

Title:

Inchausti & Co. vs. Ellis Cromwell: On the Taxation of “Prensaje” Charges in Hemp Sales

Facts:

Inchausti & Co., a firm engaged in the wholesale business of buying and selling hemp, appealed a decision from the Court of First Instance of Manila, which had dismissed their complaint against Ellis Cromwell, the Collector of Internal Revenue. The plaintiff contended that the sum of P1,370.68 assessed by the defendant as tax on “prensaje” (baling and compression service charges for hemp) was illegal, arguing that “prensaje” charges were not part of the selling price of hemp but rather a charge for the service of baling the hemp.

The facts, meticulously agreed upon by both parties, detailed the various steps of the case’s progression to the Supreme Court. It included the customary practice among hemp merchants and dealers in the Philippines to sell hemp in bales, quoting prices per picul without explicitly mentioning baling but with an understanding that hemp would be delivered in bales and that a “prensaje” charge would be made. Inchausti & Co. received sums for “prensaje” in addition to the agreed-upon price for the hemp during the specified litigation period and had always included these sums in the commissions on sales made on behalf of its principals.

Upon Cromwell’s demand for the payment of tax on “prensaje” sums, Inchausti & Co. paid under protest and appealed the decision, which was overruled by Cromwell. The procedural posture included Inchausti & Co.’s payment under protest, their appeal to the Collector of Internal Revenue, the overruling of this protest, and the refusal for a refund, leading to the elevation of the case to the Supreme Court.

Issues:

1. Whether “prensaje” charges constitute part of the selling price of hemp or are merely charges for a separate service of baling the hemp.
2. Whether the tax assessed on the “prensaje” charges by the Collector of Internal Revenue was lawful.

Court’s Decision:

The Supreme Court affirmed the judgment of the Court of First Instance, ruling that “prensaje” charges are indeed part of the gross value of the hemp sold and, consequently, of its actual selling price. It determined that selling hemp in bales (which includes the “prensaje” charge as part of the total cost) was a common and necessary practice among

large dealers for the good to be in a marketable form, thus constituting part of the selling price rather than a separate service fee. Hence, the tax imposed on these sums was lawfully accrued.

Doctrine:

The case established or reiterated the doctrine that in transactions where it is customary and understood that a product will be delivered in a specific condition (in this case, hemp in bales), any charges related to preparing that product for delivery are part of the gross value and selling price of the product. Additionally, it provides an analysis of what constitutes a selling price and how services integral to making a product marketable can be included within this definition for the purpose of taxation.

Class Notes:

- ****Key Elements in Taxation of Goods****: The selling price includes not only the explicitly agreed price but also customary charges that contribute to making the product marketable.
- ****Doctrine of Implicit Charges****: Charges integral to bringing a product to a sellable condition, if customary and understood between parties, are included in the selling price for tax purposes.
- ****Contract Interpretation in Sales****: The nature of a contract of sale includes not just the explicit terms but also the industry customs that dictate the conditions of the product being sold.

Historical Background:

This case reflects the economic practices of the early 20th century in the Philippines concerning the hemp industry, highlighting how business customs can influence legal interpretations of contracts and tax liabilities. It sheds light on the taxation policies of the era and the role of the judiciary in interpreting commercial practices within the framework of existing tax laws.