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**REVIEW OF PHILIPPINE LAWS AND RECOMMENDATIONS
TO ENCOURAGE AND PROMOTE
CORPORATE PHILANTHROPY**

A Study by
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Center for Corporate Citizenship ● Philippine Business for Social Progress
and
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1994

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REVIEW OF PHILIPPINE LAWS AND RECOMMENDATIONS TO ENCOURAGE AND PROMOTE CORPORATE PHILANTHROPY

A. HISTORICAL BACKGROUND

In 1958, Congress passed a law, entitled the Science Act of 1958, which primarily aimed to integrate, coordinate and intensify scientific and technological research and development, and to foster invention. To encourage the active participation of the private sector in the pursuit of the nation's advancement in science and technology, fiscal incentives were granted to those who will undertake scientific and technological projects approved by the Department of Science and Technology (DOST). As provided in Section 24 of the Science Act, private science foundations registered with the DOST were entitled to the following tax incentives:

1. Tax exemption of all funds contributed to the support and maintenance of the science foundations and their projects, and full deductibility of such contributions from the donor's taxable income;
2. Tax exemption of all income of whatever kind and character which such foundations may derive from any of their properties, real or personal, or from their investments; and
3. Exemption from all taxes and duties of apparatus, instruments, utensils, equipment and materials imported into the Philippines solely for scientific and technological research and development and not for barter, sale or hire.

On October 15, 1984, Presidential Degree (P.D.) No. 1955 withdrew these tax incentives. In addition, P.D. 1955 subjected the interest income from bank deposits or yield or other monetary benefit from deposit substitutes of these foundations to a 15% final withholding tax.

In 1985, in recognition of the merits of the cause advocated by the science foundations, the Fiscal Incentives Review Board ordered the refund of the 15% final tax withheld on their interest income. However, Executive Order (E.O.) No. 93, issued on December 17, 1986, again withdrew all tax and duty incentives of private entities. Consequently, the science foundations were left with no tax incentives at all.

B. PHILIPPINE SITUATIONER

The 1987 Philippine Constitution recognizes the important role of non-government organizations (NGOs) and other foundations in national development. Section 23 of Article II of the Constitution provides:

“Section 23. The State shall encourage non-governmental, community-based, or sectoral organizations that promote the welfare of the nation.”

Sections 10 to 12 of Article XIV of the Constitution reiterate the need for science and technology for national development and progress, as follows:

“Section 10. Science and technology are essential for national development and progress. The State shall give priority to research and development, invention, innovation, and their utilization; and to science and technology education, training, and services. It shall support indigenous, appropriate, and self-reliant scientific and technological capabilities, and their application to the country’s productive systems and national life.

Section 11. The Congress may provide for incentives, including tax deductions, to encourage private participation in programs of basic and applied scientific research. Scholarships, grants-in-aid, or other forms of incentives shall be provided to deserving science students, researchers, scientists, inventors, technologists, and specially gifted citizens.

Section 12. The State shall regulate the transfer and promote the adaptation of technology from all sources for the national benefit. It shall encourage the widest participation of private groups, local governments, and community-based organizations in the generation and utilization of science and technology.”

TAXATION OF NGOS

In line with the Government’s effort to raise revenue and cut-down the budgetary deficit, E.O. 93 and its predecessor P.D. 1955 withdrew all tax and duty incentives given to private science foundations. Since the ratification of the 1987 Constitution on February 7, 1987, no law has been passed to restore such tax incentives to promote and encourage NGOs and other foundations. In fact, Section 26 of the Tax Code, which limits the income tax exemption of non-stock, non-profit organizations to income received by them as such organizations, explicitly provides that the income derived by such organizations from their properties, whether

real or personal, shall be subject to tax regardless of the disposition of such income. Thus, Section 26 of the Tax Code provides:

"Section 26. Exemption from tax on corporations. - The following organizations shall not be taxed under this Title in respect to income received by them as such -

x x x

(e) Corporation or association organized and operated exclusively for religious, charitable, scientific, athletic, or cultural purposes, or for the rehabilitation of veterans, no part of the net income of which inures to the benefit of any private stockholder or individual;

x x x

Notwithstanding the provisions in the preceding paragraphs, the income of whatever kind and character of the foregoing organizations from any of their properties, real or personal, or from any of their activities conducted for profit, regardless of the disposition made of such income, shall be subject to tax imposed under this Code."

