STEP 7
claiming tax benefits

To encourage corporate giving, the Philippine Government gives tax incentives to corporations and individuals engaged in business or in the practice of profession who donate to public or private institutions.

Corporations qualify for tax incentives when they comply with substantive and procedural requirements imposed by the Tax Code of 1997; the Corporation Code of the Philippines; and other pertinent laws, rules, and regulations.

Basic among the requirements are the following:

- The corporate donor must be a BIR-registered taxpayer.

- Donation must be evidenced by legal documents and supported by duly accomplished BIR forms; specifically, BIR Form 2322 (Certificate of Donation) and BIR Form 1800 (Donor's Tax Return).

Documentation is essential both for a corporate donor's record purposes and for claiming tax benefits. The basic documents are the following:

- A formal donation is evidenced by a *Deed of Donation and Acceptance* executed by the donor and donee corporations, and handed over by the former to the latter.

- Receipt of donation is evidenced by an *Official Receipt* and a *Certificate of Donation* (BIR Form 2322) issued by the donee to the donor.

- In appropriate cases, the donor (with the assistance of the donee) prepares a *Notice of Donation* for filing with the BIR.

(See *Appendix D* for more information on documentary requirements.)

Other requirements have to do with the nature of the donee organizations and are explained below.

KINDS OF TAX BENEFITS

The Tax Code of 1997 provides two basic incentives for corporate donors:

1. exemption from the donor's tax, and
2. deductions from taxable income.

(*Appendix B* presents information on these basic tax incentives in table form.)

EXEMPTION FROM DONOR'S TAX

Normally, corporate donors are required to pay a tax amounting to 30% of the value of the donation. (See *Valuing Donations* on page 20 for how the different forms of donation are valued.) Corporations donating to the following beneficiaries are, however, exempted from paying this tax:

1. Philippine government or any of its attached agencies or political subdivisions, including fully-owned government corporations;

2. Private and public educational institutions;

3. Foreign Institutions or International Organizations;

4. PCNC-certified organizations; and

5. Non-PCNC-certified non-stock, non-profit organizations established for religious, charitable, cultural, social welfare, and research purposes.

The process of claiming exemption from the donor's tax depends on the nature of the donation. The corporate donor must:

1. For cash and personal properties

    a. Execute a Deed of Donation and Acceptance, with a documentary stamp tax of P15.00 affixed, to be duly accepted by the donee institution;

    b. File a Donor's Tax Return (BIR Form No. 1800) within 30 days from notarization of the Deed of Donation and Acceptance at the Revenue District Office (RDO) where its principal place of business is located; and

    c. Submit to the BIR within 30 days from date of donation a Notice of Donation stating the nature, amount, donee, and purpose of the donation, *for donations greater than One Million Pesos* (P1,000,000).

2. For shares of stock

    a. Execute a Deed of Donation and Acceptance, with a documentary stamp tax of P15.00 affixed, to be duly accepted by the donee institution;

    b. File a Donor's Tax Return (BIR Form No. 1800) within 30 days from notarization of the Deed of Donation and Acceptance at the RDO where its principal place of business is located;

    c. Submit to the BIR within 30 days from date of donation a Notice of Donation similar to that used for cash and personal properties, *for donations worth more than One Million Pesos* (P1,000,000); and
    d. Surrender the duly endorsed stock certificate and Deed of Donation to the Corporate Secretary of the issuing corporation for purposes of registration of the stocks in the name of the donee institution.

3. For real property

    a. Execute a Deed of Donation and Acceptance, with a documentary stamp tax of P15.00 affixed, to be duly accepted by the donee institution;

    b. File a Donor's Tax Return (BIR Form No. 1800) within 30 days from notarization of the Deed of Donation and

Acceptance at the RDO where its principal place of business is located;

c. Submit to the BIR within 30 days from date of donation a Notice of Donation similar to that used for cash and personal properties, *for donations worth more than One Million Pesos* (P1,000,000);

d. Secure a Certificate of Authority to Register (CAR) from the BIR;

e. Update payment of real property taxes and secure a Tax Clearance Certificate from the Office of the Assessor;

f. Pay the transfer and registration fees;

g. Surrender the old title and apply for a new title with the Register of Deeds, presenting the following:
• notarized Deed of Donation and Acceptance
• Certificate of Authority to Register (CAR)
• Tax Clearance Certificate
• original copy of the Transfer Certificate of Title (TCT)

• tax declaration issued by the Office of the Assessor
• real estate tax receipts; and

(See *Appendix I* for more information on the registration of real property in the name of the donee.)

h. Apply for a new tax declaration in the name of the donee corporation with the Assessor's Office.

