

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

September 27, 2010

REVENUE MEMORANDUM ORDER NO. 76-2010

SUBJECT: Prescribing the Policies and Guidelines in the Issuance of Certificate of Tax Exemption of Cooperatives and the Monitoring Thereof.

TO : All Internal Revenue Officers and Others Concerned.

Section 1. 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.

RA No. 9520 extends the same preferential tax treatment to cooperatives granted under RA No. 6938 and reiterates most of the provisions of the old Cooperative Code on tax incentives and exemptions. The major difference, however, is that under Article 61 of the new law, transactions of members with cooperatives are now expressly exempt from any imposition of taxes and fees thereby making the legislative intent for taxation to give way to the demands of social justice more apparent.

Consistent with the foregoing policy of the State, it is incumbent upon the BIR to ensure that the tax exemptions and incentives extended to cooperatives are administered effectively. Towards this end, the BIR shall adopt uniform and simplified procedures in the processing and confirmation of cooperative tax exemptions.

Section 2. OBJECTIVES:

This Order is hereby issued to achieve the following objectives:

1. To prescribe simplified procedures in the availment of tax exemptions and incentives provided for under Articles 60, 61 and 144 of RA No. 9520;
2. To sustain an efficient and effective administration of tax exemptions under RA No. 9520; and
3. To increase coordination between Revenue Regions and National Office for purposes of monitoring the revenue impact of the exemptions granted to cooperatives.

Section 3. POLICY:

It is a declared policy to integrate and streamline the requirements for confirming tax exemptions under RA No. 9520. In order to expedite the processing and confirmation of tax exemptions, applications shall be acted upon by the Revenue District Offices and Revenue Regions having jurisdiction over the principal place of business of the cooperatives instead of the National Office.

Section 4. GENERAL GUIDELINES:

1. All cooperatives previously registered with and confirmed by CDA under RA No. 6938 and RA No. 6939 are deemed registered under the new Cooperative Code (RA No. 9520) and a new certificate of registration shall be issued by CDA. It is only after a cooperative has secured a new certificate of registration that it becomes eligible to apply for a Certificate of Tax Exemption with the BIR.
2. All cooperatives registered with the CDA under RA 9520 are mandated to update their registration information with the BIR.
3. A cooperative applying for tax exemption shall be required, as a condition for the issuance of Certificate of Tax Exemption, to update its BIR Registration with the Revenue District Office (RDO) having jurisdiction over the cooperative's principal place of business.
4. The cooperative's application for Registration Update may be processed simultaneously with the cooperative's application for tax exemption.
5. The Updated Certificate of Registration shall be issued and released to the cooperative together with the Certificate of Tax Exemption. The concerned RDO shall endeavour to release the Certificate of Tax Exemption within ten (10) working days from submission of complete documents by the cooperative.
6. Applications for Certificate of Tax Exemptions and its subsequent renewals shall comply with documentary requirements prescribed in the succeeding section. The RDO shall refuse to accept the cooperative's application when it is not properly supported by the documents required herein.

Section 5. DOCUMENTARY REQUIREMENTS:

A. For the Original Issuance of Certification of Tax Exemption

A cooperative shall submit a duly accomplished Application for Certificate of Tax Exemption for Cooperatives (BIR Form No. 1945), attached herein as **Annex "A"**, together with the following documents, to the concerned RDO:

1. **Certified True Copies** of the Articles of Cooperation and By-Laws, as certified by the CDA;
2. **Certified True Copy** of the new Certificate of Registration issued by the CDA under the new Cooperative Code, as certified by the CDA;
3. **Certified True Copy** of the current Certificate of Good Standing issued by the CDA effective on date of application; and
4. **Certified True Copy** of the BIR Certificate of Registration of the Cooperative.

In addition to the above requirements, the cooperative shall also submit the following documents:

1. **Original Copy** of Certification under Oath of the List of Cooperative Members with their respective Taxpayer Identification Number (TIN) and their capital contributions prepared by authorized official of the Cooperative.

For the initial submission of this list of cooperative members, those without TIN may temporarily use NSO number or other government issued ID number or Community Tax Certificate Number.

Subsequently, however, the cooperative should require all their members to secure a TIN with the BIR for the updated list of members to be submitted together with the regular filing of the cooperative's annual income tax return.

B. For the Renewal of Certification of Tax Exemption

For the renewal of Certificate of Tax Exemption, a cooperative shall likewise submit a duly accomplished Application for Certificate of Tax Exemption for Cooperatives (BIR Form No. 1945), attached herein as **Annex "A"**, together with the following documents, to the concerned RDO:

1. **Certified True Copy** of the Certificate of Registration issued by the CDA under the new Cooperative Code;
2. **Certified True Copy** of the Latest Articles of Cooperation and the Latest By-Laws of the Cooperative;
3. **Certified True Copy** of the current Certificate of Good Standing from CDA, effective on the date of application. No application for exemption will be processed in the absence thereof or submission of an expired Certificate of Good Standing; and
4. **Certified True Copy** of Latest financial statements of the immediately preceding year duly audited by a BIR accredited independent certified public accountant.

