# Impact of Tax Exemption on Financial Performance and Stakeholders' Satisfaction: A Study of Credit Cooperatives in the Philippines

Imelda T Angeles
University of Santo Tomas, Philippines

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**ABSTRACT**

This study investigates the impact of tax exemption on the financial performance efficiency and stakeholder satisfaction of credit cooperatives. We analyze the relationship between tax exemption, performance indicators, and stakeholders' satisfaction through ordinary least squares regression and partial least squares structural equation modeling. Our findings reveal that tax exemption enhances performance efficiency, employee satisfaction, and cooperative financial effectiveness. While the study did not find a significant impact of tax exemption on community satisfaction, it raises important considerations regarding the challenges cooperatives may pose in addressing the environmental and social needs of the community. Nonetheless, tax exemptions contribute significantly to the well-being of community members and employees, fostering economic growth. This research underscores the importance of tax exemptions for financial cooperatives and highlights their competitive advantage over other financial institutions. Understanding the impact of tax exemption allows policymakers and stakeholders a more accurate evaluation of its benefits and consequences for both the economy and the community.

Keywords: Cooperatives, Tax Exemption, Stakeholders, Financial Performance.

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## 1. INTRODUCTION

Financial cooperatives have developed into stable institutions that provide financial services to their members (Ferri, 2012). Living by its cooperative principle, the institution aims to help members with limited capital resources accumulate savings and obtain credit at a minimal interest (Henock, 2019). The uniqueness of its business model, centered on a member-owned structure, provides a supply and demand model, where the members' savings supply the demand of the members who need capital (Henock, 2019). Members obtain loans at lower interest rates than banks while saving money at higher rates. In addition, the Philippine government encourages the growth and sustainability of cooperatives to support and serve communities and to reduce the financial exclusion of low-income borrowers. Because of this, Credit Cooperatives are allowed tax exemption because of their non-profit nature and founding principle to support and serve their members (De Young et al., 2019; Frame et al., 2003). In effect, according to Frame et al. (2003), the tax savings reduce the interest charged to the members of the credit cooperatives while increasing both the interest on savings accounts and the dividends paid to the members. Many other countries, including Estonia, Ireland, Mexico, Romania,

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and the United States, provide low-cost financial services to community members through tax exemptions (McKillop et al., 2020).

Cooperatives in the Philippines, governed by a legal framework, are independent organizations formed by individuals with shared interests. They pool their capital and utilize cooperative products and services based on cooperative principles to achieve social, economic, and cultural objectives. The Cooperative Development Authority (CDA), established by Congress in 1987 under Republic Act No. 6939 (CDA, 2021a), promotes the viability and growth of cooperatives for social justice and economic development. Since its establishment in 1990, cooperatives have facilitated self-reliance, supported livelihoods, and fostered economic and social development. Republic Act No. 9520 (CDA, 2021b), enacted in 2008, also known as the Philippine Cooperative Code, grants tax exemption to cooperatives in transactions with members, fostering a conducive regulatory environment for their creation and development. As cooperatives expand their operations into areas lacking banks and financial institutions, they contribute to increase membership and enhance self-enterprise and livelihood opportunities in the community (Tatom, 2007). Given their mission to serve and assist people, as outlined in the Cooperative Code, these non-profit organizations are eligible for tax exemption.

While cooperatives share common characteristics, the impact of tax exemptions on their financial performance may vary across different contexts due to factors such as economic conditions, specific tax laws, and cultural nuances. For instance, previous studies have conducted international comparisons of tax frameworks for cooperatives. In the Philippines, tax exemption is granted based on the non-profit structure of cooperatives and their focus on serving members (Garcia et al., 2020). In Spain, tax exemption is considered a form of government support for cooperatives meeting specific requirements (Baldacchino et al., 2019). In Malta, tax exemption aims to encourage the establishment of cooperative start-ups (Garcia et al., 2020). In the United States, tax exemption aims to assist low-income borrowers and depositors (Tatom, 2007). While tax exemption benefits cooperative members, employees, and communities, there is ongoing debate regarding its overall economic impact. Some scholars argue that credit cooperatives, with their tax advantage, have begun to compete with banks for savings and loans, potentially surpassing them in certain aspects (DeYoung et al., 2019). However, there is concern that as cooperatives strive for profitability and shareholder value, they may deviate from their original purpose and compromise the intended tax exemption benefits (Ferri, 2012). This study addresses the gap between the demand for equitable taxation of cooperatives and other financial institutions and the equitable provision of financial services to community members by cooperatives. The research explores the rationale for tax exemption by examining its impact on cooperative performance efficiency and assessing whether tax exemption benefits stakeholders. The following research questions guide the study: To what extent does tax exemption affect cooperative performance efficiency? What impact does tax exemption have on stakeholder satisfaction with cooperatives?

To answer these questions, we conducted two sets of examinations. First, a regression analysis to examine the effect of tax exemption on performance efficiency using ordinary least squares regression (OLS). Second, a partial least square modeling (PLS-SEM) study examined the effect of tax exemption on primary stakeholder satisfaction using indicators such as members' benefits, employee benefits, and community benefits.

## 2. LITERATURE REVIEW

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## 2.1. Principle of Cooperative

Cooperatives follow a cooperative business model aimed at assisting low-income individuals in accessing economic opportunities for productivity and investment, ultimately improving their well-being. This model, endorsed by OCDC(2017), emphasizes democratic governance, transparency, and member engagement, fostering trust and solidarity for stability during challenges. Cooperatives are exempt from federal and some state taxes on the basis that they are "member-owned, democratically run, not-for-profit organizations managed by volunteer boards of directors" with the primary objective of providing savings and credit services to members, particularly those with limited financial resources (CUMA, 1998). Banks and financial institutions have criticized cooperatives' tax benefits, claiming it gives them an unfair edge (De Young et al., 2019). Despite both offering financial services, cooperatives use their tax breaks to offer higher savings interest and lower loan rates, enticing new members. However, stakeholders justify these tax exemptions, citing differences in organizational structure from corporations. Frame et al. (2003) argue that US credit unions defend their tax-exempt status because they are non-profit organizations serving the public by providing vital financial services to low-income individuals, with membership limited to those sharing common occupation, affiliation, or community. However, York (2019) suggests that the unique features that historically set credit unions apart from other deposit-taking institutions have diminished over time. Previous literature explains why cooperatives are exempt from taxes, particularly corporate income tax. Hackney (2013) reviewed and compared these theories to justify the tax exemptions given to cooperatives. For example, Hackney examined Shareholder Theory specifically in the context of corporations and its relationship to non-profit charitable organizations and mutual benefit organizations. While shareholder-owned businesses distribute profit to shareholders as dividends or increase the firm's worth, cooperatives do not prioritize profit when making management choices or allocating resources (DeYoung, 2019). A non-profit organization such as a cooperative is owned not by shareholders but by members of the community who refer to themselves as co-owners (Rauterkus et al., 2018). Cooperatives, as member-owned organizations, aim to finance members' needs while also providing benefits (Shamsuddin et al., 2018) and advancing members' social and economic well-being rather than prioritizing shareholder profit (McKillop et al., 2020).

