

****Title:****

Collector of Internal Revenue v. Club Filipino, Inc. de Cebu, 115 Phil. 310 (1962)

****Facts:****

- ****Establishment:****

- The Club Filipino, Inc. de Cebu (henceforth “the Club”) is a civic corporation organized under Philippine laws with an original authorized capital of ₱22,000, increased to ₱200,000. The Club was primarily organized to promote various sports and recreational activities.

- The Club operates a clubhouse, a bowling alley, a golf course, and a bar-restaurant. The bar-restaurant serves food and beverages exclusively to its members and their guests.

- ****Finance and Operations:****

- The Club functions mainly through membership fees and dues. Profits made are used to cover overhead costs and improve facilities, such as the golf course.

- A capital surplus emerged in 1951 due to a revaluation of its real properties, leading the Club to declare stock dividends without distributing actual cash.

- ****Tax Compliance:****

- In 1952, a Bureau of Internal Revenue (BIR) agent discovered the Club had not paid percentage taxes for the operation of its bar and restaurant despite holding necessary licenses.

- The Collector of Internal Revenue assessed the Club the following taxes and penalties: ₱9,599.07 (percentage tax), ₱2,399.77 (surcharge), ₱70 (fixed tax), and ₱500 (compromise penalty).

- ****Procedural Posture:****

- The Club petitioned for the cancellation of the assessment via a letter, which the Collector of Internal Revenue denied.

- Consequently, the Club filed a petition for review with the Court of Tax Appeals, which reversed the Collector’s decision. The Collector of Internal Revenue then elevated the case to the Supreme Court.

****Issues:****

1. Whether the Club is liable for the payment of ₱12,068.84 as fixed and percentage taxes and surcharges under Sections 182, 183, and 191 of the National Internal Revenue Code.

2. Whether the Club is liable for the compromise penalty of ₱500.

****Court’s Decision:****

- **Issue 1: Liability for Fixed and Percentage Taxes and Surcharges:**

- **Analysis:**

- According to Philippine tax laws, fixed and percentage taxes apply to businesses engaged in profit-making activities. Sections 182 and 183 require these taxes to be imposed on businesses based on their gross receipts.

- Section 191 specifically imposes a percentage tax on keepers of bars and restaurants.

- **Ruling:**

- The Supreme Court held that operating a bar and restaurant does not automatically make the entity liable for taxes unless it engages in these activities as a business primarily for profit or livelihood.

- The Court found that the Club's primary objective was the healthful recreation of its members. The bar and restaurant are accessory to this goal, not independent profit enterprises.

- Since the Club did not distribute any cash dividends and used all generated income to defray operational costs and improve facilities, it was not considered a profit-making entity.

- Thus, the Club was not engaged in taxable business activities as a bar and restaurant operator, and therefore, not liable for the assessed taxes and surcharges under the cited tax code sections.

- **Issue 2: Liability for Compromise Penalty:**

- **Analysis and Ruling:**

- The penalty is contingent upon the Club's liability for taxes.

- Since the Court found no tax liability, the Club was not liable for the compromise penalty either.

Doctrine:

- The operation of facilities (such as bars and restaurants) by clubs primarily established for non-profit recreational purposes does not constitute engaging in a taxable business for profit under the tax code.

- The corporate form, articles, and by-laws collectively determine the tax status and profit orientation of an entity, emphasizing substance over form.

Class Notes:

1. **Elements of Business Liability for Fixed and Percentage Taxes:**

- **Statutes Involved:** Sections 182, 183, and 191 of the National Internal Revenue Code.

- **Key Definition:** "Business" is defined as activities conducted for profit or livelihood.

- **Interpretation:** Merely engaging in activities like operating a bar/restaurant does not

automatically imply tax liability if these activities are not profit-oriented but ancillary to a non-profit purpose.

2. **Corporate Form and Substance:**

- **Statutory Requirement:** Act No. 1459, Section 3 defines a stock corporation as one having capital stock divided into shares with authority to distribute dividends.
- **Application:** Distribution of actual profit and surplus allocation to shareholders are key determinants of a for-profit orientation.

Historical Background:

- This case is situated in the post-war economic context of the Philippines, where the government intensified efforts to ensure tax compliance among organizations to rebuild and fuel the economy.
- The case underscores the shifting governmental evaluation of civic and recreational organizations that wield significant resources yet claim non-profit status, prompting a detailed judicial exploration of tax obligations vis-à-vis operational goals.

This brief aims to give an exhaustive overview, vital legal doctrines, statutory interpretation, and practical applications essential for law students and professionals studying corporate and tax law in the Philippines.