REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Quezon City

R.A. No. 9904; R.A. No. 8424;
RMC No. 9-2013;
BIR Ruling No. 105-14;
OT-0381-[illegible]

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LA MEDITERRANEA HOMEOWNERS ASSOCIATION, INC.
Bo. Pala-Pala Dasmariñas
Cavite 4114

Attention: **JULIUS D. PLOMINES**
Administrative Officer

Gentlemen:

This refers to your letter dated December 22, 2016, requesting for tax exemption of **LA MEDITERRANEA HOMEOWNERS ASSOCIATION, INC.** under Republic Act No. 9904 otherwise known as the "Magna Carta for Homeowners and Homeowners' Associations", as enunciated in Revenue Memorandum Circular No. 9-2013 which clarifies the taxability of association dues, membership fees, and other assessments/charges collected by Homeowners' Associations.

Documents submitted disclosed that **LA MEDITERRANEA HOMEOWNERS ASSOCIATION, INC.** is a non-stock and non-profit residential homeowners' association, with Taxpayers Identification No. and duly registered with the Housing and Land Use Regulatory Board (HLURB) with Registration No. ; that it is situated and within the jurisdiction of the City Government of Dasmariñas; that among the purposes for which the Association was incorporated are the following:

1. *To construct, manage, maintain and operate adequate facilities and services for its members;*
2. *To initiate and organize socio-cultural projects and activities which will awaken community consciousness and belonging;*
3. *To promote, enhance and foster the development and improvement of the quality of life of the members through livelihood projects and other economic activities;*
4. *To acquire, accept donations, purchase, own, hold, develop, lease, mortgage, pledge, exchange, sell, transfer or otherwise invest, deal in or trade, in any manner permitted by law, real and personal property of every kind and description, or any interest therein, as maybe necessary for the accomplishment of the purposes of the Association;*
5. *To borrow and otherwise contract indebtedness and issue notes, bonds and other evidence of indebtedness and to secure payment therefore by mortgage, pledge or deed of trust of, or through encumbrance on any or all of its then-owned or after acquired real or personal properties and assets;*

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6. *To enter into, make, perform and carry out, or cancel and rescind contracts of every kind and for any lawful purpose with any person, firm, association, corporation, syndicate, domestic or foreign, or others;*
7. *To do and perform any other acts and things, and to have and exercise any other powers which may be necessary, convenient and appropriate to accomplish the purposes for which the Association is organized.*

and that the Office of the City Mayor of Dasmariñas certified on January 8, 2018 that:

> *"The homeowners' association provides basic community services to its residents such as cleanliness, safety, security and maintenance of the facilities within the subdivision.*
>
> *This further certifies that the City Government of Dasmariñas lacks the resources to render the said services being provided by the homeowners' association."*

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LA MEDITERRANEA HOMEOWNERS ASSOCIATION, INC. bases its request for exemption on Section 18 of R.A. No. 9904, which provides:

> "**SECTION 18.** ***Relationship with LGUs.*** — Homeowners' associations shall complement, support and strengthen LGUs in providing vital services to their members and help implement local government policies, programs, ordinances, and rules.
>
> Associations are encouraged to actively cooperate with LGUs in furtherance of their common goals and activities for the benefit of the residents of the subdivisions/villages and their environments.
>
> *Where the LGUs lack resources* to provide for basic services, the associations shall endeavor to tap the means to provide for the same. In recognition of the associations' efforts to assist the LGUs in providing such basic services, association dues and income derived from rentals of their facilities shall be tax-exempt: *Provided*, That such income and dues shall be used for the cleanliness, safety, security and other basic services needed by the members, including the maintenance of the facilities of their respective subdivisions or villages. xxx"

In reply thereto, considering that **LA MEDITERRANEA HOMEOWNERS ASSOCIATION, INC.** is a duly registered Homeowners Association with the HLURB; that its financial statements show the delivery of basic community services defined under Sec. 3(d) of R.A. 9904; and that the Local Government Unit covering the jurisdiction of the Homeowners Association has issued a Certificate that it lacks the resources to provide these services to the Association, this Office hereby holds that the income derived from association dues, membership fees, other assessments and charges collected in a purely reimbursable and rentals of facilities of

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LA MEDITERRANEA HOMEOWNERS ASSOCIATION, INC. is exempt from income tax, value-added tax or percentage tax[1], whichever is applicable. Provided, that such income and dues shall be used for the cleanliness, safety, security and other basic services needed by the members, including the maintenance of the facilities of their respective subdivisions or villages.

