

THE COLLECTOR OF INTERNAL REVENUE, PETITIONER, VS. MANILA JOCKEY CLUB, INC., ET AL., RESPONDENTS.

G.R. No. L-7273. May 30, 1956

Ponente: PARAS, C. J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/92a8d42121a5/>

PARAS, C. J.:

The Manila Jockey Club, Inc., and the Philippine Racing Club, Inc., respondents herein, are corporations organized primarily, though not exclusively, for the purpose of holding horse races. Republic Act No. 309, as amended, allows horse races to be held only on certain days of the year, apportioned among private racing clubs and certain charitable institutions. Accordingly, the second Sunday and the first Saturday afternoon of every month as well as the first Sunday of March, or a total of 13 Sundays and 12 Saturday afternoons are reserved exclusively for the Philippine Anti-Tuberculosis Society. The fourth Sunday of January, May, July and September, and the second Saturday afternoon of January, April, July and October, or a total of 4 Sundays and 4 Saturday afternoons are reserved exclusively for the White Cross, Inc. The fourth Sunday of February, April, June, August and October, and the third Sunday of December, or a total of 6 Sundays, are reserved exclusively for the Philippine Charity Sweepstakes office. Respondent Manila Jockey Club, Inc., is actually able to hold races only on 12 Sundays, 12 Saturday afternoons, and 3 holidays; and respondent Philippine Racing Club, Inc., actually conducts a similar number of races. The other unassigned Saturday afternoons of the year are reserved for races that may be authorized by the President from time to time for other charitable, relief or civic purposes.

Each of the two respondents owns a large tract of land, respondent Manila Jockey Club, Inc. at Felix Huertas Street, Manila, containing an area of 160,000 square meters; respondent Philippine Racing Club, Inc., near Sta. Ana District, in Makati, Rizal, containing an area of 250,000 square meters. Inside these two tracts of land the respective race tracks of respondents are built, enclosed by a high concrete fence, and occupying a greater portion. Within the enclosed compound of each race track the following are built:

- "(a) An oval course covered with sand around which the horses run.
- "(b) One or more grandstands from where the public views the races.
- "(c) The judges' stand from where the judges or stewards view the races.
- "(d) An emergency clinic.
- "(e) An electric totalizator machine.
- "(f) A stable and a paddock where the horses which are soon to take part in a race are accommodated or walk around before they are led to the starting gate."

A part of the land each owned by the respondents and outside of the walled compound has been leased to private parties who have constructed their own improvements, paying monthly rentals to the respondents. On the remainder of said outside portion the respondents have constructed buildings which are leased to third persons and used by the latter as sari-sari stores, offices, or stables, the lessees who pay monthly rentals to the respondents

being solely responsible for the compliance with legal sanitary requirements. The buildings located outside the walled compound and suitable for stables are leased by the respondents either to horse owners or persons who invite horse owners to board with them race horses for a certain fee, and they are different from the stables and paddocks located within the compound which are regulated by the Games and Amusements Board and are not leased to any one and their use by horse owners shortly before races are run is free.

Occasionally the grandstands within the enclosed compounds are leased by the respondents to political, labor or social organizations which hold conventions, rallies or other large gatherings, paying to the respondents stipulated rentals. A portion of the main grandstand of respondent Manila Jockey Club, Inc., is rented by the Philippine Charity Sweepstakes Office which uses the same for office space.

Within the walled compound there are also spaces leased by the respondents on racing days to private persons who maintain restaurants, bars and other recreation centers.

As the charitable organizations authorized by law to hold horse races do not own their race tracks, they lease the premises and facilities of either respondent. Thus the White Cross, Inc. and the Philippine Anti-Tuberculosis Society each pays a flat rental of P7,000 for a whole day's use and P3,500 for a half day's use of said premises and facilities. The Philippine Charity Sweepstakes Office pays a percentage of its profits amounting to about the same rentals paid by the White Cross, Inc. and the Philippine Anti-Tuberculosis Society. The holding of races by said charitable organizations are under their sole management, without any intervention from either respondent.

