REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

December 11, 2007

REVENUE REGULATIONS NO. 14-2007

SUBJECT : Tax on Non-governmental Organizations (NGOs) and Cooperatives Engaged in Microfinance Activities

TO : All Internal Revenue Officers and Others Concerned

SECTION 1. Background

The government has recognized the role of microfinance institutions in its poverty alleviation programs, particularly in carrying out the objectives of Republic Act 8425 (RA 8425), otherwise known as the Social Reform and Poverty Alleviation Act. With the increasing number of NGOs and cooperatives engaging in microfinance activities, there is a need to clarify the tax treatment of profits on microfinance activities derived by these entities which enjoy tax exemption under existing laws and regulations.

SECTION 2. Purpose

Pursuant to the provisions of Sec. 244 of the National Internal Revenue Code of 1997, as amended, these Regulations are hereby issued to rationalize the tax exemptions of these entities based on existing laws and regulations and the relevant tax treatment of the profits derived in relation to their delivery of microfinance services.

SECTION 3. Definition of Terms

A. **Microfinance** - is a credit and savings mobilization program exclusively intended for the poor to improve the asset base of households and expand the access to savings of the poor. It involves the use of viable alternative credit schemes and savings programs including the extension of small loans, simplified loan application procedures, group character loans, collateral-free arrangements, alternative loan repayments, minimum requirements for savings, and small denominated savers' instruments;

Consistent with the provisions of RA 8425, the maximum individual loan amount provided for microfinance loans is P150,000.00, subject to periodic determination of the Department of Trade and Industry to reflect economic changes.

B. **Cooperative** - refers to associations duly registered with the Cooperative Development Authority (CDA), composed of at least fifteen (15) persons, majority of which are poor, having a common bond of interest, who voluntarily join together to achieve a lawful common social and economic end. It is organized by the members who equitably contribute the required share capital and accept a fair share of the risks and benefits of their undertaking in accordance with the universally accepted corporate principles and practices.

C. **Credit cooperative** - is a type of cooperative which provides thrift among its members and creates funds in order to grant loan for productive and provident purposes.

D. **Multipurpose Cooperative** – is a type of cooperative which combines two (2) or more of the business activities of the different types of cooperatives.

E. **Accumulated Reserves** – commonly referred to as the General Reserve Fund, refers to the amount of accrued sum of money annually retained and deducted from the net surplus which is not intended for allocation and distribution to the members, usually deposited in the bank for the protection of and stability of the cooperative.

F. **Undivided Net Savings** – refers to the amount arising from net surplus or any portion thereof which the Board of Directors or the General Assembly of the cooperative decides not to divide or make available to members in the form of interest on share capital, patronage refund, reserve refund, education and training fund, optional fund or any other statutory reserve; this also includes the amount arising from the net surplus or any portion thereof which the cooperative is unable to divide because the General Assembly of the cooperative has not been convened for more than two (2) years.

G. **Non-governmental organizations (NGOs)** - Refers to duly registered nonstock, nonprofit organizations focusing on the upliftment of the basic or disadvantaged sectors of society by providing advocacy, training, community organizing, research, access to resources, and other similar activities.

SECTION 4. Tax Treatment of Microfinance Services Rendered by Cooperatives –

Consistent with the provisions of Revenue Regulations No. 20-2001, the tax treatment for credit cooperatives on transactions related to its microfinance activities is as follows -

A. Duly registered credit cooperatives dealing/transacting with members only shall be exempt from paying the following taxes for which they are directly liable:

   a. Income tax from operations,

b. Value-added tax (VAT),
c. 3% percentage tax under Section 116 of the Tax Code of 1997, and
d. Documentary stamp tax (DST) imposed under Title VII of the Tax Code of 1997, as amended, provided, however, that the other party to the taxable document/transaction who is not exempt shall be the one directly liable for the tax.
e. Annual Registration Fee of P500.00

B. Duly registered cooperatives dealing/transacting business with both members and nonmembers

a. For cooperatives with accumulated reserves and undivided net savings of not more than Ten Million Pesos (P10,000.000.00) –

i. exemption from taxes for which they are directly liable, as enumerated in paragraph A of this Section.

b. For credit cooperatives with accumulated reserves and undivided net savings of more than Ten Million Pesos (P10,000.000.00) –

i. Exemption from income tax for a period of 10 years from the date of registration with the CDA, provided, that at least twenty five percent of the net income of the cooperative is returned to the members in the form of interest and/or patronage fund.

For cooperatives whose exemption were removed by Executive Order No. 93, the ten year period shall be reckoned from March 10, 1987 (i.e., the tax exemption is valid only up to March 10, 1997)

After the lapse of such ten year period, they shall be subject to income tax at the full rate on the amount allocated for interests on capital, provided that the same is not consequently imposed on interest individually received by members.

The tax base for credit cooperatives liable to income tax shall be the net surplus arising from business transactions with non-members, including those arising from all microfinance activities, after deducting the amounts from the statutory reserve funds as provided for in the Cooperative Code and other laws.

ii. Exemption from VAT under Section 109(M) and 3% tax under Section 116, both of the Tax Code, as amended.

iii. Subject to all other internal revenue taxes unless otherwise provided by law.

Notwithstanding the foregoing, all income of cooperatives which undertake microfinance activities in addition to their registered purpose except credit cooperatives and multi-purpose cooperatives which have one of its business activities as those performed by credit cooperatives, shall be subject to appropriate taxes under the Tax Code of 1997, as amended. This is applicable to all cooperatives, whether dealing purely with members or both members and non-members.

Moreover, all cooperatives, regardless of classification, are considered as withholding agents and are required to file withholding tax returns and remit withholding taxes on all income payments that are subject to withholding.

SECTION 5. Tax Treatment of Microfinance Services Rendered by Non-governmental Organizations

All NGOs falling under the enumeration of Section 30 of the Tax Code of 1997, as amended, are exempt from income taxes, in respect of income received by them as such. However, income of such NGOs from microfinance activities, and which are not in respect of their registered activities covered by Section 30 of the Tax Code of 1997, as amended, regardless of the disposition made of such income, shall be subject to tax under the Tax Code of 1997, as amended.

Similarly, non-stock, non-profit NGOs, whether or not engaged in microfinance activities, are still also required to file withholding tax returns and remit withholding taxes on all income payments that are subject to withholding as specified in Revenue Memorandum Circular No. 76-2003.

SECTION 6. Repealing Clause – These Regulations shall be read in consonance with Revenue Regulations No. 20-2001 and Revenue Memorandum Circular No. 76-2003.

All revenue rulings, issuances or parts thereof which are inconsistent with these Regulations insofar as microfinance activities of cooperatives and NGOs are concerned are hereby amended or repealed accordingly.

SECTION 7. Effectivity – These Regulations shall take effect fifteen (15) days after publication in the Official Gazette or newspaper of general circulation, whichever comes first.

(Original Signed)
MARGARITO B. TEVES
Secretary of Finance

Recommended by:

(Original Signed)
LILIAN B. HEFTI
Commissioner of Internal Revenue