REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

November 5, 2012

REVENUE MEMORANDUM CIRCULAR NO. 68-2012

SUBJECT: Condonation of Tax Liabilities of Local Water Districts

TO : All Revenue Officials, Employees and Others Concerned

This Circular is issued to serve as guidelines in the processing of requests for condonation of tax liabilities of local water districts.

BACKGROUND

Republic Act (R.A.) No. 10026 allows the condonation of tax liabilities of local water districts subject to certain conditions. The law added a new Section in the National Internal Revenue Code of 1997 (NIRC) which reads:

> "Sec. 289-A. Support for Local Water Districts. — The amount that would have been paid as income tax and saved by the local water district by virtue of its exemption to the income taxes shall be used by the local water district concerned for capital equipment expenditure in order to expand water services coverage and improve water quality in order to provide safe and clean water in the provinces, cities, and municipalities: Provided, That, the water district shall adopt internal control reforms that would bring about their economic and financial viability: Provided, further, That the water district shall not increase by more than twenty percent (20%) a year its appropriation for personal services, as well as for travel, transportation or representation expenses and purchase of motor vehicles.
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> **All unpaid taxes or any portion thereof due from a local water district for the period starting August 13, 1996 until the effectivity date of this Act are hereby condoned by the Government** subject to the following conditions: (1) that the Bureau of Internal Revenue, after careful review of the financial statements of a water district applying for condonation of taxes due, establishes its financial incapacity, after providing for its maintenance and operating expenses, debt servicing and reserved fund, to meet such obligations for the period stated herein; and (2) that the water district availing of such condonation shall submit to Congress of the Philippines a program of internal reforms, duly certified by the local water utilities administration, that would bring about its economic and financial viability.

All water districts, through the Local Water Utilities Administration, shall furnish the Committee on Ways and Means of the Senate and House of Representatives, respectively, on an annual basis, with statistical data and financial statements regarding their operations and other information as may be required, for purposes of monitoring compliance with the provisions of this Act and reviewing the rationalization for tax exemption privileges."

It should be noted that the condonation is not automatic and that a local water district must meet certain requirements before it can avail of the tax incentives. Thus, this Circular is issued to lay down the procedures in the application and approval of condonation of tax liabilities pursuant to RA No. 10026.

A. APPLICATION

Local water districts that intend to avail of condonation of tax liabilities must file with the Technical Working Committee on Abatement through the Assistant Commissioner – Collection Service as Chairman a letter application stating:

i. That it is a duly organized local water district;
ii. That it intends to apply for condonation of unpaid tax liabilities;
iii. A detailed statement of the unpaid tax liabilities which it seeks to be condoned including the amount/s of basic taxes, penalties and surcharges, taxable year/s involved, and other relevant data;

The following documents must be submitted together with the application:

i. Conditional Certificate of Conformance issued by the Local Water Utilities Administration;
ii. Proof of its financial incapacity; and
iii. Proof that it has submitted to Congress of the Philippines a program of internal reforms, duly certified by the local water utilities administration, that would bring about its economic and financial viability.

The Bureau shall not be precluded from requiring additional documents to prove entitlement to tax exemption under the prevailing circumstances.

B. PRESCRIPTION

All applications for condonation must be filed on or before April 30, 2013. No application for condonation may be processed after the said date.

This Order shall take effect immediately.

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

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

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