Thus, in order for an NGO or other similar organization to be exempt from income tax under Section 26 of the Tax Code, no part of its net income must inure to the benefit of any private individual. (If this condition is complied with, then it will not be subject to tax in respect of income received by it as such organization, such as income from membership fees, dues, donations, gifts or other charitable contributions.) However, despite this exemption, income of whatever kind and character of such organization from any of its properties, whether real or personal, or from any of its activities conducted for profit, will be subject to income tax regardless of the disposition made of such income.

At present, for donors to avail themselves of full or limited deductibility of their charitable contributions, the donee institution must initially register with the Law Division (formerly, with the Government and Tax Exempt Corporation Division) of the BIR. Additionally, the recipient institution must have projects listed in the National Priority Plan of the National Economic Development Authority (NEDA), the agency which will classify the recipient institution as a "qualified donee institution". This is a cumbersome procedure and works against the encouragement of NGOs and other foundations.

TAXATION OF DONORS

Philippine laws currently grant the following incentives to encourage contributions or gifts to domestic corporations or associations organized and operated exclusively for

religious, charitable, scientific, youth and sports development, cultural and educational purposes or for the rehabilitation of veterans, or to social welfare institutions:

1. Either limited or full deductibility of such contributions or gifts for income tax purposes under Section 29(h) of the Tax Code;
2. Exemption from the estate tax under Section 80(d) of the Tax Code; and
3. Exemption from the donor's tax under Section 94(a)(3) of the Tax Code:
 - a. Limited Deductibility

Under Section 29(h) of the Tax Code, contributions or gifts may be deducted by the donor for income tax purposes in an amount not exceeding 6% in the case of an individual, and 3% in the case of a corporation, of the donor's taxable income derived from business as computed before the deduction for the contribution or gift, if the contribution or gift is made to the Philippine Government or any of its agencies or political subdivisions for exclusively public purposes, or to domestic corporations or associations organized and operated exclusively for religious, scientific, youth and sports development, cultural or educational purposes or for the rehabilitation of veterans, or to social welfare institutions, no part of the net income of which inures to the benefit of any private stockholder or individual.

- b. Full Deductibility

Donations to certain private foundations are deductible in full subject to certain conditions.

The term "private foundation" means a non-profit domestic corporation:

- (i) which is organized and operated exclusively for scientific, research, educational, character-building and youth and sports development, health, social welfare, cultural or charitable purposes, or a combination thereof, no part of the net income of which inures to the benefit of any private individual;
- (ii) Which makes utilization of the contributions directly for the active conduct of the activities constituting the purpose or function for which it is organized and operated, unless an extended period is granted by the Secretary of Finance;

- (iii) The annual administrative expenses of which do not exceed thirty percent (30%) of total expenses; and
- (iv) The assets of which would be distributed in the event of dissolution to another non-profit domestic corporation organized for similar purposes, or to the State for public purposes.

For this purpose, the term "utilization" means:

- (i) any amount paid in cash or in kind (including administrative expenses) to accomplish one or more of the purposes for which the private foundation was created or organized; or
- (ii) any amount paid to acquire an asset used or held for use, directly in carrying out one or more of the purposes for which the foundation was created or organized.

Any amount set aside for a specific project which comes within one or more of the purposes of the foundation may be treated as a utilization, but only if at the time such amount is set aside, the private foundation satisfactorily proves to the Commissioner of Internal Revenue that the amount will be paid for the specific project within a period not exceeding 5 years, and the project is one which can be better accomplished by setting aside such amount than by immediate payment of funds.

