

Title: Tan vs. Del Rosario: A Challenge to the Constitutionality of the Simplified Net Income Taxation Scheme

Facts:

This case consolidates two special civil actions for prohibition concerning the Simplified Net Income Taxation Scheme (SNIT), initiated under Republic Act No. 7496, which amends certain sections of the National Internal Revenue Code (NIRC). The petitioner in G.R. No. 109289, Rufino R. Tan, along with the petitioners in G.R. No. 109446 represented by Carag, Caballes, Jamora and Somera Law Offices, contest the constitutionality of R.A. 7496 and the validity of Section 6, Revenue Regulations No. 2-93 enacted under it, respectively. They argue that the act and the corresponding regulation adversely affect taxpayers, asserting that these legal instruments violate constitutional principles such as the “one subject, one title” rule, the equitable and uniform rule of taxation, due process, and equal protection clauses.

The contention rooted from the HR Bill No. 34314, which eventually became R.A. 7496, titled “Simplified Net Income Taxation Scheme for the Self-Employed and Professionals Engaged in the Practice of their Profession”, was claimed to move towards a gross income taxation approach, limiting allowable deductions and consequently altering the net income taxation scheme. This shift, according to the petitioner, was misaligned with constitutional mandates, lacked uniformity and equity in taxation, and infringed upon taxpayers’ rights to due process and equal protection.

Petitioners in G.R. No. 109446 specifically focused on Section 6 of Revenue Regulations No. 2-93, challenging its application to general professional partnerships (GPPs) as an overreach of rule-making authority by public respondents, asserting that the legislative intent was only to apply SNIT to individuals, not to partnerships or corporations.

Issues:

1. Whether R.A. 7496 violates constitutional mandates including the “one subject, one title” rule, and principles of uniform and equitable taxation, due process, and equal protection.
2. Whether the enactment of R.A. 7496 and Section 6, Revenue Regulations No. 2-93, exceeds legislative and regulatory authority by improperly extending SNIT to general professional partnerships.

Court’s Decision:

The Supreme Court dismissed both petitions, upholding the constitutionality of R.A. 7496

and the validity of Section 6, Revenue Regulations No. 2-93. The Court found that:

- The title of R.A. 7496 sufficiently covers its subject matter, thus adhering to the constitutional mandate.
- The shift towards a simplified net income taxation scheme didn't violate the principles of uniform and equitable taxation as it remained within the legislative's prerogative to design tax systems.
- The claims of violation of due process and equal protection were unfounded since the law did not demonstrate a clear transgression into these constitutional rights.
- Regarding G.R. No. 109446, the Supreme Court clarified that general professional partnerships are not taxed as entities but rather, tax liability falls on the individual partners, aligning with longstanding principles of individual tax liability.

Doctrine:

The case reiterates the doctrine that the Legislature has broad discretion in determining the nature, extent, coverage, and situs of taxation. The uniformity of taxation requires that all subjects or objects similarly situated are treated alike. The classification of taxpayers need only be reasonable and not arbitrary to adhere to principles of uniform and equitable taxation.

Class Notes:

- The principle of "one subject, one title" requires that legislative acts cover only one subject, which should be expressed in the title, to prevent surprise legislation and to inform the public of legislative intent.
- Tax laws must adhere to the principles of uniform and equitable taxation.
- The due process clause can be invoked in tax matters when there is a clear contravention of constitutional limitations.
- Partnerships for professional practices are not independent taxable entities under the NIRC; income tax is imposed on individual partners based on their distributive share of profits.

Historical Background:

The Simplified Net Income Taxation Scheme emerged against a backdrop of efforts to streamline tax collection and make the process more equitable for individual taxpayers, particularly the self-employed and professionals. It represents a legislative attempt to simplify tax computation by limiting allowable deductions, thereby affecting the net income tax framework pre-existing in the National Internal Revenue Code. This legal shift reflects an ongoing balancing act between efficient tax collection and adherence to constitutional

mandates on tax equity and taxpayer rights.