Mactan Cebu International Airport Authority v. Hon. Ferdinand J. Marcos, G.R. No. 120082, 11 September 1996

FACTS:
Petitioner: Mactan Cebu International Airport Authority

The Mactan-Cebu International Airport Authority (MCIAA) was created under Republic Act No. 6958 to principally undertake the economical, efficient, and effective control, management, and supervision of the Mactan International Airport, the Lahug Airport in Cebu City, and other airports that may be established in Cebu. Its charter mandates it to promote international and domestic air traffic, enhance regional trade and tourism, and upgrade airport facilities to internationally acceptable standards. Under Section 14 of RA 6958, MCIAA was expressly granted exemption from real property taxes imposed by the national government or its political subdivisions.

On October 11, 1994, the City Treasurer of Cebu demanded payment of ₱2,229,078.79 in real property taxes covering several parcels of land owned by MCIAA in Lahug, Cebu City. MCIAA objected, asserting that it was exempt from real property taxes pursuant to Section 14 of its charter and further claiming that it is an instrumentality of the national government performing governmental functions. MCIAA relied on Section 133(o) of the Local Government Code (RA 7160), which prohibits local government units from taxing the national government, its agencies, and instrumentalities.

The City of Cebu, however, refused to cancel the tax assessment, arguing that MCIAA is a government-owned or controlled corporation (GOCC) performing proprietary functions. As such, its tax exemptions were allegedly withdrawn by Sections 193 and 234 of RA 7160, which took effect on January 1, 1992, and which expressly revoked tax exemptions previously enjoyed by GOCCs unless otherwise provided in the Code.

To prevent the issuance of a warrant of levy, MCIAA paid the assessed taxes under protest and subsequently filed a Petition for Declaratory Relief before the Regional Trial Court of Cebu, docketed as Civil Case No. CEB-16900. MCIAA maintained that despite being a government-owned corporation, it should be treated as an instrumentality of the national government, given the nature of its powers and functions.

In its Decision dated March 22, 1995, the RTC dismissed the petition, holding that the Local Government Code of 1991 expressly withdrew tax exemptions previously granted to government-owned or controlled corporations. The court ruled that the tax exemption under RA 6958 was repealed by implication due to the repealing clause in Section 534(f) of RA 7160, which abrogated all laws inconsistent with the Code. Emphasizing the policy of local autonomy and fiscal decentralization, the RTC concluded that MCIAA is liable for real property taxes on its properties effective January 1, 1992 onward.

ISSUE:
Whether the MACIAA is liable to pay real property taxes to the City of Cebu

RULING:
The Supreme Court DENIED the petition and AFFIRMED the RTC ruling holding that the Mactan-Cebu International Airport Authority (MCIAA) is liable for real property taxes imposed by the City of Cebu.

Ruling and Ratio Decidendi

The Court ruled that although MCIAA was originally granted tax exemption under Section 14 of RA 6958, such exemption was validly withdrawn by the Local Government Code of 1991 (RA 7160), particularly Sections 193 and 234, which expressly revoked tax exemptions previously enjoyed by government-owned or controlled corporations (GOCCs) unless specifically retained.

While local government units generally have no power to tax the National Government, its agencies, or instrumentalities under Section 133(o) of the LGC, this limitation does not operate in isolation. It must be read together with Sections 232 and 234, which authorize the levy of real property tax and enumerate exclusive exemptions therefrom.

The Court emphasized that:

- Section 133(o) lays down a general limitation,
- Section 232 grants LGUs the power to levy real property tax, and
- Section 234 strictly enumerates which properties remain exempt.
- Since MCIAA's properties do not fall under any of the exemptions in Section 234, its claim of immunity under Section 133(o) cannot prevail.
- Instrumentality Argument Rejected

MCIAA's reliance on Basco v. PAGCOR was found misplaced. That case was decided prior to the enactment of the LGC, and Congress has the authority to subject even government instrumentalities to taxation if it so provides. The Court clarified that:

The terms "National Government" and "Republic of the Philippines" are not interchangeable.

While Section 133(o) refers to agencies and instrumentalities, Section 234(a) deliberately limits exemption to real property owned by the Republic or its political subdivisions, excluding GOCCs and instrumentalities unless expressly included.

The omission of GOCCs and instrumentalities from Section 234(a) was intentional, reflecting a legislative policy to narrow tax exemptions and strengthen local fiscal autonomy.

- Ownership and Taxable Status

The Court further held that:
The lands in question were transferred in ownership to MCIAA under Section 15 of RA 6958, not merely for beneficial use.

MCIAA is therefore the owner of the properties, making Section 234(a) inapplicable.

MCIAA is a taxable person, as shown by the fact that it was exempted only from real property tax, implying liability for other taxes.

Even assuming MCIAA were an instrumentality of government, the withdrawal clause in the last paragraph of Section 234 applies to it.

Doctrine Applied

- Taxation is the rule; exemption is the exception
- Tax exemptions are strictly construed against the taxpayer
- Congress may validly withdraw tax exemptions, even of government entities, to fulfill constitutional policies of local autonomy and revenue generation
- SUPREMACY
  - Tax exemptions granted under RA 6958 are subordinate to the later enactment of RA 7160 (LGC).
  - Congress' intent to limit exemptions and expand local taxing authority must prevail.
  - Even instrumentalities performing governmental functions may be subjected to tax when Congress so provides.

Philippine Health Care Providers, Inc. Vs. CIR, G.R. No. 167330, 18 September 2009

FACTS:
Philippine Health Care Providers, Inc. (PHILCARE) is a domestic corporation operating as a Health Maintenance Organization (HMO). Its primary business is to provide prepaid health care services—preventive, diagnostic, and curative medical services—to its members in exchange for annual membership fees. Services are delivered through hospitals, clinics, and physicians owned by or affiliated with PHILCARE.

