

## Tax benefits of Non-stock and Non-profit Educational Institutions

As former South African President Nelson Mandela said, "Education is the most powerful weapon which you can use to change the world". In general, education is the transfer of learning or knowledge from the teacher to the students thru teaching, training and mentorship. Education can also acquire informally thru self learning and personal experiences.

Non-stock and non-profit educational institutions are essential in providing quality education to the Filipino youth and in preparing them towards their path to become productive and competent individuals. These educational institutions serve as the second home and secondary parents for the students to nurture their talents, skills and potential.

The state recognizes the importance and role of these non-stock and non-profit educational institutions in nation building. Thus, the state grants them a preferential income tax rate of ten percent compared to the normal income tax rate of thirty percent for corporations. On top of that, the educational institution is an exempt entity and thus, it is not liable to Value Added Tax nor Percentage Taxes. It is also exempt from the payment of real property taxes for as long as the property is being used directly and exclusively for educational purposes. To avail of these privileges, the educational institution must be accredited with CHED or TESDA. It must also be ensured that the other income, which is considered unrelated to their primary purpose does not exceed fifty percent of their annual gross income. Otherwise it will be treated as normal corporation that is subject to regular income tax.

Good news are in store for those accredited and compliant educational institutions. Last July 25, 2016, BIR Commissioner Caesar Dulay issued Revenue Memorandum Order (RMO) 44-2016, wherein educational institution can apply for exemption of income taxes, provided that these meet two criteria: first, the school must be non-stock and non-profit and second, the income is directly and exclusively used for educational purposes. The said RMO is based on the Section 30 of the 1997 Tax Code, which states that non-stock and non-profit educational institution are exempted from income tax.

Those qualified educational institutions must apply for tax exemption with the Office of the Assistant Commissioner of the Legal Service. The RMO enumerates the documentary requirements to accompany the tax exemption application such as:

- Application letter for tax exemption ruling.
- Certified true copy of Certificate of Good Standing issued by SEC.
- Certification under oath of the Treasurer as to the amount of income, compensation, salaries or any emoluments paid to trustees, officers and other executive officers.
- Certified true copy of the Financial Statements for the last three (3) years.
- Certified true copy of permit / accreditation issued by CHED and / or TESDA.
- Certificate of utilization of annual revenues and assets by the Treasurer or his equivalent.
- Other additional requirements or documents during the review of the tax exemption application, only if necessary.

The Certificate of Tax Exemption that the BIR may grant the non-stock and non-profit educational institution has no expiration and shall remain effective without the need for revalidation unless recalled by the BIR /

The details of the said RMO is available online at the BIR official website - [www.bir.gov.ph](http://www.bir.gov.ph)



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*This column accepts contributions from accountants, especially articles that are of interest to the accountancy profession, in particular, and to the business community, in general. These can be e-mailed to [boa.secretariat@gmail.com](mailto:boa.secretariat@gmail.com)*