Hackney also examined Regulatory Theory concerning the tax exemption of non-profit organizations. This theory focuses on how managers oversee operations to protect owners' ownership and the organization's wealth. Corporations are expected to be transparent due to their responsibility and accountability to investors. Similarly, managers of cooperatives work to safeguard the organization's wealth and owners' investments. Regulators, like the Cooperative Development Authority (CDA) in the Philippines, monitor them to ensure they fulfill their purpose of serving and improving the community's lives, imposing necessary requirements. The third theory that Hackney explored to examine tax exemption was the Subsidy Theory. Cooperatives allocate tax savings from tax exemption to a reserve fund to secure the organization's future needs. This fund preserves cooperative assets during an economic crisis, probable losses, and acquiring assets necessary for the organization's operation (Galor & Sofer, 2019). Since cooperatives serve their members, tax exemption could help cover the cost of reinvesting in the community or supporting social causes, freeing up funds for member distribution.

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This notion is supported by Garcia et al. (2020), who argue that cooperatives can only provide employees with more compensation with other options. Tax exemption allows cooperatives to pay less taxes and spend more on members, employees, and the community. Concurrently, as cooperatives assume higher cost efficiency, they operate within economies of scale, spending less on technology innovation and other allocative costs, thereby maximizing the net surplus.

In contrast, taxation serves essential purposes for the government, such as generating revenue, promoting fairness and equity among businesses, and fostering transparency in business operations. However, tax exemption for cooperatives is justified by their fundamental duty of social responsibility, as highlighted by Tang et al. (2020). Cooperatives play a vital role in societal development and impact, and tax exemption enables them to fulfill this duty effectively. Removing tax exemption from cooperatives, as suggested by Tatom (2007), may lead to a more equitable tax system but could eliminate the competitive advantage cooperatives have over other financial institutions. Additionally, heavy taxation of cooperatives could hinder their ability to invest in new initiatives, expand their operations, or provide member benefits. This limitation may impede economic growth, particularly in industries where cooperatives play a significant role. Furthermore, cooperatives provide economic opportunities to community members by pooling resources and collaborating to improve their economic conditions. Members benefit from access to low-interest loans for starting small businesses, as noted by Tang et al. (2020) and Cook (2018).

Based on the above context, the study's core objective is to investigate how tax exemption affects cooperative performance efficiency and how this benefits primary stakeholders.

### 2.2. Performance Efficiency Measure

The assessment of financial performance is vital for measuring the efficiency of a firm in providing financial services. Financial performance measurements are essential for estimating the credit risk for loan decisions (Kosmidou & Zopounidis, 2008). Performance efficiency is one of the most significant indicators of financial stability. In cooperatives, financial stability pertains to the ability to operate within a sustainable level of profitability, liquidity, and membership capacity (Henock, 2019; Tufano et al., 2011). Tufano et al. (2011) describe performance efficiency as a measure of profitability, scale, level of membership services, rate of returns, and other quantifiable operational efficiency measures. Most financial institutions use interest margins, expense/income, return on assets, return on equity, asset utilization, and capital adequacy as a basis for efficient financial performance (Duncan & Elliott, 2004). Combining these indicators, the CDA utilizes the CAMEL framework to assess the financial performance of cooperatives.

Using performance indicators helps the management and board of directors assess the financial status of cooperatives. Although the measurement of the financial institution's sustainability may not be easy as compared to a non-financial entity because of the "intangible nature" of the firms' operations (Kosmidou & Zopounidis, 2008), the financial performance of the financial institution relies heavily on the ability of the institution to increase capital, cover loan losses, and grow the loans within its normal operations. Previous literature asserts that increasing financial performance leads to an increase in cooperative financial services and resources (Da Silva et al., 2017); thus, a

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high level of the cooperative's financial performance results in a higher provision of financial services to members (Dzeawuni & Tanko, 2008).

The impact of tax exemption on the cooperatives' financial performance is a topic of debate in many literatures. For instance, according to Tatom(2007), the primary impact of tax exemption can be measured by an increase in the Assets and Equity Ratio. Another study argues that firms with tax incentives are better financially due to a lower tax burden and prudent investment management (Cordova-Leon et al., 2022). In contrast, Baldacchino et al. (2019) argue that tax exemption is associated with increased financial performance only if cooperatives reinvest the tax savings from tax exemption.

Based on the above context, we argue that:

H1. Tax savings have a significant impact on the financial performance efficiency of credit cooperatives.

### 2.3. Description of Cooperatives Stakeholders

According to Freeman (1984, p. 46), a stakeholder is "any group or individual who can affect or is affected by the achievement of the firm's objectives." Stakeholders are classified as primary stakeholders, which include the members, officers, and employees, and secondary stakeholders as consumers, suppliers, government, community, and the natural environment (Wu, 2013).

Given the tax exemption, stakeholders can have different interests in the cooperative's tax-exempt status. Members may benefit from tax exemption through lower reduced fees, higher interest on savings, higher dividend share, and lower loan rates (National Cooperative Business Association, 2019). At the same time, employees may benefit from job security and stable income. Customers may benefit from lower prices or better-quality products, while suppliers may benefit from a stable buyer for their goods. Lenders and investors may be more interested in the cooperative's financial stability and profitability, which may be affected by tax exemption.

### 2.4. Stakeholders’ satisfaction

The benefit received by the stakeholders determines the satisfaction measures of a cooperative. Previous literature has noted that cooperatives enable the community's well-being by helping people with limited resources and providing income opportunities. Hoyt (2004) posited that working with the community builds trust, promotes self-reliance, and unleashes people's ability to improve their lives. In contrast, this is not true with banks and other formal financial institutions. Previous literature has noted that cooperatives can provide financial capital, savings, and other financial services to broader community members compared to formal financial institutions (Sebhatu, 2011).