Section 6. PROCESSING OF REQUEST FOR ISSUANCE OF CERTIFICATE OF TAX EXEMPTION (See related Figure 1 attached herein):

A. APPLICATION AND PRE-EVALUATION BY THE REVENUE DISTRICT OFFICE

1. Update of BIR registration profile:

The cooperatives are required to surrender their Old BIR Certificate of Registration and submit an Application of Update of BIR Registration with the Revenue District Officer (RDO) where they are originally registered.

2. Application for Cooperative's Certificate of Tax Exemption:

The cooperative must submit also to the RDO where they are registered a duly accomplished BIR Form No. 1945 with all the requisite documents.

3. Pre-evaluation at the RDO:

The RDO or his designated Revenue Officer of the Day must pre-evaluate the cooperative's submission using Pre-evaluation Sheet of Revenue Officer, herein attached as **Annex "B"**.

4. Endorsement to the Regional Director:

If the cooperative's submissions are in order and in compliance with this RMO, the Revenue Officer of the Day shall prepare a Memo Indorsement Form, herein attached as **Annexes "C"/"C-1"**, to the Regional Director recommending issuance of Certificate of Tax Exemption. The entire docket, with the necessary pre-evaluation sheet and endorsement letter report, shall be transmitted within five (5) working days from the filing of the duly accomplished BIR Form No. 1945 accompanied by the required documentary requirements to the Office of the Regional Director, through The Chief, Legal Division.

B. REVIEW AND APPROVAL OF CERTIFICATES BY THE REGIONAL DIRECTOR

1. Review by the Legal Division:

The Chief, Legal Division shall review and evaluate the RDO's report, and if in order, prepare the appropriate Certificate of Tax Exemption (For Cooperatives registered under Republic Act No. 9520), following the applicable format herein attached as **Annex "D"** or **Annex "E"** or **Annex "F"**.

2. Preparation and Approval of Certificate of Tax Exemption:

The Certificate of Tax Exemption shall be forwarded to the Regional Director for his signature. Only applications for tax exemption which comply with the documentary requirements prescribed herein shall be approved by the Regional Director.

C. NUMBERING AND RELEASING OF CERTIFICATES

1. Immediately after the Certificate of Tax Exemption (For Cooperatives Registered under Republic Act No. 9520) has been approved and signed by the Regional Director, the same shall be transmitted back to the Legal Division for numbering.

2. The certification number shall be indicated in the space provided for in the upper right portion of the Certificate and shall adopt the following numbering code:

Example:

The 1st Certificate of Tax Exemption (For Cooperatives Registered Under Republic Act No. 9520) to be issued by Revenue Region No. 1 - Calasiao, Pangasinan for a cooperative registered with RDO No. 001 - Laoag, Ilocos Norte shall bear the following certification number:

"COOP No. 00001-10-RR-01-RDO 001"

Where:

"**00001**" indicates that this is the first Certificate of Tax Exemption issued for the period;
"**10**" represents the calendar year 2010;
"**RR-01**" stands for Revenue Region No. 1 (or the concerned revenue region); and
"**RDO 001**" refers to RDO 01 (or the RDO Number where the cooperative is a registered taxpayer)

Certificates of Tax Exemption (For Cooperatives Registered under Republic Act No. 9520) shall be numbered sequentially as they are issued.

3. The signed and numbered Certificate of Tax Exemption shall be transmitted back to the RDO, to be released to the cooperative by the RDO, together with the updated Certificate of Registration, whenever applicable.

Section 7. TAX EXEMPTIONS AND INCENTIVES OF COOPERATIVES UNDER RA No. 9520

For the guidance and information of all concerned, Revenue Memorandum Circular (RMC) No. 012-10 dated February 11, 2010 was issued to circularize the Joint Rules and Regulations (JRR) implementing Articles 60, 61 and 144 of RA No. 9520.

However, as quick reference in this RMO, the tax exemptions and incentives provided under Articles 60 and 61 of RA No. 9520, as implemented by Section 7, 8, 9 and 10 of the JRR are quoted herein as follows:

"SECTION 7. 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;
- c) Percentage Tax imposed under Title V of the NIRC, as amended;
- d) 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;
 - 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.

SECTION 8. 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 (Php10,000,000.00) - 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 cooperative 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 Php 10,000,000.00 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 RA

9337, 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.

SECTION 9. 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.