However, **LA MEDITERRANEA HOMEOWNERS ASSOCIATION, INC.** shall be subject to the applicable internal revenue taxes on its other income from trade, business or other activities. Specifically:

Income Tax

It shall be subject to the corresponding internal revenue taxes imposed under the Tax Code of 1997, as amended, on its income derived from sources other than association dues, membership fees, other assessments and charges collected in a purely reimbursable and rentals of its facilities, which income should be returned for taxation. Likewise, interest income from currency bank deposits and yield or any other monetary benefit from deposit substitute instruments and from trust funds and similar arrangements, and royalties derived from sources within the Philippines are subject to the 20% final withholding tax; provided, however, that interest income derived from it from a depository bank under the expanded foreign currency deposit system shall be subject to 15%[2] final withholding tax pursuant to Section 27 (D) (1) in relation to Section 57 (A), both of the Tax Code of 1997, as amended. Moreover, it is required to file on or before April 15 of each year a profit and loss statement and balance sheet with the annual information return under oath, stating its gross income and expenses incurred during the year and a certificate showing that there has not been any change in its By-Laws, Articles of Incorporation, manner of operation and activities as well as resources and disposition of income.

Value-Added Tax or Percentage Tax

Likewise, **LA MEDITERRANEA HOMEOWNERS ASSOCIATION, INC.**'s gross receipts from operations not derived from rental of its facilities, association dues, membership fees, other assessment and charges collected on a purely reimbursable shall be subject to the 12% VAT as imposed under Section 108 of the Tax Code of 1997, as amended, which tax payment may legitimately be passed on to buyers of such goods and services; or 3% percentage tax imposed under Section 116 in relation to Section 109(BB) of the same Code if the gross sales or receipts from such sale of goods and services do not exceed Three Million Pesos (P3,000,000.00)[3].

It is requested that a copy of this letter of exemption be attached to the annual information return which **LA MEDITERRANEA HOMEOWNERS ASSOCIATION, INC.** will file on or before the 15th day of the fourth month of each year.

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[1] Section 4.109-1 (B)(1)(y) of the RR No. 13-2018.
[2] Republic Act No. 10963 increased the tax rate from 7.5% to 15% effective January 1, 2018.
[3] Republic Act No. 10963 increased the VAT threshold from P1,919,500.00 to P3,000,000.00 effective January 1, 2018.

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Under Section 235 of the Tax Code of 1997, as amended, any provision of existing general or special law to the contrary notwithstanding, the Revenue District Officer shall conduct an audit of annual information return filed, the books of accounts and other pertinent records of **LA MEDITERRANEA HOMEOWNERS ASSOCIATION, INC.** to determine compliance with the conditions set forth in this letter of tax exemption and tax liabilities, if any.

It should be understood that **LA MEDITERRANEA HOMEOWNERS ASSOCIATION, INC.** shall be constituted as withholding agent of the government if it acts as an employer and its employees receive compensation income subject to the withholding tax under Section 57 of the Tax Code of 1997, as amended.

Finally, **LA MEDITERRANEA HOMEOWNERS ASSOCIATION, INC.** is also subject to the payment of the annual registration fee of PhP500.00 as prescribed in Section 236 (B) of the Tax Code of 1997, as amended. It is also required under Section 6 (C) in relation to Section 237 of the same Code to issue duly registered receipts for services rendered which do not comprise income from association dues and rentals of their facilities.

This ruling is being issued on the basis of the foregoing facts as represented. However, if upon investigation, it will be disclosed that the facts are different, then this ruling shall be considered null and void.

Very truly yours,

CAESAR R. DULAY
Commissioner of Internal Revenue

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