

COMMISSIONER OF INTERNAL REVENUE, PETITIONER, VS. BISHOP OF THE MISSIONARY DISTRICT OF THE PHILIPPINE ISLANDS OF THE PROTESTANT EPISCOPAL CHURCH IN THE U.S.A. AND THE COURT OF T...

G.R. No. L-19445. August 31, 1965

Ponente: REGALA, J.

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REGALA, J.:

This is an appeal taken by the Commissioner of Internal Revenue from a decision of the Court of Tax Appeals, ordering him to refund to the Bishop of the Missionary District of the Philippine Islands of the Protestant Episcopal Church in the U.S.A. the sum of P118,847 which the latter had paid by way of compensating tax.

Respondent Bishop of the Missionary District of the Philippine Islands of the Protestant Episcopal Church in the U.S.A. is a corporation sole duly registered with the Securities and Exchange Commission. He is in charge of the administration of the temporalities and the management of the estates and properties in the Philippines of the Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States (herein-after referred to as Missionary Society). On the other hand, the Missionary District of the Philippine Islands of the Protestant Episcopal Church in the U.S.A. (herein-after referred to as Missionary District) is a duly incorporated and established religious society. It owns and operates, the St. Luke's Hospital in Quezon City, the Brent Hospital in Zamboanga City and the St. Stephen's High School in Manila.

On different dates in 1957, 1958 and 1959, the Missionary District in the Philippines received from the Missionary Society in the United States various shipments of materials, supplies, equipment and other articles intended for use in the construction and operation of the new St. Luke's Hospital in Quezon City and the Brent Hospital and St. Stephen's High School. The Missionary District also received from a certain William Minnis of Canada a stove for use of the Brent Hospital.

On these shipments, the Commissioner of Internal Revenue levied and collected the total amount of P118,847 as compensating tax.

The Bishop of the Missionary District filed claims for refund of the amount he had paid on the ground that under Republic Act No. 1916, the materials and articles received by him were exempt from the payment of compensating tax. As the two-year period for recovery of tax was about to expire, the Bishop of the Missionary District filed a petition for review in the Court of Tax Appeals, without awaiting action on his claim for refund. Subsequently, he also filed two supplemental petitions for review covering other shipments received by him and on which he had paid compensating taxes.

On August 21, 1959, the petitioner, the Commissioner of Internal Revenue denied respondent's claim for refund on the ground that St. Luke's Hospital was not a charitable institution and therefore was not exempt under the law. This is also the position he maintained in his answer to the first supplemental petition for review in the Tax Court.

After trial, the Tax Court rendered a decision holding the shipments exempt from taxation ordering the petitioner to refund to the respondent the amount of P118,847. It denied a motion for reconsideration of its decision, prompting petitioner to interpose this appeal.

Petitioner makes the following assignments of error:

1. The shipments cannot be considered donations because the Missionary District is merely a branch of the Missionary Society. The two hold identical interest.
2. The Tax Court's holding that the real donors are the people who contributed money to the Missionary Society in America is based on the uncorroborated testimony of Robert Meyer, Treasurer of the Missionary District in the Philippines who did not have personal knowledge of the alleged contribution. The alleged contributors were not even identified.
3. The St. Luke's Hospital is not a charitable institution and therefore is not exempt from taxation because it admits pay patients. The Secretary of Finance states in his Dept. Order No. 18 that hospitals admitting pay patients and charity patients are not charitable institutions.

This order was issued pursuant to the power given him by the last proviso of Republic Act No. 1916 which provides:

SECTION 1. The provisions of existing laws to the contrary notwithstanding, all donations in any form and all articles imported into the Philippines, consigned to a duly incorporated or established international civic organization, religious or charitable society or institution for civic, religious or charitable purposes shall be exempt from the payment of all taxes and duties upon proof satisfactory to the Commissioner of Customs and/or Collector of Internal Revenue that such donations in any form and articles so imported are donations for its use or for free distribution and not for barter, sale, or hire; Provided, however, That in case such are subsequently conveyed or transferred to other parties for consideration, taxes and duties shall be collected thereon at double the rate provided under existing laws payable by the transferor; Provided, further That rules and regulations shall be promulgated by the Department of Finance for the implementation of this Act.

This Court has already held that the following requisites must concur in order that a taxpayer may claim exemption under the law; (1) the imported articles must have been donated; (2) the donee must be a duly incorporated or established international civic organization, religious or charitable society, or institution for civic, religious or charitable purposes; and (3) the articles so imported must have been donated for the use of the organization, society or institution or for free distribution and not for barter, sale or hire. (Commissioner vs. Church of Jesus Christ "New Jerusalem," 113 Phil. 368)

In this appeal, the petitioner contends that the importations in question cannot be considered "donations" because the Missionary Society, which made the shipments, and the Missionary District in the Philippines are not different persons but rather are one and the same, the latter being a mere branch of the former.

It should be enough to point out that by stipulation of the parties, the respondent Bishop is admitted to be a corporation sole duly registered with the Securities and Exchange Commission and that the Missionary District is a "duly incorporated and established religious society." They are therefore entities separate and distinct from the Missionary Society whose address is at 281 Fourth South, New York 10, N.Y., U.S.A. The fact that the Missionary District, of which respondent is the Bishop, is a branch of the Missionary Society is of no moment. For that matter, so is the Roman Catholic Church in the Philippines—a branch of the Universal Roman Catholic Apostolic Church, but it is a branch only in religious matters, in matters of faith and dogma. In other respects, it is independent. (Roman Catholic Apostolic Administrator vs. Land Registration Commissioner, G. R. No. L-8451, December 20, 1957)

The Tax Court's finding that the materials and supplies were purchased by the Missionary Society with money obtained from contributions from other people who should be considered the real donors is also assailed as being based on the uncorroborated testimony of Robert Meyer, Treasurer of the Missionary District, who, it is said, did not have personal knowledge of the matter testified to by him. This is not so. As respondent points out, the various deeds of donation state in paragraph 3 that the "Missionary Society is a non-profit organization and derives its support from voluntary contributions."

Petitioner's other point is that St. Luke's Hospital is not a charitable institution considering that it admits paying patients. Indeed, it was on this ground that petitioner denied respondent's claim for refund. It is argued that pursuant to the last proviso of Republic Act No. 1916, the Secretary of Finance issued Department Order No. 18 on October 20, 1958, stating that—

Hospitals that admit pay patients and charity patients..... are not charitable institutions for purposes of Republic Act No. 1916.

Again, it should be enough to point out that the admission of pay patients does not detract from the charitable character of a hospital, if, as in the case of St. Luke's Hospital, its fund are devoted exclusively to the maintenance of the institution (Cf., e.g., *Herrera vs. Quezon City Board of Assessment Appeals*, 113 Phil. 177). The Secretary of Finance cannot limit or otherwise qualify the enjoyment of this exemption granted under Republic Act No. 1916 in implementing the law.

Wherefore, the decision appealed from is hereby affirmed without costs.

Bengzon, C. J., Concepcion, Reyes, J. B. L., Dizon, Makalintal, Bengzon, J. P., and Zaldivar, JJ., concur.

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