REVENUE REGULATIONS NO. 14-2007 issued on December 12, 2007 clarifies the tax treatment of microfinance services rendered by Non-Governmental Organizations (NGOs) and cooperatives.

Consistent with the provisions of Revenue Regulations (RR) 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;
   d. Documentary Stamp Tax 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; and
   e. Annual Registration Fee of ₱500.00

B. Duly registered cooperatives dealing/transacting business with both members and non-members
   a. For cooperatives with accumulated reserves and undivided net savings of not more than ₱10,000,000.00:
      i. Exemption from taxes for which they are directly liable.
   b. For credit cooperatives with accumulated reserves and undivided net savings of more than ₱10,000,000.00:
      i. Exemption from Income Tax for a period of 10 years from the date of registration with the Cooperative Development Authority, provided, that at 25% 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 10 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 10 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.

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.

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 (RMC) No. 76-2003.

These Regulations shall be read in consonance with RR No. 20-2001 and RMC No. 76-2003.