In January 2000, the Commissioner of Internal Revenue (CIR) assessed PHILCARE deficiency Documentary Stamp Tax (DST) for taxable years 1996 and 1997, amounting to over ₱224 million, on the theory that PHILCARE's health care agreements are insurance contracts taxable under Section 185 of the 1997 National Internal Revenue Code (NIRC).

PHILCARE protested, arguing that:

- It is not an insurance company, but an HMO providing services;
- Its health care agreements are not insurance contracts subject to DST.

The Court of Tax Appeals (CTA) cancelled the DST assessment. On appeal, the Court of Appeals (CA) reversed, holding that the agreements were non-life insurance contracts subject to DST. The Supreme Court initially affirmed the CA but, upon motion for reconsideration, reversed itself and ruled in favor of PHILCARE.

ISSUE:
Whether PHILCARE's health care agreements are insurance contracts subject to Documentary Stamp Tax under Section 185 of the NIRC, considering:

- the nature of HMOs, and
- the characteristics and limits of the taxing power.

RULING:
The Supreme Court granted the motion for reconsideration, reversed and set aside the decision of the Court of Appeals, and cancelled the documentary stamp tax (DST) assessments against PHILCARE. The Court held that health maintenance organizations

(HMOs) are not engaged in the insurance business, and that health care agreements are not insurance contracts subject to DST under Section 185 of the National Internal Revenue Code.

Applying the principal purpose test, the Court ruled that the primary object of PHILCARE is the delivery of health care services, not the assumption and distribution of insurance risk. Any risk assumed by PHILCARE is merely incidental to its main purpose of providing medical services. Unlike insurance contracts, PHILCARE members do not incur liabilities requiring indemnification; instead, PHILCARE directly pays health care providers, whereas insurance involves reimbursement to the insured. Consequently, PHILCARE does not fall within entities “transacting the business of insurance” contemplated under Section 185 of the NIRC.

The Court further held that health care agreements do not satisfy the requisites for DST liability, which requires that the document be a policy of insurance or an obligation in the nature of indemnity, and that the issuer be engaged in the insurance business. PHILCARE satisfies neither requirement. Consistent with the principle that tax laws are strictly construed against the State and liberally in favor of the taxpayer, DST cannot be imposed by implication. The Court noted that although HMOs were already known when tax laws were amended, Congress never expressly included health care agreements among DST-taxable instruments, indicating the absence of legislative intent to tax them.

The Court emphasized that the DST provision dates back to 1904, long before HMOs existed in the Philippines, and despite several amendments to tax laws, Congress never amended Section 185 to include HMOs. This legislative silence clearly demonstrates that there was no intent to subject HMOs to DST.

From a constitutional and policy standpoint, the Court stressed that while taxation is an inherent, supreme, and plenary power, it is not a power to destroy. Imposing DST assessments amounting to hundreds of millions of pesos would cripple HMOs financially, lead to increased health care costs, and undermine the constitutional mandate under Article II, Section 15 and Article XIII, Section 11 to make health services accessible and affordable, especially to the underprivileged. Thus, taxation must be exercised with fairness, restraint, and sensitivity to public welfare.

Finally, the Court ruled that even assuming DST liability, PHILCARE’s alleged tax obligation for taxable years 1996 and 1997 was already extinguished when it validly availed of the Tax Amnesty Act of 2007 (RA 9480), which expressly covered DST liabilities.

Sison vs. Ancheta, G.R. No. L-59431, 25 July 1984

FACTS:
Petitioner Antero M. Sison, Jr., a professional taxpayer, filed a petition for declaratory relief and prohibition challenging the constitutionality of Section 1 of Batas Pambansa Blg. 135, which amended Section 21 of the National Internal Revenue Code of 1977. The law prescribed different tax rates on various types of income, including taxable compensation income and taxable net income from business or profession.

Sison alleged that the law discriminated against professionals and businessmen by imposing higher tax rates on income derived from business or profession compared to compensation income earned by salaried employees. He claimed that this classification violated the equal protection clause, due process clause, and the constitutional requirement of uniformity and equity in taxation, characterizing the law as arbitrary, oppressive, and amounting to class

legislation.

The respondents, through the Solicitor General, asserted that BP Blg. 135 was a valid exercise of the State's power to tax, and that petitioner failed to establish any constitutional infirmity.

ISSUES:
Whether the law violates the constitutional requirement of uniformity and equity in taxation.

RULING:
The Supreme Court DISMISSED the petition and upheld the constitutionality of BP Blg. 135.

The Court ruled that taxation is an inherent and sovereign power of the State, described as the strongest of all governmental powers, and is indispensable to meet the increasing demands of public welfare, since taxes are the lifeblood of the government. While the power to tax is plenary, comprehensive, and supreme, it is not absolute and remains subject to constitutional limitations such as due process, equal protection, and uniformity.

The Court held that the petitioner failed to establish arbitrariness. Mere allegations of discrimination are insufficient to overcome the presumption of constitutionality accorded to tax laws. A taxing statute violates due process only when it is so arbitrary as to amount to confiscation of property, or when it is imposed without public purpose or jurisdiction—none of which was shown in this case.

On the issue of equal protection, the Court ruled that classification in taxation is permissible so long as it rests on substantial distinctions, applies equally to all members of the same class, and is germane to the purpose of the law. The distinction between compensation income earners and professionals or businessmen was found to be reasonable and justified, considering that compensation earners generally incur no deductible expenses, while professionals and businessmen have varying and non-uniform business expenses.

With respect to uniformity in taxation, the Court held that uniformity does not require absolute equality. The constitutional requirement is satisfied when the tax operates uniformly on all subjects within the same class. The tax imposed by BP Blg. 135 applied equally to all taxpayers similarly situated, and the differentiation conformed to practical justice and equity.

