

FIRST DIVISION

[G.R. No. 203514, February 13, 2017]

COMMISSIONER OF INTERNAL REVENUE, PETITIONER, VS. ST. LUKE'S MEDICAL CENTER, INC., RESPONDENT.

D E C I S I O N

DEL CASTILLO, J.:

The doctrine of *stare decisis* dictates that "absent any powerful countervailing considerations, like cases ought to be decided alike."^[1]

This Petition for Review on Certiorari^[2] under Rule 45 of the Rules of Court assails the May 9, 2012 Decision^[3] and the September 17, 2012 Resolution^[4] of the Court of Tax Appeals (CTA) in CTA EB Case No. 716.

Factual Antecedents

On December 14, 2007, respondent St. Luke's Medical Center, Inc. (SLIVIC) received from the Large Taxpayers Service-Documents Processing and Quality Assurance Division of the Bureau of Internal Revenue (BIR) Audit Results/Assessment Notice Nos. QA-07-000096^[5] and QA-07-000097,^[6] assessing respondent SLMC deficiency income tax under Section 27(B)^[7] of the 1997 National Internal Revenue Code (NIRC), as amended, for taxable year 2005 in the amount of P78,617,434.54 and for taxable year 2006 in the amount of P57,119,867.33.

On January 14, 2008, SLMC filed with petitioner Commissioner of Internal Revenue (CIR) an administrative protest^[8] assailing the assessments. SLMC claimed that as a non-stock, non-profit charitable and social welfare organization under Section 30(E) and (G)^[9] of the 1997 NIRC, as amended, it is exempt from paying income tax.

On April 25, 2008, SLMC received petitioner CIR's Final Decision on the Disputed Assessment^[10] dated April 9, 2008 increasing the deficiency income for the taxable year 2005 tax to P82,419,522.21 and for the taxable year 2006 to P60,259,885.94, computed as follows:

For Taxable Year 2005:

ASSESSMENT NO. QA-07-000096

| PARTICULARS | AMOUNT |
|------------------------------|-------------------|
| Sales/Revenues/Receipts/Fees | P3,623,511,616.00 |
| Less: Cost of Sales/Services | 2,643,049,769.00 |

| | |
|--|----------------|
| Gross Income From Operation | 980,461,847.00 |
| Add: Non-Operating & Other Income | - |
| Total Gross Income | 980,461,847.00 |
| Less: Deductions | 481,266,883.00 |
| Net Income Subject to Tax | 499,194,964.00 |
| X Tax Rate | 10% |
| Tax Due | 49,919,496.40 |
| Less: Tax Credits | - |
| Deficiency Income Tax | 49,919,496.40 |
| Add: Increments | |
| 25% Surcharge | 12,479,874.10 |
| 20% Interest Per Annum (4/15/06-4/15/08) | 19,995,151.71 |
| Compromise Penalty for Late Payment | 25,000.00 |
| Total increments | 32,500,025.81 |
| Total Amount Due | P82,419,522.21 |

For Taxable Year 2006:

ASSESSMENT NO. QA-07-000097

| PARTICULARS | [AMOUNT] |
|-----------------------------------|-------------------|
| Sales/Revenues/Receipts/Fees | P3,815,922,240.00 |
| Less: Cost of Sales/Service | 2,760,518,437.00 |
| Gross Income From Operation | 1,055,403,803.00 |
| Add: Non-Operating & Other Income | - |
| Total Gross Income | 1,055,403,803.00 |
| Less: Deductions | 640,147,719.00 |
| Net Income Subject to Tax | 415,256,084.00 |
| X Tax Rate | 10% |
| Tax Due | 41,525,608.40 |
| Less: Tax Credits | - |
| Deficiency Income Tax | 41,525,608.40 |
| Add: Increments | - |

| | |
|--|--------------------------------|
| 25% Surcharge | 10,381,402.10 |
| 20% Interest Per Annum (4/15/07-4/15/08) | 8,327,875.44 |
| Compromise Penalty for Late Payment | 25,000.00 |
| Total increments | 18,734,277.54 |
| Total Amount Due | P60,259,885.94 ^[11] |

Aggrieved, SLMC elevated the matter to the CTA *via* a Petition for Review,^[12] docketed as CTA Case No. 7789.

Ruling of the Court of Tax Appeals Division

On August 26, 2010, the CTA Division rendered a Decision^[13] finding SLMC not liable for deficiency income tax under Section 27(B) of the 1997 NIRC, as amended, since it is exempt from paying income tax under Section 30(E) and (G) of the same Code. Thus:

WHEREFORE, premises considered, the Petition for Review is hereby GRANTED. Accordingly, Audit Results/Assessment Notice Nos. QA-07-000096 and QA-07-000097, assessing petitioner for alleged deficiency income taxes for the taxable years 2005 and 2006, respectively, are hereby CANCELLED and SET ASIDE.

SO ORDERED.^[14]

CIR moved for reconsideration but the CTA Division denied the same in its December 28, 2010 Resolution.^[15]

This prompted CIR to file a Petition for Review^[16] before the CTA *En Banc*.

Ruling of the Court of Tax Appeals En Banc

On May 9, 2012, the CTA *En Banc* affirmed the cancellation and setting aside of the Audit Results/Assessment Notices issued against SLMC. It sustained the findings of the CTA Division that SLMC complies with all the requisites under Section 30(E) and (G) of the 1997 NIRC and thus, entitled to the tax exemption provided therein.^[17]

On September 17, 2012, the CTA *En Banc* denied CIR's Motion for Reconsideration.