(For flowchart versions of these processes see *Appendices F, G,* and *H*.)

D E D U C T I O N S F R O M T A X A B L E I N C O M E

Contributions made to qualified beneficiaries can be charged as expenses, thus lowering the donor company's taxable income for the year. A donor company can claim either *full* or *limited* deduction, depending on the nature of the donee institution.

1. Full deduction

Corporations may claim as deduction from taxable income (before any other full or limited deduction is deducted from this amount) the full amount of donations made to the following:

a. Government of the Philippines or any of its agencies or political subdivisions, including fully-owned government corporations, *if donation is earmarked specifically for priority activities in education, health, youth and sports development, science development, culture development, or economic development in accordance with the National Priority Plan of the National Economic Development Authority (NEDA)*;

b. Foreign institutions or international organizations, *if donation is earmarked specifically for activities in pursuance of or compliance with agreements, treaties, or commitments between the Philippine Government and these institutions, or for activities required to comply with special laws*;

c. PCNC-certified nongovernmental organizations (NGOs) subject to Revenue Regulations Nos. 13 – 98 implementing Section 34 (H) of the Tax Code of 1997.

2. Limited deduction

Corporations may claim up to a 5% deduction from taxable income (before any other full or limited deduction is deducted from this amount) for donations made to the following:

a. Government of the Philippines or any of its agencies or political subdivisions, *if donation is earmarked or used for any public purpose other than those in the National Priority Plan of the NEDA*;

b. Social welfare institutions duly licensed by the Department of Social Welfare and Development;

c. Non-stock, non-profit corporations or associations (other than PCNC-certified NGOs) organized and exclusively operated for religious, charitable, scientific, cultural, educational, youth and sports development, social welfare, or research purposes, or for the rehabilitation of veterans.

Limited deduction means that corporations donating to the above donees *are only allowed to claim the full value of their donation as a deduction from taxable income insofar as that value does not exceed 5% of their taxable income*. This means that a donation with a value of, say, 7% of taxable income entitles the donor only to a 5% deduction. The extra 2% cannot be claimed as a deduction.

A full deduction (arising from another donation) can, however, be claimed on top of a 5% deduction. Question 6 in the *Frequently Asked Questions* contains a sample computation.

Donor corporations can claim full or limited deductions or both when they file their annual income tax returns at the Revenue District Office (RDO) where their principal place of business is located.
Although the annual return reflects all donations given over the entire year, donor corporations must still file quarterly returns reflecting donations given for the quarter covered.

(See *Appendix E* and Question 8 in the *Frequently Asked Questions* for requirements with regard to the filing of claims for deductibility.)

V A L U I N G   D O N A T I O N S

Donations are valued in the following ways:

1. Cash – the amount of the donation

2. Real property – the zonal value at the time of donation

3. Personal property – the acquisition cost; or, if used, the depreciated or book value. Art pieces such as paintings, sculpture, or jewelry are, however, valued at acquisition cost, as their value usually appreciates over time.

4. Professional and company services – These should be booked and designated as cash donations; otherwise they are not deductible from taxable income.

A D D I T I O N A L   I N C E N T I V E S U N D E R   S P E C I A L   L A W S

Special laws provide additional tax benefits to corporations engaging in certain forms of corporate giving:

SPECIAL LAW	COVERAGE	ADDITIONAL INCENTIVE	CONDITIONS
Republic Act No. 7686 (The Dual Training System Act of 1994)	Training of Company's employees by an accredited Dual Training System Education Institution	Deduction of 50% of actual system expenses paid to the TESDA accredited institution	Training expenses should not exceed 5% of the total direct labor expenses and should not be more than P25 million per year.
Republic Act No. 8525 (The Adopt-a-School Act of 1998)	Expenses incurred for adopting and assisting school, including donations	Deduction from taxable income of 50% of actual expenses	Valuation of assistance other than money shall be based on the acquisition cost less depreciation
Republic Act No. 6791 (The Productivity Incentives Act of 1990)	Cost of benefits under Productivity Incentives Program mutually agreed upon by labor and management Grants for manpower training and special studies	Deduction from taxable income equivalent to 50% of the total productivity bonuses over and above the total allowable Deduction from taxable income equivalent to 50% of the total productivity bonuses over and above the total allowable	Bonuses shall be given within six months from start of program.