

Title: Commissioner of Internal Revenue vs. Court of Appeals, Court of Tax Appeals, and Fortune Tobacco Corporation

Facts:

The case involves Fortune Tobacco Corporation (“Fortune Tobacco”), a manufacturer of cigarette brands including “Champion,” “Hope,” and “More.” On various occasions, the Philippine Patent Office issued certificates of trademark registration for these brands. Initially, these brands were classified as foreign since they were listed in the World Tobacco Directory as belonging to foreign companies. However, after Fortune Tobacco changed the names to “Hope Luxury” and “Premium More” and provided proof that “Champion” was a locally registered brand, they were reclassified as local brands subject to accordingly lower ad valorem tax rates.

On June 10, 1993, Republic Act (RA) No. 7654 was enacted, amending Section 142(c)(1) of the National Internal Revenue Code, effectively changing the tax rates applied to cigarettes depending on their classification. Shortly before this law’s effectivity, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular No. 37-93 (RMC 37-93), reclassifying “Hope Luxury,” “Premium More,” and “Champion” as cigarettes bearing foreign brands, and thus, subject to a higher tax rate.

Fortune Tobacco contested this reclassification by filing a petition for review with the Court of Tax Appeals (CTA), which was decided in its favor. The CTA’s decision was affirmed by the Court of Appeals, prompting the Commissioner of Internal Revenue to elevate the matter to the Supreme Court.

Issues:

1. Whether RMC 37-93 was merely an interpretative ruling, which did not require notice, hearing, or publication to be valid and effective.
2. Whether the issuance of RMC 37-93 was discriminatory against Fortune Tobacco Corporation.
3. Whether RMC 37-93 and the subsequent reclassification of certain cigarette brands were executed with proper legal basis.

Court’s Decision:

The Supreme Court affirmed the decisions of the Court of Appeals and the Court of Tax Appeals, holding that RMC 37-93 effectively legislated under its quasi-legislative authority, necessitating compliance with requirements for notice, hearing, and publication. Since

these requirements were not met, the circular was deemed invalid and unenforceable. Furthermore, the Court found that RMC 37-93 was discriminatory as it applied only to Fortune Tobacco's brands without a clear basis for excluding similarly situated brands, thereby violating the equal protection clause of the constitution.

Doctrine:

- Administrative issuances that go beyond merely interpreting the law and instead add to or modify legal provisions must observe the requirements of prior notice, hearing, and publication.
- Tax regulations must be applied uniformly to all similarly situated entities to satisfy the requirements of equal protection under the law.

Class Notes:

- Ad Valorem Tax: A tax based on the value of real estate or personal property. It is an important concept in the taxation of cigarettes in the Philippines.
- Interpretative Ruling vs. Legislative Rule: An interpretative ruling explains or clarifies existing law and does not require notice and hearing for its issuance; a legislative rule is akin to subordinate legislation, needing compliance with legal requirements such as notice, hearing, and publication.
- Doctrine of Equal Protection: Requires that all persons or things similarly situated should be treated alike, both as to rights conferred and responsibilities imposed.

Historical Background:

The backdrop of this case lies in the evolving policies on tobacco taxation in the Philippines, reflected in the amendments of the tax code and the introduction of RA 7654. The controversy highlighted the tension between governmental tax authority and the rights of corporations in the face of regulatory changes, illustrating the critical balance between revenue generation for public welfare and the adherence to procedural and constitutional law requirements.