Issue

Hence, CIR filed the instant Petition under Rule 45 of the Rules of Court contending that the CTA erred in exempting SLMC from the payment of income tax.

Meanwhile, on September 26, 2012, the Court rendered a Decision in G.R. Nos. 195909 and 195960, entitled *Commissioner of Internal Revenue v. St. Luke's Medical Center, Inc.*,^[18] finding SLMC not entitled to the tax exemption under Section 30(E) and (G) of the NIRC of 1997 as it does not operate exclusively for charitable or social welfare purposes insofar as its revenues from paying patients are concerned. Thus, the Court disposed of the case in this manner:

WHEREFORE, the petition of the Commissioner of Internal Revenue in G.R. No. 195909 is PARTLY GRANTED. The Decision of the Court of Tax Appeals *En Banc* dated 19 November 2010 and its Resolution dated 1 March 2011 in CTA Case No. 6746 are MODIFIED. St Luke's Medical Center, Inc. is ORDERED TO PAY the deficiency income tax in 1998 based on the 10% preferential income tax rate under Section 27(B) of the National Internal Revenue Code. However, it is not liable for surcharges and interest on such deficiency income tax under Sections 248 and 249 of the National Internal Revenue Code. All other parts of the Decision and Resolution of the Court of Tax Appeals are AFFIRMED.

The petition of St. Luke's Medical Center, Inc. in G.R. No. 195960 is DENIED for violating Section I, Rule 45 of the Rules of Court.

SO ORDERED.^[19]

Considering the foregoing, SLMC then filed a Manifestation and Motion^[20] informing the Court that on April 30, 2013, it paid the BIR the amount of basic taxes due for taxable years 1998, 2000-2002, and 2004-2007, as evidenced by the payment confirmation^[21] from the BIR, and that it did not pay any surcharge, interest, and compromise penalty in accordance with the above-mentioned Decision of the Court. In view of the payment it made, SLMC moved for the dismissal of the instant case on the ground of mootness.

CIR opposed the motion claiming that the payment confirmation submitted by SLMC is not a competent proof of payment as it is a mere photocopy and does not even indicate the quarter/s and/or year/s said payment covers.^[22]

In reply,^[23] SLMC submitted a copy of the Certification^[24] issued by the Large Taxpayers Service of the BIR dated May 27, 2013, certifying that, "[a]s far as the basic deficiency income tax for taxable years 2000, 2001, 2002, 2004, 2005, 2006, 2007 are concerned, this Office considers the cases closed due to the payment made on April 30, 2013." SLMC likewise submitted a letter^[25] from the BIR dated November 26, 2013 with attached Certification of Payment^[26] and application for abatement,^[27] which it earlier submitted to the Court in a related case, G.R. No. 200688, entitled *Commissioner of Internal Revenue v. St. Luke's Medical Center, Inc.*^[28]

Thereafter, the parties submitted their respective memorandum.

CIR's Arguments

CIR argues that under the doctrine of *stare decisis* SLMC is subject to 10% income tax under Section 27(B) of the 1997 NIRC.^[29] It likewise asserts that SLMC is liable to pay compromise penalty pursuant to Section 248(A)^[30] of the 1997 NIRC for failing to file its quarterly income tax returns.^[31]

As to the alleged payment of the basic tax, CIR contends that this does not render the instant case moot as the payment confirmation submitted by SLMC is not a competent proof of payment of its tax liabilities.^[32]

SLMC's Arguments

SLMC, on the other hand, begs the indulgence of the Court to revisit its ruling in G.R. Nos. 195909 and 195960 (*Commissioner of Internal Revenue v. St. Luke's Medical Center, Inc.*)^[33] positing that earning a profit by a charitable, benevolent hospital or educational institution does not result in the withdrawal of its tax exempt privilege.^[34] SLMC further claims that the income it derives from operating a hospital is not income from "activities conducted for profit."^[35] Also, it maintains that in accordance with the ruling of the Court in G.R. Nos. 195909 and 195960 (*Commissioner of Internal Revenue v. St. Luke's Medical Center, Inc.*),^[36] it is not liable for compromise penalties.^[37]

In any case, SLMC insists that the instant case should be dismissed in view of its payment of the basic taxes due for taxable years 1998, 2000-2002, and 2004-2007 to the BIR on April 30, 2013.^[38]

Our Ruling

SLMC is liable for income tax under Section 27(B) of the 1997 NIRC insofar as its revenues from paying patients are concerned.

The issue of whether SLMC is liable for income tax under Section 27(B) of the 1997 NIRC insofar as its revenues from paying patients are concerned has been settled in G.R. Nos. 195909 and 195960 (*Commissioner of Internal Revenue v. St. Luke's Medical Center, Inc.*),^[39] where the Court ruled that:

xxx We hold that Section 27(B) of the NIRC does not remove the income tax exemption of proprietary non-profit hospitals under Section 30(E) and (G). Section 27(B) on one hand, and Section 30(E) and (G) on the other hand, can be construed together without the removal of such tax exemption. The effect of the introduction of Section 27(B) is to subject the taxable income of two specific institutions, namely, proprietary non-profit educational institutions and proprietary non-profit hospitals, among the institutions covered by Section 30, to the 10% preferential rate under Section 27(B) instead of the ordinary 30% corporate rate under the last paragraph of Section 30 in relation to Section 27(A)(1).

Section 27(B) of the NIRC imposes a 10% preferential tax rate on the income of (1) proprietary non-profit educational institutions and (2) proprietary non-profit hospitals. The only qualifications for hospitals are that they must be proprietary and non-profit. 'Proprietary' means private,