

Good afternoon to the Honorable Chairman, my highest respect to the deputy speaker, Hon. Gloria Macapagal-Arroyo who had visited us in Mindanao when her Excellency was President to advance *Peace in Mindanao through Cooperativism* in 2009. Esteemed members of Congress, my colleagues in government, my countrymen who like me believe that the Philippines is the bastion of freedom, where justice roll on like a river, and righteousness like a never-failing stream, I have never been as fired up as today as I stand firm on **Upholding the Tax Exemption of Cooperatives**, a position and conviction shared by more than 14 million cooperative members from all walks of life.

PREFATORY

Salus Populi Est Suprema Lex. The welfare of the people is the supreme law. Nothing can best express the primacy and importance of the welfare of the people and the government's existence is best justified in the exercise of its police power. On the other hand, the power to tax is an incident of sovereignty, its use emanates from necessity because without taxes, the government cannot carry out its mandate of promoting the welfare of the people. Two inherent powers of the state that rationalize the government's relevance, but somehow need to be balanced as one may result in abuse and oppression of a segment of society whose welfare it is tasked to protect and promote.

House Bill 4774, also known as the Tax Reform for Acceleration and Inclusion (TRAIN) Bill seeks to reduce poverty from 21.6% to 14%, which means some 6 million Filipinos will no longer wallow in poverty by 2022 and that by 2040, extreme poverty is eradicated and high income status is achieved, attaining a per capita GNI increase of US\$12,000 in today's money. It envisions the presence of inclusive economic and political institutions where everyone has equal opportunities. Redesigning the country's tax system, making it simpler, fairer and more efficient for all is a welcome change. The cooperative movement fully supports this laudable targets as they are aligned with the Ten Point Socio-Economic Agenda of the Duterte Administration.

The proposed bill determines the financial implications of the foregoing targets in the amount of P366-B per year between 2016-2022 to fund programs in infrastructure, education and training, health and social protection programs. Towards this end, HB 4774 seeks to lift the tax exemption of cooperatives to raise the amount.

COOPERATIVES ARE VEHICLES OF SOCIAL JUSTICE

The world has acknowledged the role of cooperatives. Their gargantuan task consists of improving the lives of marginalized members of society, their uniqueness and distinctiveness seen in their very mandate of achieving the economic, social and cultural needs and aspirations of their members. Cooperatives are special aggrupations of people because they are saddled with a social task and a calling to unite people, harness their productive capacity, and let them rise past poverty level. With the formation of the Rochdale Cooperative founded in England in 1844 by 28 textile weavers who operated a retail store to protect themselves from capitalists who were out to squeeze them dry, the adoption of the cooperative form of organization by countries including the United States, has resulted in significant economic gains and social development. Countries in Asia such as South Korea, Singapore, Indonesia, Nepal, Thailand, Hongkong, Taiwan, Bangladesh, and Mongolia, among others, have reaped the benefits of the collective economic and social gains that cooperatives provide.

The Philippines on its own can boast that the cooperatives do have an impact on the lives of millions, who normally would not be able to have access to opportunities that would take them out of the quagmire of poverty. They operate in an environment conscious that they, together with other sectors in the economy, are responsible in bringing about an equitably progressive future for Filipinos. To date, there are more than **14 million** individuals who are members of **26,600** cooperatives, spread all over Luzon, Visayas and Mindanao. Of this number, **82.5% or 21,945** are micro cooperatives or those whose capitalization is below P3 million; **10.2% or 2,713** are small with a capital base of P3 million to P15 million; and only

7.3% are medium and large coops with capitalization of P15 million to P100 million for medium, and above P100 million for large.

In addition, these 26,600 cooperatives have directly employed some **530,000 individuals** contributing a total amount of about **P6.4 Billion** in withholding taxes. Correspondingly, the cooperatives have generated indirect employment at the tune of **1,950,000**.

Cooperatives continue to reach more people, particularly those in the vulnerable sectors to help them in the attainment of their economic and social goals.

Currently, there are 25 types of cooperatives including the reformed combatants, persons with disability and most recently, the drug victims. **Giving them another chance in life through cooperativism has become a priority and taxing these cooperatives may not be in order.**

LEGAL BASIS FOR EXEMPTING COOPERATIVES

Section 15, Article XII of the 1987 Constitution, on National Economy and Patrimony mandates Congress to create “an agency to promote the viability and growth of cooperatives as instruments for social justice and economic development”. Thus, the Cooperative Development Authority (CDA) was created in 1990 by virtue of Republic Act No. 6939. There can be no other explanation of this explicit provision of the fundamental law of the land than to recognize the need to ensure the sustainability and development of cooperatives so they can be true to, and meet their reason for existence – to serve as tools for allowing everyone access to opportunities in order to live a decent life. Quite a tall order for cooperatives, but one need only to appreciate the over 14 million Filipinos whose membership in cooperatives speak for their belief that social justice is after all, attainable. And this is possible when they become members of cooperatives.

