POLICIES IN THE TAX TREATMENT OF CAMPAIGN CONTRIBUTIONS AND EXPENDITURES

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SECTION 1. Background. — In the course of an election period, various contributions are given to candidates "for the purpose of influencing the result of the elections" [Sec. 94 (a) of Batas Pambansa Bilang 881, otherwise known as the Omnibus Election Code of the Philippines]. The final paragraph of Section 13 of Republic Act No. 7166, provides that such campaign contributions in cash or in kind to any candidate, duly reported to the Commission on Elections (COMELEC), are exempt from the imposition of Donor's Tax.

However, in instances when these campaign contributions are not fully utilized by a" candidate for campaign purposes, there is a need to clarify the treatment of these excess, campaign funds, for tax purposes.

SECTION 2. Policies and Guidelines. —

1. As a general rule, campaign contributions are not included in the taxable income of the candidate to whom they were given, the reason being that such contributions were given not for the personal expenditure/enrichment of the concerned candidate, but for the purpose of utilizing such contributions for his/her campaign. Thus, to be considered as exempt from income tax, these campaign contributions must have been utilized to cover a candidate's expenditures for his/her electoral campaign.

2. Unutilized/excess campaign funds, that is, campaign contributions net of the candidate's campaign expenditures, shall be considered as subject to income tax, and as such, must be included in the candidate's taxable income as stated in his/her Income Tax Return (ITR) filed for the subject taxable year.

3. Any candidate — winning or losing — who fails to file with the COMELEC the appropriate Statement of Expenditures required under the Omnibus Election Code, shall be automatically precluded from claiming such expenditures as deductions from his/her campaign contributions. As such, the entire amount of such campaign contributions shall be considered as directly subject to income tax.

SECTION 3. Repealing Clause. — All existing issuances, or portions thereof, which are inconsistent herewith are hereby revoked, repealed or amended accordingly.

SECTION 4. Effectivity. — These Regulations shall take effect immediately.

Adopted: 16 February 2011

(SGD.) CESAR V. PURISIMA
Secretary of Finance

Recommending Approval:

(SGD.) KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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