

[DOF LOCAL FINANCE CIRCULAR NO. 3-93, June 16, 1993]

PRESCRIBING THE GUIDELINES GOVERNING THE POWER OF CITIES AND MUNICIPALITIES TO IMPOSE BUSINESS TAX ON FINANCING COMPANIES PURSUANT TO SECTIONS 143(F) AND 151 OF REPUBLIC ACT NO. 7160, OTHERWISE KNOWN AS THE LOCAL GOVERNMENT CODE OF 1991, AND ITS IMPLEMENTING RULES AND REGULATIONS (IRR)

Pursuant to Sections 143(f) and 151 of Republic Act No. 7160, otherwise known as the Local Government Code of 1991 (LGC), municipalities and cities may impose a tax on businesses, which may include financing companies.

Accordingly, the following guidelines are hereby prescribed, in accordance with Art. 287 of the IRR, to ensure the proper, efficient, and effective exercise of the aforesaid taxing powers of cities and municipalities for guidance and compliance of all concerned.

SECTION 1. Coverage. - (a) As used herein, the term "financing companies" shall refer to corporations or partnerships, except those regulated by the Central Bank of the Philippines, Insurance Commission and the Cooperatives Development Authority, which are primarily organized for the purpose of extending credit facilities to consumers and to industrial, commercial or agricultural enterprises, either by discounting or factoring commercial papers or accounts receivable, or by buying and selling contracts, leases, chattel mortgages, or other evidences of indebtedness, or by leasing of motor vehicles, heavy equipment and industrial machinery, business and office machines and equipment, appliances and other movable property;

(b) "Credit" shall mean any loan, mortgage, deed of trust, advance, or discount; and conditional sales contract any contract to sell, or sale or contract of sale of property or service, either for present or future delivery under which, part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract; any option, demand, lien, pledge, or other claim against, or for the delivery of, property or money, any purchase, or other acquisition of or any credit upon the security of, any obligation or claim arising out of foregoing; and any transaction or series of transactions having a similar purpose or effect;

(c) "Purchase discount" is the difference between the value of the receivable purchased or credit assigned, and the net amount paid by the finance company for such purchase or assignment, exclusive of fees, service charges, interests and other charges incident to the extension of credit;

(d) "Head Office" shall refer to the main office of the financing company indicated in the pertinent documents submitted to the Securities and Exchange Commission or to the Monetary Board of the Central Bank of the Philippines; the city or municipality

specifically mentioned in the Articles of Incorporation and other official registration papers as being the official address of said Head Office;

(e) "Branch" is a fixed place in a locality established as a branch of a financing company, as authorized by the Securities and Exchange Commission. However, a regional or extension office of financing companies shall not be considered as a branch.

SECTION 2. Tax on the Gross Receipts of Financing Companies. - (a) The tax on financing companies may be levied on their gross receipts for the preceding calendar year, as follows:

- (1) By municipalities, at a rate not exceeding fifty percent (50%) of one percent (1%) of the gross receipts for the preceding calendar year; and
- (2) By cities and municipalities within the Metropolitan Manila area, at a rate not exceeding seventy five percent (75%) of one percent (1%) of the gross receipts for the preceding calendar year.

(b) For this purpose, "gross receipts" shall include only the following:

- (1) Interest from loans and discounts - this represents interest earned and actually collected on loans and discounts. The following is a breakdown:
 - (i) Discounts earned and actually collected on the portion of interest collected in advance on bills discounted;
 - (ii) Interest earned and actually collected on demand loans;
 - (iii) Interest earned and actually collected on time loans, including the earned portion of interest collected in advance;
 - (iv) Interest earned and actually collected on mortgage contracts receivable,
- (2) Interest earned and actually collected on interbank loans.
- (3) Rental of property - this represents the following rental income:
 - (i) Earned portion of rental collected in advance from lessees of safe deposit boxes;
 - (ii) Rental earned and actually collected from lessees on bank premises and equipment.
- (4) Income earned and actually collected from acquired assets.
- (5) Income from sale or exchange of assets or property.
- (6) Cash dividends earned and received on equity investments.
- (7) Income component of rentals from financial leasing.

At the time of the annual payment of the tax due, the Head Office or branch of the financing company shall submit to the LGU concerned, a breakdown of the declared gross receipts for the preceding calendar year.

(c) All other income and receipts of financing companies not otherwise enumerated above shall be excluded from the taxing authority of the LGU concerned.

SECTION 3. Non-separability of Financing Company Business. - Activities which are inherent, related, necessary or incidental to the financing company business shall be treated as one business activity subject to the same tax rate under Section 2(a) hereof. The amount of tax thereon shall be computed on the basis of the combined gross receipts of all said financing activities.

In view thereof, the provisions of Art. 242 of the IRR requiring a person or entity to