Republic Act No. 9520 otherwise known as the Philippine Cooperative Code of 2008 was enacted in pursuance of the constitutional mandate, explicitly declaring that it is the policy of the State to foster the creation and growth of cooperatives as practical vehicles for promoting self-reliance and harnessing people power towards the attainment of economic development and social justice” and that Government “shall create an atmosphere that is conducive to the growth and development of cooperatives”. Articles 60 and 61 of the **Philippine Cooperative Code of 2008** provide tax exemptions of cooperatives in all its transactions with members, as a recognition that cooperatives are partners of the Government in community-building, and consequently, in nation-building.

Moreover, Article 86 mandates all cooperatives to allot 10% of their Net Surplus to the Reserve Fund, not more than 10% for Education & Training Fund, and 3% for Community Development Fund, to improve their lives and build better communities. From this provision, it is evident that the mechanism has been put in place to make sure that cooperatives can function according to its constitutional and legal mandate, to be instruments of economic development and social justice. Their existence is not premised or centered on profit-making activities, because they are mandated to develop human resources through education and training, make good their commitment to be the government’s partners in building resilient communities and a better Philippines.

Article 86 further provides that the Remaining Net Surplus shall be made available to the members in the form of interest on share capital and patronage refunds, not as realized income but rather as savings obtained by members in availing of services from their respective cooperatives. What is therefore clear is the fact that for putting their hard-earned money, patronizing the products and services and taking the risks, cooperative members receive a portion of what they paid. Thus, the patronage refund is a refund that is based on use, and not a dividend because the latter is a return based on investment.

Ensuring that cooperatives stay viable and their growth promoted require no less than the support of the government, which begins with the correct appreciation of their existence. To reiterate, they are not organized for profit. Rather, they are established by people to provide them with products and services, or produce and dispose the fruits of their labor. They own the means of production and the distribution facilities in common. Their existence is one of service to their members. Whatever is earned, the same revert to the members.

As defined, a cooperative is an autonomous and duly registered association of persons, with a **common bond of interest**, who have **voluntarily joined together** to achieve their social economic and cultural needs and aspirations by making equitable contributions to the capital required, **patronizing their products and services** and **accepting a fair share of the risks and benefits** of the undertaking in accordance with universally accepted cooperative principles. That common bond of interest is the very impetus for people to find a rallying point, a motivation to take the risk because of the belief that cooperatives provide the answer to their quest for a better life. The law puts social responsibility as a must on cooperatives, the very heart of their existence. Businesses and other commercial organizations are not given such express mandate. It is because their existence is deeply rooted in amassing wealth for the suppliers of capital, such that profit becomes their overarching goal.

COOPERATIVES ARE NOT-PROFIT MAKING ENTITIES

All told, cooperatives are different from businesses and other organizations that are profit-seeking. Removing the tax exemption as clearly enshrined in the law that gives life to the cooperatives is tantamount to treating them just like business entities that exist primarily for profit and to make a few and the select, rich. Lifting the tax exemption of cooperatives runs counter to the thrust of the Duterte Administration which is to invest heavily on people. The cooperatives have been instrumental in developing the human resources of this country. The required Cooperative Education and Training Fund (CETF) which is 10% of the Net Surplus, not to mention the Community Development Fund of up to a maximum of 3%,

are indicative of the importance that cooperatives put in the enhancement of people's skills and abilities. In short, the mechanism to address human development concerns is already part of the cooperative structure.

Cooperatives are engines of economic growth. They have created products and services that have produced benefits to millions of Filipinos, employing 462,364 to date, thus helping address the unemployment problem of the country, engaged in community projects, allocating P432,930,570.46 for this purpose. These projects range from health to education, even infrastructure, as cooperatives help build farm-to-market roads, repaired school buildings, and made available storage facilities for private-for-profit entities.

The activities that cooperatives undertake result in gainful employment to many, allowed members to take part in, or commence productive activities, and enhance their purchasing power. All of these redound to increase in tax revenues. At the end of 2016, total taxes withheld and which became part of total tax revenues remitted to the national government reached the P6,339,005,746. This amount is expected to grow as cooperatives expand under the present legal and political framework, offering more products and services to their members, thereby enhancing the productive capacity and capital formation of society. There is therefore truth to the statement that the exemption of cooperatives from paying taxes has resulted in the creation of more tax payers as more value added activities are undertaken in their respective community.

Treating cooperatives as profit-oriented enterprises and imposing taxes on them, is not only unconstitutional, it is also anti-people as it is counter-productive in the long-run. The viability and sustainability of cooperatives that have long been serving millions of members are now put in a serious bind. The social and economic benefits provided by cooperatives have far reaching impact, and they need support from the government to reach their potential as a dynamic people centered enterprise committed to total human development. They make major contributions to the sustainable development goals. While it is true that

they do could not eradicate poverty and economic injustice on their own, they are certainly a part of the solution.

I therefore appeal to the distinguished gentlemen and ladies of this august house, to respect and honor the tax exemption of cooperatives laid down in the Constitution and its enabling law, Republic Act 9520.


USEC. ORLANDO R. RAVANERA
Chairman. CDA