



**NATIONAL INTERNAL
REVENUE TAXES APPLICABLE
TO COOPERATIVES**





BACKGROUND

Republic Act (RA) No. 9520, otherwise known as the “Philippine Cooperative Code of 2008”, was approved on February 17, 2009 and took effect on **April 6, 2009**. Pursuant to the provisions of Article 144 of the Cooperative Code, in relation to Sections 4 and 244 of the National Internal Revenue Code of 1997 (NIRC), as amended, the Department of Finance, Bureau of Internal Revenue (BIR) and the Cooperative Development Authority (CDA) issued the Joint Rules and Regulations Implementing Articles 60, 61 and 144 of the Cooperative Code on February 5, 2010 which became effective on **June 16, 2010**.



CLASSIFICATION OF COOPERATIVES ACCORDING TO THE EXTENT OF THE TAX EXEMPTIONS GRANTED

- a) Those duly registered cooperatives which transact business with members only; and
 - b) Those duly registered cooperative which transact business with both members and non-members which are further sub-classified according to the following:
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b.1) Cooperatives with accumulated reserves and undivided net savings of not more than Ten Million Pesos (Php 10,000,000.00);
and

b.2) Cooperatives with accumulated reserves and undivided net savings of more than Ten Million Pesos (Php 10,000,000.00).



DEFINITION OF TERMS:

- ▶ **Accumulated Reserves** - refers to the accumulated amount of money annually deducted from the net surplus, which shall be less than fifty (50%) for the first five years of operation after registration and at least ten per centum (10%) of the net surplus thereafter, intended not for the allocation or distribution to the members but for the protection and stability of the cooperative, commonly referred to as the Reserve Fund.
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Undivided Net Surplus/ Undivided Net Savings -


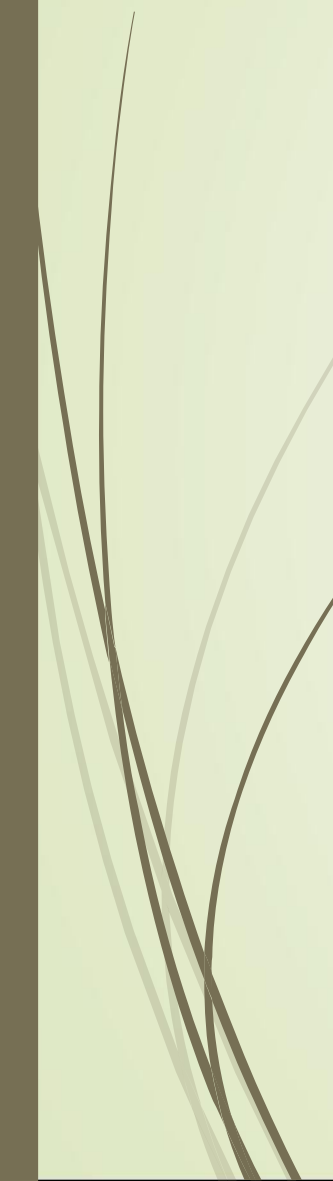
refers to the net amount arising from the operations of the cooperative after deducting the operational expenses from revenue generated, not construed as profits, but as excess of payments made by the members for the loans borrowed or the goods and services bought- from the cooperative including other inflows of assets resulting from its other operating activities and which shall be deemed to have been returned to them if the same is distributed as prescribed in accordance with Article 86 of RA 9520 and the by-laws of the cooperative




TAX EXEMPTIONS OF DULY REGISTERED COOPERATIVES WHICH TRANSACT BUSINESS WITH MEMBERS ONLY –

Duly registered cooperatives dealing/transacting business with *members* only shall be exempt from paying any taxes and fees, including but not limited to:

- a) Income Tax imposed by Title II of the NIRC, as amended;
- b) Value-Added Tax (VAT) imposed under Title IV of the NIRC, as amended;


