

### Title:

**\*\*Association of Non-Profit Clubs, Inc. v. Bureau of Internal Revenue: A Legal Analysis on the Taxability of Non-Profit Recreational Clubs\*\***

### Facts:

The Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC) No. 35-2012 on August 3, 2012, clarifying the income tax and Valued Added Tax (VAT) liability of clubs organized and operated exclusively for pleasure, recreation, and other non-profit purposes. The Circular categorized membership fees, assessment dues, rental income, and service fees from such clubs as subject to income tax and VAT.

The Association of Non-Profit Clubs, Inc. (ANPC), representing its member clubs, engaged with BIR officials and submitted a position paper requesting the non-application of RMC No. 35-2012 to their operations. After two years without a response and facing the imposition of taxes, ANPC filed a petition for declaratory relief before the Regional Trial Court (RTC) of Makati City, challenging the Circular's validity on grounds of overreach, oppressiveness, and constitutional violations. The RTC upheld RMC No. 35-2012, leading ANPC to file a petition for review on certiorari directly to the Supreme Court.

### Issues:

1. Whether ANPC violated the doctrines of hierarchy of courts and exhaustion of administrative remedies by directly filing the petition with the Supreme Court.
2. Whether RMC No. 35-2012's classification of membership fees and related dues as subject to income tax and VAT is valid.

### Court's Decision:

1. **\*\*Procedural Issues\*\***: The Supreme Court dismissed the procedural objections. It held that direct appeal to the Court was proper as the petition involved pure questions of law. The doctrine of exhaustion of administrative remedies was deemed not violated due to the urgency of judicial intervention.
2. **\*\*Substantiveness of RMC No. 35-2012\*\***: The Court found that while Congress intentionally removed the tax exemption status of recreational clubs in transitioning from the 1977 Tax Code to the 1997 NIRC, the BIR's interpretation that membership fees and dues represented taxable income and were VAT-liable was incorrect. The Court distinguished between capital infusion (membership fees and dues for operational maintenance) and income generation, stating the former could not be taxed as income.

Similarly, the collection of such fees did not constitute a taxable sale of goods or services subject to VAT. Hence, the Court partly granted the petition, invalidating the BIR's interpretation regarding the taxability of membership fees and dues.

### Doctrine:

- The principle that the state cannot impose a tax on capital, as it constitutes an unconstitutional confiscation of property.
- The distinction between "capital" and "income" in the context of tax law, with emphasis on the non-taxability of capital infusions such as membership fees and dues in non-profit organizations.

### Class Notes:

- **Capital vs. Income**: Capital refers to wealth or assets, while income is the profit or gain derived from those assets over time. In tax law, only income is typically subject to taxation, not the capital itself.
- **Revenue Memorandum Circulars (RMCs)**: Administrative issuances by the BIR to provide guidelines on the implementation of tax laws. While having the force of law, RMCs must align with statutory provisions and cannot amend or expand upon the law.
- **Doctrine of Exhaustion of Administrative Remedies**: Before seeking judicial intervention, all administrative remedies must be exhausted. Exceptions to this doctrine include urgencies or when issues presented are purely legal.
- **Value-Added Tax (VAT)** in the Philippines: An indirect tax imposed on the sale of goods, properties, or services within the Philippines as well as on goods imported into the Philippines.

### Historical Background:

The case underscores the dynamic and interpretative nature of tax law in the Philippines, highlighting the tension between regulatory bodies and non-profit entities over tax obligations. This decision reiterates the judiciary's role in clarifying the scope of tax liabilities, balancing legislative intent, administrative interpretation, and constitutional safeguards.