#### 2.4.1. Employees’ Satisfaction

Employees’ satisfaction refers to the level of contentment, fulfillment, and enjoyment that an individual experiences in their job. Previous literature posited that employee’s satisfaction lies heavily on the compensation and motivation receives from the employer. On one hand, compensation satisfaction refers to employees' overall evaluation of different aspects of their compensation, such as pay level, benefits, salary increases, and pay structure (Ahmat et al., 2019; Platis et al., 2015). Compensation encompasses diverse forms of payments and benefits that employees receive for their work, serving as a key motivation for seeking employment. According to Ittner et al., (2003), compensation can be categorized into direct and indirect forms. Direct compensation includes basic wages,

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salaries, and performance-based pay, while indirect compensation comprises benefits like health insurance, payment for time off, and other employee perks. On the other hand, Motivation is what drives a person to do things better. According to Heller et al., (2011), motivation is the state that propels individuals toward specific objectives. Conversely, motivation is a stimulating desire and willingness to initiate action. Based on the above literature, it is asserted that compensation and motivation are two aspects that could bring satisfaction among employees.

2.4.2. Member's Satisfaction

Tatom (2007) noted several expected beneficiaries when there is a tax exemption. Among these beneficiaries are the members with savings receiving a higher interest and the member-borrowers availing loans at a lower interest. Furthermore, member-owners will benefit by receiving higher dividends and a higher shield against the risk of mismanagement. However, Tatom (2007) asserted that the savings that credit cooperatives get from tax exemption become part of the equity of the cooperative, and instead of a distributable dividend, the cooperative diverts the tax savings into another reserve fund.

2.4.3. Community Satisfaction

Previously, advocates have promoted cooperatives as a viable tool for community development. Mandigma(2022) asserts that cooperatives, with their focus on member needs and collective ownership, can be well-suited to address the challenges faced by impoverished communities. According to Vieta et al. (2015), cooperatives place the community's needs over profit. Cooperatives are more concerned with their members than other financial institutions when offering financial services to the community. Because cooperatives have a sustained association with the community, members embed the cooperative values of savings and credit, making the community more sustainable. Cooperatives, according to Spear (2000), have created "resilient and flexible" businesses in the community, allowing them to contribute to economic growth. However, Vieta and Lionais (2015) noted that cooperatives must build a more profound impact on the community, not just the function of an organization. Seemingly, cooperatives must contribute more to the community, not just by providing financial services. Based on the above context, we argue that:

H2. Tax exemptions result in increased satisfaction of employees.

H3. Tax exemptions result in increased satisfaction of members.

H4. Tax exemptions result in increased satisfaction of the community.

## 3. METHODOLOGY

We conducted descriptive exploratory research to determine the effect of tax exemption on cooperatives' performance efficiency and stakeholders' satisfaction measures. This study focused on cooperatives operating in the top five regions in the Philippines. The CDA provided the researcher with the audited financial statements, the primary data source for measuring performance efficiency. Initially, we identified 4,596 cooperatives in these areas. However, due to the impact of the COVID-19 crisis, the number was reduced to 1,216 after removing cooperatives with missing entries and significantly outlying data values.

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We analyzed these data for missing values. We used ordinary least squares (OLS) regression analysis to explore and determine the effect of tax exemption on the financial performance efficiency of credit cooperatives. We conducted the analyses using Gretl. We evaluated the results to ensure that they met the various assumptions of linear regression by ordinary least squares (Williams et al., 2013). The residual analysis assumes that the model relating to the outcome variable and predictors is linear (Williams et al., 2013; Chatterjee & Hadi, 2012). Some of the considerations include 1) the errors are assumed to have a mean of zero and are uncorrelated with each regressor (Wooldridge, 2010); 2) independence of errors; 3) homoscedasticity (constant variance) of errors; and 4) normal distribution of errors. Of the four assumptions, less concern is given to non-normality since larger sample sizes (200 or more) reduce its detrimental effects (Hair et al., 2010). To address issues regarding heteroscedasticity of errors (as indicated by the results of White's test for heteroscedasticity), transformations were applied (Hair et al., 2010), and heteroskedasticity-robust standard errors, variant HC1 estimation, were used (Williams et al., 2013). For the outcome variables, we use Capital Adequacy, Asset Quality, Management Quality, Earnings, and Liquidity, log-level models. In contrast, we use models with untransformed variables for other performance measures. The researcher includes Total Assets as a control value to strengthen the result of the study. To determine whether tax savings impact the financial performance efficiency of the credit cooperatives, the regression model used to test the hypothesis is:

Model 1 (Without Control Variable):

$$\text{Performance Efficiency} = B0 + B1 \text{ Log Tax Savings} + B2 \text{ Log Total Assets} + \varepsilon$$

We created scatterplots to assess the presence of a linear relationship between different performance efficiency measures and log tax savings. We used this test to determine the performance efficiency measure that would serve as the dependent variable. For 2019, the performance will use dependent variables such as CAPR, ROA, ROE, CR, NPM, and ER. For 2020, the performance measures used as a dependent variable are CAPR, ROA, ROE, and ER. For 2021, ROA, ROE, NPM, and ER. We found these variables to have significant correlations with the log of tax savings. The presence of a linear relationship between log tax savings and these variables is confirmed using the scatterplots (shown in the Appendix section).

For the second model, we collected primary data through a survey from 45 cooperatives with 207 participants: members, managers, employees, and community members. We surveyed between January 2020 and April 2020. The respondents' assessment of the satisfaction measures was quantified using four sets of multiple-item scales. We used two scales to assess employee satisfaction. The first comprised statements about monetary benefits(H2a); the other was non-monetary benefits such as a safe work environment, insurance, and leave benefits(H2b). The scale based on member benefit included statements related to service satisfaction, interest equity, and patronage reimbursements, among others(H3). We also include a collection of questions about the cooperative's community engagement(H4).

We initially conducted a factor analysis to determine if the indicators were loaded with one or more factors. We assess how frequently respondents observed the different benefits using scales ranging from "always" to "never." We evaluated the different sets of items for their internal consistency, composite reliability, average variance extracted (AVE), and discriminant validity. SPSS was used to produce frequencies, means, and standard deviations of the responses in the survey questionnaire. To test the different

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hypotheses, we performed partial least squares – --structural equation modeling (PLS-SEM) using the WARP-PLS software.

This study examines the impact of tax exemption on credit cooperatives' operational efficiency and stakeholder satisfaction. "Tax Savings" and "Tax Exemption" are used interchangeably to assess their effects. The analysis aims to determine how tax exemption influences stakeholder satisfaction, including employees, members, and the community.

