

THE ROMAN CATHOLIC BISHOP OF NUEVA SEGOVIA, PLAINTIFF AND APPELLANT, VS. THE COLLECTOR OF INTERNAL REVENUE, DEFENDANT AND APPELLEE.

G.R. No. 27234. September 07, 1927

Ponente: MALCOLM, J.

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MALCOLM, J.:

This is an action brought by the Roman Catholic Bishop of Nueva Segovia against the Collector of Internal Revenue to recover the sum of P1,319.54 paid as income tax by the plaintiff under protest on the ground that the tax was illegally levied and collected. A decision will affect all corporations and associations organized and operated exclusively for religious, charitable, scientific, or educational purposes.

The case was submitted in the lower court for decision upon the question of law arising from the following agreed statement of facts:

"I

That the plaintiff is a corporation sole organized and constituted under sections 154 to 164 of Act No. 1450 of the Philippine Commission known as the Corporation Law and organized and operated for religious, charitable and educational purposes, with its principal office located in the municipality of Vigan, Province of Ilocos Sur.

"II

That the defendant is the duly appointed, qualified and Acting Collector of Internal Revenue for the Philippine Islands with his office located in the City of Manila.

"III

That the plaintiff, for carrying the purposes for which it was created, has established and is establishing and maintaining churches, cemeteries, convents, parochial or catholic schools, two colleges, a seminary, charitable institutions, etc. And the plaintiff also owns, holds, and possesses real estate or lands and buildings, shares of stock in various corporations doing business in the Philippine Islands, and money loaned at interest, from which it has been deriving and receiving revenue, in the form of rents, dividends and interests, which constitute the bulk of its income, for carrying on its religious, charitable and educational work.

"IV

That the plaintiff did not, on or before March 1, 1921, submit to the defendant a return of the income by it received during the year 1920 from sources mentioned in paragraph III hereof, in the belief that it was not subject to the requirements of the Philippine Income Tax Laws, particularly section 11 (a), paragraph VI of Act No. 2833. But the defendant, believing that the cause of the proviso of said section 11 (a), paragraph VI of Act No. 2833, the plaintiff is subject to the requirements of said Act caused an investigation to be made of the plaintiff's income or revenue during the year 1920 from the sources mentioned in the preceding paragraph, and found that the plaintiff, earned or received during said year 1920 incomes aggregating in the sum of

P34,359.33, and from said incomes allowed deductions amounting to P5,480.71. Said income and deductions are more particularly described in the investigator's report as follows:

Rents on lands.....	
P326.00	
Dividends from the Philippine Vegetable Oil Co.....	
4,375.00	
Dividends from the Bank of the Philippine Islands.....	
4,200.00	
Dividends from the Mindoro Sugar Company.....	
4,160.00	
Dividends from the North Negros Sugar Co.....	
2,240.00	
Interests on loans (notes) and credits.....	
18,284.82	
Interests on bank deposits.....	
423.51	
Bad debts charged off in previous years but recovered in 1920.....	
400.00	

Gross income received in 1920.....	
34,369.33	
Less allowable deductions.....	
5,480.71	

Net income in 1920.....	
28,878.62	

"V

That plaintiff during said year 1920, other than and distinct from the incomes enumerated and specified in paragraph IV hereof, earned and received a relatively small income consisting of one-third of fees received by parish priests for solemnizing marriages, administering baptisms, and attending burials at churches and cemeteries belonging to plaintiff, and of tuition fees paid by the students in the two colleges, all of which incomes have been, in addition to a portion of those particularly described and enumerated in paragraph IV hereof, used exclusively for the operation and maintenance of the cult in the respective parishes, and of the said colleges, respectively.

"VI

That no part of the incomes stated in the preceding three paragraphs has inured or will inure to the benefits of any particular stockholder or individual, but that all the said income are held and used by plaintiff as sources from which to obtain funds or revenue for carrying on its religious, charitable and educational work.

"VII

That the other two-thirds of the fees for solemnizing marriages, administering baptisms, and attending burials mentioned in paragraph V hereof, inure to the private or personal benefit of the respective parish priests and prelate or bishop of the dioceses, and all the alms for masses inure to the private or personal benefit of the priest receiving them, and none of the incomes mentioned in this paragraph inure to the benefit of the plaintiff as a corporation sole.

