

HOSPITAL DE SAN JUAN DE DIOS, INC., PLAINTIFF AND APPELLANT, VS. PASAY CITY, PABLO CUNETA, R. N. ASCAÑO AND G. C. FUENTES, DEFENDANTS AND APPELLEES.

G.R. No. 19371. February 28, 1966

Ponente: DIZON, J.

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DIZON, J.:

Appeal taken by the Hospital de San Juan de Dios, Inc. from the decision of the Court of First Instance of Rizal in Civil Case No. 1775-P dismissing its complaint against the City of Pasay—hereinafter referred to as the City—Pablo Cuneta, R. N. Ascaño and Ceferino Fuentes, in their capacities as Mayor, City Engineer and City Treasurer, respectively, of said city.

It is admitted that on July 24, 1954 and May 27, 1957, appellant paid, under protest, to the City the amounts of P829.60 and P879.90, respectively, representing electrical inspection fees allegedly due it from appellant under Section 5, Ordinance No. 7, series of 1945, as amended by Ordinance No. 22 series of 1947, and further amended by Ordinance No. 54, series of 1955, which reads as follows:

"That the City Electrician shall inspect all electric wires, poles, and other apparatus whether electric crude oil, charcoal or gasoline installed or used for generating, containing, conducting or measuring electricity or telephone service, issue to the owner or user thereof a statement of the result of such inspection. * * * However, residential houses with outlets not exceeding (8) in number shall be exempted from the payment of the corresponding inspection fees. For the purpose of this ordinance, any accessoria, irrespective of the number of doors or rooms it contains, is considered one building. Churches and such other religious institutions and buildings housing charitable organizations, are likewise subject to annual inspection but exempted from the payment of inspection fees."

Although appellant claimed that, as a charitable institution, it was exempted from the payment of the inspection fees provided for in the above-quoted section, it found itself compelled to pay the amounts mentioned heretofore by reason of the refusal of appellees Pablo Cuneta, as Mayor, and R.N. Ascaño, as City Engineer, to issue a building permit to make additional construction applied for by appellant until after the full payment of the electrical inspection fees assessed against it by appellee Ascaño. As a result, appellant commenced the present action in the Court of First Instance of Rizal (Civil Case No. 1775-P) to recover from appellees the above-mentioned amounts it paid as electrical inspection fees as well as the sum of P500.00 as attorney's fees and the costs of suit.

After due trial the court rendered the appealed judgment. The issue determinative of the present appeal is whether or not appellant is a charitable institution and, as such exempt, under the provisions of the last sentence of Section 5 of the ordinance in question, from the payment of the inspection fees provided for therein.

The trial court, while admitting that appellant was organized for charitable purposes, held that it "is not actually

being managed and operated as a charitable institution but one for profit" and, as such, "is not entitled to the relief sought in the present action." This, We believe, is not correct. It not being disputed that appellant was organized as a charitable institution, the presumption is that it is operating as such, the burden of proof being on appellees to show that it is operating otherwise. The record does not show that they have satisfactorily discharged this burden.

But the lower court, disregarding the presumption mentioned above, claims that "plaintiff failed to prove that it is actually engaged in charitable work" and that "no evidence whatsoever was presented to show how it doles out charity, etc." This is also erroneous. Aside from the appellant's Articles of Incorporation showing that it had no capital stock and that no part of its net income, if any could inure to the benefit of any private individual, there is Exhibit D, a ruling of June 20, 1957 of the Workmen's Compensation Commissioner and the Undersecretary of Labor to the effect that appellant is a charitable institution exempted from the scope of the Workmen's Compensation Act; a written statement of appellant's cashier that the latter maintains two free wards of sixty beds each; an admission by appellees to the effect that, in addition to the free wards just mentioned, appellant also maintains six free beds in the Pediatrics Section (transcript of June 16, 1960, pp. 2-4).

It is not therefore correct to say that there is no evidence whatsoever showing how appellant doles out charity.

Moreover, the question of whether or not appellant and other institutions similarly situated and operated are charitable institutions has been decided both here and in the United States. The American rule is summarized in 51 American Jurisprudence, p. 607 as follows:

"636. Effect of Receipt of Pay from Patient.—The general rule that a charitable institution does not lose its charitable character and its consequent exemption from taxation merely because recipients of its benefits who are able to pay are required to do so, where funds derived in this manner are devoted to the charitable purposes of the institution, applies to hospitals. A hospital owned and conducted by a charitable organization, devoted for the most part to the gratuitous care of charity patients, is exempted from taxation as a building used for 'purposes purely charitable', notwithstanding it receives and cares for pay patients, where any profit thus derived is applied to the purposes of the institution. An institution, maintained, and operated for the purpose of taking care of the sick, without any profit or view to profit, but at a loss, which is made up by benevolent contributions, the benefits of which are open to the public generally, is a purely public charity within the meaning of a statute exempting the property of institutions of purely public charity from taxation; the fact that patients, who are able to pay are charged for services rendered, according to their ability, being of no importance upon the question of the character of the institution."