Table 1. Financial Performance Indicators of Credit Cooperative

| Performance Efficiency Factor CAMEL | Indicator | Definition |
|---|---|---|
| Capital Adequacy (CAPRA) | Total Member's Equity / Total Asset | This ratio provides insights into the cooperative's ability to cover its assets with its member's equity. It reflects the proportion of a cooperative's assets funded by the equity contributed by its members. |
| Asset Quality (AQR) | Total Asset to Total Loans(TATL) = Total Assets / Total Loans<br><br>Asset Growth Rate(AGR) = (Current Year Asset – Prior Year Asset)/Prior Year Asset<br><br>Loans Growth Rate(LGR) = (Current Year Loans – Prior Year Loans)/Prior Year Loans | As measured by this ratio, the cooperative's assets are utilized as loans to its members.<br>This ratio measures the overall growth of the cooperative's asset base.<br>This ratio indicates the rate at which the cooperative's loan portfolio expands. |
| Management Quality | Efficiency Ratio(ER) = Operating Expenses/ Operating Income<br>Operating Expenses to Total Asset Ratio(OETA)=Operating Expenses/Ave Total Assets | This ratio assesses how effectively and efficiently an organization's leadership manages its resources and operations.<br>The ratio helps measure how effectively a cooperative utilizes its assets to generate revenue and cover operating costs. |
| Earnings | Return on Asset(ROA)= Net Surplus / Ave Total Asset<br><br>Return on Equity(ROE)=Net Surplus/Ave Member's Equity | This ratio measures the cooperative's ability to generate profits from its total assets, This ratio regardless of the capital structure.<br>This ratio measures a company's profitability relative to the members' equity. |
| Liquidity | Current Ratio(CR) = Total Current Assets/Total Current Liabilities | This ratio measures the ability of an organization to meet its short-term financial obligations. It involves having sufficient cash or readily convertible assets to cover immediate liabilities. |
| Change in Statutory Fund | =(Current Year -Prior Year Statutory Fund)/Prior Year | The changes in the Statutory Fund reflect the financial health and stability of the cooperatives. A change in the |

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| | | |
|---|---|---|
| | Statutory Fund | Statutory Fund suggests how cooperatives are increasing(decreasing) their reserves, contributing to long-term financial stability. |
| Change in Member/Officers Benefit-(Cooperative Education and Training Fund) | =(Current Year – Prior Year Member's Equity)/Prior Year Member's Equity | The changes in CETF reflect how the cooperative invests in its members' education and training. Aligning with the cooperative values demonstrates a commitment to educating members and fostering their active involvement in cooperative activities. |

## 4. RESULTS AND FINDINGS

### 4.1. Financial Performance Measures

Table 2. Profile of the respondents (n = 207)

| **Variables** | **n** | **%** | **Variables** | **n** | **%** |
|---|---|---|---|---|---|
| **Sex** | | | **Years of Membership** | | |
| Male | 64 | 31 | Less than two years | 45 | 22 |
| Female | 143 | 69 | 2 to 5 years | 69 | 33 |
| | | | 6 to 10 years | 53 | 26 |
| **Region** | | | More than ten years | 37 | 18 |
| NCR: Metro Manila | 25 | 12 | Undisclosed | 3 | 1 |
| Region 10: Northern Mindanao (Cagayan de Oro) | 75 | 36 | | | |
| Region 11: Davao | 31 | 15 | **Nature of Accounts** | | |
| Region 3: Central Luzon | 48 | 23 | No Savings, No loans | 21 | 10 |
| Region 4a: Calabarzon | 28 | 14 | With loan/s and savings | 143 | 69 |
| | | | With loan/s only | 26 | 13 |
| **Age** | | | With savings only | 17 | 8 |
| 18 to 24 | 15 | 7 | | | |
| 25 to 34 | 70 | 34 | **Status in the cooperative** | | |
| 35 to 44 | 56 | 27 | Member (Community) | 69 | 33 |
| 45 to 54 | 39 | 19 | Employee | 93 | 45 |
| 55 to 64 | 21 | 10 | Officers | 24 | 12 |
| 65 and older | 6 | 3 | Community Non-member | 21 | 10 |

Table 2 shows the profile of the respondents. Respondents include members, officers, employees, and community members, mainly from the Northern Mindanao Region (Region 10). Most respondents are female (69%) and aged 25-34 (34%). Thirty-three percent of the member-participants have been a member of the cooperatives for two to five years and twenty-six percent have been members for 6 to 10 years. Sixty-nine percent of participants have loans and savings in the cooperative.

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Table 3. Descriptive Summaries of the Tax Savings (Tax Exemption)

| | N | Minimum | Maximum | Mean |
|---|---|---|---|---|
| TaxSavings2019 | 1216 | 265.0 | 46,912,779.0 | 1,536,005.18 |
| TaxSavings2020 | 1216 | 220.8 | 3,649,4716.6 | 1,066,824.90 |
| TaxSavings2021 | 1216 | 118.8 | 86,973,592.2 | 1,751,057.28 |

The data in Table 3 reflects the diversity in tax savings across the observed credit cooperatives for each year. In 2019, the cooperative experienced a broad range of savings, with a mean of 1.54 million. While 2020 saw a slightly lower mean of 1.07 million, 2021 exhibited an increase in mean savings to 1.75 million.

Table 4. Correlations Between Tax Savings and Performance Measures

| | **Log Tax Savings 2019** | **Log Tax Savings 2020** | **Log Tax Savings 2021** |
|---|---|---|---|
| Total Equity To Total Asset(TETA) | **-.194**** | **-.239**** | -.151** |
| Loan Growth Rate(LGR) | .057* | -.010 | .082** |
| Asset Growth Rate (AGR) | .064* | -.008 | .017 |
| Total Asset To Total Liability(TATE) | -.032 | -.090** | -.008 |
| Efficiency Rate (ER) | **-.307**** | **-.270**** | **-.297**** |
| Operating Expense To Total Asset(OETA) | -.043 | -.106** | -.113** |
| Net Profit Margin (NPM) | **.312**** | **.337**** | **.361**** |
| Earning Growth Rate(EGR) | .039 | .012 | .061* |
| Return On Asset(ROA) | **.215**** | **.259**** | **.245**** |
| Return On Equity (ROE) | **.320*** | **.338**** | **.247**** |
| Current Ratio(CR) | **-.211**** | **-.245**** | -.054 |

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

c. Cannot be computed because at least one of the variables is constant.