"VIII

That as the result of the investigation mentioned in paragraph IV hereof, the defendant assessed the sum of P1,319.54 against the plaintiff, as the latter's income tax and penalties for the plaintiff's failure to submit return on or before March 1, 1921, said tax and penalties being computed by the defendant as follows:

Net income in 1920 (as explained in paragraph IV hereof)
.....

P28,878.62

3 per cent normal
tax.....

866.36

50 per cent surcharge as provided in section 15 of Act No. 2833, for failure to submit return on or before March 1, 1921, as prescribed by law.....

P433.18

Amount paid as compromise to avoid judicial proceedings under section 17 of Act No. 2833 for failure to file 1920 return in due time.....
.....

20.00

Total assessed.....

1,319.54

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"IX

That the plaintiff, on December 19, 1923, upon the receipt of defendant's notice and demand for the payment of the said sum of P1,319.54, and in order to avoid the infliction upon it of any further penalty or surcharge, paid said sum of P1,319.54 under protest, and said payment has been accounted for under income tax receipt

No. 26991."

The legal question presented in the trial court and again on appeal was whether or not the income in controversy fell within the purview of the provisions of section 11 (a), paragraph 6, of the existing Income Tax Law, Act No. 2833. His Honor, the trial judge held that it did not in view of the proviso incorporated in the above-cited paragraph by the Philippine Legislature, and which did not appear in the Federal Income Tax Law applicable to the Philippines when a somewhat similar question was previously at issue. The judgment accordingly sustained the Government in its defense, and ordered the dismissal of the complaint, without costs. In so deciding, we think that error was committed,

A tax was once levied on the Sagrada Orden de Predicadores by the Collector of Internal Revenue under paragraphs G (a) and M of section 2 of the Act of Congress of October 3, 1913, requiring every corporation, not within defined exceptions, to pay an annual tax, computed at a specified rate, on its entire net income from all sources. The exceptions covered, among others, "any corporation or association organized and operated exclusively for religious, charitable, scientific or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual." The corporation sole prevailed both in this court and in the United States Supreme Court (*Sagrada Orden de Predicadores vs. Trinidad* [1921], 42 Phil., 397; [1923], 263 U. S., 578). The ruling was in effect that the law makes the destination of the income the ultimate test of exemption.

The Income Tax Law superseding the law construed in (he cases above cited, contains a provision exactly the same word for word, in the sixth paragraph of section 11 (a) thereof. But in the new law there immediately follows what was not found in the old law, viz. a proviso reading, "Provided, however, That the income of whatever kind and character from any of its properties, real or personal, except income expressly exempted by this law, shall be liable to the tax imposed under this chapter." Does the proviso alter the situation with reference to the income of corporations or associations like the plaintiff?

No help can be obtained from any outside source to explain the purpose of the Legislature in adding the proviso to the law. Our information is that the legislative records are silent on the subject. No construction, judicial or administrative, of the same has been attempted. The saving clause appears to have been introduced into the law out of abundant and even excessive caution. The language of the proviso must be interpreted and enforced according to its literal meaning in connection with the rest of the law.

This is certain—that under the stipulated facts, the income from these church properties is expressly exempted by the law. This further is certain—that under the stipulated facts, no part of the net income inures to the benefit of any private stockholder or individual. The proviso in question has not resulted in taking the income on which the tax under consideration was levied out of the operation of the exemption contained in the law. It is not possible to draw a distinction between the two classes of incomes of this religious corporation, the first derived from real and personal property, and the other from strictly religious activities, without running counter to the law and its meaning. To hold that the income of the corporation sole is not exempted from taxation would be to render paragraph 6 of section 11 (a) of the Income Tax Law meaningless.

We rule that the income of the plaintiff was received from sources destined for purposes not subject to taxation. As a consequence, the two errors assigned are clearly sustainable.

In accordance with the foregoing, the judgment of the lower court will be reversed and another shall there issue in favor of the plaintiff and against the defendant for the sum of P1,319.54, without interest and costs.

Johnson, Street, Villamor, Johns, Romualdez, and Villa-Real, JJ., concur.

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