



REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF FINANCE  
BUREAU OF INTERNAL REVENUE

Date APR 07 2022

REVENUE REGULATIONS NO. 3-2022

**SUBJECT :** 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

**TO :** All Revenue Officers and Others Concerned

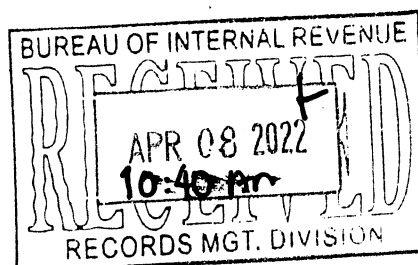
**SECTION 1. SCOPE.** - Pursuant to the provisions of Sections 244 and 245 of the National Internal Revenue Code of 1997 (NIRC), as amended, in relation to Section 2 of Republic Act (RA) No. 11635, these Regulations are hereby promulgated to implement the amendment to Section 27(B) of the NIRC, as contained in the said Act, on the income taxation of Proprietary Educational Institutions and Hospitals which are non-profit.

**SECTION 2. DEFINITION.** - The following words or phrases, when used in these Regulations, shall have the following meaning:

**A. Proprietary Educational Institutions** – refer 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, in accordance with existing laws and regulations.

The most common organizational structure of educational institutions registered with Securities and Exchange Commission (SEC) under Section 27(B) of the NIRC, as amended, are:

- a. **Stock Corporations** 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 (also called shareholders or share owners); and governed by a Board of Directors (BOD).
- b. **Non-stock Corporations** 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** – refer to any private hospitals, which are non-profit for the purpose of these Regulations, maintained and administered by private individuals or groups.
- C. Non-Stock, Non-Profit Educational Institutions** are those institutions mentioned in the first paragraph of Section 4(3), Article XIV of the 1987 Constitution and Section 30 (H) of the NIRC, as amended, whose revenues and assets that are used actually, directly and exclusively for educational purposes shall be exempt from taxes and duties.
- D. Non-profit** - as used in the definition of Proprietary Hospitals and Non-Stock, Non-Profit Educational Institutions, means that 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.

For purposes of these Regulations, the grant of *per diems* such as transportation allowance in attendance of meetings, compensation and/or endowments for services rendered, or any other similar emoluments to the Board of Trustees, officers, employees, or any members of the above-mentioned institutions shall not be prohibited and shall not necessarily be considered a private inurement that would negate the status of the institutions as non-profit; *Provided*, that such *per diems*, compensation or emoluments are subject to proper liquidation or reimbursement procedures, and commensurate to the functions and services rendered. In such a case, the same shall be considered as legitimate and reasonable expenses incurred in furtherance of the duties and responsibilities of the trustees, officers, employees, members, or any persons, and ultimately, the objectives of the organization.

The reasonableness of the expense shall be determined by the BIR on a case-to-case basis.

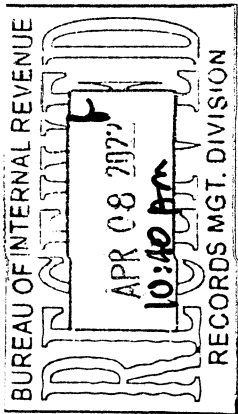
- E. Unrelated Trade, Business or Other Activity** means any trade, business or other activity, the conduct of which is not substantially related to the exercise or performance by such educational institutions or hospitals of its primary purpose or function.

**SECTION 3. COVERAGE OF THE PREFERENTIAL CORPORATE INCOME TAX RATE.** - The following institutions shall be covered by the preferential ten percent (10%) corporate income tax rate; *Provided*, that beginning July 1, 2020 until June 30, 2023, the rate of one percent (1%) shall apply, as imposed under Section 27 (B) of the NIRC, as amended:

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

After June 30, 2023, the rate shall revert to the preferential corporate income tax rate of 10%.