The Court further clarified that the petitioner confused tax rate with tax base, stressing that the legislature has discretion to adopt different taxation systems—such as gross income taxation for compensation earners and net income taxation for professionals and businessmen—provided the classification is reasonable.

Tio v. Videogram Regulatory Board, G.R. No. L-75697, 18 June 1987

FACTS:
Petitioner Valentin Tio, doing business under the name and style of OMI Enterprises, filed a petition on September 1, 1986 challenging the constitutionality of Presidential Decree No. 1987, which created the Videogram Regulatory Board (VRB) with broad powers to regulate and supervise the videogram industry. The decree was promulgated on October 5, 1985 and took effect on April 10, 1986 after publication.

Section 10 of PD No. 1987 imposed a 30% tax on the gross receipts from the sale, lease, or disposition of videograms, collectible by local governments. Fifty percent (50%) of the tax

would accrue to the province and the remaining fifty percent (50%) to the municipality, with special sharing arrangements in Metropolitan Manila.

The decree was enacted in response to the unregulated proliferation of videograms, which allegedly caused a sharp decline in movie theater attendance, losses in government tax revenues, rampant film piracy, and the circulation of obscene materials. Videogram establishments reportedly earned around ₱600 million annually without being subjected to proper taxation.

Petitioner claimed that the tax provision was unconstitutional for being a rider, oppressive, confiscatory, and an unlawful restraint of trade, among other grounds.

ISSUES:

- Whether the 30% tax imposed under Section 10 of PD No. 1987 is unconstitutional for being a rider and not germane to the title of the decree.
- Whether the 30% tax is harsh, oppressive, confiscatory, and violative of due process.

RULINGS:
The Supreme Court **dismissed the petition** and **upheld the constitutionality of Presidential Decree No. 1987**, including the **30% tax on videograms**.

The Court ruled that the tax provision was germane to the purpose of the decree, which was to regulate the videogram industry, and that taxation constituted a legitimate regulatory tool to control unregulated distribution. The title of the decree was sufficiently comprehensive to cover the imposition of taxes as part of its regulatory scheme. Furthermore, the Court emphasized that a tax does not become invalid simply because it regulates, discourages, or deters an activity; the 30% tax functioned both as a revenue measure and as a regulatory measure aimed at addressing tax leakage, film piracy, and declining government revenues.

The tax was uniformly imposed on all videogram operators, operated as an end-user tax similar to the amusement tax on movie theaters, and served a public purpose, including regulation of the industry and revenue generation. The Court stressed that the rate of taxation is a legislative prerogative, and courts will not interfere absent a clear constitutional violation. The levy also satisfied the public purpose requirement by regulating the videogram industry, preventing film piracy, protecting intellectual property rights, and generating government revenue, and its incidental benefit to the movie industry did not invalidate it.

The Court laid down several doctrines regarding taxation, noting that taxation may be used as an implement of police power, that the legislature enjoys wide discretion in taxation, that regulatory taxes are not invalid per se, that a tax fulfills the public purpose requirement even if it benefits a particular industry, and that singling out a class or industry for taxation does not violate constitutional guarantees if applied uniformly. Finding no clear constitutional violation, the Court concluded that the petitioner failed to overcome the presumption of validity of the decree and thus **dismissed the petition**.

Tolentino v. Secretary of Finance, G.R. No. 115455 25 August 1994

FACTS:

The value-added tax (VAT) is levied on the sale, barter or exchange of goods and properties as well as on the sale or exchange of services. RA 7716 seeks to widen the tax base of the existing VAT system and enhance its administration by amending the National Internal Revenue Code. There are various suits challenging the constitutionality of RA 7716 on various grounds.

One contention is that RA 7716 did not originate exclusively in the House of Representatives as required by Art. VI, Sec. 24 of the Constitution, because it is in fact the result of the consolidation of 2 distinct bills, H. No. 11197 and S. No. 1630. There is also a contention that S. No. 1630 did not pass 3 readings as required by the Constitution.

ISSUES:

Whether or not RA 7716 violates Art. VI, Secs. 24 and 26(2) of the Constitution.

Art. VI, Section 24: All appropriation, revenue or tariff bills, bills authorizing increase of the public debt, bills of local application, and private bills shall originate exclusively in the House of Representatives, but the Senate may propose or concur with amendments.

Art. VI, Section 26(2): No bill passed by either House shall become a law unless it has passed three readings on separate days, and printed copies thereof in its final form have been distributed to its Members three days before its passage, except when the President certifies to the necessity of its immediate enactment to meet a public calamity or emergency. Upon the last reading of a bill, no amendment thereto shall be allowed, and the vote thereon shall be taken immediately thereafter, and the yeas and nays entered in the Journal.

RULINGS:

The argument that RA 7716 did not originate exclusively in theHouse of Representatives as required by Art. VI, Sec. 24 of the Constitution will not bear analysis. To begin with, it is not the law but the revenue bill which is required by the Constitution to originate exclusively in the House of Representatives. To insist that a revenue statute and not only the bill which initiated the legislative process culminating in the enactment of the law must substantially be the same as the House billwould be to deny the Senate's power not only to concur with amendmentsbut also to propose amendments. Indeed, what the Constitution simply means is that the initiative for filing revenue, tariff or tax bills, bills authorizing an increase of the public debt, private bills and bills of localapplication must come from the House of Representatives on the theory that, elected as they are from the districts, the members of the House can be expected to be more sensitive to the local needs and problems. Nor does the Constitution prohibit the filing in the Senate of a substitute bill in anticipation of its receipt of the bill from the House, so long as action by the Senate as a body is withheld pending receipt of the House bill.