SECTION 10. 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;

- 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."

Section 8. VALIDITY OF THE CERTIFICATE OF TAX EXEMPTION

Pursuant to Section 14 of the Joint Rules and Regulations, the Certificate of Tax Exemption shall be valid for a period of five (5) years from the date of issue or date of effectivity, unless sooner revoked or cancelled.

To effectively monitor the administration of tax incentives and to ensure that tax-exempt cooperatives are faithfully abiding by the terms and conditions of the exemption, cooperatives are required to yearly submit to the appropriate Revenue District Office the following information or documents together with the filing of the cooperative's Annual Information Return (BIR Form 1702) due on or before the 15th day of the fourth month following the close of the calendar year:

1. **Certified True Copy** of the current and effective Certificate of Good Standing from CDA;
2. **Certified True Copy** of Certificate under oath by the Chairperson/General Manager stating the following:
 - a. the type/category of cooperative and the principal activities/business transactions it is engaged in;
 - b. that the cooperative is transacting business with members only or both members and non-members, whichever is applicable;
 - c. the amount of accumulated reserves as of the year end concerned;
 - d. the amount of the net surplus for the year; and
 - e. that at least 25% of the net surplus is returned to the members in the form of interest on share capital and/or patronage refund;
3. **Original Copy** of yearly summary of records of transactions clearly showing which transactions correspond to members or in case the cooperative deals with members and non-members, yearly summary of records of transactions clearly showing which transactions correspond to members and non-members. The summary of records of transactions shall specify the nature and subject matter of each transaction, the names and addresses of the parties thereto, the date of the transactions and the amount/s involved. The summary shall follow a format and manner of filing to be prescribed in a separate RMO.

The RDOs shall consolidate and submit copies of the summary of records of transactions of cooperatives to the Commissioner of Internal Revenue not later than the 15th day of May every year. If for a particular year, a cooperative fails to submit the summary of records of transactions or submits the same but with insufficient information, the Revenue District Officer shall require it in writing to submit a complete summary of records on or before the 15th day of June of the year. The failure of the cooperative to submit the summary of records of transactions within the prescribed period shall be a ground for the cancellation/revocation of its Certificate of Tax Exemption.

4. **Original Copy** of Certification under oath by the Chairperson/General Manager of the List of Members, their respective Tax Identification Number (TIN) and the Share Capital Contribution of each member as of the year end concerned.

Failure of the cooperatives to comply with the above requirements shall be a ground for cancellation/revocation of the Certificate of Tax Exemption.

Section 9. RENEWAL OF CERTIFICATE OF TAX EXEMPTION

After the issuance of the original certificates of tax exemption for cooperatives registered under RA No. 9520, all cooperatives are required to accomplish and file BIR Form No. 1945 at least two (2) months prior to the date of expiration of the Certificate of Tax Exemption following also Sections 5 & 6 of these RMO.

The renewal certificate shall be good for another period of five (5) years, unless sooner revoked for a cause.

Section 10. MONITORING OF REVENUE IMPACT OF THE EXEMPTIONS GRANTED

A. **Yearly Cooperative Profile Report**

All Revenue District Officer shall within ten (10) days following the filing of the Annual Information Return (BIR Form 1702) of registered cooperatives submit to the Regional Director through the Collection Division of the Regional Office a cooperative profile report containing the following information:

1. List of Cooperatives registered with the RDO arranged by type of cooperative;
2. Details of the business operations (Gross Sales, Gross Income, Operating Expenses, Net Surplus, Accumulated Reserves and other relevant details) per cooperative following the format that will be prescribed by the Audit Information, Tax Exemptions and Incentives Division; and

The Regional Director shall, in turn, submit the said reports within ten (10) days from receipt thereof to the Assessment Service to be used in the preparation of summary report for the MANCOM.

B. Monthly Report on issuance of Certificate of Tax Exemption

All Regional Directors are required to submit on or before the 15th day of the following month a Monthly Summary Report of all Certificate of Tax Exemptions for Cooperatives issued by the Region together with copies of said certificates to the Assistant Commissioner, Legal Service for a centralized database.

Section 11. TRANSITORY PROVISION

All applications for tax exemption under RA No. 9520 filed by cooperatives with the Law Division prior to the issuance of this RMO shall be transmitted to the concerned Revenue District Office, within ten (10) days from effectivity of this Order, for their appropriate processing.

All cooperatives with pending applications shall be required to update their BIR Registration as required by this Order.

Section 12. REPEALING CLAUSE

All other issuances and/or portions thereof inconsistent herewith are hereby repealed or amended accordingly.

Section 13. EFFECTIVITY CLAUSE

This Order takes effect immediately.

(Original Signed)
KIM S. JACINTO-HENARES
Commissioner of Internal Revenue