

### Title:

Jesus Sacred Heart College vs. Collector of Internal Revenue

### Facts:

Jesus Sacred Heart College, an educational institution in Lucena, Quezon, paid a sum of P2,241.86 as income tax and penalties for the years 1947, 1948, and 1949. This payment was made under protest on August 13, 1951, which included taxes due, surcharges, and compromise for late filing of its income tax returns based on its net incomes for those years. A claim for a refund of this amount was duly filed by the college with the Collector of Internal Revenue on August 16, 1951, but was denied on August 24, 1951.

The College filed a case against the Collector of Internal Revenue in the Court of First Instance of Manila, asserting its exemption from income tax under the National Internal Revenue Code's provisions, specifically section 27 (e) as amended by Republic Act No. 82. The case hinged on whether the net income from tuition and other fees collected by the college were taxable under section 24 of the National Internal Revenue Code. The lower court ruled in favor of the college, ordering the Collector of Internal Revenue to refund the amount paid.

The Collector appealed the decision to the Supreme Court, positing that the college's income was derived from "activity conducted for profit" and thus taxable under the law. Both parties agreed on the basic facts but disputed the legal interpretation of the tax exemption clauses.

### Issues:

1. Whether the net income from tuition and other fees of Jesus Sacred Heart College is subject to income tax under the National Internal Revenue Code, notwithstanding its designation as an educational institution.

### Court's Decision:

The Supreme Court affirmed the lower court's decision, holding that Jesus Sacred Heart College is exempt from paying income taxes under the National Internal Revenue Code, section 27 (e), as amended. The Court clarified that educational institutions, provided they do not distribute their net income to any private stockholder or individual, are exempt from income taxation. The Collector of Internal Revenue's argument was rejected because the College clearly operated exclusively for educational purposes without the aim of profit beyond its operational costs.

The Court emphasized that the legislative intent behind the tax exemption for educational institutions was to foster their growth and development, essential for the country's progress. The institution's purpose as stated in its amended articles of incorporation and adherence to operating as a non-profit entity underlined its rightful claim to exemption.

**### Doctrine:**

Educational institutions that do not distribute their net income to any private stockholder or individual are exempt from income tax, even if they ensure operational surplus to maintain, improve, and cover their expenses, as no part of their net income inures to the benefit of any private individual.

**### Class Notes:**

- Key concept: Tax exemption for educational institutions under the National Internal Revenue Code, section 27 (e) as amended.
- Basis for exemption: The institution must be organized and operated exclusively for educational purposes, and no part of its net income may benefit any private stockholder or individual.
- Legislative intent: To promote the establishment and operation of educational institutions as a means of fostering the country's education and progress.
- Applicability: This principle applies regardless of the institution's ability to generate operational surpluses, provided these are not distributed to private individuals but are reinvested in the institution.

**### Historical Background:**

The tax exemption for educational institutions evolved from the early 20th century, with significant amendments reflecting the Philippine legislature's intent to support and encourage educational activities. The case of *Jesus Sacred Heart College vs. Collector of Internal Revenue* underscores the judiciary's role in interpreting these laws consistent with their spirit and purpose, reinforcing the policy to exempt educational institutions from income tax to facilitate their contribution to societal education and improvement.