, privileges, immunities and franchises of each of the constituent corporations**; and all property, real or personal, and all receivables due on whatever account, including subscriptions to shares and other choses in action, and all and every other interest of, belonging to, or due to each constituent corporation, shall be deemed transferred to and vested in such surviving or consolidated corporation without further act or deed; and

3. The surviving or **consolidated corporation shall be responsible and liable for all the liabilities and obligations of each of the constituent corporations in the same manner as if such surviving or consolidated corporation had itself incurred such liabilities or obligations**; and any pending claim, action or proceeding brought by or against any of such constituent corporation may be prosecuted by or against the surviving or consolidated corporation, as the case may be. Neither the rights of creditors nor liens upon the property of any of such constituent corporations shall be impaired by such merger or consolidation. (Emphasis supplied)

II. TAXATION OF RURAL BANKS FORMED THROUGH CONSOLIDATION

Rural banks formed through *consolidation* ("consolidated rural banks") of existing rural banks ("constituent rural banks") shall not be entitled to the tax exemption under Section 15 of Republic Act No. 7353 in cases when the constituent rural banks previously availed of this exemption. However, should any or both the constituent rural banks not be able to enjoy the tax exemption for the entire five (5)-year period, then the consolidated rural bank shall be entitled to the exemption for the remaining period.

All other issuance inconsistent herewith are hereby repealed or modified accordingly.

All concerned revenue officials and employees are hereby enjoined to give this Circular as wide a publicity as possible.

This Circular takes effect immediately.

(Original Signed)
KIM S. JACINTO-HENARES
Commissioner of Internal Revenue