



TAX LAW FOR BUSINESS
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Taxation and sports

The 87th National Collegiate Athletic Association (NCAA) opened on Saturday and students from participating schools trooped to the Araneta Coliseum to witness the event. The following day, the nation celebrated as the Philippine Azkals defeated Sri Lanka to move on to the second round of the World Cup qualifier. These events are mere affirmations of how Filipinos love to watch and/or participate in every kind of sports.

For most, sports is a recreational activity purely for fun. For some, it is their source of living. Professional athletes, managers, trainers, coaches and officiating personnel like referees, arbiters, umpires, table committees, etc., derive income from sports. For these professionals, sports is their bread and butter. And when we talk of income, tax follows.

Income of professional athletes, trainers and coaches are subject to regular income tax. If there is a contract of employment with, let's say, a sponsoring company, the income is subject to withholding tax on compensation. Should there be no contract of employment but a contract of professional services, it shall be subject to the expanded withholding tax instead. Under a contract of employment, the taxes withheld on compensation usually constitute the estimated amount of the tax due on the income received by the taxpayer. In case of the latter, the amount of expanded tax withheld is just an advance of the income tax to be paid by the taxpayer. Oftentimes, athletes, trainers and coaches confuse the expanded withholding tax as the income already due, which is not the case. The individual still needs to compute his income tax at the end of the year and file his income-tax return. In the computation of the tax due, he can deduct the amount of tax withheld and remitted by the withholding agent.

Winnings on sports events are subject to final income tax to the tune of 10 percent. However, winnings that are below P10, 000 shall be subject to regular income tax. On the other hand, prizes and awards granted to athletes in local and international sports competitions and tournaments, whether held in the Philippines or abroad and sanctioned by the national sports associations are excluded from the computation of the gross taxable income (Sec. 32 [B][7][d] of the NIRC).

Taxation is less complicated insofar as athletes, trainers or coaches are concerned. However, taxation gets more complex in the case of referees, arbiters and umpires or any other officiating personnel.

In entering a contract with referees, arbiters and umpires, private companies or local government units (LGUs) often prefer a collective contractual agreement with a particular group of officiating personnel rather than different individual contracts. The obvious advantage is that the former is more systematic and centralized. Another consideration for private companies is the issuance of the official receipts. Under the present setting, group or associations of referees, umpires and arbiters often issue Bureau of Internal Revenue (BIR) preapproved official receipts while individuals do not. In contracting with sports personnel, companies have to ensure the deductibility of these sports expenses considering that only expenses with valid official receipts are allowed by the BIR.

Here lies the problem—oftentimes referees, umpires and arbiters are constrained to put up an entity so as to meet these preferences. Usually they form an association and register the same with the Securities and Exchange Commission as a nonstock corporation. But the fact that it is registered as a nonstock corporation does not mean it is not taxable. The taxability of the association or the income of such association depends on many factors—the nature of the entity established, its stated purpose, the activities undertaken, the sources and disposition of its revenue, among other things. It can qualify as an exempt organization provided it complies with the requisites for exemption as provided in the Tax Code.

Today, as Filipinos continue to enjoy the exciting world of sports, let us not forget that there are individuals who do not only consider it as a recreational venue. More important, “sports” is their source of living. Nonetheless, this is one of the sectors where the taxation rules are inadequate. There is a need for the tax authority to craft rules that set clear guidelines for this sector.

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