



SUPREME COURT OF THE PHILIPPINES
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Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

GAMES AND AMUSEMENT BOARD AND BUREAU OF INTERNAL REVENUE, G.R. No. 252189

Petitioners, Present:

PERALTA, C.J.,
Chairperson,
CAGUIOA,
CARANDANG,
ZALAMEDA,
GAERLAN, JJ.

- versus -

KLUB DON JUAN DE MANILA, INC., AND CESAR AVILA, JR., MANILA JOCKEY CLUB, INC. PHILIPPINE RACING CLUB, INC., AND METRO MANILA TURF CLUB, INC.

Promulgated:

Respondents.

NOV 03 2020

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DECISION

CARANDANG, J.:

Before this Court is a Petition for Review on *Certiorari*¹ under Rule 45 of the Rules of Court, assailing the Decision² dated February 28, 2019 and the Resolution³ dated November 11, 2019 of the Court of Appeals (CA) in CA-G.R. SP No. 158302 filed by Klub Don Juan De Manila, Inc. (Klub Don Juan) and Cesar G. Avila, Jr. against the Games and Amusement Board (GAB), the Bureau of Internal Revenue (BIR), Manila Jockey Club, Inc. (MJCI), Philippine Racing Club, Inc. (PRCI), and Metro Manila Turf Club, Inc. (MMTCI).

¹ Rollo, pp. 29-54.

² Penned by Associate Justice Pedro B. Corales, with the concurrence of Associate Justices Stephen C. Cruz and Ruben Reynaldo G. Roxas; id. at 10-23.

³ Id. at 25-26.

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Facts of the Case

On May 25, 2018, Klub Don Juan filed a complaint for Injunction with Prayer for Issuance of Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction⁴ against the GAB, the BIR, MJCI, PRCI, and MMTCI. Klub Don Juan is an organization whose members are racehorse owners regularly participating in horse racing conducted by different racing clubs.⁵ On the other hand, the MJCI, PRCI, and MMTCI (collectively, racing clubs) are grantees of legislative franchises, allowing them to construct, maintain, and operate horse racing tracks.⁶ Their legislative franchises imposed upon the racing clubs the duty to withhold and remit documentary stamp taxes (DST) to the BIR.⁷

Section 11 of Republic Act No. (R.A.) 8407 or the law granting franchise to MJCI provides for the following:

Section 11. Documentary Stamps. – On each horse racing ticket, there shall be collected a documentary stamp tax of Ten centavos (P0.10): provided, that if the cost of the ticket exceeds One peso (P1.00), an additional tax of Ten centavos (P0.10) on every One peso (P1.00) or fractional part thereof shall be collected.

Section 8 of R.A. 7953, the law granting franchise to PRCI states that:

Section 8. On each horse racing ticket, there shall be collected a documentary stamp tax of ten centavos (P0.10): Provided, that if the cost of the ticket exceeds one peso (P1.00), an additional tax of ten centavos (P0.10) on every one peso (P1.00) or fractional part thereof shall be collected: Provided, further, that in case of double, forecast/quenella and trifecta bets the tax shall be five centavos (P0.05) on every one peso (P1.00) worth of ticket.

Section 6 of R.A. 7978 or the law granting franchise to MMTCI provides that:

Section 6. On each horse racing ticket, there shall be collected a documentary stamp tax of Ten centavos (P0.10): Provided, That if the cost of the ticket exceeds One peso (P1.00), an additional tax of Ten centavos (P0.10) on every One peso (P1.00) or fractional part thereof shall be collected: Provided, Further, That in the case of double forecast/quinella and trifecta bets, the tax shall be Five centavos (P0.05) on every One peso (P1.00) worth of ticket.

On January 1, 2018, R.A. 10963, otherwise known as the “Tax Reform for Acceleration and Inclusion (TRAIN) Law” took effect, which amended the old law on DST as follows:

⁴ Id. at 93-107.

⁵ Id. at 94.

⁶ Id. at 95.

⁷ Id.

