

COLLECTOR OF INTERNAL REVENUE, PETITIONER, VS. MANILA JOCKEY CLUB, INC., RESPONDENT.*G.R. No. L-8755. March 23, 1956*

Ponente: BAUTISTA ANGELO, J.

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The Manila Jockey Club, Inc. is the owner of the San, Lazaro Hippodrome which is used principally for holding horse races either by the club itself or by the Philippine Charity Sweepstake Office or other charitable institutions authorized by law to hold horse races. During the fiscal years 1951 and 1952, the Philippine Charity Sweepstake Office held benefit races for charitable, relief and civic purposes in said hippodrome for the use of which the Club was paid in the form of rentals the sums of P107,185.02 and P122,855.47 respectively, which were included in its total income declared in its return for said years. The Collector of Internal Revenue collected on the first rental the amount of P30,011.50 which was paid in two installments and on the second the amount of P29,881.17 which was also paid in two installments as income taxes, and upon advice of its counsel, the Club filed a claim for refund of said amounts with the Collector claiming that they were illegally paid and, when the refund was denied, it filed an action in the Court of First Instance of Manila to recover the total sum of P59,692.97 against the Collector alleging that the same has been wrongfully collected. The case was pending trial when Republic Act No. 1125 creating the Court of Tax Appeals was approved on June 16, 1954. Pursuant to section 22 of said Act, the court transmitted the case to the Court of Tax Appeals in an order dated August 18, 1954.

After hearing, the Court of Tax Appeals rendered a decision holding that the rentals received by the Club from the Philippine Charity Sweepstake Office for the use of its premises were exempt from income tax under section 5 of Republic Act No. 79 and, as a consequence, it ordered the Collector of Internal Revenue to refund to the Club the amount of P59,692.97. From this decision, the Collector of Internal Revenue brought the case on appeal to this Court.

It is not disputed that on the days the San Lazaro Hippodrome was leased and used by the Philippine Charity Sweepstake Office to hold benefit races for charitable and civic purposes, said Office employed its own employees, tellers and other personnel in the race track. It did not employ the personnel of the club but merely used its track, apparatus and other paraphernalia necessary for horse racing. And for such use, the Club was paid for each day a flat rental and not on percentage basis. It may therefore be said that during those days it was the Philippine Charity Sweepstake Office that held the races and not the Club itself. In the light of these facts can it be said that the rentals paid by the Philippine Charity Sweepstake Office to the Club for the use of its facilities on those days are exempt from income tax under section 3 of Republic Act No. 79? This would require an analysis of the provisions of said Act to determine its real import.

Because of its importance, Republic Act No. 79 is hereunder reproduced in full.

"AN ACT TO AUTHORIZE THE HOLDING BY THE PHILIPPINE CHARITY SWEEPSTAKE OFFICE OF HORSE RACES, WITH BETTING, ON SATURDAY AFTERNOONS, FOR CHARITABLE, BELIEF AND CIVIC PURPOSES.

"Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

"Section 1. The provisions of existing laws to the contrary notwithstanding, the Board of Directors of the Philippine Charity Sweepstake Office is authorized to hold horse races, with betting, on such Saturday afternoons as it may determine for charitable, relief and civic purposes. Only native horses shall be allowed to run in any of these races.

"Sec. 2. All proceeds derived from these races, after deducting the prizes customarily set aside for horses winning first, second, and third places and their jockeys; the prizes for the owners of the winning horses; and the necessary administration expenses not to exceed ten per centum of the gross receipts, shall be apportioned and distributed by the Board of Directors of the Philippine Charity Sweepstake Office to disabled veterans, war widows and orphans and to charitable, relief and civic organizations in such amounts and under such rules and regulations as may be approved, by the President of the Philippines.

"Sec. 3. The racing club holding these races shall be exempt from the payment of any municipal or national tax.

"Sec. 4. The term 'horses' when used in this Act shall be understood to refer to stallions and mares.

"Sec. 5. This Act shall take effect upon its approval.

"Approved, October 21, 1946."

Note that the title of the Act says "An Act to authorize the Holding by the Philippine Charity Sweepstake Office of Horse Races, with Betting, on Saturday Afternoons, for Charitable, Relief and Civic Purposes." Note also that, under section 1, the Board of Directors is the one authorized to hold the races for the purposes above-mentioned and, under section 2, it is provided that the administration expenses for running the races, including the prizes to be paid to the winners, shall not exceed 10 per cent of the gross receipts that may be collected, which shall be deducted from said gross receipts before turning them over to the beneficiaries named in the law. And, in section 3, there appears the following proviso: "The racing club holding these races shall be exempt from the payment of any municipal or national tax." It is under the proviso that the Club claims exemption from the payment of income tax on the rentals in question.

