LIABILITY OF PAWNSHOPS TO THE 5% LENDING INVESTOR'S TAX

Read online (full-text search, related cases, audio case brief): https://batas.org/library/5d0457d4f2ea/

According to BIR Ruling No. 06-90, VAT Ruling Nos. 067-90, 022-90, and 226-90 pawnshops are not subject to any business tax, i.e., value-added tax, lending investor's tax, or percentage tax imposed on non-bank financial intermediary for the following reasons:

1. The operation of a pawnshop partakes of the nature of contract of pledge as envisaged under Articles 2094 and 2085 of the Civil Code; hence, it is not subject to value-added tax because pawnshops do not render VAT-taxable service as contemplated under Section 102 in relation to Section 99 of the Tax Code.

2. Pawnshops are not subject to the 5% lending investor's tax under Section 116 of the Tax Code because, citing BIR Ruling dated March 2, 1968 and 135-82 dated April 22, 1982, lending investors, as contemplated under then Section 194(u) of the Tax Code do not include persons engaged in pawnshop business.

3. Pawnshops are not subject to percentage tax as a non-bank financial intermediary prescribed in Section 119 of the Tax Code because they did not belong to the class of financial intermediary as defined in Section 2-D(c) of the General Banking Act, R.A. 337, as amended.

Prior to the amendment of the National Internal Revenue Code by E.O. No. 273 which took effect on January 1, 1988, pawnshops and lending investors had a different tax treatment, such that lending investors and pawnshops were subject to different fixed taxes; and that unlike pawnshops, lending investors were then and now, also subject to the 5% lending investor's tax on their gross income. E.O. No. 273 deleted from the Tax Code the fixed taxes on business.

Then Section 194(u) of the Tax Code defined the term "Lending investor" as including all persons who make a practice of lending money for themselves or others at interests.

A restudy of P.D. 114 shows that the principal activity of pawnshops is lending money at interest and incidentally accepting a "pawn" of personal property delivered by the pawner to the pawnee as security for the loan. (Sec. 3, Ibid) Clearly, this makes pawnshop business akin to lending investor's business activity which is broad enough to encompass the business of lending money at interest by any person whether natural or juridical. Such being the case, pawnshops shall be subject to the 5% lending investor's tax based on their gross income pursuant to Section 116 of the Tax Code, as amended.

All investigating units shall investigate and assess the lending investor's tax due from pawnshops in accordance with this Order within the statutory 3-year period.

This Order, shall take effect immediately.

Adopted: 11 Mar. 1991

(SGD.) JOSE U. ONG
Commissioner

Turn this case into an audio lecture - facts, issues, ruling and doctrine - at batas.org

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at https://batas.org

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.