

Title:

Farolan Jr. vs. Court of Tax Appeals and Bagong Buhay Trading

Facts:

In January 1972, the vessel S/S “Pacific Hawk” arrived in Manila, carrying 80 bales of screen net consigned to Bagong Buhay Trading. These were declared as having a gross weight of 12,777 kilograms and valued at \$3,750.00, classified under Tariff Heading No. 39.06-B at 35% ad valorem. Following a customs examiner’s verification, Bagong Buhay paid the due duties and taxes.

Subsequently, based on information that the shipment consisted of nylon “mosquito net” dutiable under Tariff Heading No. 62.02, a re-examination was ordered. This found 80 bales containing 1,600 rolls, re-appraised at \$37,560.00 and classified under Tariff Heading No. 51.04-B at 100% ad valorem, resulting in a duty and tax assessment of P272,600.00. The Collector of Customs forfeited the shipment due to misdeclaration. Bagong Buhay appealed to the Commissioner of Customs, who affirmed the Collector’s decision. Upon further appeal, the Court of Tax Appeals (CTA) reversed the Commissioner’s decision, ordering the release of the shipment upon payment of correct duties and taxes, rejecting the forfeiture.

After a denied motion for reconsideration by the Commissioner, and several motions related to the goods’ condition and release, the Supreme Court was petitioned for review.

Issues:

1. Whether the shipment was subject to forfeiture under Sections 2530-M subparagraphs (3), (4), and (5) of the Tariff and Customs Code.
2. Whether the shipment falls under Tariff Heading No. 39.06-B (correctly 39.02-B) subject to 35% ad valorem duty instead of Tariff Heading No. 51.04-B with a 100% ad valorem duty.
3. Whether the Collector of Customs may be held liable for the yards actually lost by Bagong Buhay.

Court’s Decision:

1. The Supreme Court aligned with the CTA in finding no direct misdeclaration by Bagong Buhay that would warrant forfeiture. The discrepancies in declaration were traced back to the foreign suppliers’ documents.
2. On the tariff classification, the Court upheld the CTA’s decision based on chemical analysis indicating the shipment as polyethylene plastic, taxable under Tariff Heading No. 39.02 at a 35% ad valorem duty, rather than as synthetic woven fabric under Tariff Heading

No. 51.04.

3. Regarding damages for lost goods, the Court ruled against Bagong Buhay, invoking sovereign immunity to dismiss any claims against the Bureau of Customs for damages.

Doctrine:

1. **Misdeclaration for Customs Purposes:** Misdeclaration that leads to forfeiture must be direct and intentional by the importer. Fraud is never presumed and must be proven with intent to deceive.
2. **Sovereign Immunity Principle:** Government agencies performing sovereign functions cannot be held liable for damages without their consent.

Class Notes:

- **Misdeclaration and Forfeiture:** For a declaration to result in forfeiture under Section 2530-M of the Tariff and Customs Code, it must be proven that the importer, knowingly and intentionally, made false declarations to evade duties.
- **Tariff Classification:** Accurate classification of goods for tariff purposes must be based on clear, scientific evidence, and laboratory analysis when discrepancies arise.
- **Sovereign Immunity:** Suing a government body for actions taken in its sovereign capacity requires the explicit consent of the state, reflecting the principle that the state cannot be sued without its consent.

Historical Background:

The case emphasizes the evolving nature of customs law enforcement, the mechanisms for dispute resolution within the customs framework, and the principle of sovereign immunity. This case underlines the necessity for importers to ensure the accuracy of their declarations and the limitations on seeking redress from governmental actions in the realm of customs and taxation.