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

philippines pay taxes

June 06, 2014

REVENUE MEMORANDUM CIRCULAR NO. 51-2014

SUBJECT: Clarifying the Inurement Prohibition under Section 30 of the National Internal Revenue Code of 1997

TO : All Internal Revenue Officers and Others Concerned

Section 30 of the National Internal Revenue Code (NIRC) 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. "Non-stock" means *"no part of its income is distributable as dividends to its members, trustees, or officers"* and that any profit *"obtain[ed] 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"* (Section 87, Corporation Code). "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*" (CIR vs. St. Luke's Medical Center, Inc.; G.R. Nos. 195909 and 195960 dated 26 September 2012).

Therefore, 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 NIRC, 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;

2. The payment of exorbitant or unreasonable compensation to its employees;

3. The provision of welfare aid and financial assistance to its members. An organization is not exempt from income tax if its principal activity is to receive and manage funds associated with savings or investment programs, including pension or retirement programs. This does not cover a society, order, association, or non-stock corporation under Section 30(C)

of the NIRC providing for the payment of life, sickness, accident and other benefits exclusively to its members or their dependents;

4. Donation to any person or entity (except donations made to other entities formed for the purpose/purposes similar to its own);

5. The purchase of goods or services for amounts in excess of the fair market value of such goods or value of such services from an entity in which one or more of its trustees, officers or fiduciaries has an interest; and

6. When upon dissolution and satisfaction of all liabilities, its remaining assets are distributed to its trustees, organizers, officers or members. Its assets must be dedicated to its exempt purpose. Accordingly, its constitutive documents must expressly provide that in the event of dissolution, its assets shall be distributed to one or more entities formed for the purpose/purposes similar to its own, or to the Philippine government for public purpose.

All other issuances inconsistent herewith are hereby repealed or modified accordingly.

All concerned are hereby enjoined to be guided accordingly and give this Circular as wide a publicity as possible.

This Circular shall take effect immediately.

KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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