**August 31, 2018**

# BIR RULING NO. 1154-18

R.A. No. 9904; R.A. No. 8424; RMC No. 9-2013; BIR Ruling No. 105-14

*Montecito Homeowners' Association, Inc.*
Administration Bldg., Montecito Nuvali, Canlubang,
Calamba City, Laguna 4028

Attention: *AAA*

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Gentlemen :

This refers to your letter dated July 11, 2017, requesting for tax exemption of **MONTECITO HOMEOWNERS' ASSOCIATION, INC.** under Republic Act No. 9904 otherwise known as the "Magna Carta for Homeowners and Homeowners' Associations," as enunciated in Revenue Memorandum Circular No. 9-2013 which clarifies the taxability of association dues, membership fees, and other assessments/charges collected by Homeowners' Associations.

Documents submitted disclosed that **MONTECITO HOMEOWNERS' ASSOCIATION, INC.**, is a non-stock and non-profit residential homeowners' association, with Taxpayers Identification No. 000-000-000-000 and duly registered with the Housing and Land Use Regulatory Board (HLURB) with Registration No. 14753 dated August 26, 2010; that it is situated and within the jurisdiction of the City Government of Calamba; that among the purposes for which the Association was incorporated are the following:

> *"1. To promote and advance the best interest, general welfare and prosperity, as well as safeguard the well-being of the lot-owners, homeowners or long-term lessees of Montecito, a residential subdivision registered with the Housing and Land Use Regulatory Board (HLURB), the territorial boundaries of which are the areas within the parcels of land identified and delineated in the sketch plan with technical description, and such other areas and parcels which may be annexed to and made part of Montecito as registered with the HLURB or its successor agency/agencies, such areas or parcels hereby being deemed part of the territorial boundaries of Montecito without need for any corporate action or further amendment of this second Article and it being understood that for the purpose of determining the extent of the territorial boundaries of Montecito the subdivision plans for*

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*other phases submitted and approved by the HLURB or its successor agency/agencies shall be controlling.*

*Montecito is an integral part of a master planned development called NUVALI. Consequently, the association shall automatically become a member of the federation of association for NUVALI, which is intended to be formed for the purpose of maintaining, administering, equipping, supplying and providing the association and other members of the federation with the common facilities, utilities and services for NUVALI, and the Association bind itself to pay all dues and assessments duly imposed by said federation."*

and that the Office of the City Mayor of Calamba certified on March 9, 2017 that:

*"Montecito Homeowners' Association, Inc. is a non-profit homeowners' association with the office address at Administration Bldg., Montecito Nuvali, Canlubang, Calamba City, Laguna. It is further certified that the City Government of Calamba lacks the resources to render the basic services of the village such as Streetlights, securing the safety of the residents, repairs and maintenance, garbage collection and the like, and they are entitled to all rights and privileges by virtue of Republic Act No. 9904, otherwise known as the "Magna Carta for Homeowners and Homeowners' Association."*

xxx xxx xxx

**MONTECITO HOMEOWNERS' ASSOCIATION, INC.** bases its request for exemption on Section 18 of R.A. No. 9904, which provides:

"**SECTION 18.** ***Relationship with LGUs.*** — Homeowners' associations shall complement, support and strengthen LGUs in providing vital services to their members and help implement local government policies, programs, ordinances, and rules.

Associations are encouraged to actively cooperate with LGUs in furtherance of their common goals and activities for the benefit of the residents of the subdivisions/villages and their environment.