SNITS LAW

The 6% limitation on the deductibility of donations made by individuals allowed under Section 29(h) of the Tax Code may, however, be significantly restricted by Republic Act No. 7496, which adopted the Simplified Net Income Taxation Scheme (SNITS) for individuals engaged in business or the practice of a profession. (Under the SNITS law, only contributions made to the Government and accredited relief organizations for the rehabilitation of calamity-stricken areas declared by the President are deductible.) Under Revenue Regulations No. 2-93, the deductibility of the contributions made by the individual businessman or professional is based on two (2) criteria:

1. The donee or recipient must be the Government or accredited relief organization; and
2. The contribution must be utilized for the rehabilitation of calamity-stricken areas declared by the President.

An accredited relief organization is an association and/or organization duly accredited by the Department of Social Welfare and Development (DSWD) and the BIR.

Because of the requirement that the foundations must make utilization of the donations in the prescribed manner and within a period not later than the 15th day of the third month following the close of the taxable year in which the donation was received, foundations are prevented from building a Capital Fund to ensure attainment of their long-term objectives.

VALUATION OF DONATIONS

Sections 10 and 11 of BIR-NEDA Regulations No. 1-81 specifically provide for the manner of valuing donations for purposes of determining the deductible amount for income tax purposes, as follows:

"Section 10. Valuation of donations. Donations/gifts made in kind shall be determined at its fair market value as of the date such donations or gifts are made. Cash donation or gift shall be determined solely on the cash receipts and disbursement method of accounting.

Section 11. Verification procedure and substantiation requirements.

- A. For donors.** Donors claiming deduction from their taxable income for donations authorized by Batas Pambansa Blg. 45 should submit evidence to the BIR showing submission of the Certificate of Donation and/or Notice of Donation:
- (a) actual receipt by the donee of the donation and the date of receipt thereof; and
 - (b) the amount of the donation, if in cash; if real property, the value thereof at the time of donation, which shall be based on the assessor's most recent valuation; and if personal, the acquisition cost thereof, but if said personal property had already been used at the time of donation, the depreciated or book value thereof."

REAL PROPERTY

In the case of donations in the form of real property, Section 10 is clear that the donation should be valued at its fair market value (FMV) at the time of donation. How the FMV of the donated property should be established is not, however, provided for; the Regulations merely imply in Section 11(b) that the FMV should not be lower than the assessor's most recent valuation. The question that, therefore, arises is whether an appraisal made by a real estate appraiser can be considered as the basis for establishing the FMV of the donated property for purposes of the income tax deduction.

In BIR Ruling No. 167-89, dated August 9, 1989, this question was presented to the BIR, and the Commissioner held that the FMV shall be the zonal value of the donated property. In ruling that the appraised value established by an independent real estate appraiser nearest the time of donation cannot be considered as the FMV of the donated property for purposes of the income tax deduction, the Commissioner held:

"In reply, please be informed that the fair market value of the real property as determined by the Commissioner of Internal Revenue or the fair market value as shown in the schedule of values fixed by the Provincial and City Assessors, whichever is higher, at the time of the gift, shall be considered as the amount of the gift (Section 95, in relation to Section 81 both of the Tax Code, as amended). Said amount shall be the basis for calculation of the amount of the gift to be claimed as deduction for income tax purposes. (Section 116, Revenue Regulations No. 2) For purposes, however, of the deduction under Section 29(h) of the Tax Code, once a zonal value has been established with respect to the property being donated, such zonal value as determined by the Commissioner of Internal Revenue pursuant to Section 16(e) of the same Code shall be considered the said property's fair market value.