Table 4 presents the correlation between Tax Savings and Performance Efficiency Measures. Firm size, indicated by Total Assets, is included as a control variable. We created scatterplots to assess the presence of a linear relationship between the various performance efficiency measures and log tax savings, aiding in determining the dependent variable to use. Based on Table 3, the 2019 performance metrics used as dependent variables are TETA, ROA, ROE, CR, NPM, and ER. For 2020, the performance measures used as a dependent variable are TETA, ROA, ROE, and ER. For 2021, ROA, ROE, NPM, and ER. We found these variables to have significant correlations with the log of tax savings. The presence of a linear relationship between log tax savings and these variables is confirmed using the scatterplots (shown in the Appendix section).

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Table 5. Regression Analysis between Tax Savings and Total Asset for 2019

| | **Coefficient** | **Std. Error** | **z** | **p-value** | |
|---|---|---|---|---|---|
| Const-Model 1 | 123.65 | 5.3174 | 23.25 | <0.0001 | *** |
| LogTaxSavings2019 | 9.660 | 1.7400 | 5.553 | <0.0001 | *** |
| LogTA2019 | −17.942 | 1.7444 | −10.29 | <0.0001 | *** |
| Const-Model 2 | 125.905 | 4.6435 | 27.11 | <0.0001 | *** |
| LogTaxSavings2020 | 6.8448 | 1.0769 | 6.356 | <0.0001 | *** |
| LogTA2020 | -16.0634 | 1.1618 | -13.83 | <0.0001 | *** |

Note: Model 1: OLS, using observations 1-1216; Dependent variable: TETA2019
Heteroskedasticity-robust standard errors, variant HC1; R-squared = 0.1844, Adj. R-squared = 0.1830; F(2, 1213) = 110.6380, p = 0.000
Model 2: OLS, using observations 1-1216; Dependent variable: TETA2020
Heteroskedasticity-robust standard errors, variant HC1; R-squared = 0.2236, Adj. R-squared = 0.2223; F(2, 1213) = 156.6572, p = 0.000

Tables 5 shows the effect of Tax savings on Capital Adequacy for 2019 and 2020. In both years, tax savings have significantly impacted capital adequacy (CAPRA). For 2019, a one-unit increase in the logarithm of Tax Savings is associated with a significant increase in CAPRA, while a one-unit increase in the logarithm of Total Assets is associated with a significant decrease in CAPRA. For 2020, a similar pattern is observed. An increase in Tax Savings is associated with a significant increase in CAPRA and an increase in Total Assets is associated with a significant decrease in CAPRA. The result suggests that Tax Savings play a crucial role in influencing the Capital Adequacy of the cooperatives consistently across both years.

Table 6. Regression Analysis between Tax Savings and Efficiency Ratio for 2019

| | **Coefficient** | **Std. Error** | **z** | **p-value** | |
|---|---|---|---|---|---|
| Const-Model 3 | 10.4081 | 6.4188 | 1.622 | 0.1049 | |
| LogTaxSavings2019 | -34.1456 | 2.2560 | -15.11 | <0.0001 | *** |
| LogTA2019 | 32.4919 | 2.2417 | 14.49 | <0.0001 | *** |
| Const-Model 4 | -3.6707 | 9.4950 | -0.3866 | 0.6991 | |
| LogTaxSavings2020 | -34.3458 | 2.0689 | -16.60 | <0.0001 | *** |
| LogTA2020 | 34.3353 | 2.5508 | 13.46 | <0.0001 | *** |
| Const-Model 5 | 14.4808 | 8.9759 | 1.613 | 0.1067 | |
| LogTaxSavings2021 | -29.9563 | 1.9416 | -15.43 | <0.0001 | *** |
| LogTA2021 | 26.0283 | 2.0956 | 12.42 | <0.0001 | *** |

Note: Model 3: OLS, using observations 1-1216; Dependent variable: ER2019
Heteroskedasticity-robust standard errors, variant HC1; R-squared = 0.3816, Adj. R-squared = 0.3806; F(2, 1213) = 114.4359, p = 0.000
Model 4: OLS, using observations 1-1216**;** Dependent variable: ER2020
Heteroskedasticity-robust standard errors, variant HC1; R-squared = 0.3297, Adj. R-squared = 0.3286; F(2, 1213) = 147.5899, p = 0.000
Model 5: OLS, using observations 1-1216; Dependent variable: ER2021; Heteroskedasticity-robust standard errors, variant HC1 R-squared = 0.2327, Adj. R-Squared = 0.2315; F(2, 1213) = 119.1283, p = 0.000

Table 6 shows the effect of Tax savings on Management Quality represented by Efficiency Ratio. The coefficient of -34.1456 indicates that a 1% increase in 2019 tax savings is associated with a substantial 34.1456% decrease in the Efficiency Ratio. Conversely, a 1% increase in Total Assets in 2019 is associated with a 32.4919% increase

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in the Efficiency Ratio. The negative coefficient for LogTaxSavings2019 suggests that higher tax savings in 2019 are linked to more efficient financial operations, as reflected by a lower Efficiency Ratio. LogTaxSavings2020 shows a 1% increase in 2019 tax savings is associated with a 34.3458% decrease in the Efficiency Ratio 2020.

Similarly, a 1% increase in Total Assets in 2020 is associated with a 34.3353% increase in the Efficiency Ratio 2020. The negative coefficient for LogTaxSavings2020 indicates that higher tax savings in 2020 contribute to greater efficiency, resulting in a lower Efficiency Ratio 2020. LogTaxSavings2021 shows that a 1% increase in 2020 tax savings is associated with a substantial 29.9563% decrease in the Efficiency Ratio 2021. A 1% increase in Total Assets in 2021 is associated with a 26.0283% increase in the Efficiency Ratio 2021. The negative coefficient for LogTaxSavings2021 implies that higher tax savings in 2021 contribute to improved efficiency, leading to a lower Efficiency Ratio in 2021.

