

Title:

Commissioner of Internal Revenue vs. Court of Appeals and Ateneo de Manila University

Facts:

Ateneo de Manila University, a non-stock, non-profit educational institution, engages in various research activities through its Institute of Philippine Culture (IPC), which does not have a separate legal personality. The IPC occasionally accepts sponsorships for research from different organizations.

On July 8, 1983, Ateneo received an assessment from the Commissioner of Internal Revenue (CIR) for deficiency contractor's tax and income tax for fiscal year ending March 31, 1978. Ateneo contested these assessments. The CIR partially cancelled and modified the assessments, leading Ateneo to seek reconsideration and filing a petition for review with the Court of Tax Appeals (CTA). While pending, the CIR issued a final decision reducing the contractor's tax assessment but Ateneo pursued the cancellation of this assessment in the CTA.

The CTA decided in Ateneo's favor, cancelling the deficiency contractor's tax assessment, which was affirmed by the Court of Appeals (CA). The CIR sought a review from the Supreme Court, disputing the CA's decision.

Issues:

1. Whether Ateneo de Manila University, through its Institute of Philippine Culture, should be considered as an independent contractor thus subject to 3% contractor's tax under Section 205 of the National Internal Revenue Code.

Court's Decision:

The Supreme Court Denied the Petition and affirmed the decisions of the CTA and the CA. It ruled that the activities performed by Ateneo's Institute of Philippine Culture do not constitute the sale of services for a fee which would make it a contractor subject to the 3% tax. The Court highlighted the principles of strict interpretation in tax imposition and determined that Ateneo's IPC was not engaging in commercial activities but was conducting research primarily for academic purposes. There was no evidence confirming that IPC ever sold its services for a fee. Additionally, the Court noted that the funds received by IPC could be considered gifts or donations, which are tax-exempt.

Doctrine:

The Court reiterated that tax laws imposing burdens are to be strictly construed against the

government and in favor of the citizen. This means that a statute will not be deemed to impose a tax unless it does so clearly and unambiguously. Moreover, the funds given to educational institutions for research could not be treated as fees or gross receipts subject to contractor's tax if they are in the nature of endowments or donations given without consideration.

Class Notes:

1. **Strict Interpretation in Tax Imposition**: Taxes cannot be imposed without clear and express language. Doubts are resolved in favor of the taxpayer.
2. **Contractor's Tax**: To be liable for contractor's tax under Section 205 of the National Internal Revenue Code, the entity must be engaged in the business of selling services for a fee.
3. **Educational Institutions**: Research activities conducted by educational institutions like Ateneo de Manila University, funded by donations or sponsorships without the intent of profit, are not subject to contractor's tax.

Historical Background:

This case delves into the realm of tax law particularly focusing on the obligations of educational institutions in relation to research activities. It highlights the challenge of defining and applying the tax obligations of entities that primarily operate for educational and non-profit purposes in the face of revenue generation through sponsored research.