Moreover, it is seldom that the actual real estate values in a certain area or zone overtakes the established zonal values, which if in actual existence should be communicated to the Commissioner thru the Executive Committee, for immediate appropriate action so that new zonal values could be established under standard valuation procedures. Accordingly, such actual real values cannot be applied for internal revenue tax purposes since it would in effect be contrary to the uniformity rule in taxation. Thus, until such time that a new zonal value is established in such area or zone, the prevailing official values apply."

The establishment of the zonal values is beyond the control of the donor, and while the ideal is that actual values should not overtake zonal values, the fact is that, in a rapidly changing market condition, there arises a time lag in updating zonal values such that market values of real property may in fact exceed zonal values. Therefore, to encourage donations of real property, the FMV, and not the zonal value, of the donated property should be the deductible amount for income tax purposes, as specifically provided for in BIR-NEDA Regulations No. 1-81. There is therefore a need to reconsider BIR Ruling No. 167-89, and allow appraisals by an independent appraisal company to be made the basis for determining the FMV of the donated property and the amount to be deducted for income tax purposes.

PERSONAL PROPERTY

In the case of donations in the form of personal property, Section 10 of the Regulations also provides that the same shall be valued at their FMV at the time of donation. However,

Section 11(b) distinctly provides that in cases of donated personal property, the value shall be the acquisition cost (if brand new) or the depreciated or book value (if already used), thereby directly contravening Section 10.

In the case of donations of brand new personal properties, the acquisition cost may be the FMV, since this is what any purchaser would have to pay to obtain the property. However, in the case of used personal properties, the depreciated or book value may not necessarily be the FMV of the donated property. An example in point is the donation of a 5-year motor vehicle which may have a depreciated and book value of P1.00, but which could still fetch, say P30,000, in the market for second-hand cars.

The term "FMV" has been defined to mean "the amount of money which a purchaser willing but not obliged to buy the property would pay to an owner willing but not obliged to sell it, taking into consideration all uses to which the property is adapted, and might in reason be applied." There need not be a "market value", but there must be some assurance that the value is what the market would establish; and a "market" itself presupposes enough competition between buyers and sellers to prevent the exigencies of an individual from being exploited.

Considering, therefore, the fact that by making a donation of personal property, albeit used, the donor saves the donee the cash which it would otherwise have parted with had it been forced to buy such used property, it stands to reason that the donor should be able to deduct the FMV, and not the depreciated or book value, of such donated property. An amendment of this particular provision of the Regulations will therefore promote such donations or contributions.

PERSONAL PROPERTIES THAT APPRECIATE IN VALUE OVER TIME

Other than the general provision that donations in kind shall be valued at FMV, the Regulations do not seem to contemplate donations of personal properties that appreciate in value over time, e.g. paintings, heirlooms, historical memorabilia, artifacts, sculptures, literary works, other works of art and the like. The method or manner of valuation of such donations should be clarified and provided for, considering that –

1. The test for FMV of a buyer, willing but not obliged to buy, from a seller, willing but not obliged to sell, may not, strictly speaking, be applicable to these properties, in view of the fact that such market-driven factors may not reflect the intrinsic or historical value of such properties.
2. The acquisition cost or depreciated or book value of such properties does not also reflect the historical value of such properties which in fact appreciate over time.

Donations of this kind of properties should be encouraged, particularly to museums, libraries or other similar institutions but are not provided for under current law.

DEDUCTIBILITY OF CONTRIBUTIONS

Under Section 29(h) of the Tax Code, the general rule is that deductibility of charitable contributions is limited only to 6% in the case of individual donors (subject to the requirements of the SNITS law) and 3% in the case of corporate donors, while full deductibility is allowed, as an exception, for charitable contributions to the government or to certain qualified donee institutions. Under the present state of the Tax Code, if the value of the donation exceeds these limitations or the taxpayer's net taxable income, the excess of the donation over the amount deducted in the year of donation can no longer be carried-over as a deduction for subsequent years and is forever lost.