From the above analysis of the law, it can clearly be inferred that what is contemplated is the holding of horse races, not merely under its auspices, but by the Philippine Charity Sweepstake Office itself, even if for that purpose it has to lease or make use of race tracks belonging to private racing clubs. The purpose of the law undoubtedly is to give to said Office full control of the horse races considering that they involve the handling of funds. And evidently this is also the interpretation entertained by the officials of said Office, when, instead of employing the personnel of the Manila Jockey Club, Inc., employed its own personnel and assumed full control of the races. It is because of this view of the law that we believe that the provisions of section 3 should be interpreted as conveying the meaning that the one holding the races is not the racing club but the Philippine Charity Sweepstake Office and that the exemption therein provided only refers to those taxes, municipal or national, that the law requires to be paid in connection with said races. In other words, said section should be read to mean "the racing club where the races are held" in order that it may be consistent with the purpose of the law.

It may be contended that if that law should be interpreted to mean that it merely contemplates the holding of races by the Philippine Charity Sweepstakes Office, the proviso regarding the exemption from the payment of tax would be a surplusage or meaningless because, under section 6 of Act No. 4130, said Office is already exempt from paying any tax on the proceeds that it may derive, from said races. While apparently there is some force in this argument, it is not so when we consider that owners or operators of race tracks are required by other laws to pay certain specific taxes for each day on which races are run on said tracks regardless of whether they are held

by the club or by other entities. And such proviso was evidently inserted in order to place the races held on said tracks by the Philippine Charity Sweepstake Office out of the operation of said laws.

We refer to Republic Act No. 309 which regulates the horse racing in the Philippines and section 193 of the National Internal Revenue Code, as amended by Republic Act No. 588. Thus, under section 26 of Republic Act No. 309, any person, race track, racing club, or other entities holding or conducting a horse race shall be required to pay a city or municipal license fee of P600 for each day of racing. And under section 193 of the National Internal Revenue Code, as amended, any owner of race tracks is required to pay a fixed tax of P500 for each, day on which races are run on said, tracks. It should be noted that said provisions require the payment of said taxes from the owner of any race track for each day of horse racing regardless of whether said horse racing is held by the owner himself or by any other person or entity, it is therefore imperative that such exemption be expressly provided for in order, to exempt the owner of the race track of such taxes if the same is to be used by a charitable institution like the Philippine Charity Sweepstake Office. The foregoing lead us to the conclusion that the exemption clause provided for in section 3 of Republic Act No. 79 merely intends to exempt the racing club in whose premises or tracks the races are held by the Philippine Charity Sweepstake Office from the payment of the taxes we have above adverted to because they are the only ones that have any connection with the races held by said Office. It cannot certainly refer to any income tax that may be imposed on the rentals that may be paid for the use of those tracks and other paraphernalia. That is an income that the racing club has to account for income tax purposes because it is an income that the club earned because of the use of its tracks by the Philippine Charity Sweepstake Office. It is an income that, strictly speaking, did not come from the horse races held by said club but it came to it as rentals paid for the use of its property. And the tax paid for such income cannot therefore be considered as one connected with those races within the purview of the exemption clause.

Our attention was called to the fact that, if the racing club were to pay income tax on the rentals that may be paid to it for the use of its tracks by the Philippine Charity Sweepstake Office or were to be denied the benefit of the exemption clause under consideration, the beneficiaries of the bounty would be the ones prejudiced because the racing club might be obliged to shift the burden to the Philippine Charity Sweepstake Office in the form of additional rentals or by increasing their amount so as to compensate, the club for the tax that it should otherwise pay to the Government. Such fear can hardly be entertained not only because there are several racing clubs in the City of Manila which may be availed of by the Philippine Charity Sweepstake Office but also because the law itself limits the administration expenses that said Office may incur in connection with the authorized horse races for the purposes intended. And even if this contingency may eventually occur, this would not warrant the adoption of an interpretation which would be contrary to the clear import and intent of the law.

Another factor that should be borne in mind in connection with the interpretation of the exemption clause under consideration is that by its very nature the law that exempts one from tax must be clearly expressed because the exemption cannot be created by implication. Thus, it was held that "Exemption from taxation are highly disfavored in law; and he who claims an exemption must be able to justify his claim by the clearest grant of organic or statute law. An exemption from the common burden cannot be permitted to exist upon vague implication." (*Asiatic Petroleum Co. vs. Llanes*, 49 Phil., 466; See also *House vs. Posadas*, 58 Phil., 338.) In the present case, there is no clear showing that the exemption clause under consideration exempts the racing club from its duty to pay income tax.

Wherefore, the decision appealed from is reversed. The case is dismissed with costs against respondent.

Parás, C. J., Bengzon, Padilla, Montemayor, Reyes, A., Labrador, Concepcion, Reyes, J. B. L., and Endencia, JJ., concur.

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