

Title: La Sallian Educational Innovators Foundation (De La Salle University-College of St. Benilde) Inc. vs. Commissioner of Internal Revenue

Facts:

La Sallian Educational Innovators Foundation, Inc. (De La Salle University-College of St. Benilde), a non-stock, non-profit educational institution, received two assessment notices from the Bureau of Internal Revenue (BIR) on June 17, 2005, for the fiscal year ending May 31, 2002. The assessments included a deficiency income tax totaling P122,414,521.70 and a deficiency VAT amounting to P2,752,228.54.

The Foundation contested the assessments by filing a Request for Reconsideration on July 20, 2005. Despite submitting all required documents, the BIR did not act on the request. Consequently, on April 17, 2006, the Foundation filed a Petition for Review before the Court of Tax Appeals (CTA) Special First Division. Although this petition was timely, the payment of docket fees was delayed by nine days, only made on April 26, 2006. The Foundation also paid the agreed VAT liability of P601,487.70 to the BIR on May 9, 2006.

The BIR argued that the Foundation had lost its tax-exempt status, alleging excessive profit-making activities. The Foundation countered, claiming its revenues were used exclusively for educational purposes.

Issues:

1. Has the petitioner Foundation lost its tax-exempt status under the 1987 Constitution?
2. Did the CTA En Banc commit a reversible error by dismissing the CTA Division's decision on jurisdictional grounds due to delayed payment of docket fees?

Court's Decision:

The Supreme Court ruled in favor of the petitioner Foundation.

1. **Tax-Exempt Status**:

- **Resolution**: The Supreme Court held that the Foundation did not lose its tax-exempt status.

- **Reasoning**: The 1987 Constitution, Article XIV, Section 4(3) exempts all revenues and assets of non-stock, non-profit educational institutions when used exclusively for educational purposes. The Foundation provided sufficient evidence to prove that its income was entirely used to further its educational mission. The gross receipts from school year 2002 amounted to P643 million, but after deducting all operating expenses totaling P582,903,965.00, the net receipt was only P60,375,183, which reaffirmed that the organization operated on a non-

profit basis. Cash in the bank was held in trust for educational and operational purposes. Past BIR Ruling No. 176-88 had already granted them tax-exempt status, and there was no legal requirement to secure a new ruling following the amendments in the Tax Code.

2. **Procedural Grounds**:

- **Resolution**: The CTA Division had jurisdiction over the petition despite the delayed docket fee payment.
- **Reasoning**: The Supreme Court underscored that the tax exemption granted by the Constitution cannot be negated by procedural technicalities. While timely payment of docket fees is generally required for jurisdiction, the Court can exercise equity jurisdiction and adopt a liberal interpretation of procedural rules to serve substantive justice. The Foundation's delay in paying docket fees was involuntary and did not prejudice any substantial rights. The broader interest of achieving justice in considering the tax-exempt status outweighed the procedural lapse of delayed fee payment.

Doctrine:

Tax Exemption of Non-Stock, Non-Profit Educational Institutions: Non-stock, non-profit educational institutions are exempt from taxes on revenues and assets actually, directly, and exclusively used for educational purposes, as per Article XIV, Section 4(3) of the 1987 Constitution and Section 30 (H) of the Tax Code. Procedural missteps (such as delayed docket fee payment) may be excused to prevent grave injustice and uphold substantive justice.

Class Notes:

- **Key Elements/Concepts Central to the Case**:
- **Constitutional Tax Exemption**: Article XIV, Section 4(3) of the 1987 Constitution.
- **Supporting Tax Code Provision**: Section 30(H) of the Tax Code.
- **Procedural Rules in Appeals**: Strict vs. liberal application, jurisdictional grounds, equity jurisdiction.
- **Judicial Doctrine on Technicalities**: Equity jurisdiction can allow leniency to avoid harsh injustices resulting from procedural missteps.

Historical Background:

The case echoes the constitutional protection granted to non-profit educational institutions. The 1987 Constitution sought to encourage affordable education by exempting such institutions from taxes, ensuring that funds dedicated to education aren't diverted away due to taxation. The Foundation's reliance on its mission and the context of their operations

within Philippine education highlights the State's role in supporting institutions aimed at public welfare and development.

This decision validates that the judiciary can exercise flexibility in procedural rules, emphasizing the ultimate goal of delivering substantive justice over rigid adherence to technicalities.