June 6, 2019

BIR RULING NO. 347-19

Section 30 (E) of the NIRC of 1997, as amended; RMO No. 20-2013; RMC No. 051-14; BIR Ruling No. 466-2014

Laral Gomitoyom Irrigators Association (LAGOMIA), Inc.
Kilong, Manga, Matanao,
Davao del Sur 8003

Attention: *AAA*

Gentlemen :

This refers to your letter, dated December 12, 2013, applying on behalf of **LARAL GOMITOYOM IRRIGATORS ASSOCIATION (LAGOMIA), INC.** for tax exemption certificate being enjoyed by non-stock, non-profit corporation or association under Section 30 (J) of the National Internal Revenue Code (NIRC) of 1997, as amended, which was forwarded to this Office by Revenue Region No. 19, Davao City, through 5th Indorsement, dated March 28, 2017.

It is represented that **LARAL GOMITOYOM IRRIGATORS ASSOCIATION (LAGOMIA), INC.** with BIR Taxpayer's Identification No. (TIN) 000-000-000-000 and Certificate of Registration No. OCN 2RC0000335111 dated August 23, 2001, is a non-stock, non-profit association duly organized and existing under the laws of the Republic of the Philippines; that it is registered with the Securities and Exchange Commission (SEC) under Company Registration No. D200100680; and that the purposes [1] for which the association was incorporated are:

1. *To cooperate in the operation and maintenance of the Irrigation system or a portion thereof with the National Irrigation Administration (NIA) in preparation for eventual turn-over of the same under such terms and conditions that NIA Board may impose.*

2. *To serve as channel to the government and private agencies in providing technical and financial * to farmer-members.*

3. *To assist its members in marketing their produce.*

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4. *To inquire loans to the government to any of its lending institutions in furtherance of the purpose of the association.*

5. *To do and perform any other acts and to exercise any other power which may be necessary, convenient and appropriate to accomplish the purpose to which the association is organized.*

In reply, please be informed that Section 30 of the National Internal Revenue Code of 1997, as amended, enumerates the non-stock and/or non-profit corporations/associations/organizations that are exempt from income tax in respect to income received by them as such. Section 30 (E) of the National Internal Revenue Code of 1997, as amended, provides, *viz.*:

> *"Sec. 30. Exempt from Tax on Corporations. — The following organizations shall not be taxed under this Title in respect to income received by them as such:*
>
> xxx xxx xxx
>
> *(E) Non-stock corporation or association organized and operated exclusively for religious, charitable, scientific, athletic, or cultural purposes, or for the rehabilitation of veterans, no part of its net income or asset shall belong to or inure to the benefit of any member, organizer, officer or any specific person;"*
>
> xxx xxx xxx"

"Non-stock" means *"no part of its income is distributable as dividends to its members, trustees, or officers"* and that any profit *"obtained as an incident to its operations shall, whenever necessary or proper, be used for the furtherance of the purpose or purposes for which the corporation was organized."* [2] "Non-profit" means that *"no net income or asset accrues to or benefits any member or specific person, with all the net income or asset devoted to the institution's purposes and all its activities conducted not for profit."* [3]

Revenue Memorandum Circular (RMC) No. 51-2014 has clarified that in order for an entity to qualify as a non-stock and/or non-profit corporation/association/organization exempt from income tax under Section 30 of the National Internal Revenue Code, as amended, its earnings or assets shall not inure to the benefit of any of its trustees, organizers, officers, members or any specific person. The following are considered "inurements" of such nature:

1. *The payment of compensation, salaries, or honorarium to its trustees or organizers; x x x.*

In the submitted documents of **LARAL GOMITOYOM IRRIGATORS ASSOCIATION (LAGOMIA), INC.**, it was disclosed that Board of Trustees are entitled to Honoraria. Treasurer's Certification by _____ BBB of **LARAL GOMITOYOM IRRIGATORS ASSOCIATION (LAGOMIA), INC.**, dated

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December 13, 2013, states that:

> *"The Board of Trustees except the President receive a minimal honorarium of P150 per meeting, per month; the President, Treasurer and Secretary receive P4,000 per year and the internal Auditor receives P500 per year. This minimal fee is token for their services rendered to the association and for the reimbursement of their travelling expenses."*

The giving of honoraria to the members of the Board of Trustees is considered a distribution of the equity (including the net income) of **LARAL GOMITOYOM IRRIGATORS ASSOCIATION (LAGOMIA), INC.** This is a form of private inurement which the law prohibits in the organization and operation of a non-stock, non-profit corporation. This act violates the requirement that no part of the net income or assets of the corporation shall inure to the benefit of any individual or specific person. Thus, **LARAL GOMITOYOM IRRIGATORS ASSOCIATION (LAGOMIA), INC.** cannot be qualified as a non-stock, non-profit corporation under Section 30 (E) of the National Internal Revenue Code of 1997, as amended.

Please bear in mind that, *"being a non-stock and/or non-profit corporation does not, by this reason alone, completely exempt an institution from tax."* [4] Thus, *"statutes granting tax exemptions are construed **strictissimi juris** against the taxpayer and liberally in favor of the taxing authority. A claim of tax exemption must be clearly shown and based on language in law too plain to be mistaken. Otherwise stated, taxation is the rule, exemption is the exception. The burden of proof rests upon the party claiming the exemption to prove that it is in fact covered by the exemption so claimed."* [5] ***(BIR Ruling No. 466-2014 dated November 19, 2014)***

In view of the foregoing, the request of **LARAL GOMITOYOM IRRIGATORS ASSOCIATION (LAGOMIA), INC.** to be exempted from income tax on its income as a Section 30 (E) corporation is hereby denied as it failed to prove that it is a non-profit corporation. Therefore, **LARAL GOMITOYOM IRRIGATORS ASSOCIATION (LAGOMIA), INC.** shall be treated as an ordinary corporation subject to thirty percent (30%) income tax rate pursuant to Section 27 (A) and other internal revenue taxes imposed by the National Internal Revenue Code of 1997, as amended.

Please be guided accordingly.

Very truly yours,

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

Footnotes

1. First, Amended Articles of Incorporation.

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2. Section 87, Corporation Code.
3. *CIR vs. St. Luke's Medical Center, Inc.*, G.R. Nos. 195909 and 195960 dated 26 September 2012.
4. *CIR vs. St. Luke's Medical Center, Inc.* [G.R. No. 195909 & G.R. No. 195960, 26 September 2012].
5. *Quezon City and The City Treasurer of Quezon City vs. ABS-CBN Broadcasting Corporation* [G.R. No. 166408, 6 October 2008].

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