Section 63. Section 190 of the NIRC, as amended, is hereby further amended to read as follows:

Section 190. Stamp Tax on Jai-alai, Horse Race, Tickets, Lotto or Other Authorized Numbers Games. - On each jai-alai, horse race ticket, lotto, or other authorized numbers games, there shall be collected a documentary stamp tax of **Twenty centavos (₱0.20)**: Provided, That if the cost of the ticket exceed One peso (₱1.00), an additional tax of **Twenty centavos (₱0.20)** on every **One peso (₱1.00)**, or fractional part thereof, shall be collected. (Emphasis supplied)

Upon the effectivity of the TRAIN Law, there was a substantial increase on the DST withheld as compared to the DST under the franchises of the racing clubs. Because of this, Klub Don Juan alleged that there is a conflict between the provisions of the franchises of the racing clubs being a special law and the provisions of the TRAIN Law.⁸ Klub Don Juan asserted that the GAB and the BIR should be restrained from enforcing the provision of the TRAIN Law on the increased DST rate. Instead, the franchise rates should continue to apply since it was not specifically amended by the TRAIN Law. Further, Klub Don Juan claimed that the application of the increased DST resulted in the reduction of dividends granted to the winning bettor. The reduced dividends drove away bettors which resulted in lesser gross sales.⁹

The GAB and BIR through the Office of the Solicitor General filed an *Urgent Ad Cautelam Motion for Re-Raffle*¹⁰ arguing that they have not received the Notice of Raffle of the case.¹¹ The GAB and the BIR, likewise, filed an *Ad Cautelam Opposition to the Grant of a Temporary Restraining Order with a Motion to Dismiss*.¹² According to the GAB and the BIR, the withholding of the increased rates of DST under the TRAIN Law, which is sought to be restrained by Klub Don Juan, is outside the territorial jurisdiction of the Regional Trial Court (RTC) of Mandaluyong City, Branch 213 because horse race tickets may be purchased all over the country and not just in Metro Manila.¹³ The GAB and the BIR added that Section 218 of the National Internal Revenue Code (NIRC) prohibits the grant of injunction to restraint the collection of national internal revenue taxes including DST.¹⁴ Lastly, the GAB and the BIR asserted that Klub Don Juan is not entitled to a TRO or Writ of Preliminary Injunction because it was not able to prove a clear legal right that would entitle it to the injunctive relief.¹⁵

MMTCI concurred with Klub Don Juan that the TRAIN Law is a general law that should yield to the law granting franchise to the racing clubs.

⁸ Id. at 98.

⁹ Id. at 101.

¹⁰ Id. at 109-112.

¹¹ Id. at 109-110.

¹² Id. at 117-132.

¹³ Id. at 118-119.

¹⁴ Id. at 122-123.

¹⁵ Id. at 125.



PRCI and MCJI manifested their compliance with the TRAIN Law rate but averred that the higher DST on horse racing tickets threatened the continued operation of the racing clubs.¹⁶

Ruling of the Regional Trial Court

In its Order¹⁷ dated July 25, 2018, the RTC explained that anent the motion for re-affle, electronic raffle of all cases immediately after filing thereof has been mandated pursuant to the directive of the Court. Thus, the motion for re-affle was denied.¹⁸

However, the RTC granted the motion to dismiss filed by the GAB and the BIR on the ground that it has no jurisdiction to restrain the collection of the DST under Section 218 of the NIRC.¹⁹

Klub Don Juan moved for reconsideration which was denied in a Resolution²⁰ dated September 18, 2018. Consequently, Klub Don Juan filed an appeal to the CA.

Ruling of the Court of Appeals

On February 28, 2019, the CA issued its Decision²¹ which granted the appeal of Klub Don Juan, reinstated the case, and directed the RTC to continue the proceedings.