The next argument of the petitioners was that S. No. 1630 did not pass 3 readings on separate days as required by the Constitution because the second and third readings were done on the same day. But this was because the President had certified S. No. 1630 as urgent. The presidential certification dispensed with the requirement not only of printing but also that of reading the bill on separate days. That upon the certification of a bill by the President the requirement of 3 readings on separate days and of printing and distribution can be dispensed with is supported by the weight of legislative practice.

Antonio Roxas v. Court Of Tax Appeals, G.R. No. L-25043, 26 April 1968

FACTS:

Antonio, Eduardo, and Jose Roxas, as heirs of Don Pedro Roxas and Dona Carmen Ayala, inherited large agricultural lands in Nasugbu, Batangas, a residential house in Malate, Manila,

and various corporate shares. They formed a partnership, Roxas y Cia, to manage these properties. After World War II, the tenants of the Nasugbu lands wished to purchase the land they tilled. In line with the government's land reform policy, Roxas y Cia. sold 13,500 hectares to the tenants through installment payments, with proceeds arranged to repay a loan advanced by the Rehabilitation Finance Corporation. The partnership also earned rental income from the inherited residential house and gains from installment sales of the lands. The Commissioner of Internal Revenue (CIR) assessed Roxas y Cia. for real estate dealer's tax on rental income, dealer's tax on securities, and deficiency income taxes for 1953 and 1955, arguing that the partnership's gains from land sales were ordinary income and disallowing various deductions for business expenses and charitable contributions. The Roxas brothers protested and appealed to the Court of Tax Appeals (CTA), which partially upheld the CIR's assessment. Dissatisfied, they elevated the case to the Supreme Court.

ISSUES:
Whether the gain from the sale of the Nasugbu farm lands should be treated as ordinary income, taxable 100%, or as capital gains taxable only 50%.

Whether the claimed deductions for business expenses and charitable contributions were allowable under the Tax Code.

Whether Roxas y Cia. was liable for the fixed real estate dealer's tax on rental income from the residential house.

RULINGS:
The Supreme Court **partially modified the CTA decision**. It ruled that the sale of Nasugbu lands to tenant-farmers, done under the government's land reform policy and financed by installments to aid the farmers, was **not an ordinary business transaction**. Therefore, the gains were **capital gains**, taxable only to the extent of **50%**, in accordance with **Section 34 of the Tax Code**. On the deductions, the Court upheld the disallowance of expenses not shown to be ordinary, necessary, or connected with business operations (e.g., representation expenses), and disallowed contributions that were not exclusively for public purposes, but allowed contributions to bona fide government entities (e.g., Manila Police Trust Fund) and charitable associations. Regarding the **fixed real estate dealer's tax**, the Court affirmed liability under **Section 194 of the Tax Code**, as the law clearly included rental income from any person, including partners. The Court emphasized the doctrine that the **power to tax is sometimes called the power to destroy** and must be exercised **fairly, uniformly, and justly**, avoiding penalization of taxpayers acting in good faith or in service of public interest. Accordingly, Roxas y Cia. was ordered to pay **P150** for the real estate dealer's tax (1952), and the Roxas brothers were ordered to pay their respective **deficiency income taxes for 1955**: Antonio P109, Eduardo P91, and Jose P49.

Commissioner Of Internal Revenue v. Algue, Inc., and The Court Of Tax Appeals, G.R. No. L-28896, 17 February 1988

FACTS:
Algue, Inc., a domestic corporation engaged in engineering and construction, received a **notice of assessment** from the Commissioner of Internal Revenue (CIR) for delinquent income taxes for 1958 and 1959, totaling P83,183.85. Algue timely filed a **letter of protest** against the assessment, but due to procedural mishandling, the protest was not considered immediately, and a **warrant of distraint and levy** was prematurely issued. The substantive dispute involved Algue claiming a **P75,000 deduction** as legitimate business expenses,

specifically promotional fees paid to individuals who assisted in forming the Vegetable Oil Investment Corporation and facilitating its acquisition of the Philippine Sugar Estate Development Company's properties. The CIR disallowed the deduction, asserting that the payments were not ordinary, necessary, or reasonable business expenses and suggesting they were a disguised distribution to related parties.

ISSUES:
Whether Algue's appeal to the Court of Tax Appeals was filed timely and in accordance with law.

Whether the P75,000 claimed as promotional fees constituted ordinary, necessary, and reasonable business expenses deductible under Section 30(a) of the Tax Code.

RULING:
The Supreme Court **affirmed the Court of Tax Appeals**. It held that Algue's appeal was **timely**, as the filing of the protest effectively suspended the period for appeal until the company was notified that the protest had been deemed denied. Substantively, the Court ruled that the P75,000 payment was a **legitimate business expense**, made as compensation for actual services rendered in promoting and facilitating a corporate transaction. The Court emphasized that the burden of proof lies on the taxpayer to show the validity of deductions, which Algue successfully discharged. The promotional fees were **reasonable in proportion to the total commission earned**, and were not disguised dividends, even if informal payment procedures were used within the family-controlled corporation. Consequently, the deduction was allowed, reinforcing that **taxation must be reasonable, lawful, and considerate of the taxpayer's circumstances**, in line with the principle that taxes, while essential, should be levied fairly and not arbitrarily.

Doctrines and Taxation Principles Applied

- Burden of proof: Taxpayers must prove the legitimacy of deductions claimed.
- Ordinary and necessary expenses: Only expenses reasonable and directly connected with trade or business are deductible.
- Procedural fairness: Appeals and protests must be considered properly; premature enforcement does not preclude legal remedies.
- Taxation as a tool for the common good: While taxes are indispensable, their exercise must reconcile government needs with taxpayer rights, avoiding arbitrary or unfair exactions.

