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## Campaign contributions and taxation

AFTER the midterm elections, another election is scheduled in October. This time, we will be electing our barangay officials. As expected, candidates and their supporters will be incurring election-related expenditures.

Receiving campaign contributions and paying election-related expenses come with corresponding tax obligations. Recently, the Bureau of Internal Revenue issued Revenue Memorandum Circular (RMC) 48-2013, reminding candidates and everybody who participated in the midterm elections of their tax obligations. RMC 48-2013 reiterated Revenue Regulations 07-2011, which defined the income-tax treatment of political contributions. Under these regulations, political contributions are exempt from income tax, provided that these contributions must have been utilized to cover a candidate's expenditures for his or her electoral campaign.

But in the event that there are unutilized or excess campaign funds, these shall be considered subject to regular income tax. Only the excess or unutilized funds will be considered taxable income. However, if the candidate failed to file with the Commission on Elections (Comelec) the appropriate statement of expenditures, his or her election expenditures will not be allowed as deductions. This will make the entire amount of campaign contributions subject to income tax. Candidates who, therefore, failed to file their statements of expenditures may be subject to income tax on the whole amount received as campaign funds. And those whose statements of expenditures indicate excess funds may be taxed on the excess.

For tax-reporting purposes, a candidate registered as self-employed must declare the excess fund in his or her quarterly income-tax return (ITR) ending June 30, 2013, and filed not later than August 15, 2013. But if the candidate is a pure compensation income-earner, he or she has to declare the excess fund in his or her annual ITR, to be filed not later than April 14, 2014. If the candidate is neither a self-employed nor a compensation income-earner, he or she has to declare the taxable income in a short-period return and filed not later than August 15, 2013.

On the expenditure side, RMC 48-2013 reminds candidates and other individuals and entities who incurred campaign expenses of the requirement under the withholding-tax regulations that income payments made by political parties and candidates of local and national elections of all their purchase of goods and services as campaign expenditures, and income payments made by individuals or juridical persons for their purchases of goods and services intended to be given as campaign contribution to political parties and candidates shall be subject to a creditable withholding tax at the rate of 5 percent.

The obligation to withhold 5-percent tax on campaign expenditures is required, even if the payor is not engaged in business or practice of profession. The remittance of the tax withheld should have been done no later than the 10th day of the month following the month of payment/disbursement. In the event that no withholding tax has been made, the expenditure will not be considered as having been incurred for campaign purposes and the same will not be deducted in computing the taxable excess campaign funds discussed earlier.

There are some tax obligations associated with the participation in an election campaign. Candidates or non-candidates who pay campaign expenses for their candidates or parties are required to withhold a 5-percent tax on the payments made. For the receipt of campaign funds, these are ordinarily not subject to income tax. But if there is an excess, the same becomes taxable to the candidate. In computing the excess, all expenditures are supposed to be deductible. But if the expenditure was not subjected to the 5-percent withholding tax, the same is not deductible. Further, the candidate must have reported his or her expenses in the statement of expenditures submitted to the Comelec. Otherwise, the full amount of campaign contribution is considered taxable income.

As we are holding elections this October, candidates and their supporters must be aware of these obligations and avoid the spell of the taxman.

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