In the U.S., individuals may deduct charitable contributions to qualified donee organizations up to a maximum of 20%, 30% or 50% of his adjusted gross income, depending on the kind of recipient organization and the kind of property donated. Corporate donors may deduct charitable contributions up to a maximum of 10% of annual taxable income, specially computed.

Aside from the higher ceiling on the amount of deductible donations, the US Tax Code also allows the carryover of excess allowable deductions to the 5 years immediately following the year in which the contribution is made. If the allowable deduction is not used up within the next 5 years, the unused amount is lost, but in each year, the allowable deductions including carryovers from preceding years should not exceed the percentage limit of the taxpayer. Consequently with good fiscal planning, a U.S. taxpayer could effectively fully deduct his charitable contributions.

C. RECOMMENDATIONS

Taking into account the present state of Philippine laws, it is recommended that measures requiring both administrative or legislative action be adopted to strengthen NGOs or to encourage business to put up their own NGOs, and to encourage gifts or donations to such NGOs, in order to give life to the mandate of the 1987 Constitution on the role and participation of NGOs in national development.

STRENGTHENING NGOS

1. Capital Build-up of NGOs and Other Foundations

To overcome the "beggar situation" where an NGO or other foundation is faced with collapse if no project funds are forthcoming, or where fund-raising activities are undertaken every year (using up precious time and

resources which could otherwise be put to fruitful uses), NGOs need to build up a Capital Fund with two major objectives: (1) its income can be used to cover general and administrative expenses (which are not usually included in the funding), utilized as counterpart funds, and (2) to ensure the continuity of the NGO between projects.

A Capital Fund is necessary to ensure the attainment of the long-term objectives of these organizations. It is the best means of ensuring the long-term viability of an organization beyond the life of the persons or the corporations that set it up or beyond the projects that are currently being funded.

In the short term, BIR-NEDA Regulations No. 1-81 need to be further amended to relax the utilization requirement. As pointed out earlier, the Regulations require donee institutions to utilize their donations in the year of receipt, or with BIR approval, to disburse 70% of their donations within 5 years after such receipt. This requirement defeats the attempt of NGOs and other foundations to achieve long-term stability, because it denies them the possibility of setting up a Capital Fund through endowments or other sources of funds that can be held in trust, with only its income being used for administrative and operating purposes. At a minimum, the definition of "utilization" should be amended to include any amount set aside and invested to earn interest, dividends, rentals or any other income, provided, however, that income derived from an acquired asset or investment shall be used to carry out one or more of the purposes for which the donee was created or organized.

In the long-term, it is recommended that the last paragraph of Section 26 of the Tax Code, which taxes income derived from real or personal properties, or from activities conducted for profit, regardless of the disposition of such income, be further amended to exempt from income tax the investment income such as interest and dividends of NGOs and other foundations.

2. Restoration/Granting of Tax Incentives to NGOs and other Foundations

NGOs and other foundations have responded in no small measure to the Government's call for private philanthropy. These organizations have spent huge amounts for research and development. They are often able to quickly implement innovative ideas due to the absence of extensive bureaucratic routines and procedures. Due to the multiple constituencies that any Government must satisfy, NGOs and other foundations can take risks associated with new ideas and solutions to problems to an extent that Government usually cannot.

These NGOs and other foundations should be encouraged by restoring the tax incentives previously enjoyed by private science foundations under the Science Act of 1958 and should be expanded to encompass the wider classification of NGOs.

More specifically, the following tax incentives that should be restored by legislative action are:

- (1) Tax exemption of all funds contributed to the support and maintenance of NGOs and other foundations and their projects, and full deductibility of such contributions from the donor's taxable income.
- (2) Tax exemption of all income of whatever kind and character which NGOs and other foundations may derive from any of their properties, real or personal, or from their investments.
- (3) Exemption from all taxes and duties of apparatus, instruments, utensils, equipment and materials imported into the Philippines solely for scientific and technological research and development and not for barter, sale or hire.