Commissioner Of Internal Revenue v. Pilipinas Shell Petroleum Corporation, G.R. No. 197945, 09 July 2018

FACTS:
Pilipinas Shell Petroleum Corporation (Shell), a domestic corporation, received **1998 and 2002 Collection Letters** from the Bureau of Internal Revenue (BIR) seeking payment of alleged excise tax deficiencies covering 1992–1997. These deficiencies arose from Shell's use of **Tax Credit Certificates (TCCs)** originally issued to BOI-registered export entities and subsequently assigned to Shell to settle its excise tax liabilities. The BIR invalidated the TCCs based on post-audit findings and claimed Shell had unpaid taxes, issuing warrants of distraint and/or levy. Shell protested, asserting the TCCs were validly transferred, it was a transferee in good faith for value, it did not commit any fraud, and the BIR's collection letters violated its

right to due process. Earlier cases—**2007 Shell Case** and **2010 Petron Case**—had already affirmed the validity of the TCCs, the transferee status of Shell and Petron, and the legality of using the TCCs to settle excise tax liabilities.

ISSUES:

1. Whether the CIR could validly collect alleged excise tax deficiencies from Shell using the 1998 and 2002 Collection Letters without a prior valid assessment.

2. Whether Shell's use of the TCCs was lawful and whether it was liable for excise tax deficiencies, surcharges, and interest.

3. Whether the issues concerning TCC validity, transferee status, and excise tax payment could be relitigated despite the finality of the 2007 Shell Case and 2010 Petron Case.

RULING:
The Supreme Court dismissed the petitions and ruled in favor of Shell. The Court held that:

The validity of the TCCs and Shell's status as a transferee in good faith and for value were already conclusively settled in the 2007 Shell Case and 2010 Petron Case; re-litigation was barred under the doctrine of res judicata (conclusiveness of judgment).

The CIR could not collect taxes via the 1998 and 2002 Collection Letters without a prior valid assessment, which is required under the Tax Code and Revenue Regulations to afford taxpayers due process. Summary administrative remedies like distraint or levy cannot bypass due process.

The period to collect the alleged deficiencies had prescribed under Sections 318 and 319 of the 1977 Tax Code, further barring collection.

The Court emphasized taxation principles: while taxes are the lifeblood of government, their collection must comply with law, respect taxpayer rights, and uphold due process. Administrative collection without assessment or in violation of procedural safeguards is invalid, even if intended to enforce tax compliance.

Doctrines and Taxation Principles Applied

- Res judicata (conclusiveness of judgment): Issues finally settled in prior cases cannot be relitigated.
- Due process in tax collection: No deprivation of property without prior valid assessment and opportunity to contest.
- Prescription and limitations: Government must act within statutory periods to assess and collect taxes.
- Innocent transferee protection: A taxpayer who receives and uses TCCs in good faith for value cannot be prejudiced by fraud of the original issuer.
- Taxes as lifeblood: Collection is essential but must be executed reasonably and lawfully.

Commissioner Of Internal Revenue v. Dash Engineering Philippines, G.R. No. 184145, 11 December 2013

FACTS:
Dash Engineering Philippines, Inc. (DEPI), a VAT-registered corporation engaged in export sales of computer-aided engineering and design, filed monthly and quarterly VAT returns for the period January 1 to June 30, 2003. On August 9, 2004, it submitted a claim for refund or issuance of tax credit certificates in the amount of P2,149,684.88 representing unutilized input VAT attributable to its zero-rated sales. The Commissioner of Internal Revenue (CIR) failed to act on the claim, prompting DEPI to file a petition for review with the Court of Tax Appeals (CTA) on May 5, 2005. The CTA En Banc initially ruled in favor of DEPI, finding that the judicial claim was timely filed within the two-year prescriptive period under Section 112(A) of the National Internal Revenue Code (NIRC). The CIR questioned the timeliness of the filing and argued that DEPI failed to substantiate the input VAT claim with sufficient documentation.

ISSUES:
Whether DEPI's judicial claim for refund was filed within the period required under Section 112(D) of the NIRC, which provides a 120-day period for the CIR to act and a subsequent 30-day period to file with the CTA.

Whether DEPI sufficiently substantiated its claim for refund of input VAT attributable to zero-rated sales.

RULING:
The Supreme Court ruled in favor of the CIR, reversing the CTA En Banc decision. It held that DEPI's judicial claim was filed late, as the 30-day period to appeal to the CTA after the 120-day lapse expired on January 6, 2005, while DEPI filed its petition only on May 5, 2005. Consequently, the CTA lacked jurisdiction to entertain the claim. The Court emphasized that compliance with the 120+30-day period under Section 112(D) is mandatory and jurisdictional, even if the taxpayer filed its administrative claim within the two-year period under Section 112(A). The Court relied on prior doctrines, including the "deemed denial" rule, which treats the CIR's inaction after 120 days as denial of the claim, triggering the 30-day period to file judicial review, and the principle that tax laws must be strictly observed because taxes are the lifeblood of government. The Court also clarified that while the two-year prescriptive period applies to administrative claims, it does not excuse non-compliance with the 30-day period for judicial filing. As a result, DEPI's claim for refund or tax credit was denied.

Philippine Guaranty Co., Inc. v. Commissioner Of Internal Revenue, G.R. No. L-22074, 30 April 1965

FACTS:
The Philippine Guaranty Co., Inc., a domestic insurance company, entered into reinsurance contracts with foreign insurance companies not doing business in the Philippines, such as Swiss Reinsurance Company and others, ceding portions of premiums from insurance originally underwritten in the Philippines. These contracts were signed in Manila or abroad, with the Swiss Reinsurance Company contract executed in Switzerland but expressly governed by Philippine law. The reinsurance contracts required that Philippine Guaranty maintain a register in Manila recording the ceded risks, and a proportionate share of taxes on premiums not recovered from the original assured would be paid by the foreign reinsurers. In 1953 and 1954, Philippine Guaranty excluded the ceded premiums from its gross income and

did not withhold or pay the corresponding withholding taxes. The Commissioner of Internal Revenue subsequently assessed withholding taxes on these premiums, which Philippine Guaranty protested, arguing that the premiums ceded to foreign reinsurers not doing business in the Philippines were not subject to Philippine withholding tax. The protest was denied, and the case was elevated to the Court of Tax Appeals, which ruled against Philippine Guaranty, ordering payment of withholding taxes with penalties. Philippine Guaranty then appealed to the Supreme Court.