Table 7. Regression analysis of Tax Savings on Return on Asset for 2019

| | **Coefficient** | **Std. Error** | **z** | **p-value** | |
|---|---|---|---|---|---|
| Const-Model 6 | 19.5382 | 1.1738 | 16.65 | <0.0001 | *** |
| LogTaxSavings2019 | 6.0524 | 0.4359 | 13.88 | <0.0001 | *** |
| LogTA2019 | -6.5407 | 0.4640 | -14.10 | <0.0001 | *** |
| Const-Model 7 | 14.8034 | 0.8269 | 17.90 | <0.0001 | *** |
| LogTaxSavings2020 | 4.3076 | 0.2452 | 17.57 | <0.0001 | *** |
| LogTA2020 | -4.6825 | 0.2291 | -17.40 | <0.0001 | *** |
| Const-Model 8 | 23.7242 | 2.6065 | 9.102 | <0.0001 | *** |
| LogTaxSavings2021 | 7.2550 | 0.5615 | 12.92 | <0.0001 | *** |
| LogTA2021 | -7.9543 | 0.6956 | -11.43 | <0.0001 | *** |

Model 6: OLS, using observations 1-1216; Dependent variable: ROA2019;
Heteroskedasticity-robust standard errors, variant HC1Note: R-squared = 0.5342, Adj. R-squared = 0.5334; F(2, 1213) = 99.364, p = 0.000
Model 7: OLS, using observations 1-1216; Dependent variable: ROA2020
Heteroskedasticity-robust standard errors, variant HC1; R-squared = 0.5408, Adj. R-Squared = 0.5400; F(2, 1213) = 155.7814, p = 0.000
Model 8: OLS, using observations 1-1216; Dependent variable: ROA2021
Heteroskedasticity-robust standard errors, variant HC1; R-squared = 0.4462, Adj. R-Squared = 0.4453; F(2, 1213) = 84.4914, p = 0.000

Table 7 shows the effect of Total Savings from Tax Exemption on Return on Asset(ROA) for 2019, 2020, and 2021. The models consistently show that tax savings (LogTaxSavings) positively and significantly impact ROA across different years (2019, 2020, and 2021). The positive coefficients for LogTaxSavings indicate that for every 1% increase in tax savings, there is a corresponding increase in ROA. In specific terms, the coefficients are as follows: ROA2019: A 1% increase in 2019 Tax Savings results in a 6.0524% increase in ROA. ROA2020: A 1% increase in 2020 Tax Savings results in a 4.3076% increase in ROA. ROA2021: A 1% increase in 2020 Tax Savings results in a 7.2550% increase in ROA. The consistency of the positive impact in all three years reinforces the idea that tax savings contribute positively to the cooperative's ability to generate asset returns. However, the negative impact of Total Assets (LogTA) on ROA across all models suggests that while tax savings positively affect ROA, the increase in Total Assets is associated with a decrease in ROA. The result implies that the cooperative

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needs to manage its asset growth effectively to maximize the positive impact of tax savings on ROA.

Table 8. Regression Analysis between Tax Savings and Return on Equity for 2019

| | **Coefficient** | **Std. Error** | **z** | **p-value** | |
|---|---|---|---|---|---|
| Const-Model 9 | 16.9960 | 2.0220 | 8.405 | <0.0001 | *** |
| LogTaxSavings2019 | 8.5949 | 0.5887 | 14.60 | <0.0001 | *** |
| LogTA2019 | -7.6304 | 0.6488 | -11.76 | <0.0001 | *** |
| Const-Model 10 | 14.3131 | 1.3585 | 10.54 | <0.0001 | *** |
| LogTaxSavings2020 | 6.1187 | 0.3650 | 16.76 | <0.0001 | *** |
| LogTA2020 | -5.6258 | 0.4086 | -13.77 | <0.0001 | *** |
| Const-Model 11 | 8.1956 | 1.1983 | 6.839 | <0.0001 | *** |
| LogTaxSavings2021 | 3.0985 | 0.2327 | 13.31 | <0.0001 | *** |
| LogTA2021 | -2.7366 | 0.2659 | -10.29 | <0.0001 | *** |

Note: Model 9: OLS, using observations 1-1216**;** Dependent variable: ROE2019
Heteroskedasticity-robust standard errors, variant HC1; R-squared = 0.2932, Adj. R-squared = 0.2921; F(2, 1213) = 125.3014, p = 0.000
Model 10: OLS, using observations 1-1218**;** Dependent variable: ROE2020**;**
Heteroskedasticity-robust standard errors, variant HC1**;** R-squared = 0.3461, Adj. R-squared = 0.3450; F(2, 1213) = 157.7114, p = 0.000
Model 11: OLS, using observations 1-1216; Dependent variable: ROE2021
Heteroskedasticity-robust standard errors, variant HC1; R-squared = 0.1007, Adj. R-Squared = 0.1693; F(2, 1213) = 89.2186, p = 0.000

Table 8 shows the effect of Total Savings from Tax Exemption on Return on Equity(ROE) for the period from 2019, 2020, and 2021. The coefficient for LogTaxSavings2019 is positive (8.5949), indicating that an increase in tax savings in 2019 is associated with an increase in Return on Equity (ROE) in 2019. This coefficient is statistically significant ($p < 0.0001$), suggesting that the relationship between tax savings and ROE in 2019 is unlikely to be due to random chance. Similarly, the coefficient for LogTA2019 is negative (-7.6304), indicating that an increase in Total Assets (TA) in 2019 is associated with a decrease in ROE in 2019. This coefficient is also statistically significant ($p < 0.0001$). The coefficient for LogTaxSavings2020 is positive (6.1187), indicating that an increase in tax savings in 2020 is associated with an increase in Return on Equity (ROE) 2020. This coefficient is statistically significant ($p < 0.0001$), suggesting that the relationship between tax savings and ROE in 2020 is unlikely to be due to random chance. Similarly, the coefficient for LogTA2020 is negative (-5.6258), indicating that an increase in Total Assets (TA) in 2020 is associated with a decrease in ROE in 2020. This coefficient is also statistically significant ($p < 0.0001$). The coefficient for LogTaxSavings2021 is positive (3.0985), indicating that an increase in tax savings in 2021 is associated with an increase in Return on Equity (ROE) in 2021. This coefficient is statistically significant ($p < 0.0001$), suggesting that the relationship between tax savings and ROE in 2021 is unlikely to be due to random chance. Similarly, the coefficient for LogTA2021 is negative (-2.7366), indicating that an increase in Total Assets (TA) in 2021 is associated with a decrease in ROE in 2021. This coefficient is also statistically significant ($p < 0.0001$). The results indicate that tax savings significantly positively impact Return on Equity (ROE) across the years 2019, 2020, and 2021.