ENCOURAGING DONATIONS/PHILANTHROPY

To encourage more persons or entities to make donations to NGOs, the income tax benefit of such donations must be maximized. For this purpose, it is recommended that:

1. Valuation of Donations

Section 10 of BIR-NEDA Regulations No. 1-81, which provides that donations in kind shall be valued at its FMV at the time of donation, should be reinforced and strengthened to enable the donor to maximize his tax benefit from the donation by --

- a. Reconsidering BIR Ruling No. 167-89 of August 9, 1989 which in effect substituted the zonal value for FMV in cases of donation of real property;
- b. Inserting a new paragraph in Section 10 of the Regulations to allow FMV to be established by or be equivalent to the:
 - Appraisal value as determined by a licensed independent real estate appraiser in the case of real property;
 - Cost to acquire a similarly-situated property in the case of depreciated or used personal property;

- Intrinsic or historical value as determined by experts in the field or by the Board of Curators of the National Museum in the case of personal properties that appreciate in value over time; and
- Amount of salary or professional fees equivalent to the number of hours of service donated by employees or professionals.

2. Intangibles or Rights

Section 28 of the Tax Code should be amended to include in the exclusions from gross income the expected receipt of items of income which are donated or assigned to NGOs.

3. Percentage Limitation on Deductible Donations

The 6% individual and 3% corporate limitations on allowable deduction from taxable income have been in existence for the last 36 years. In the U.S., the allowable corporate deduction was increased from 5% to 10% effective for taxable years beginning after December 31, 1981. The allowable deduction of 20%-30%-50% for individuals was left unchanged. Considering the social and economic changes in the Philippines, and the more urgent and vital role that NGOs now play in national development, these ceilings must be increased to encourage individual and corporate philanthropy. It is therefore recommended that the present 6% and 3% individual and corporate ceilings on allowable deduction be increased, say, to 10% of net taxable income computed without benefit of this deduction.

4. SNITS Law

The SNITS law, which limits deductible contributions by individuals engaged in business or in the practice of a profession to donations made to the Government and accredited relief organizations for the rehabilitation of calamity-stricken areas, should be amended to allow individuals engaged in business or the practice of a profession to deduct donations made to all qualified donee institutions.

5. Carryover of Excess Donations

To truly encourage philanthropy, it is recommended that the U.S. concept of carryover of excess donations be adopted for Philippine income tax purposes. This amendment of the Tax Code will in effect provide that donations in excess of the percentage limitation may be carried-over and deducted for a number of years immediately following the year when the contribution was

paid or actually made, until the full amount or value of the donation has been exhausted or fully deducted.

The carry over concept will tremendously promote charitable giving without Government losing revenue. It is a fact that business is not always on an upturn. There are periods when income is low or business incurs a loss. Donors are guided by business cycle to maximize whatever incentives are provided; thus, they give more when business is good and less or none at all when business is bad. With a carryover provision, donors will be more inclined to donate since they can take a tax benefit in succeeding years. At the very least, the apprehension of not being able to maximize tax incentives can be removed.

It is also recommended that the carryover concept be applied to contributions eligible for full deductibility to address the situation where a donor, who is otherwise capable of providing the needed funding of a qualified donee institution, would not contribute as much since his projected taxable income within the contribution year would not cover the full amount or value of the contribution. Applying the carryover provision would encourage the donor to provide the needed funding without fear of not being able to deduct what he contributed in full.

* * *

S U M M A R Y

REVIEW OF PHILIPPINE LAWS AND RECOMMENDATIONS TO ENCOURAGE AND PROMOTE CORPORATE PHILANTHROPY

STATE OF THE LAW

RECOMMENDATIONS

Administrative Action Only

A. Requirements on Donee Institutions

1. Donee institutions are required to make utilization of their funds within a specified period. This "utilization" requirement defeats attempts to build a capital fund.
2. In order that donors may avail of full deductibility under Section 29(h) of the Tax Code, donee institutions are required to register with the BIR as "qualified donee institutions." This procedure is cumbersome.