**SECTION 4. APPLICATION OF THE REGULAR CORPORATE INCOME TAX RATE.** – The twenty-five percent (25%) regular corporate income tax rate prescribed under Section 27(A) of the NIRC, as amended, shall be imposed on the entire taxable income of the institutions mentioned in Section 3 hereof, if their gross income from unrelated trade, business or other activity, as defined herein, exceeds fifty percent (50%) of the total gross income they derived from all sources. Moreover, a Non-Stock, Non-Profit Educational



Institution, not falling under Section 3 of these Regulations, shall be subject to the rate of twenty-five (25%) regular corporate income tax on the portion of its revenues or assets not used actually, directly, and exclusively for educational purposes, as provided in Section 27(A) of the NIRC, as amended.

**Illustrations:**

- (1) Rosa Private School of Values or RPSV is a proprietary educational institution with an issued permit to operate from the Commission on Higher Education (CHED). It is maintained and administered by MCGJ Inc., a private domestic corporation registered under the Securities and Exchange Commission.

RPSV uses a fiscal year accounting ending July 31st of each year. On July 31, 2021, it recorded total gross receipts amounting to P18,000,000.00, of which P10,000,000.00 came from education-related activities, while P8,000,000.00 from other unrelated business activities. Also, RPSV recorded cost of service and operating expenses from related activities amounting to P2,000,000.00 and P1,000,000.00, respectively, and from unrelated business activities amounting to P3,000,000.00 and P2,000,000.00, respectively.

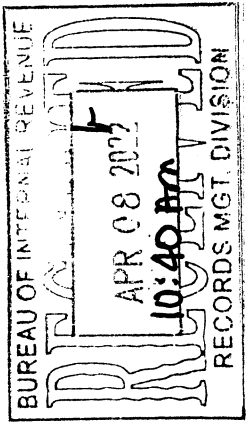
	Related activities	Unrelated Activities	Total
Gross Receipts/Sales	10,000,000.00	8,000,000.00	18,000,000.00
Less: Cost of Service/Sales	2,000,000.00	3,000,000.00	5,000,000.00
Gross Income	<b>8,000,000.00</b>	<b>5,000,000.00</b>	<b>13,000,000.00</b>
Less: Allowable Deductions	1,000,000.00	2,000,000.00	3,000,000.00
NET TAXABLE INCOME	7,000,000.00	3,000,000.00	10,000,000.00
REGULAR RATE			<b>1%</b>
TAX DUE			<b>100,000.00</b>

\* The educational institution is subject to income tax at the rate of 1% since its gross income from unrelated activities did not exceed 50% of the total gross income.

- (2) ILR Hospital, a private non-profit hospital, has gross receipts of P15,000,000.00 with a cost of P6,000,000.00 and allowable deductions of P3,250,000.00 from related activities, while for its unrelated activities, it incurred P5,000,000.00 and P2,000,000.00 as cost of sales and allowable deductions, respectively, with a gross income of P18,000,000.00, for Calendar Year 2021.

Computation of tax shall be as follows:

	Related activities	Unrelated Activities	Total
Gross Sales	15,000,000.00	18,000,000.00	33,000,000.00
Less: Cost of Sales	6,000,000.00	5,000,000.00	11,000,000.00



Gross Income	9,000,000.00	13,000,000.00	22,000,000.00
Less: Allowable Deductions	3,250,000.00	2,000,000.00	5,250,000.00
NET TAXABLE INCOME	5,750,000.00	11,000,000.00	16,750,000.00
REGULAR RATE			25%
TAX DUE			4,187,500.00

\* ILR Hospital is subject to the regular rate of 25% since its gross income from non-related activities is more than 50% of its total gross income.

**SECTION 5. REPEALING CLAUSE.** - Any provisions of existing revenue regulations or revenue issuances which are inconsistent with these Regulations are hereby repealed, modified or amended accordingly.

**SECTION 6. EFFECTIVITY.** - These regulations shall take effect immediately upon publication in the Official Gazette or in a newspaper of general circulation, whichever comes earlier.



*Carlos G. Dominguez*  
**CARLOS G. DOMINGUEZ**  
 Secretary of Finance

**Recommending Approval:**

*Caesar R. Dulay*  
**CAESAR R. DULAY**  
 Commissioner of Internal Revenue  
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