

JOSE V. HERRERA AND ESTER OCHANGCO HERRERA, PETITIONERS, VS. THE QUEZON CITY BOARD OF ASSESSMENT APPEALS, RESPONDENT.

G.R. No. 15270. September 30, 1961

Ponente: CONCEPCION, J.

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CONCEPCION, J.:

Appeal, by petitioners Jose V. Herrera and Ester Ochangco Herrera, from a decision of the Court of Tax Appeals affirming that of the Board of Assessment Appeals of Quezon City, which held that certain properties of said petitioners are subject to assessment for purposes of real estate tax.

The facts and the issue are set forth in the aforementioned decision of the Court of Tax Appeals, from which we quote:

"On July 24, 1952, the Director of the Bureau of Hospitals authorized the petitioners to establish and operate the 'St. Catherine's Hospital,' located at 58 D. Tuazon, Sta. Mesa Heights, Quezon City (Exhibit 'F-1', p. 7, BIR rec). On or about January 3, 1953, the petitioners sent a letter to the Quezon City Assessor requesting exemption from payment of real estate tax on the lot, building and other improvements comprising the hospital stating that the same was established for charitable and humanitarian purposes and not for commercial gain (Exhibit 'F-2', pp. 8-9, BIR rec.). After an inspection of the premises in question and after a careful study of the case, the exemption from real property taxes was granted effective the years 1953, 1954 and 1955.

"Subsequently, however, in a letter dated August 10, 1955 (Exhibit 'E', p. 65, CTA rec.) the Quezon City Assessor notified the petitioners that the aforesaid properties were re-classified from 'exempt' to 'taxable' and thus assessed for real property taxes effective 1956, enclosing therewith copies of Tax Declaration Nos. 19321 to 19322 covering the said properties. The petitioners appealed the assessment to the Quezon City Board of Assessment Appeals, which, in a decision dated March 31, 1956 and received by the former on May 17, 1956, affirmed the decision of the City Assessor. A motion for reconsideration thereof was denied on March 8, 1957. From this decision, the petitioners instituted the instant appeal.

"The building involved in this case is principally used as a hospital. It is mainly a surgical and orthopedic hospital with emphasis on obstetrical cases, the latter constituting 90% of the total number of cases registered therein. The hospital has thirty-two (32) beds, of which twenty (20) are for charity-patients and twelve (12) for pay-patients. From the evidence presented by petitioners, it is made to appear that there are two kinds of charity-patients—(a) those who come for consultation only ('out-charity patients'); and (b) those who remain in the hospital for treatment ('lying-in-patients'). The out-charity patients are given free consultation and prescription, although sometimes they are furnished with free medicines which are not costly like aspirin, sulfatiazole, etc. The charity lying-in-patients are given free medical service and medicine although the food served to the pay-patients is very much better than that given to the former. Although no condition is imposed by the hospital on the admission of charity lying-in-patients, they however, usually give donations to the hospital. On the other hand, the pay-patients are required to pay for hospital services ranging from the minimum charge of P5.00 to the maximum of P40.00 for each day of stay in the hospital. The income realized

from pay-patients is spent for the improvement of the charity wards. The hospital personnel is composed of three nurses, two graduate midwives, a resident physician receiving a salary of P170.00 a month and the petitioner, Dr. Ester Ochangco Herrera, as directress. As such directress, the latter does not receive any salary.

"Petitioners also operate within the premises of the hospital the 'St. Catherine's School of Midwifery' which was granted government recognition by the Secretary of Education on February 1, 1955 (Exhibit 'F-3', p. 10, BIR rec.). This school has an enrollment of about two hundred students. The students are charge a matriculation fee of P300.00 for 1-1/2 years, plus P50.00 a month for board and lodging, which Includes transportation to the St. Mary Hospital. The students practice in the St. Catherine's Hospital, as well as in the St. Mary's Hospital, which is also owned by the petitioners. A separate set of accounting books is maintained by the school for midwifery distinct from that kept by the hospital. The petitioners alleged that the accounts of the school are not included in Exhibits 'A', 'A-1', 'A-2', 'B', 'B-1', 'B-2', 'C', 'C-1' and 'C-2' which relate to the hospital only. However, the petitioners have refused to submit a separate statement of accounts of the school. A brief tabulation indicating the amount of income of the hospital for the years 1954, 1955 and 1956, and its operational expenses, is as follows:

1954

INCOME

EXPENSES

DEFICIT

Charity Ward—

P5,280.04

P1,303.80

Pay Ward

P14,779.50

10,803.26

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P16,083.30

(Exhibits 'A' 'A-1' and 'A-2')

1955

INCOME

EXPENSES

DEFICIT

Charity Ward—

P6,859.32

Pay Ward

P17,433.30

14,038.92

P3,464.94

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20,898.24

(Exhibits 'B', 'B-1' and 'B-2')

1956

INCOME

EXPENSES

DEFICIT

Charity Ward—

P5,559.89

Pay Ward

P21,467.40

16,249.04

P341.53

=====

P21,808.93

(Exhibits 'C 'C-1' and 'C-2)

"Aside from the St. Catherine and St. Mary hospitals, the petitioners declared that they also own lands and coconut plantations in Quezon Province, and other real estate in the City of Manila consisting of apartments for rent. The petitioner, Jose V. Herrera, is an architect, actively engaged in the practice of his profession, with office at Tuason Building, Escolta, Manila. He was formerly Chairman, Board of Examiners for Architects and Chairman. Board of Architects connected with the United Nations. He was also connected with the Allied Technologists which constructed the Veterans Hospital in Quezon City.

"The only issue raised, is whether or not the lot, building and other improvements occupied by the St. Catherine Hospital are exempt from the real property tax. The resolution of this question boils down to the corollary issue as to whether or not the said properties are used exclusively for charitable or educational purposes." (Petitioners' brief, pp. 24-29.)

The Court of Tax Appeals decided the issue in the negative, upon the ground that the St. Catherine's Hospital "has a pay ward for * * * pay-patients, who are charged for the use of the private rooms, operating room, laboratory room, delivery room, etc., like other hospitals operated for profit" and that "petitioners and their family occupy a portion of the building for their residence." With respect to petitioners' claim for exemption based upon the operation of the school of midwifery, the Court conceded that "the proposition might be proper if the property used for the school of midwifery were separate and distinct from the hospital." It added, however, that, "in the instant case, the portions of the building used for classrooms of the school of midwifery have not been shown to be exclusively for school purposes"; that said portions "rather * * * have a dual use, i.e., for classroom and for hospital use, the latter not being a purpose that renders the property tax exempt;" that part of the building and lot in question "is used as hospital, part as residence of the petitioners, part as garage, part as dormitory and part as

school"; and that "the portion dedicated to educational and charitable purposes can not be identified from those destined to other uses; and the buildings itself an indivisible unit of property".

It should be noted, however, that, according to the very statement of facts made in the decision appealed from, of the thirty-two (32) beds in the hospital, twenty (20) are for charity-patients; that "the income realized from pay-patients is spent for improvement of the charity wards"; and that "petitioner, Dr. Ester Ochangco Herrera, as directress" of said hospital, "does not receive any salary," although its resident physician gets a monthly salary of P170.00. It is well settled, in this connection, that the admission of pay-patients does not detract from the charitable character of a hospital, if all of its funds are devoted "exclusively to the maintenance of the institution" as a "public charity" (84 C.J.S., 617; see, also, 51 Am. Jur. 607; Cooley on Taxation, Vol. 2, p. 1562; 144 A.L.R., 1489-1492). In other words, "where rendering charity is its primary object, and the funds derived from payments made by patients able to pay are devoted to the benevolent purposes of the institution, the mere fact that a profit has been made will not deprive the hospital of its benevolent character" (Prairie Du Chien Sanitarium Co. vs. City of Prairie Du. Chien, 242 Wis. 262, 7NW [2d] 832, 144 A.L.R. 1480).