1. Definition of "utilization" in BIR-NEDA Regs. No. 1-81 should be amended to include cash or assets set aside for investment. However, to prevent the NGO-donee institution from becoming an organization engaged substantially or principally in investment activities, a ceiling on the amount of cash or assets set aside from investment or capital build-up should be prescribed.
2. To ease implementation of the proposed restoration of tax incentives to NGOs, BIR-NEDA Regs. No. 1-81 should be amended to give to the NEDA for NGOs, and the DOST for private science foundations, the sole responsibility of accreditation for tax-exempt status, with the BIR having only a ministerial duty of issuing the certificate of exemption.

B. Deductibility

1. BIR Ruling No. 167-89 effectively substitutes the zonal value as the fair market value (FMV) of real property for purposes of determining the deductible value of donated real property, and disallows the use of appraisal value for determining the FMV of the donated real property.
1. BIR Ruling No. 167-89 should be reconsidered. BIR-NEDA Regs. No. 1-81, should also be amended to allow the use of appraisal value as determined by a real estate appraiser as its FMV for purposes of determining the deductible value of the donated real property.

2. BIR-NEDA Regs. No. 1-81 requires that donated personal property shall be valued at depreciated or book value in case of used personal property.
3. The regulations do not contemplate donations of personal properties that increase in value over time, e.g., cultural properties, etc.
4. The Regulations do not provide any treatment for donated intangible properties, such as copyrights and patents or donations of expected receipt of income.
2. BIR-NEDA Regs. 1-81 should be amended to provide that for purposes of determining the deductible value of used personal property, the cost to acquire similarly situated property shall be its FMV.
3. BIR-NEDA Regs. No. 1-81 should be amended to provide that for purposes of determining the deductible value of used personal properties that increase in value over time, the FMV shall be the appraisal value as determined by a panel of experts in the field or by the Board of Curators of the National Museum.
4. BIR-NEDA Regs. No. 1-81 should be amended to provide for the deductibility and valuation of donated intangible properties.

Legislative Action

A. Strengthening Donee Institutions

1. No more tax exemptions, incentives or preferential tax treatment.
1. Restoration/grant of tax and duty exemptions of NGOs and other foundations. However, to prevent the tax and duty exemptions of NGOs and other foundations from being abused, the NEDA for NGOs, and the DOST for the private science foundations which are the bodies proposed to have sole responsibility for accreditation for tax-exempt status, should impose conditions for the enjoyment of such tax and duty exemptions. For example, tax and duty free importation benefits may be limited only to specific kinds of materials or equipment which will be actually, directly and exclusively used for the principal purpose for which the NGO or foundation was organized.

2. Non-stock, non-profit corporations are taxed on their income from properties, whether real or personal, regardless of the disposition of such income.
2. Amend last paragraph of Section 26 of the Tax Code which subjects to tax income of NGOs from any property of whatever kind and from any activities for profit regardless of disposition, to exempt investment income such as interest and dividends of NGOs.

B. Encouraging Philanthropy

1. Deductibility of donations is limited to 6% or 3% of taxable net income. Full deductibility is allowed only in certain specified cases.
1. Section 29(h) of the the Tax Code should be amended to increase allowable deduction to maximum of 10% of taxable net income.
2. Under the SNITS law, only donations made to the Government and accredited relief organizations for the rehabilitation of calamity-stricken areas are allowed to be deducted by donors who are individuals engaged in business or the practice of a profession.
2. The SNITS law should be amended to allow individuals engaged in business or the practice of a profession to deduct donations made to all qualified donee institutions.
3. Donations in excess of the allowable deduction are forever lost and may no longer be carried over by the donor to succeeding years.
3. Section 29(h) of the Tax Code should be amended to provide for a carryover of excess allowable deductions over a number of years but always observing the percentage limitation, if applicable, in every taxable year.