ISSUES:
Whether the reinsurance premiums ceded by Philippine Guaranty to foreign reinsurers not doing business in the Philippines constitute income from sources within the Philippines and are therefore subject to withholding tax under Sections 53 and 54 of the Tax Code.

Whether the withholding tax should be computed based on the total premiums ceded or only on the amounts actually remitted to the foreign reinsurers.

RULING:
The Supreme Court affirmed the Court of Tax Appeals' decision, holding that the reinsurance premiums were indeed subject to Philippine withholding tax. The Court ruled that the premiums were income derived from sources within the Philippines because the activities creating the income—assumption of liability by the foreign reinsurers, maintenance of the Manila register, and administration of affairs by Philippine Guaranty—occurred in the Philippines. The Court emphasized that it is the place of activity, not the place of business, that determines the source of income under Section 24 of the Tax Code. The Court also clarified that Section 37 is not exhaustive, and other income generated from Philippine-sourced activities may also be subject to taxation. Furthermore, the withholding tax is computed on the total ceded premiums, not merely on the amounts actually remitted to foreign reinsurers, as Sections 53 and 54 provide no deductions for such payments. Consequently, Philippine Guaranty was ordered to pay withholding taxes for 1953 and 1954 totaling P375,345, plus applicable surcharges and interest if unpaid.

Doctrine:

- Source of income principle: For purposes of taxation, the source of income is determined by the location of the activity generating the income, not by the place of business of the foreign entity.
- Power to tax as attribute of sovereignty: Foreign entities enjoying rights and privileges under Philippine law must contribute to the state through taxation on income generated from activities within the Philippines.
- Strict compliance with withholding tax provisions: Sections 53 and 54 of the Tax Code require withholding at source, and no deduction is allowed in computing the withholding tax on the income enumerated.
- Non-derogation by reliance on erroneous rulings: A taxpayer's reliance on prior rulings of the Commissioner does not relieve it of the statutory obligation to pay taxes.

Batangas City v. Pilipinas Shell Petroleum Corporation, G.R. No. 187631, 8 July 2015

FACTS:
Batangas City, through its City Treasurer and City Legal Officer, assessed Pilipinas Shell Petroleum Corporation (PSPC) for local business taxes on its manufacture and distribution of

petroleum products, including Mayor's Permit fees, totaling hundreds of millions of pesos. PSPC filed protests, contending that it was not liable for the taxes or fees, claiming them to be excessive, unreasonable, and contrary to law and national policy. The Regional Trial Court (RTC) initially upheld the imposition of business taxes but found the Mayor's Permit fees excessive. PSPC elevated the case to the Court of Tax Appeals (CTA), which granted partial relief: the CTA Second Division ruled that PSPC was not liable for the business taxes on petroleum products and ordered the refund of excessive Mayor's Permit fees. The CTA En Banc affirmed the decision in toto, rejecting Batangas City's petition for review.

ISSUES:
Whether a local government unit (LGU) may impose business taxes on entities engaged in the manufacture and distribution of petroleum products under Sections 133(h) and 143 of the Local Government Code (LGC) of 1991.

Whether the Mayor's Permit fees assessed on PSPC were lawful or constituted an excessive and unreasonable levy.

RULINGS:
The Supreme Court affirmed the decision of the CTA En Banc, ruling that LGUs, including Batangas City, are prohibited from imposing business taxes on petroleum products under Section 133(h) of the LGC, which explicitly excludes petroleum products from the taxing power granted under Section 143(h). The Court emphasized that while LGUs have authority to levy taxes, such power is delegated and limited by law, and specific provisions (Section 133[h]) prevail over general grants of taxing power (Section 143[h]). As such, PSPC was not liable for local business taxes on the manufacture and distribution of petroleum products. The Court also affirmed the refund of excessive Mayor's Permit fees totaling ₱3,870,860.00.

Doctrine:

- Specific over general rule (specificia generalibus non derogant): When a general grant of taxing power conflicts with a specific statutory limitation, the specific provision prevails.
- Limited taxing power of LGUs: Unlike the State, LGUs do not have inherent taxing power; their authority is delegated by Congress and must be exercised strictly within statutory limits.
- Prohibition on double taxation: Section 133(h) ensures petroleum products, already subject to national excise taxation, are shielded from additional local business taxes.
- Reasonableness and equity in taxation: Mayors' Permit fees and other local taxes must not be excessive, confiscatory, or unreasonable as per the principles under Section 130 of the LGC.

Film Development Council of The Philippines v. Colon Heritage Realty Corporation, G.R. No. 203754, 16 June 2015

FACTS:
The City of Cebu, in 1993, enacted City Ordinance No. LXIX, imposing an amusement tax of 30% on gross receipts from admission fees in theaters, cinemas, and other places of amusement, which was to accrue exclusively to the city treasury under Sections 42 and 43 of the Ordinance and Sections 140 and 151 of the Local Government Code (LGC). In 2002, Congress enacted Republic Act No. 9167, creating the Film Development Council of the Philippines (FDCP) and providing, in Sections 13 and 14, that amusement taxes collected on

"graded" films (Grade A or B) would be deducted and remitted to FDCP to be given as rewards to producers of such films. FDCP attempted to enforce this provision against cinema proprietors in Cebu City, including Colon Heritage Realty Corp. and SM Prime Holdings, who refused to remit the amusement taxes. The City of Cebu likewise claimed that these funds belonged to the city treasury, resulting in parallel suits before the Regional Trial Courts (RTCs), which declared Sections 13 and 14 of RA 9167 unconstitutional for violating the constitutional principle of local fiscal autonomy, and ordered the amounts already paid to FDCP to be refunded.