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- a) Percentage Tax imposed under Title V of the NIRC, as amended;
 - c) Donor's Tax imposed under Title III of the NIRC, as amended, on donations to duly accredited charitable research and educational institutions and reinvestment to socio-economic projects within the area of operation of the cooperatives;
 - e) Excise Tax under Title VI of the NIRC, as amended, for which it is directly liable;
 - f) Documentary Stamp Tax imposed under Title VII of the NIRC, 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;

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- g) Annual Registration Fee of P500.00 under Section 236(B) of the NIRC, as amended;
 - h) All taxes on transactions with insurance companies and banks, including but not limited to 20% final tax on interest deposits and 7.5% final income tax on interest income derived from a depository bank under the expanded foreign currency deposit system;and
 - i) Electric cooperatives duly registered with the Authority shall be exempt from VAT on revenues on systems loss and VAT on revenues on distribution, supply, metering and lifeline subsidy of electricity to their members.




TAXABILITY/EXEMPTION OF DULY REGISTERED COOPERATIVES WHICH TRANSACT BUSINESS WITH MEMBERS AND NON-MEMBERS. –

- a) Cooperatives with accumulated reserves and undivided net savings of not more than Ten Million (Php 10,000,000.00) - Exemption from all national internal revenue taxes for which these cooperatives are liable as enumerated under Section 7 of this Joint Rules and Regulations.



b) Cooperatives with accumulated reserves and undivided net savings of more than Ten Million Pesos (Php10,000,000.00) –


b.1) Business transactions with members -
Business activities engaged in by such cooperatives with its members where said generates revenues shall be exempt from all national internal revenue taxes for which it is liable as enumerated in Section 7 of this Joint Rules and Regulations;



b.2) Business transactions with non-members - Cooperatives with accumulated reserves and undivided net savings of more than Php10,000,000.00 which transact with non-members shall:


b.2.1) Pay the following taxes at the full rate:

b.2.1.1) Income Tax - On the amount allocated for interest on capitals: Provided, That the same tax is not consequently imposed on interest individually received by the members. The tax base for all cooperatives liable to income tax shall be the net surplus arising from the business transactions with non-members after deducting the amounts for the statutory reserve funds as provided for in the Cooperative Code and other laws.




b.2.1.2) Value Added Tax (VAT) - On transactions with non-members: Provided, however, That cooperatives, pursuant to Section 109, par. (L),(M) and (N) of the NIRC, as amended by R9337, shall be exempt from the imposition of VAT, namely the following:

- i. Sales by agricultural cooperatives duly registered and in good standing with the CDA to their members, as well as sale of their produce, whether in its original state or processed form, to non-members, their importation of direct farm inputs, machineries and equipment, including spare parts thereof, to be used directly and exclusively in the production and/or processing of their produce (Sec. 109 (1)(L) of the NIRC, as amended).




Provided, further, that the exempt transactions pursuant to the above shall include sales made by a duly registered agricultural cooperative organized and operated by its members to undertake the production and processing of raw materials or of goods produced by its members into finished or processed products for sale by said cooperative to its members and non-members:

Provided, finally, That any processed product or its derivative arising from the raw materials produced by its members, sold in the name and for the account of the cooperative, shall be deemed the product of the cooperative.



Sale by agricultural cooperatives to non-members can only be exempted from VAT if the producer of the agricultural products sold is the cooperative itself. If the cooperative is not the producer (e.g., trader), only those sales to its members shall be exempted from VAT.

Exempt transactions shall include sales made by a duly registered agricultural cooperative organized and operated by its members to undertake the production and processing of raw materials or of goods produced by its members into finished or processed products for sale by said cooperative to its members and non-members.



Products produced/processed by non-members or production not related to the purposes for which a cooperative is created as stated in its Articles of Cooperation even if sold in the name of said cooperative shall not be considered as produced/processed by said cooperative. To illustrate, raw materials produced by the members and processed by the cooperative shall be exempt from VAT.


