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THIRTEENTH CONGRESS OF THE REPUBLIC  
OF THE PHILIPPINES  
*First Regular Session*SENATE  
S. No. 215RECEIVED BY: 

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Introduced by Senator S. R. Osmeña III

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**EXPLANATORY NOTE**

Cooperatives have proven their worth as practical vehicles for people empowerment and sustained balanced development especially in the countryside. For allowing the lower income groups to increase their ownership in the wealth of the nation, it is only appropriate for government to grant cooperatives with numerous privileges to serve as special encouragement.

While the clear intent of the law in fostering the growth of cooperatives is to help the less fortunate and lower income segments of Philippine society, in an increasing number of cases, affluent individuals and parties have organized themselves as cooperatives and have taken advantage of tax and other exemptions on their huge volumes of business to enrich themselves further and profit from the patronage of the poorer people. They are able to do this because there is nothing in the present law which limits the enjoyment of exemptions and privileges to the lower income people.

In order to limit the enjoyment of tax and other exemptions to cooperatives of small producers, small service providers, and/or consumers, this bill defines a small producer or small provider as "an individual who by himself or with his family provides the primary labor requirement of his business enterprise, or one who earns at least fifty percent (50%) of his income from the payment, proceeds or income of the labor he personally provides". A small consumer is defined as "an individual who buys or procures goods or services to satisfy his personal and/or family needs, or the needs of his personal or family enterprise as a small producer or small service provider". Limiting the availment of fiscal and other privileges to the poorer segments of society, will make it justifiable to grant them clearer and fuller tax exemptions.

Under the substitute wording for Article 62 of the Cooperative Code, the bill provides for the weeding out of pseudo-cooperatives by directing the Cooperative Development Authority, after due hearing, to withdraw the tax exemptions, other privileges and registration of cooperatives whose members are not small producers and/or consumers as defined in the proposed Act. The measure also directs the CDA to promulgate the rules and regulations to implement this provision, including, if necessary – the re-registration of all cooperatives.

Moreover, to remedy the difficulty in comprehending and complying with the tax exemptions and related benefits granted to cooperatives couched in very lengthy and complicated provisions with so many qualifications and distinctions, this bill seeks to simplify the matter by substituting a new provision for Article 61 of the Cooperative Code of the Philippines.

In order to plug the loopholes existing in the present law, grant meaningful assistance and encouragement to cooperatives of the lower-income groups, and strengthen a regime of social justice and development in Philippine society, the passage of this bill is earnestly sought.

  
**SERGIO OSMEÑA III**  
Senator

THIRTEENTH CONGRESS OF THE REPUBLIC  
OF THE PHILIPPINES  
First Regular Session

DATE  
OFFICE OF THE SECRETARY

JUN 30 P2:43

RECEIVED BY: *[Signature]*

SENATE  
S. No. 215

Introduced by Senator S. R. Osmeña III

AN ACT  
STRENGTHENING COOPERATIVES, AMENDING FOR THE PURPOSE  
REPUBLIC ACT NUMBERED SIXTY-NINE HUNDRED AND THIRTY-EIGHT,  
OTHERWISE KNOWN AS THE "COOPERATIVE CODE OF THE  
PHILIPPINES"

Be it enacted by the Senate and House of Representatives of the Philippines in  
Congress assembled:

**SECTION 1.** Article 5 of Republic Act No. 6938 is hereby amended by  
inserting new subsections, designated as subsections (10) and (11), after  
subsection (9) to read as follows:

"ART. 5. Definition of Terms. – x x x

(1) x x x

x

x

(8) *Cooperative Development Authority* – means the government agency  
in charge of the registration and regulation of cooperative as such, hereinafter  
referred to at the Authority; [and]

(9) *Universally Accepted Principles* – means that body of cooperative  
principles adhered to worldwide by cooperatives in other jurisdictions[.];

(10) *SMALL PRODUCER OR SMALL SERVICE PROVIDER* - SHALL  
MEAN AN INDIVIDUAL, WHO BY HIMSELF OR WITH HIS FAMILY PROVIDES  
THE PRINCIPAL LABOR REQUIREMENT OF HIS BUSINESS ENTERPRISE,  
OR ONE WHO EARNS AT LEAST FIFTY PERCENTUM (50%) OF HIS TOTAL

1 INCOME FROM THE PAYMENT, PROCEEDS OR INCOME OF THE LABOR  
2 HE PERSONALLY PROVIDES; AND

3 (11) *SMALL CONSUMER* - SHALL MEAN AN INDIVIDUAL WHO BUYS  
4 OR PROCURES GOODS OR SERVICES TO SATISFY HIS PERSONAL  
5 AND/OR FAMILY NEEDS, OR THE NEEDS OF HIS PERSONAL OR FAMILY  
6 ENTERPRISE AS A SMALL PRODUCER OR SMALL SERVICE PROVIDER."

