

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

10 October 2003

REVENUE MEMORANDUM CIRCULAR No. 63-2003

SUBJECT : Local water districts are now subject to Franchise Tax and Corporate Income Tax

TO : All Internal Revenue Officials, Employees and other Concerned

For the information and guidance of all internal revenue officers and others concerned, please be informed that local water districts are now subject to:

1. Income taxes; and
2. Franchise taxes.

in addition to the following taxes:

1. Excise taxes;
2. Value-added Tax (VAT) on sale of goods and services;
3. Other percentage taxes under Title V of the Tax Code;
4. Capital gains tax;
5. Income tax on income not arising from the water district's productive activity such as interest, royalties, prizes, winnings and dividends;
6. Final tax of 20% on interest income from Philippine currency bank deposit, yield or any other monetary benefit from deposit substitutes and from trusts fund and similar arrangement; and
7. Documentary stamp tax on documents, instruments and papers. (BIR Ruling No. UN-439-95 dated November 17, 1995)

The exemption privilege (income and franchise taxes) granted to local water districts was limited to a period of five (5) years from the effectivity of R.A. No. 7109 as provided in Section 3 thereof, to wit:

"SECTION 3. *Period and Conditions of Exemptions.* - The tax exemption privileges provided for in Sections 1 and 2 to all water districts shall be enjoyed only for a period of five (5) years from the effectivity of this Act. *Provided*, That the water districts shall adopt internal control reforms that would bring about their economic and financial viability: *Provided, further*, That, for a water district to be entitled to the tax exemption, its appropriation for personal services, as well as for travel, transportation or representation expenses and purchase of motor vehicles, shall not be increased by more than twenty-five percent (25%) a year during the period of exemption." (Underscoring supplied)

Accordingly, local water districts are subject to income taxes and franchise taxes effective August 13, 1996 or five (5) years from the effectivity of R. A. No. 7109. (Memo No. 014-2002 dated October 24, 2002 signed by then Deputy Commissioner for Legal and Inspection Group, Edmundo P. Guevara addressed to the Office of the Revenue District Officer of Revenue District No. 23, Cabanatuan City).

Please be guided accordingly.

(Original Signed)
GUILLERMO L. PARAYNO, JR.
Commissioner

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