

ADVISORY ON INCOME TAXATION OF PROPRIETARY EDUCATIONAL INSTITUTIONS AND HOSPITALS WHICH ARE NON-PROFIT

PAGE NOS.

**BIR REVENUE REGULATION
NO. 3-2022**

2

Implementing the Provisions of Republic Act (RA) No. 11635, entitled "An Act Amending Section 27 (B) of the National Internal Revenue Code of 1997, as Amended, and for Other Purposes" on the Income Taxation of Proprietary Educational Institutions and Hospitals Which Are Non-Profit

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**INCOME TAXATION OF PROPRIETARY EDUCATIONAL INSTITUTIONS
AND HOSPITALS WHICH ARE NON-PROFIT**

Definitions

- A. **Proprietary Educational Institutions** – refers to any private schools maintained and administered by private individuals or groups, with an issued permit to operate from the Department of Education (DepEd) or the Commission on Higher Education (CHED) or the Technical Education and Skills Development Authority (TESDA), as the case may be.

The most common organizational structure of educational institutions registered with the Securities and Exchange Commission (SEC) are:

Educational Institution	Stock Corporations	Non-stock Corporations
Characteristics	<ul style="list-style-type: none"> ➤ Are those which have capital stock divided into shares and are authorized to distribute to the holders of such shares, dividends, or allotments of the surplus profits on the basis of the shares held; ➤ Characterized as organized for profit to be enjoyed by stockholders; ➤ Profits are declared and they are distributed to stockholders; ➤ Composed of stockholders; and ➤ Governed by a Board of Directors (BOD). 	<ul style="list-style-type: none"> ➤ Are those organized not as a stock corporation; ➤ Characterized generally, as organized for purposes other than profit; ➤ Income earned are not so distributed but used to further its own purposes; ➤ Composed of members; and ➤ Governed by what is generally called a Board of Trustees (BOT)

- B. **Hospitals Which are Non-Profit** – refers to any private hospitals, which are non-profit, maintained and administered by private individuals or groups.
- C. **Non-Stock, Non-Profit Educational Institutions** – refers to institutions whose revenues and assets that are used actually, directly and exclusively for educational purposes shall be exempt from taxes and duties.
- D. **Non-profit** – means no net income or asset accrues to or benefits any member or specific person, with all the net income or assets devoted to the institution's purposes and all its activities conducted not for profit.

- E. **Unrelated Trade, Business or Other Activity** – means any trade, business or other activity, the conduct of which is not substantially related to the exercise or performance by such educational institutions or hospitals of its primary purpose or function.

Tax Treatment

A. Preferential Corporate Income Tax Rate

CONDITION	PREFERENTIAL CORPORATE INCOME TAX RATE		
	Before July 1, 2020	July 1, 2020 - June 30, 2023	After June 30, 2023
If gross income from unrelated trade, business or other activity, does not exceed fifty percent (50%) of the total gross income they derived from all sources.	10%	1%	10%

The above preferential tax treatment shall cover:

- Proprietary Educational Institutions;
- Hospitals which are non-profit; and
- Non-Stock, Non-Profit Educational Institutions whose net income or assets accrue/inure to or benefit any member or specific person.

B. Regular Corporate Income Tax Rate

CONDITION	REGULAR CORPORATE INCOME TAX RATE
If gross income from unrelated trade, business or other activity, exceeds fifty percent (50%) of the total gross income they derived from all sources.	25% <i>(on the entire taxable income)</i>
If revenues or assets are not used actually, directly, and exclusively for educational purposes.	25% <i>(on the portion not actually, directly, and exclusively used for educational purposes)</i>

Source:

Revenue Regulation No. 3- 2022