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

Bureau of Internal Revenue Ruling

Sec. 2.57.2(I), RR 2-98; RMC 8-2014		#076-2016

Person to Contact: Chief, Law Division
Tel. Nos. 926-55-36 / 927-09-63

Date: March 1, 2016

MS. JANET P. ARMAS
OIC-Regional Director
Field Office-Cordillera Administrative Region (CAR)
Department of Social Welfare and Development
40 North Drive, Baguio City

Madam:

This refers to your letter dated June 5, 2015 requesting clarification on whether or not the Department of Social Welfare and Development (DSWD) Field Office-CAR is required to withhold taxes on the income payments to Saint Louis University, Inc. (Hospital of the Sacred Heart).

It is represented that DSWD Field Office-CAR has an existing Memorandum of Agreement (MOA) with Saint Louis University, Inc. (Hospital of the Sacred Heart) on the granting of financial assistance to the former's clients by referring them to the latter and shouldering the medical fees up to a certain amount under the Expanded Assistance to Individuals in Crisis Situation (AICS) Program. It is further represented that Saint Louis University, Inc. (Hospital of the Sacred Heart) refuses to allow the withholding from DSWD's income payment by reason of the institution's tax exemption. DSWD Field Office-CAR finds the tax exemption of Saint Louis University, Inc. (Hospital of the Sacred Heart) to be only for educational purposes and that DSWD Field Office-CAR's clients avail of "the hospital expense which does not fall under the category of educational purposes".

In reply, Revenue Memorandum Circular No. 8-2014 *(Presentation of Tax Exemption Certificate of Ruling by Exempt Individuals and Entities)* states that:

> *"...the concerned withholding agents shall require all individuals and entities claiming such exemption to provide a copy of a valid, current and subsisting tax exemption certificate or ruling, as per existing administrative issuances and any issuance that may be issued from time to time, before payment of the related income. The tax exemption certificate or ruling must explicitly recognize the grant of exemption, as well as the corresponding exemption from imposition of withholding tax. Failure on the part of the taxpayer to present the said tax exemption certificate or ruling as*

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> *herein required shall subject him to the payment of appropriate withholding taxes due on the transaction. On the other hand, the withholding agent's failure to withhold notwithstanding the lack of tax exemption certificate or ruling shall cause the imposition of penalties under Section 251 and other pertinent Sections of the Tax Code."*

It appears that the copy of the certificate of exemption issued by the BIR dated May 3, 1989 to Saint Louis University, Inc. (Hospital of the Sacred Heart) is neither currently issued nor does it explicitly recognize the grant of exemption of the income from income tax and corresponding exemption from the imposition of withholding tax.

It should be noted that the Bureau's ruling in the presented BIR Ruling states that—

> *"xxx...The exemption herein contemplated refers to internal revenue taxes and customs duties, in appropriate cases, imposed by the National Government and in certain cases to local taxes imposed by local government units under the Local Tax Code on* ***all revenues and assets of non-stock; non-profit educational institutions used actually, directly and exclusively for educational purposes. They shall, however, be subject to internal revenue taxes on income from trade, business or other activity in the conduct of which is not related to the exercise or performance by such educational institution of its educational purpose or function.*** *(Section 2, Finance Department Order No. 137-87, as amended by Finance Department Order No. 92-88)*
>
> ***Such being the case, the Saint Louis University, Inc. being a non-stock, non-profit educational institution is exempt from the 10% tax on its income as an educational institution****...xxx*
>
> ***Furthermore, it is understood that the Saint Louis University, Inc. shall be subject to internal revenue taxes on its income from trade, business and other activity the conduct of which is not related to the exercise or performance by such educational institution of its educational purpose or function."*** *(Emphasis supplied)*

Income payments made to Saint Louis University, Inc. (Hospital of the Sacred Heart) for hospital services it renders is not within the contemplation of the phrase "actually, directly, and exclusively for educational purposes" which the Constitutional grant of tax exemption is conditioned on. It should be emphasized that the ruling likewise clarifies that Saint Louis University, Inc. (Hospital of the Sacred Heart) is subject to internal revenue taxes on its income from trade, business and other activity the conduct of which is not related to the exercise or performance by such educational institution of its educational purpose or function.

From the foregoing, it is clear that the tax exemption previously granted to Saint Louis University, Inc. (Hospital of the Sacred Heart), even if revalidated by a

newer Ruling, does not cover the exemption from income taxes on its income derived from hospital services.

Accordingly, as the withholding agent and pursuant to Sec. 2.57.2(I) of Rev. Regulations 2-98, as amended, the DSWD Field Office-CAR should withhold from its income payments to Saint Louis University, Inc. (Hospital of the Sacred Heart) for hospital services rendered to DSWD clients.

Please be guided accordingly.

Very truly yours,

KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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FEB 24 2016

Copy furnished:

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