*Where the LGUs lack resources* to provide for basic services, the associations shall endeavor to tap the means to provide for the same. In recognition of the associations' efforts to assist the LGUs in providing such basic services, association dues and income derived from rentals of their facilities shall be tax-exempt: *Provided*, That such income and dues shall be used for the cleanliness, safety, security and other basic services needed by the members, including the maintenance of the facilities of their respective subdivisions or villages. x x x"

In reply thereto, considering the fact that **MONTECITO HOMEOWNERS' ASSOCIATION, INC.** is a duly registered Homeowners Association with the HLURB; that its financial statements show the delivery of basic community services defined under Sec. 3 (d) of R.A. 9904; and that the Local Government Unit covering the jurisdiction of

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the Homeowners Association has issued a Certificate that it lacks the resources to provide these services to the Association, hence, this Office hereby holds that the income derived from association dues and rentals of facilities of **MONTECITO HOMEOWNERS' ASSOCIATION, INC.** is exempt from income tax, value-added tax or percentage tax, whichever is applicable. Provided, that such income and dues shall be used for the cleanliness safety, security and other basic services needed by the members, including the maintenance of the facilities of their respective subdivisions or villages.

However, **MONTECITO HOMEOWNERS' ASSOCIATION, INC.** shall be subject to the applicable internal revenue taxes on its other income from trade, business or other activities. Specifically:

***Income Tax***

It shall be subject to the corresponding internal revenue taxes imposed under the Tax Code of 1997 on its income not derived from association dues nor rentals of its facilities, which income should be returned for taxation. Likewise, interest income from currency bank deposits and yield or any other monetary benefit from deposit substitute instruments and from trust funds and similar arrangements, and royalties derived from sources within the Philippines are subject to the 20% final withholding tax; provided, however, that interest income derived from it from a depository bank under the expanded foreign currency deposit system shall be subject to 15% [1] final withholding tax pursuant to Section 27 (D) (1) in relation to Section 57 (A), both of the Tax Code of 1997, as amended. Moreover, it is required to file on or before April 15 of each year a profit and loss statement and balance sheet with the annual information return under oath, stating its gross income and expenses incurred during the year and a certificate showing that there has not been any change in its By-Laws, Articles of Incorporation, manner of operation and activities as well as resources and disposition of income.

***Value-Added Tax or Percentage Tax***

Likewise, **MONTECITO HOMEOWNERS' ASSOCIATION, INC.**'s gross receipts from operations not derived from association dues nor rentals of its facilities shall be subject to the 12% VAT as imposed under Section 108 of the Tax Code of 1997, as amended, which tax payment may legitimately be passed on to buyers of such goods and services; or 3% percentage tax imposed under Section 116 in relation to Section 109 (BB) of the same Code if the gross sales or receipts from such sale of goods and services do not exceed Three Million Pesos (P3,000,000.00). [2]

It is requested that a copy of this letter of exemption be attached to the annual information return which **MONTECITO HOMEOWNERS' ASSOCIATION, INC.** will file on or before the 15th day of the fourth month of each year.

Under Section 235 of the Tax Code of 1997, as amended, any provision of existing general or special law to the contrary notwithstanding, the Revenue District Officer shall conduct an audit of annual information return filed, the books of accounts and other

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pertinent records of **MONTECITO HOMEOWNERS' ASSOCIATION, INC.** to determine compliance with the conditions set forth in this letter of tax exemption and tax liabilities, if any.

It should be understood that **MONTECITO HOMEOWNERS' ASSOCIATION, INC.** shall be constituted as withholding agent of the government if it acts as an employer and its employees receive compensation income subject to the withholding tax under Section 57 of the Tax Code of 1997, as amended.

Finally, **MONTECITO HOMEOWNERS' ASSOCIATION, INC.** is also subject to the payment of the annual registration fee of PhP500.00 as prescribed in Section 236 (B) of the Tax Code of 1997, as amended. It is also required under Section 6 (C) in relation to Section 237 of the same Code to issue duly registered receipts for services rendered which do not comprise income from association dues and rentals of their facilities.

This ruling is being issued on the basis of the foregoing facts as represented. However, if upon investigation, it will be disclosed that the facts are different, then this ruling shall be considered null and void.

Very truly yours,

**(SGD.) CAESAR R. DULAY**
*Commissioner of Internal Revenue*

**Footnotes**

1. As amended by Republic Act No. 10963.
2. R.A. 10963 increased the VAT threshold from P1,919,500.00 to P3,000,000.00 effective January 1, 2018.

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