Thus, we have held that the U.S.T. Hospital was not established for profit-making purposes, although it had 140 paying beds maintained only to partly finance the expenses of the free wards, containing 203 beds for charity patients (U.S.T. Hospital Employees Association vs. Sto. Tomas University Hospital, 95 Phil., 40), that the St. Paul's Hospital of Iloilo, a corporation organized for "charitable educational and religious purposes" can not be considered as engaged in business merely because its pharmacy department charges paying patients the cost of their medicine, plus 10% thereof, to partly offset the cost of medicines supplied free of charge to charity patients (Collector of Internal Revenue vs. St. Paul's Hospital of Iloilo, L-12127, May 25, 1959), and that the amendment of the original articles of incorporation of the University of Visayas to convert it from a non-stock to a stock corporation and the increase of its assets from P9,000 to P50,000, distributed among the members of the original non-stock corporation in terms of shares of stock, as well as the subsequent move of its board of trustees to double the stock dividends of the corporation, in view of a gain of P200,000.00 in property, besides good-will, which was not carried out, does not justify the inference that the corporation has become one for business and profit, none of its profits having inured to the benefit of any stockholder or individual (Collector of Internal Revenue vs. University of Visayas, 111 Phil., 263; 61 Off. Gaz. (23) 3388).

Moreover, the exemption in favor of property used exclusively for charitable or educational purposes is "not limited to property actually indispensable" therefore (Cooley on Taxation, Vol. 2, p. 1430), but extends to facilities which are "incidental to and reasonably necessary for" the accomplishment of said purposes, such as, in the case of hospitals, "a school for training nurses, a nurses' home, property use to provide housing facilities for interns, resident doctors, superintendents, and other members of the hospital staff, and recreational facilities for student nurses, interns and residents" (84 C.J.S., 621), such as "athletic fields." including "a farm used for the inmates of the institution" (Cooley on Taxation, Vol. 2, p. 1430).

Within the purview of the Constitutional exemption from taxation, the St. Catherine's Hospital is, therefore, a charitable institution, and the fact that it admits pay-patients does not bar it from claiming that it is devoted exclusively to benevolent purposes, it being admitted that the income derived from pay-patients is devoted to the improvement of the charity wards, which represent almost two-thirds (2/3) of the bed capacity of the hospital, aside from "out-charity patients" who come only for consultation.

Again, the existence of "St. Catherine's School of Midwifery", with an enrollment of about 200 students, who practice partly in St. Catherine's Hospital and partly in St. Mary's Hospital, which, likewise, belongs to petitioners herein, does not, and cannot, affect the exemption to which St. Catherine's Hospital is entitled under our fundamental law. On the contrary, it furnishes another ground for exemption. Seemingly, the Court of Tax

Appeals was impressed by the fact that the size of said enrollment and the matriculation fee charged from the students of midwifery, aside from the amount they paid for board and lodging, including transportation to St. Mary's Hospital, warrants the belief that petitioners derive a substantial profit from the operation of the school aforementioned. Such factor is, however, immaterial to the issue in the case at bar, for "all lands, buildings and improvements used exclusively for religious, charitable or educational purposes shall be exempt from taxation," pursuant to the Constitution, regardless of whether or not material profits are derived from the operation of the institutions in question. In other words, Congress may, if it deems fit to do so, impose taxes upon such "profits", but said "lands, buildings and improvements" are beyond its taxing power.

Similarly, the garage in the building above referred to—which was obviously essential to the operation of the school of midwifery, for the students therein enrolled practiced, not only in St. Catherine's Hospital, but, also, in St. Mary's Hospital, and were entitled to transportation thereto—and the fact that petitioner's family resided in said building—for Mrs. Herrera received no compensation as directress of St. Catherine's Hospital—were incidental to the operation of the latter and of said school, and, accordingly, did not affect the charitable character of said hospital and the educational nature of said school.

Wherefore, the decision of the Court of Tax Appeals, as well as that of the Assessment Board of Appeals of Quezon City, are hereby reversed and set aside, and another one shall be entered declaring that the lot, building and improvements constituting the St. Catherine's Hospital are exempt from taxation under the provisions of the Constitution, without special pronouncement as to cost. It is so ordered.

Bengzon, C. J., Padilla, Labrador, Reyes, J. B. L., Paredes, and De Leon, JJ., concur.

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