The respondents regularly pay to the Government the fixed tax prescribed for real estate dealers, and the fixed tax on business (P500) under section 193 (r) of the National Internal Revenue Code.

The first question that arose is whether the rentals received by the respondents from private horse owners or trainers who have leased buildings located outside the race tracks for stables are subject to the 20 per cent amusement tax.

The second question is whether the rentals received by respondent Manila Jockey Club, Inc. from the Philippine Charity Sweepstakes Office for a portion of the grandstand and the rentals from political, labor or social organizations for said grandstand, are subject to the 20 per cent amusement tax.

The third question is whether the rentals received by the respondents on their respective racing days from private individuals for spaces used by the latter as restaurants, bars, and other recreations concessions are subject to the 20 per cent amusement tax.

The fourth question is whether the rentals received by the respondents from the White Cross, Inc., the Philippine Anti-Tuberculosis Society, and the Philippine Charity Sweepstakes Office which hold their own races on the race tracks of either respondent are also subject to the 20 per cent amusement tax.

The Board of Tax Appeals ruled in the negative as to the first, second and fourth questions, and in the affirmative as to the third question. The Collector of Internal Revenue, petitioner herein, has appealed to this Court from the ruling as to the first, second and fourth questions. The legal provision involved is the third paragraph of Section 260 (i) of the National Internal Revenue Code which reads as follows:

"In the case of cockpits, cabarets, and night clubs, there shall be collected from the proprietor, lessee, or operator a ' tax equivalent to ten per centum, and in the case of race-tracks, twenty per centum of the gross receipts, irrespective of whether or not any amount is charged or paid for admission: Provided, however, That in the case of race-tracks, this tax is in addition to the privilege tax prescribed in section one hundred ninety-three. For the purpose of amusement tax, the term 'gross receipts' embraces all the receipts of the proprietor, lessee, or operator of the amusement place."

It is the petitioner's contention that all income of the respondents are subject to the amusement tax of 20 per cent, whether or not it is derived from the holding of races or other amusements. The contrary view is held by the respondents and sustained by the Board of Tax Appeals, namely, that the respondents are required to pay the 20 per cent amusement tax only on "gross receipts" obtained from the holding of races or amusements.

We agree with the latter view. The very nature of the tax is decisive. It is an "amusement tax", and the law refers to "gross receipts" and not "gross income". It is important to note that "gross receipts" is prefaced and qualified by the phrase "for the purpose of amusement tax".

The law states that the 20 per cent amusement tax shall be paid on the "gross receipts, irrespective of whether or not any amount is charged or paid for admission." This clause is a plain demonstration that the "gross receipts" refer to the collections on days when the race track is open to the general public and admission fees are or are not charged. This necessarily excludes income of the respondents received on days when they do not legally and actually hold horse races.

It is also significant that the tax required to be paid under section 260 (i) is expressly imposed in addition to the privilege tax prescribed in section 193(r) which requires owners of race tracks to pay P500 for each day on which races are run on any track. This confirms the idea of imposing the 20 per cent tax under section 260 (i) only on receipts from the business of horse racing on days during which the respondents are authorized to offer such amusement to the public.

A race track should be distinguished from the club which owns it and is also authorized by law to engage in other business activities. Since the law imposes the amusement tax on cockpits, cabarets, night clubs and race tracks, it is certainly not imposed on or measured by the gross income of the club engaged, among other activities, in horse racing.