7 SEC. 2. Article 14(2) of the same Code is hereby amended by inserting a  
8 new subsection, designated as subsection (b), after subsection (a) to read as  
9 follows:

10 "ART. 14. Articles of Cooperation. – (1) xxx

11 (2) The articles of cooperation shall set forth:

12 (A) x x x

13 (B) WHENEVER APPLICABLE, A BRIEF DESCRIPTION OF THE  
14 MEMBERS OF THE COOPERATIVE AS SMALL PRODUCERS, SMALL  
15 SERVICE PROVIDERS, AND/OR SMALL CONSUMERS AS HEREIN  
16 DEFINED;"

17 [(b)] (C) The purpose or purposes and scope of business for which the  
18 cooperative is to be registered;

19 [(c)] (D) The term of existence of the cooperative;

20 [(d)] (E) The area of operation and the postal address of its principal  
21 office;

22 [(e)] (F) The names, nationality, and the postal addresses of the  
23 registrants;

24 [(f)] (G) The common bond of membership;

25 [(g)] (H) The list of names of the directors who shall manage the  
26 cooperative; and

1            [(h)] (l) The amount of its share capital, the names and residences of its  
2 contributors and a statement of whether the cooperative is primary, secondary or  
3 tertiary in accordance with Article 23 hereof.

4            x x x

5            SEC. 3. The entire provision of Article 61 of the same Code is hereby  
6 deleted and a new provision is inserted, to read as follows:

7            “[ART. 61. *Tax Treatment of Cooperatives.* – Duly registered  
8 cooperatives under this Code which do not transact any business with  
9 nonmembers or the general public shall not be subject to any government taxes  
10 or fees imposed under the internal revenue laws and other tax laws.  
11 Cooperatives not falling under this Article shall be governed by succeeding  
12 section.]

13            “ART. 61. *TAX AND OTHER EXEMPTIONS.* – ALL COOPERATIVES OF  
14 SMALL PRODUCERS, SMALL SERVICE PROVIDERS, AND/OR SMALL  
15 CONSUMERS REGISTERED PURSUANT TO THIS CODE SHALL DURING  
16 THEIR EXISTENCE BE EXEMPTED FROM ALL TAXES, IMPORT LEVIES,  
17 PERMITS, FEES, LICENSES, AND OTHER IMPOSITIONS OF WHATEVER  
18 NAME AND NATURE WHETHER IMPOSED BY THE NATIONAL  
19 GOVERNMENT, ITS AGENCIES AND INSTRUMENTALITIES OR BY THE  
20 LOCAL GOVERNMENT UNITS: *PROVIDED*, THAT SUCH COOPERATIVES  
21 ARE CERTIFIED BY THE COOPERATIVE DEVELOPMENT AUTHORITY AS  
22 COOPERATIVES OF SMALL PRODUCERS, SMALL SERVICE PROVIDERS  
23 AND/OR SMALL CONSUMERS: *PROVIDED, FURTHER*, THAT IN ORDER TO  
24 AVAIL OF THE TAX AND RELATED EXEMPTION PRIVILEGES ABOVE-  
25 MENTIONED, COOPERATIVES SHALL NOT BE REQUIRED TO SECURE ANY  
26 CERTIFICATE FROM THE BUREAU OF INTERNAL REVENUE OR FROM THE  
27 DEPARTMENT OF FINANCE: *PROVIDED, FINALLY*, THAT THESE TAX AND  
28 RELATED EXEMPTION PRIVILEGES MAY BE WITHDRAWN FOR CAUSE

1 AND AFTER DUE HEARING BY THE COOPERATIVE DEVELOPMENT  
2 AUTHORITY.”

3 SEC. 4. The entire provision of Article 62 of the same Code is hereby  
4 deleted and a new provision is inserted to read as follows:

5 “[ART. 62. Tax and other Exemptions. – Cooperatives transacting  
6 business with both members and non-members shall not be subject to tax on  
7 their transactions to members. Notwithstanding the provisions of any law or  
8 regulation to the contrary, such cooperatives dealing with nonmembers shall  
9 enjoy the following tax exemptions:

10 x x x ]

11 “ART. 62. *CANCELLATION OF TAX EXEMPTIONS.* – THE TAX  
12 EXEMPTIONS AND PRIVILEGES OF ANY REGISTERED COOPERATIVE  
13 WITH MEMBERS WHO ARE NOT SMALL PRODUCERS AND/OR  
14 CONSUMERS AS DEFINED IN THIS ACT SHALL, AFTER DUE HEARING BY  
15 THE COOPERATIVE DEVELOPMENT AUTHORITY, IMMEDIATELY BE  
16 WITHDRAWN. THE COOPERATIVE DEVELOPMENT AUTHORITY SHALL  
17 PROMULGATE THE RULES AND REGULATIONS TO IMPLEMENT THIS  
18 PROVISION, INCLUDING THE MONITORING OF THE MEMBERS AND  
19 OPERATIONS OF COOPERATIVES BY THE AUTHORITY AND THE RE-  
20 REGISTRATION OF ALL COOPERATIVES, IF THE SAME IS FOUND BY THE  
21 AUTHORITY TO BE NECESSARY.”

22 SEC. 5. Repealing Clause. (a) Sections 100 and 102 of the National  
23 Internal Revenue Code, as amended by Republic Act No. 7716, popularly known  
24 as the Value Added Tax Law, are hereby amended or modified insofar as they  
25 are inconsistent with this Act.

26 (b) All other general and special laws, acts, charters, decrees, executive  
27 orders, proclamations and administrative regulations, or parts thereof insofar as  
28 they impose taxes, import levies, permits, fees, licenses, and other impositions of

1 whatever name and nature, shall have no force and effect on all cooperatives of  
2 small producers, small service providers, and/or small consumers registered  
3 under the Cooperative Code.

4 SEC. 6. This Act shall take effect fifteen (15) days after its publication in  
5 at least two (2) newspapers of general circulation.

Approved,