ISSUES:
Whether Sections 13 and 14 of RA 9167, which divert amusement taxes collected by local governments to the FDCP for redistribution to film producers, are constitutional.

Whether the diversion of LGU-collected amusement taxes to a national agency and private beneficiaries constitutes a valid exercise of legislative power or an unlawful infringement on local fiscal autonomy.

RULINGS:
The Supreme Court affirmed in part and clarified the RTC decisions. It held that Sections 13 and 14 of RA 9167 are unconstitutional insofar as they divert amusement taxes from LGUs to FDCP and film producers, as this violates Section 5, Article X of the 1987 Constitution, which grants LGUs exclusive fiscal autonomy and the right to levy and retain taxes for local purposes. The Court emphasized that amusement taxes are local taxes and must accrue to the LGU that levied them. However, the Court applied the doctrine of operative fact, ruling that amounts already collected and remitted to FDCP and distributed to producers prior to the declaration of unconstitutionality would not be refunded, recognizing the reliance of FDCP and private beneficiaries on the law before it was invalidated.

Doctrine:

Local fiscal autonomy: LGUs have the constitutionally-protected power to levy, collect, and retain taxes; Congress cannot reallocate these revenues to national agencies or private entities without violating Section 5, Article X of the Constitution.

Limited delegation of taxing power: While the legislature may grant LGUs the authority to tax, such delegation cannot be undermined by later laws diverting revenue.

Operative fact doctrine: Acts performed under a statute prior to its declaration of unconstitutionality retain legal effect, protecting private parties and agencies who relied on the law in good faith.

Distinction between tax exemptions and rewards: RA 9167's amusement tax incentive is not a tax exemption but a monetary reward funded by LGU-imposed taxes; the law cannot reassign LGU revenue without constitutional authority.

Separation of powers and constitutional limits: Congress cannot legislate in a manner that effectively confiscates LGU revenues, as such acts exceed the legislative power and contravene the Constitution's local autonomy provisions.

Saint Wealth Ltd. v. Bureau of Internal Revenue, et al., G.R. No. 252965, 254102, 10 January 2023

FACTS:
From 2016, the Philippines began regulating online gaming hubs, specifically the Philippine Offshore Gaming Operators (POGOs).

The PAGCOR issued POGO Rules and Regulations defining offshore gaming as “the offering by a licensee of PAGCOR authorized online games of chance via the internet using a network and software or program, exclusively to offshore authorized players excluding Filipinos abroad, who have registered and established an online gaming account with the licensee.”

The POGO Rules and Regulations further provides that POGOs must register with PAGCOR. Upon registration, the POGO is given an Offshore Gaming License (OGL).

Under RMC No. 102-2017, Licensees must pay a five percent (5%) franchise tax, in lieu of all other taxes, for their income arising from their gaming operations. Such franchise tax is based on their entire gross gaming revenues.

Meanwhile, for income arising from non-gaming operations, Licensees must pay normal income tax, value-added tax (VAT), and other applicable taxes.

The BIR then issued RMC No. 78-2018 or the “Registration Requirements of Philippine Offshore Gaming Operators and Its Accredited Service Providers,” which reiterated that online activity is sufficient to do business in the Philippines and considered POGOs as “Resident Foreign Corporation Engaged in Business in the Philippines,” which requires all offshore-based and Philippine-based POGO licensees to register with the BIR.

Saint Wealth, an offshore-based POGO licensee, filed a Petition for Certiorari and Prohibition [With Application for a Temporary Restraining Order and/or Writ of Preliminary Injunction] (the Saint Wealth Petition), assailing the constitutionality of RMC No. 64-2020, and praying for the issuance of a TRO and/or writ of preliminary injunction to enjoin the enforcement of the same.

According to Saint Wealth, the Revenue Memorandum Circulars violates its constitutional right to due process; the equal protection clause because Under RMC No. 64-2020, Saint Wealth, an offshore-based POGO licensee, is treated as if it is similarly situated with Philippine-based casino providers, however, there exists a reasonable classification between offshore-based POGO licensees and Philippine-based entities that justifies a difference in treatment; that considering that a reasonable classification exists between Saint Wealth, an offshore-based POGO licensee, and Philippine-based operators, the BIR should treat them differently and should not impose similar tax liabilities on these different classes of entities.

On September 22, 2021, R.A. No. 11590, entitled “An Act Taxing Philippine Offshore Gaming Operations, Amending for the Purpose Sections 22, 25, 27, 28, 106, 108, and Adding New Sections 125-A and 288-G of the National Internal Revenue Code of 1997, As Amended, And For Other Purposes,” was signed into law.

R.A. No. 11590 categorically classifies POGO licensees, whether Philippine-based or offshore-based as corporations “engaged in doing business in the Philippines” and imposes a five percent (5%) gaming tax on the income of POGOs derived from their gaming operations. Such gaming tax is based on the entire gross gaming revenue or receipts or the agreed

predetermined minimum monthly revenue, whichever is higher.

ISSUE:

Whether offshore-based POGO licensees are liable to pay a five percent (5%) franchise tax for income derived from their gaming operations.

RULING:

The instant Petition is GRANTED.

As aptly observed by Justice Perlas-Bernabe, when the PAGCOR Charter was enacted, offshore gaming was not yet in existence. Thus, the PAGCOR Charter could not have contemplated virtual gaming websites as "casinos and other related amusement places" mentioned under Section 13(2)(b) thereof. Consequently, the PAGCOR Charter cannot be said to have been the basis for imposing tax on POGO Licensees.