On the other hand, in *Jesus Sacred Heart College vs. Collector, etc.* G.R. No. L-6807, May 20, 1954, We overruled the contention of the Collector of Internal Revenue to the effect that the fact that the appellant therein had a profit or net income was sufficient to show that it was an institution "for profit and gain" and therefore no longer exempt from income tax as follows:

"To hold that an educational institution is subject to income tax whenever it is so administered as to reasonably assure that it will not incur a deficit, is to nullify and defeat the aforementioned exemption. Indeed, the effect in general, of the interpretation advocated by appellant would be to deny the exemption whenever there is a net income, contrary to the tenor of said section 27 (e) which positively exempts from taxation those corporations or associations which, otherwise, would be subject thereto, because of the existence of said net income."

Explaining our view that the making of profit does not destroy the tax exemption of a charitable, benevolent or educational institution, We said:

"Needless to say, every responsible organization must be so run as to, at least, insure its existence, by operating within the limits of its own resources, especially its regular income. In other words, it should always strive, whenever possible, to have a surplus. Upon the other hand, appellant's pretense, would limit the benefits of the exemption, under said section 27 (e) to institutions which do not hope or propose, to have such surplus. Under this view, the exemption would apply only to schools which are on the verge of bankruptcy, for unlike the United States, where a substantial number of institutions of learning are dependent upon voluntary contributions and still enjoy economic stability, such as Harvard, the trust fund of which has been steadily increasing with the years there are, and there have always been very few educational enterprises in the Philippines which are supported by donations, and those organizations usually have a very precarious existence. The final result of appellant's contention, if adopted, would be to discourage the establishment of colleges in the Philippines, which is precisely the opposite of the objective consistently sought by our laws."

In *U.S.T. Hospital Employees Association vs. Sto. Tomas University Hospital*, G.R. No. L-6988 (May 24, 1952), it was argued that the fact that the aforesaid hospital charged fees for 140 paying beds made it lose its character of a charitable institution. We likewise rejected this view because the paying beds aforesaid were maintained to partly finance the expenses of the free wards maintained by the hospital. We express the same view in *Collector of Internal Revenue vs. St. Paul's Hospital in Iloilo*, G.R. No. L-12127 (May 25, 1959) where we said the following:

"In this connection, it should be noted that respondent therein is a corporation organized for 'charitable, educational and religious purposes; that no part of its net income inures to the benefit of any private individual; that it is exempted from paying- income tax; that it operates a hospital in which medical assistance is given to destitute persons free of charge; that it maintains a pharmacy department within the premises of said hospital, to supply drugs and medicines only to charity and paying patients confined therein; and that only the paying patients are required to pay the medicines supplied to them, for which they are charged the cost of medicines, plus an additional 10 thereof, to partly offset the cost of medicines supplied free of charge to charity patients. Under these facts, we are of the opinion, and so held, that the Hospital may not be regarded as engaged in 'business' by reason of said sale of medicines to its paying patients.

". . .

"In line with the foregoing, in *U.S.T. Hospital Employees Association vs. Santo Tomas University Hospital* (G.R. No. L-6988, decided May 24, 1954), we held that the U.S.T. Hospital was not established for profit-making purposes, despite the fact that it had 140 paying beds, because the same were maintained only to 'partly finance the expenses of the free wards, containing 203 beds for charity patients. Although said case involved the interpretation of Republic Act No. 772, it is patent from our decision therein that said institution was not considered engaged in 'business'.

"It is trite to say that a tax on the limited revenue of charitable institutions of this kind tends to hamper its operation, and accordingly, to discourage the establishment and maintainance thereof. In the absence of a clear legal provision thereon, we must not so construe our laws as to lead to such result. In other words, the second, third and fourth assignments of error are untenable."

In *San Juan de Dios Hospital (the same party herein) vs. Metropolitan Water District*, 54 Phil. 174 this Court considered said hospital is a charitable institution in spite of the fact that it maintained paying beds. From the

decision in said case, We quote the following:

"A hospital (referring to the San Juan de Dios Hospital) is generally considered to be a charitable institution. It is a good public policy to encourage works of charity. What Carriedo did in his will was to make a beneficent grant not to a hospital thought of as a building, but to a hospital thought of as an institution. The free water was for the good of the hospital in this larger sense. Should the hospital be enlarged or rebuilt, the water concession would continue just the same. But a hospital cannot function without personnel. And such personnel must have a place to live, which is the reason why a home devoted exclusively to the needs of the nurses was founded. Free water for a nurses home as an adjunct to a hospital is as beneficial to the charitable purposes of the hospital as is free water for the hospital proper."

Finally, in *Manila Sanitarium and Hospital vs. Gabuco*, 117 Phil. 12, January 31, 1963, We held that the mere charging of medical and hospital fees from those who could afford to pay, did not make the institution one established for profit or gain.

Upon all the foregoing, the appealed decision is reversed, and another is hereby rendered ordering appellees to pay appellant the amount of P1,709.50, with interest thereon at the legal rate from the date of the filing of complaint in this case. With costs.

Bengzon, C. J., Bautista Angelo, Concepcion, Reyes, J.B.L., Regala, Makalintal, Bengzon., J. P., Zaldivar and Sanchez, JJ., concur.

Judgment reversed.

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