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Table 9. Regression analysis between Tax savings and Net Profit Margin for 2019.

| | **Coefficient** | **Std. Error** | **z** | **p-value** | |
|---|---|---|---|---|---|
| Const-Model 12 | 87.3354 | 6.1980 | 14.09 | <0.0001 | *** |
| LogTaxSavings2019 | 32.5898 | 1.9906 | 16.37 | <0.0001 | *** |
| LogTA2019 | -30.8562 | 2.0113 | -15.34 | <0.0001 | *** |
| Const-Model 13 | 14.6823 | 1.3496 | 10.88 | <0.0001 | *** |
| LogTaxSavings2020 | 6.4259 | 0.3723 | 17.26 | <0.0001 | *** |
| LogTA2020 | -5.8980 | 0.4149 | -14.21 | <0.0001 | *** |
| Const-Model 14 | 115.684 | 7.9279 | 14.59 | <0.0001 | *** |
| LogTaxSavings2021 | 39.4164 | 1.6052 | 24.56 | <0.0001 | *** |
| LogTA2021 | -38.7045 | 1.8727 | -10.67 | <0.0001 | *** |

Note: Model 12: OLS, using observations 1-1216**;** Dependent variable: NPM2019
Heteroskedasticity-robust standard errors, variant HC1; R-squared = 0.3822, Adj. R-squared = 0.3811; F(2, 1213) = 134.0430, p = 0.000
Model 13: OLS, using observations 1-1218**;** Dependent variable: NPM2020
Heteroskedasticity-robust standard errors, variant HC1; R-squared = 0.3852, Adj. R-squared = 0.384; F(2, 1213) = 169.8976, p = 0.000
Model 14: OLS, using observations 1-1216**;** Dependent variable: NPM2021
Heteroskedasticity-robust standard errors, variant HC; R-squared = 0.5376, Adj. R-Squared = 0.5369; F(2, 1213) = 301.6462, p = 0.000

Table 9 shows the result of the regression for Tax Savings and Current Ratio(CR), indicating that the coefficients for "LogTaxSavings 2019, 2020 and 2021" and "LogTA 2019, 2020, and 2021" represent the impact of the logarithm of tax savings and the logarithm of total assets (TA) in the year 2019 on the dependent variable "CACL2019." The coefficient for "LogTaxSavings2019" is negative (-1.5556) but not statistically significant (p-value = 0.0703). The result suggests a negative association between tax savings 2019 and the dependent variable "CACL2019," but this relationship is not statistically significant at conventional significance levels. The coefficient for "LogTA2019" is also negative (-0.7799) but not statistically significant (p-value = 0.2505). The result indicates a negative association between total assets in 2019 and the dependent variable "CACL2019," However, this relationship is not statistically significant at conventional levels. The results of the multiple regression failed to reject the hypothesis, stating a significant impact of Tax Savings on the Financial Performance determined by CAMEL of Credit Cooperatives.

4.2 Credit Cooperatives' Stakeholder Satisfaction

Table 10 shows the empirical results obtained from the PLS-SEM analysis. The researcher used Partial Least Square – Structural Equation Modelling (PLS-SEM) to test hypotheses about the impact of Tax Exemption on stakeholder satisfaction with the cooperative. The output of the model estimate shows indicator weights for both variables at 0.569, with a p-value of 0.001. The result on Employee Benefit reveals a positive coefficient indicating a statistically significant impact of Tax Exemption on the employees' benefits in terms of compensation package, safe working environment, budget for protection in case of emergency, opportunities for professional growth/advancement, and training/seminars for skills improvement (ß=0.241, p = 0.001).

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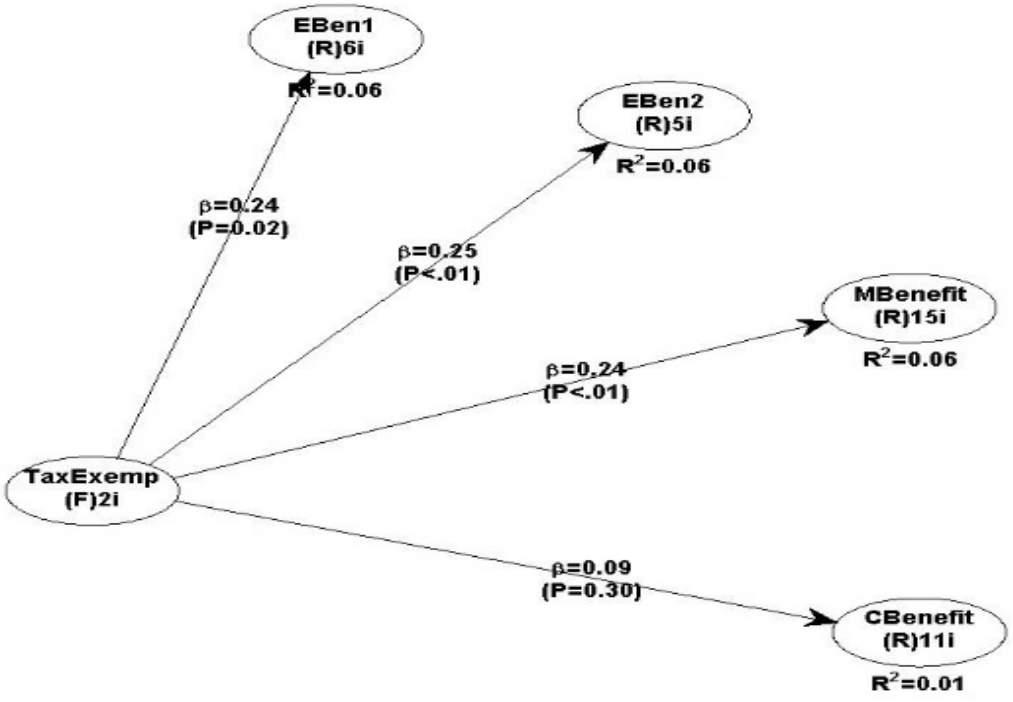


Figure 1. Path diagram with estimated coefficients of Tax Exemption on Employee, Member, and Community Satisfaction

Figure 1 presents the path diagram with estimated coefficients. The result of Fig. 1 is discussed in Table 21 indicating the significant and non-significant impact of Tax Exemption on the Stakeholders' satisfaction.

Table 10**.** Empirical results for hypotheses

| Path | Hypothesis | Path coefficient | p-value | Interpretation |
|---|---|---|---|---|
| Tax exemption® Employee Other Benefits | H2b | 0.252 | <.001 | significant |
| Tax exemption ® Members' benefits | H3 | 0.240 | <.001 | significant |
| Tax exemption ® community's benefits | H4 | 0.093 | .304 | not significant |

The result under Employees' Other Benefits demonstrates that the tax exemption significantly influences employee satisfaction and benefits in terms of health insurance, vacation, paid time off, performance bonuses, paid sick leave, and retirement plans (ß=0.252, p=0.001). The result revealed a statistically significant and positive effect of Tax Exemption of Credit Cooperatives on members' benefits regarding collection flexibility, staff assistance, dividends, and reasonable interest (ß=0.240, p 0.001). The tax exemption, on the other hand, has no significant impact on the community.

