

Title:

Chamber of Real Estate and Builders' Associations, Inc. vs. The Hon. Executive Secretary Alberto Romulo, et al.

Facts:

The petitioner, Chamber of Real Estate and Builders' Associations, Inc. (CREBA), assailed the constitutionality of certain tax provisions and corresponding revenue regulations under Republic Act (RA) 8424, also known as the Tax Reform Act of 1997. Specifically, CREBA contested Section 27(E) implementing the minimum corporate income tax (MCIT) and revenue regulations involving creditable withholding taxes (CWT) on sales of real properties considered as ordinary assets.

The procedural posture of the case involved CREBA filing an original petition for certiorari and mandamus before the Supreme Court. CREBA argued that the MCIT is oppressive and confiscatory, thus violating the due process clause because it levied an income tax even without a realized gain. Additionally, CREBA challenged the validity of the provisions prescribing the collection method of the CWT, asserting that these regulations were contrary to law as they levied tax on income that had not been determined yet and treated real estate enterprises differently from other businesses.

Issues:

1. Should the Supreme Court exercise jurisdiction over the case?
2. Is the imposition of the MCIT on domestic corporations unconstitutional?
3. Is the imposition of the CWT on income from sales of real properties classified as ordinary assets under the challenged revenue regulations unconstitutional?

Court's Decision:

The Supreme Court dismissed the petition and upheld the constitutionality of the MCIT and the CWT provisions.

The Court first addressed its jurisdiction to hear the matter, concluding that the issues presented a justiciable controversy affecting a broad segment of taxpayers and raised important questions of constitutional law—it thus warranted the exercise of judicial power.

On the substantive issues, the Court held that:

1. The MCIT was a valid legislative measure enacted with the intention to simplify the tax system and to ensure that corporations bear a minimum burden of supporting the government. The MCIT was found to neither be arbitrary nor confiscatory and did not

violate the due process clause of the Constitution.

2. The challenged revenue regulations implementing the CWT were within the scope of the Secretary of Finance's authority and were a reasonable means to achieve the law's objective of ensuring the efficient collection of taxes. No constitutional right was violated by their implementation.

Doctrine:

- The Constitution allows Congress the plenary power to enact taxes.
- Taxing statutes carry a presumption of constitutionality.
- The due process clause may be invoked to challenge a tax measure if it can be demonstrated that the measure is arbitrary or confiscatory in nature.
- The equal protection clause requires that all persons under similar circumstances shall be treated alike but does not prevent the legislature from establishing categories of taxpayers for tax collection purposes.

Class Notes:

- "Minimum Corporate Income Tax (MCIT)": a tax imposed on corporations at the rate of 2% of their gross income, applicable when it exceeds the normal net income tax.
- "Creditable Withholding Tax (CWT)": a system where taxes are withheld at source to be credited against the taxpayer's total annual income tax liability.
- Threshold for challenging constitutionality: The petitioner must show an actual case or controversy with sufficient, concrete details, and not hypothetical or abstract concerns.
- Key Statutory Provisions: Article III, Section 1 (Due Process Clause) and Article III, Section 1 (Equal Protection Clause) of the 1987 Philippine Constitution; Section 27(E) of the Republic Act No. 8424 (Tax Reform Act of 1997)
- Administrative Regulation Deferral: Courts commonly defer to the expertise and rule-making authority granted to administrative agencies like the Bureau of Internal Revenue.

Historical Background:

The MCIT was introduced by the Tax Reform Act of 1997 to address concerns about the effectiveness of the self-assessment system in capturing the true income of corporations. Similarly, the CWT provisions were intended to facilitate tax collection and improve the government's cash flow. These reforms were part of an overhaul of the Philippine tax system reflecting legislative and administrative response to the evolving challenges in tax administration.