Simply then, when RMC No. 102-2017 was issued, there was no law imposing any franchise tax on POGOs. Thus, RMC No. 102-2017 is invalid, insofar as it imposed franchise taxes on POGOS, because it was passed without any statutory basis.

Likewise, as pointed out by Justice Caguioa, RMC No. 102-2017 is likewise invalid and unconstitutional because it effectively amended the PAGCOR Charter when it imposed taxes on entities not taxed under the law. It must be emphasized that the State's inherent power to tax is exclusively vested in Congress.

Without such imprimatur from Congress, the BIR cannot arrogate upon itself the authority to impose taxes, especially because "[t]he rule is that a tax is never presumed and there must be clear language in the law imposing the tax. Any doubt whether a person, article or activity is taxable is resolved against taxation."

Moreover, the BIR cannot enlarge or go beyond the provisions of the law it administers.

As held in Purisima v. Lazatin:

RR 2-2012 is unconstitutional.

According to the respondents, the power to enact, amend, or repeal laws belong exclusively to Congress. In passing RR 2-2012, petitioners illegally amended the law – a power solely vested on the Legislature.

We agree with the respondents.

The power of the petitioners to interpret tax laws is not absolute. The rule is that regulations may not enlarge, alter, restrict, or otherwise go beyond the provisions of the law they administer; administrators and implementors cannot engraft additional requirements not contemplated by the legislature.

It is worthy to note that RR 2-2012 does not even refer to a specific Tax Code provision it wishes to implement. While it purportedly establishes mere administration measures for the

collection of VAT and excise tax on the importation of petroleum and petroleum products, not once did it mention the pertinent chapters of the Tax Code on VAT and excise tax.

Indeed, the ruling in Purisima applies squarely in this case.

The BIR encroached upon the authority reserved exclusively for Congress when it issued RMC No. 102-2017 and imposed a five percent (5%) franchise tax upon POGOs when the PAGCOR Charter itself does not tax POGOs.

RMC No. 102-2017 likewise failed to indicate which provisions of the PAGCOR Charter it was implementing when it imposed the franchise tax. Accordingly, RMC No. 102-2017, and consequently, RMC No. 78-2018, insofar as they imposed franchise taxes on POGOS, are invalid and unconstitutional for being issued without any statutory basis and for encroaching upon legislative power to enact tax laws.

Section 11(f) and (g) of Republic Act No. 11494, Revenue Regulation No. 30-2020; Revenue Memorandum Circular No. 64-2020; Revenue Memorandum Circular No. 102-2017; and Revenue Memorandum Circular No. 78-2018, in so far as they impose franchise tax, income tax, and other applicable taxes upon offshore-based POGO licensees are declared NULL and VOID for being contrary to the Constitution and other relevant laws.

The Subic Bay Freeport Chamber Of Commerce, Inc. And Benjamin E. Antonio III v. Department Of Finance, Department Of Trade And Industry, et al., G.R. No. 266016, 04 February 2025

FACTS:

Petitioners Subic Bay Freeport Chamber of Commerce, Inc. (SBFCC) and Benjamin E. Antonio III are entities registered as freeport enterprises in the Subic Bay Freeport Zone (SBFZ), a special customs territory with statutory tax incentives and exemptions under the **Bases Conversion and Development Act of 1992 (RA 7227)**. These incentives include exemptions from national and local taxes and, under the **Corporate Recovery and Tax Incentives for Enterprises Act (CREATE Act; RA 11534)**, entitlement to **VAT zero-rating** on local purchases of goods and services directly and exclusively used in their registered project or activity.

After the CREATE Act took effect, the **Department of Finance (DOF)** and the **Department of Trade and Industry (DTI)** promulgated implementing rules (the CREATE IRR) and the Bureau of Internal Revenue (BIR) issued Revenue Regulations and Revenue Memorandum Circulars that limited the VAT zero-rating incentive on local purchases to **registered export enterprises (REEs)**—effectively excluding **registered domestic market enterprises (DMEs)** such as SBFCC from the VAT incentive despite their status as registered business enterprises in the freeport. SBFCC filed a Petition for Declaratory Relief, challenging these issuances as unconstitutional and beyond the agencies' authority.

ISSUES:

- Whether the implementing rules and related revenue issuances that limited VAT zero-rating on local purchases to REEs, excluding DMEs like SBFCC, are **valid and within the rule making authority** of the DOF, DTI, and BIR under the CREATE Act.

 Whether excluding DMEs from the VAT zero rating incentive **violates the legislative grant of tax incentives** under the CREATE Act, thereby improperly restricting the scope of tax exemptions/zero rating derived from statute.

RULING:
The Supreme Court **granted the petition** and declared **Rule 18, Section 5 of the CREATE Act IRR, Revenue Regulations No. 21 2022, and Revenue Memorandum Circular Nos. 24 2022 and 49 2022 void** insofar as they limited VAT zero rating on local purchases to REEs. The Court held that the implementing rules and revenue issuances were **ultra vires** because they went **beyond the terms and intent of the CREATE Act** by carving out DMEs from those entitled to VAT zero rating. The Court reaffirmed that the **power to grant and withdraw tax exemptions and incentives is a legislative function** vested exclusively in Congress; an administrative agency's rule making authority is limited to carrying out the provisions of the statute in accordance with what the law provides. Therefore, agencies cannot amend or narrow the statutory grant of tax incentives under the guise of implementation.

Doctrine (Legislative Power of Taxation):

- The **power to tax**, including the **granting and withdrawing of tax exemptions or incentives**, is inherently a **legislative function** and must be exercised only through **legislative enactments**. Administrative agencies cannot, by rule or issuance, restrict or alter tax incentives granted by Congress beyond what the statute expressly provides.

- If an **implementing rule or revenue issuance conflicts with the statute**, the statute prevails. Administrative instruments that alter the scope of tax incentives are **ultra vires** and thus invalid.