While the CA agreed that the RTC does not have the jurisdiction to grant the provisional relief of injunction prayed for by Klub Don Juan, nevertheless, the CA held that it was erroneous for the RTC to also dismiss the main action. The CA explained that although the complaint filed by Klub Don Juan with the RTC was denominated as one for "Injunction," nevertheless, the claims asserted therein made out a case for declaratory relief.²²

According to the CA, the allegations in the complaint filed by Klub Don Juan and the ultimate prayer of the latter is for the RTC to make a judicial declaration as to which statutory DST rate to apply upon the effectivity of the TRAIN Law.²³ The CA held that all the requisites of an action for declaratory relief are present in the case because there is no showing of any breach yet of the provisions of the TRAIN Law on the increased DST rate. The CA also found that there is ripening judicial controversy considering the adverse positions of the GAB and the BIR *vis-à-vis* Klub Don Juan and the racing clubs. Since the true cause of action of Klub Don Juan was for declaratory

¹⁶ Id. at 16.
¹⁷ Id. at 86-91.
¹⁸ Id. at 87.
¹⁹ Id. at 87-88.
²⁰ Id. at 92.
²¹ Supra note 2.
²² *Rollo*, p. 20
²³ Id.

relief, then the complaint falls under the jurisdiction of the RTC. Thus, its dismissal by the RTC was premature.²⁴

The GAB and the BIR filed a motion for reconsideration, but it was denied in a Resolution²⁵ dated November 11, 2019.

Insisting that the order of dismissal by the RTC was proper, GAB and the BIR filed this Petition for Review on *Certiorari*²⁶ under Rule 45 of the Rules of Court. The GAB and the BIR argue that the RTC is prohibited from issuing the injunctive relief prayed for by Klub Don Juan as well as the ancillary relief against the collection of DST under Section 63 of the TRAIN Law.²⁷ The GAB and the BIR claim that the CA erred in treating the complaint filed by Klub Don Juan as an action for declaratory relief and not a complaint for Injunction.²⁸ According to the GAB and the BIR, Klub Don Juan specifically asked the RTC to permanently enjoin the collection of the DST rate under the TRAIN Law.²⁹

In its Comment,³⁰ Klub Don Juan agrees with the CA in treating the complaint for Injunction as one for declaratory relief.³¹ Klub Don Juan insists that the TRAIN Law is a general law which could not prevail over the laws granting franchise to the racing clubs.³²

Issue

The issue in this case is whether the RTC has jurisdiction to take cognizance of the complaint filed by Klub Don Juan.

Ruling of the Court

The petition is meritorious.

Klub Don Juan denominated its complaint before the RTC as one for Injunction. In the case of *Bacolod City Water District v. Labayen*,³³ the Court explained the nature of an action for injunction as a judicial writ, process or proceeding whereby a party is ordered to do or refrain from doing a certain act. It may be the main action or merely a provisional remedy for and as an incident in the main action.

Since the racing clubs are already withholding the increased rate of DST under the TRAIN Law from Klub Don Juan members, the latter is seeking to enjoin the GAB and BIR from enforcing the provision of the

²⁴ Id. at 21-22.
²⁵ Id. at 25-26.
²⁶ Id. at 29-54.
²⁷ Id. at 37.
²⁸ Id. at 43.
²⁹ Id. at 44.
³⁰ Id. at 200-209.
³¹ Id. at 201.
³² Id. at 205.
³³ 487 Phil. 335 (2004).

TRAIN Law and instead apply the lower rate under their respective franchises. This assertion of Klub Don Juan is a violation of Section 218 of the NIRC which provides the following proscription:

Section 218. Injunction not Available to Restrain Collection of Tax. - No court shall have the authority to grant an injunction to restrain the collection of **any national internal revenue tax**, fee or charge imposed by this Code. (Emphasis supplied)

Under Section 21(f)³⁴ of the NIRC, documentary stamp taxes form part of the national internal revenue taxes. As early as 1915 in the old case of *Churchill v. Rafferty*,³⁵ the Court has already prohibited the issuance of injunction against the collection of internal revenue taxes based on the lifeblood theory. Hence, the RTC was correct in dismissing the case for lack of jurisdiction.

Here, the CA reinstated the main action and treated the same as an action for declaratory relief to which the RTC has exclusive jurisdiction of.