The petitioner is of the impression that because section 2 of Republic Act No. 309 requires that "adequate sanitary accommodations be provided in the race track, grandstands, stables and other structures of racing clubs," the various improvements and conveniences in question had to be built by the respondents as a necessary incident to their business of horse racing, with the result that the rentals for stables or buildings and lots outside the racing compounds should form part of their gross receipts liable to the 20 per cent amusement tax. It is well to remember that the appellees are private corporations empowered to purchase, hold, convey, sell, lease, mortgage, encumber, and otherwise deal with such real and personal property as the purpose for which they were formed may permit and the transaction of their lawful business may reasonably and necessarily require. In the exercise of such power the respondents naturally may dispose of the portion or portions of their land in excess of that necessary for or may be devoted to the race tracks or hippodrome. There is authority for the proposition that if the business of a corporation is such as to render it necessary for it to own a certain kind of property, and at times such property is not necessary to its business, it may employ the property in a business or for a purpose which is not strictly within the objects of its creation and utilize said surplus or idle property by appropriate lease or sale. (Section 2535, Fletcher's Cyc. Corporations, Vol. VI.) As in the case of respondent Manila Jockey Club, Inc., one of its secondary purposes is to acquire real estate, construct edifices thereon for lease or for sale, when in the opinion of the Board of Directors such sale is advantageous to the corporation.

The lease by the respondents of the land outside the walled compound or hippodrome as subdivided lots to persons who have constructed thereon their residential homes, warehouses, or stores, clearly has nothing to do with the business of horse racing. The construction by the respondents on the other portion not occupied by the hippodrome of improvements like stables, bowling alleys, residential buildings, warehouses and office spaces, also has nothing to do with the business of horse racing, with the possible exception of the stables. But, as

heretofore already noted, said stables should be distinguished from the stables inside the racing compound which are within the jurisdiction of the Games and Amusements Board, but the latter stables are not herein involved because the horse owners do not pay any fee or rental for their use.

With reference to the rentals collected by respondent Manila Jockey Club, Inc. for the use of a portion of the main grandstand as office space of the Philippine Charity Sweepstakes Office, or for the use of said grandstand by various political or other organizations, it would be sufficient to state that said use is clearly alien to respondent's business of horse racing. The main consideration that prompted the Philippine Charity Sweepstakes Office to rent a space in the grandstand of respondent Manila Jockey Club, Inc. is undoubtedly its proximity to its official headquarters on Rizal Avenue near the San Lazaro Hippodrome. If horse racing is the main consideration, the Philippine Charity Sweepstakes Office would also have rented office space in the grandstand of respondent Philippine Racing Club, Inc. As to the use of the grandstand by various organizations for conventions, rallies, dances or other large gatherings, it need only be pointed out that horse racing, far from being an attraction to said occasions, would be a deterrent thereto for the obvious reason that during racing days it would not be practicable to hold said conventions, rallies or dances. The purpose for which respondents' grandstands were built, should not be confused with the purpose for which they are leased to the Philippine Charity Sweepstakes Office or to various organizations.

Turning now to the floor rentals paid to the respondents by the White Cross, Inc., the Philippine Anti-Tuberculosis Society and the Philippine Charity Sweepstakes Office for using respondents' race tracks, it is clear that they should not be subject to the 20 per cent amusement tax. It is to be remembered that the law makes the proprietor, lessee, or operator, of the amusement place liable for the amusement tax, the three tax payers being connected by the disjunctive conjunction "or", thereby positively implying that the tax should be paid by either the proprietor, the lessee, or the operator, as the case may be, singly and not by all at one and the same time. During days when the White Cross, Inc., the Philippine Anti-Tuberculosis Society, and the Philippine Charity Sweepstakes Office hold their races, they become the lessees or operators of the race and therefore should be called upon to pay the 20 per cent amusement tax. Under Republic Act No. 309, respondents cannot hold races on the days assigned to charitable institutions. It would therefore be anomalous for said respondents to be required to pay the amusement tax on rentals for the use of their hippodromes by said charitable institutions on the days on which the respondents are prohibited from holding horse races. The anomaly would be lightened if the respondents were required to pay the amusement tax, when the charitable institutions holding their own races are themselves exempt from taxes.

Wherefore, the appealed decision of the Board of Tax Appeals is hereby affirmed, without costs.

Bengzon, Padilla, Montemayor, Reyes, A., Jugo, Bautista Angelo, Labrador, Concepcion, Reyes, J. B. L., and Endeneia, JJ., concur.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.