## 5. DISCUSSION

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### 5.1. Tax Exemption on Financial Performance

The result of the study supported the argument that Tax exemption have a significant impact on the financial performance efficiency of credit cooperatives. Findings indicate that tax exemption significantly affect various aspects of cooperative performance, as measured by the CAMEL framework. Tax exemption consistently influences Capital Adequacy, Efficiency Ratio, Return on Asset, Return on Equity, and Net profit Margin over the study years. The result suggests that tax exemption benefits cooperatives by enhancing their ability to maintain sufficient capital reserves, which in turn improves their capital adequacy. Additionally, efficient resource management resulting from tax exemption leads to a better efficiency ratio, allowing cooperatives to serve their members more effectively. Tax exemption is argued to positively impacts profitability, as seen in higher returns on Assets and Equity across different years. These results translate to improved financial performance with cooperatives retaining more surplus due to tax exemption. The findings align with Tatom's (2007) emphasis on the importance of using resources effectively to enhance their availability within cooperatives. Similarly, Da Silva et al. (2017) support this by suggesting that efficient resource management improves cooperatives' ability to serve their members according to their principles. This study underscores the importance of efficient resource management in supporting the sustainability and effectiveness of cooperatives.

Furthermore, tax exemption is presumed to bolster the reserve fund of cooperatives. The findings suggest that improved financial performance leads to an augmentation in Reserve Fund allocation. Hackney's (2013) subsidy theory underpins this notion, rationalizing tax exemption by highlighting cooperatives' intrinsic ability to conserve assets to mitigate potential losses. For instance, the reserve fund serves as a protective measure for the cooperative's assets, particularly during economic turmoil. Tax exemption bolsters the cooperative's surplus and may enhance its resilience. This notion is supported by Ayadi et al. (2010) and Lang et al. (2016) asserting that the reserve fund is a buffer during economic downturns. Similarly, Henselmann et al. (2016) suggest that maintaining reserves to safeguard the cooperative's resources will ensure stability during economic challenges. This suggests that tax exemption enables cooperatives to retain more reserves that could help navigate economic challenges and serve members effectively.

### 5.2. Tax Exemption on Stakeholders' Satisfaction

The result shows a significant effect of tax exemption on the members, suggesting that the savings from tax exemption are utilized to increase loans and other services to the members. The study suggests that tax exemption enables cooperatives to use their resources more efficiently to benefit members and employees, as evidenced by the increase in Asset Turnover and Equity Ratio. The result is supported by Da Silva et al., (2017) who argued that an increase in financial performance leads to a higher provision of financial services to members, which can positively impact member satisfaction. Further, the significant effect of tax exemption on financial performance means that cooperatives can provide low-interest borrowing and high-interest deposits to their members. This notion collaborates with Tatom(2007), positing that members are the primary beneficiaries of the tax exemption by getting low-cost borrowing and high-rate deposits. In addition to receiving low-interest loans, members receive a portion of the cooperatives' surplus.

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The findings indicate a significant positive effect on employee satisfaction attributed to tax exemption. The result suggests that tax exemption greatly benefits cooperative employees and members regarding monetary advantages and capital resources. Hackney (2013) supports the result with his shareholder theory, which emphasizes the benefits acquired by members, stating that cooperatives prioritize increasing benefits for members rather than shareholders, unlike corporations. While tax exemption notably influences core employee benefits such as salary, workplace safety, and professional development, it also demonstrates a significant positive effect on secondary and non-financial benefits. The result is supported by Tharu(2019) and Raharja et al., (2024), asserting that pay facilities, working environment, training opportunities, encouragement, and motivational factors of cooperative significantly influence the job satisfaction of the employees.

However, despite compensating employees similarly to corporations, the unique operational structure of cooperatives may limit the prioritization of professional advancement. This observation aligns with De Varo and Brookshire's (2007) argument that the absence of a hierarchical structure in non-profit organizations like cooperatives may dampen employees' expectations of career progression. Additionally, employee satisfaction within cooperatives may not solely hinge on monetary benefits. For instance, employees in the social economy sector, including cooperatives, often derive motivation from a higher level of commitment to their work (Sdrali et al., 2007).

On the other hand, the non-significant impact of cooperatives on the community poses a challenge to the cooperatives. The result suggests that cooperatives have concentrated on boosting their members' well-being at the expense of their engagement in community development. This assertion aligns with Vieta and Lionais (2015), who advocate for cooperatives to play a more extensive role in community development, extending beyond conventional savings and credit services. The result contradicts with Spear (2000) who emphasizes the positive impact of cooperatives on community development, asserting that their values and resources contribute to the resilience of local businesses, ultimately benefiting the economy's development.

## 6. CONCLUSION

The research investigates how tax exemption influences cooperative financial performance and stakeholder satisfaction. It reveals that tax exemption enhances performance efficiency and enhance satisfaction among members and employees. However, the lack of significant impact on community satisfaction suggests that cooperatives may prioritize members and employees over the broader community. Additionally, other factors could also influence the community's satisfaction with tax exemption. Nevertheless, the study highlights the importance of tax exemption in bolstering cooperative sustainability, promoting resilient communities, and supporting efforts to alleviate poverty.

### Implication of the Study Results

Credit Cooperatives, in comparison to banks and other financial entities, serve a broader range of communities. Because the breadth of the cooperative encompasses communities with low incomes, it has a more significant opportunity to engage community members. This aspect is one advantage of credit cooperatives over banks and other financial entities. Removing the tax exemption would likely lead credit cooperatives to adopt a corporate credit extension system. The Bureau of Internal Revenue (BIR) would regulate and

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monitor them, losing their differentiation from banks and other financial institutions. There will be credit approval restrictions and documentation criteria that the community member may need help to meet.

Further, loans from credit cooperatives might carry higher interest rates, while savings could earn lower interest rates similar to banks and other financial institutions. Conversely, removing tax exemptions could promote a fairer taxation structure leveling the playing field between cooperatives and other financial entities (Tatom, 2007), however, this change may not differentiate cooperatives from for-profit financial institutions. While regular taxation of cooperatives can increase the revenue generated by the government, taxation among cooperatives can reduce cooperatives' reserve funds, limiting their ability to invest in new initiatives, expand operations, and distribute dividends to members.

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