However, whether the complaint filed by Klub Don Juan should be treated as an action for declaratory relief and not injunction is of no moment. Since the issue in this case is the validity of the provision of the TRAIN Law on the higher DST rate, the RTC is still devoid of jurisdiction because in *Banco de Oro v. Republic of the Philippines*,³⁶ the Court settled the question of which court has the jurisdiction to determine the constitutionality or validity of tax laws, rules and regulations, and other administrative issuances of the BIR. The case *Banco De Oro* made it clear that the Court of Tax Appeals (CTA) not only has jurisdiction to pass upon the constitutionality or validity of a tax law or regulation when raised by the taxpayer as a defense in disputing or contesting an assessment or claiming a refund, but also, the CTA has jurisdiction on cases directly challenging the constitutionality or validity of a tax law, or regulation or administrative issuance such as revenue orders, revenue memorandum circulars, revenue regulations and rulings. The case of *Banco De Oro* intends the CTA to have exclusive jurisdiction to resolve all tax problems except in cases questioning the legality or validity of assessment of local taxes where the RTC has jurisdiction.³⁷

³⁴ Section 21. Sources of Revenue. – The following taxes, fees and charges are deemed to be national internal revenue taxes:
 (a) Income tax;
 (b) Estate and donor's taxes;
 (c) Value-added tax;
 (d) Other percentage taxes;
 (e) Excise taxes;
 (f) **Documentary stamp taxes**; and
 (g) Such other taxes as are or hereafter may be imposed and collected by the Bureau of Internal Revenue.

³⁵ 32 Phil. 580 (1915).

³⁶ 793 Phil. 97 (2016).

³⁷ *National Power Corp. v. Municipal Government of Navotas*, 747 Phil. 744 (2014).

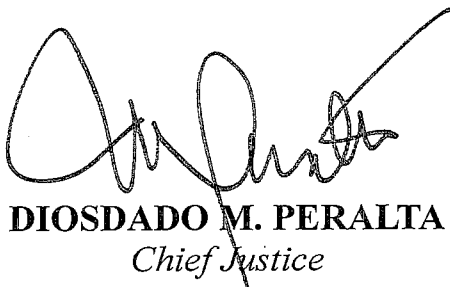


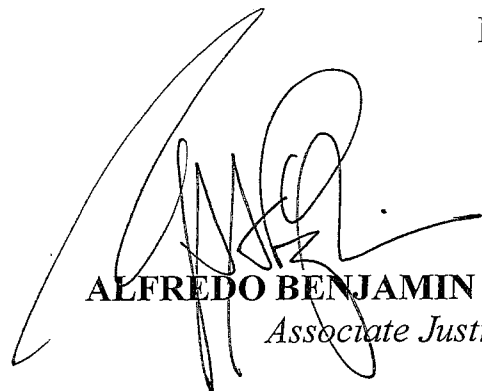
WHEREFORE, the Court **GRANTS** the Petition for Review on *Certiorari*; **ANNULS** and **SETS ASIDE** the Decision dated February 28, 2019 and the Resolution dated November 11, 2019 of the Court of Appeals in CA-G.R. SP No. 158302; and **REINSTATES** the Orders dated July 25, 2018 and September 18, 2018 of the Regional Trial Court of Mandaluyong City, Branch 213.

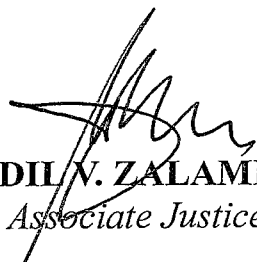
SO ORDERED.

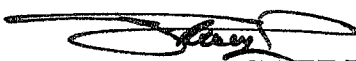

ROSMARID. CARANDANG
Associate Justice

WE CONCUR:


DIOSDADO M. PERALTA
Chief Justice

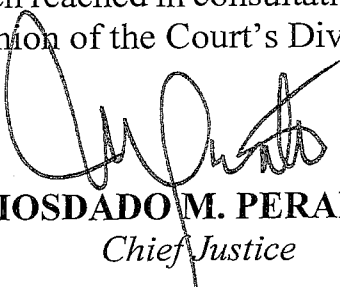

ALFREDO BENJAMIN S. CAGUIOA
Associate Justice


RODIL N. ZALAMEDA
Associate Justice


SAMUEL H. GAERLAN
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


DIOSDADO M. PERALTA
Chief Justice