It is to be reiterated however, that sale or importation of agricultural food products in their original state is exempt from VAT irrespective of the seller and buyer thereof, pursuant to Section 4.109-1 (B) (a) of Revenue Regulations No. 16-05, as amended.



ii. Gross receipts from lending activities by credit or multi-purpose cooperatives duly registered with the CDA (Sec. 109 (1) (M) of the NIRC, as amended); or


iii. Sales by non-agricultural, non-electric and non-credit cooperatives duly registered with the CDA: Provided, That the share capital contribution of each member does not exceed fifteen thousand pesos (P15,000) and regardless of the aggregate capital and net surplus ratably distributed among members (Sec. 109(1) (N) of the NIRC, as amended); or

iv. Transactions of cooperatives as may be deemed VAT-exempt under the NIRC.



b.2.1.3) Percentage Tax - all sales of goods and/or services rendered to non-members shall be subject to the applicable percentage taxes imposed by Title V of the NIRC, as amended, except sales made by producers, marketing or service cooperatives;

b.2.1.4) All other Internal Revenue Taxes unless otherwise provided by the law; and



b.2.2) Be entitled to limited or full deductibility of donations to duly accredited charitable, research and educational institutions and reinvestment to socio-economic projects within the area of operation of such cooperative.

b.2.3) Pursuant to Article 61(3) be entitled to an exemption on taxes on transactions with insurance companies and banks, including but not limited to 20% final tax on interest deposits and 7.5% final income tax on interest income derived from a depository bank under the expanded foreign currency deposit system.




TAXABILITY OF UNRELATED INCOME OF COOPERATIVE. –

Notwithstanding the foregoing, all income of cooperatives not related to the main/principal business/es under its Articles of Cooperation shall be subject to all the appropriate taxes under the NIRC, as amended. This is applicable to all types of cooperatives whether dealing purely with members or both members and non-members.




TAXABILITY OF COOPERATIVES TO OTHER INTERNAL REVENUE TAXES. - All cooperatives, regardless of classification shall be subject to:


- a) Capital Gains Tax from sale of shares of stock or sale, exchange or other disposition of real property classified as capital assets;



b) Documentary stamp taxes on transactions of cooperatives dealing with non-members, except transactions with banks and insurance companies, Provided that whenever one party to the taxable document enjoys the exemption from DST, the other party who is not exempt shall be the one directly liable for the tax;



c) VAT billed on purchases of goods and services, except the VAT on the importation by agricultural cooperatives of direct farm inputs, machineries and equipment, including spare parts thereof, to be used directly and exclusively in the production and/or processing of their produce, pursuant to Section 109(L) of the NIRC, as amended. All tax free importations shall not be transferred to any person until five (5) years, otherwise, the cooperative and the transferee or assignee shall be solidarity liable to pay twice the amount of the tax and/or the duties thereon;

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- d.) Withholding tax on compensation/wages, except in the case where an employee is a minimum wage earner; and creditable and final withholding taxes, if applicable. All cooperatives, regardless of classification, are considered as withholding agents on all income payments that are subject to withholding pursuant to the provisions of Revenue Regulations No. 2-98, as amended; and
- e) All other taxes for which cooperatives are directly liable and not otherwise expressly exempted by any law.



Taxability of members/share holders of cooperatives

- - All members of cooperatives shall be liable to pay all the necessary internal revenue taxes under the NIRC, as amended, except for the following:
 - a) Any tax and fee, including but not limited to final, tax on member's deposits or fixed deposits (otherwise known as share capital) with cooperatives, and documentary tax on transactions of members with the cooperative; and
 - b) Patronage Refund which includes all refunds, returns or rebates of the net savings generated from the operation of the cooperative.



**“ WE ALL HAVE A STAKE IN THIS COUNTRY.
AND WE ARE ALL ACCOUNTABLE FOR WHAT IS
HAPPENING IN OUR COUNTRY.”**

- Sec. Gary Teves



Thank you