Title: Commissioner of Internal Revenue vs. Tours Specialists, Inc., and the Court of Tax Appeals

Facts:
Tours Specialists, Inc. (TSI), a travel agency, engaged in offering services to foreign tourists, travelers, and Filipino 'Balikbayans' from 1974 to 1976. Their services included booking hotel accommodations, arranging local tours, and other activities. The financial arrangements for these services varied; often, tourists or their foreign agencies paid the local hotels directly, but sometimes, they entrusted TSI to pay the hotels on their behalf.

The Commissioner of Internal Revenue (CIR) assessed TSI for a deficiency in the 3% independent contractor's tax for including the entrusted hotel room charges in its gross receipts for the years 1974 to 1976, resulting in an assessment of P122,946.93. TSI protested the assessment, arguing that the funds for hotel accommodations were held in trust and were not part of its gross receipts. Despite its protest, the CIR issued a warrant of distraint and levy, prompting TSI to appeal to the Court of Tax Appeals (CTA).

The CTA found in favor of TSI, ruling that the entrusted funds for hotel accommodations did not form part of TSI's gross receipts subject to the 3% independent contractor's tax. The CIR then petitioned the Supreme Court for review.

Issues:
1. Whether amounts received by a local tourist and travel agency, intended for hotel accommodations as part of a package fee from tourists or foreign travel agencies, form part of gross receipts subject to the 3% contractor's tax.
2. The relevance of Presidential Decree 31, which exempts foreign tourists from the payment of any hotel room tax, to the imposition of the 3% contractor's tax on TSI.

Court's Decision:
The Supreme Court affirmed the decision of the Court of Tax Appeals, denying the petition. The Court held that the entrusted funds for hotel accommodations paid through TSI did not form part of its gross receipts. These funds, specifically earmarked for hotel payments, did not benefit TSI directly and were held in trust for the purpose specified by the foreign agencies. Furthermore, the Court dismissed the CIR's argument about PD 31's irrelevance, stating that imposing the contractor's tax on these entrusted funds would indirectly subject foreign tourists to a tax on hotel room charges, counteracting the intent of PD 31 to promote tourism.

Doctrine:
1. Gross receipts subject to tax do not include monies or receipts entrusted to the taxpayer which do not belong to them and do not redound to the taxpayer’s benefit.
2. It is not necessary for there to be a specific law or regulation exempting certain funds from being considered as part of gross receipts under the Tax Code.

Class Notes:
– **Key Elements**: Understanding what constitutes “gross receipts” is crucial in tax law. Gross receipts encompass the total income received without deductions, but there are exceptions. Specifically, funds received in trust or earmarked for a specific payment do not form part of a taxpayer’s gross income.
– **Relevant Statutory Provisions**: Section 191 (now codified under Section 205 of the National Internal Revenue Code of 1977) pertains to independent contractor’s tax calculated based on gross receipts.
– **Presidential Decree 31**: Significant in this context for exempting foreign tourists from hotel room tax, thereby influencing the interpretation of gross receipts for tax purposes.

Historical Background:
This case reflects the broader context of tax law’s adaptability to evolving business practices, particularly in the tourism sector. It underscores the importance of clearly distinguishing between income that benefits the taxpayer directly and funds entrusted for specific disbursements. Moreover, it highlights the legislative intent behind certain exemptions, such as the promotion of tourism, and how they affect tax liabilities.