

Title: Commissioner of Internal Revenue vs. Michel J. Lhuillier Pawnshop, Inc.

Facts:

The controversy arose when the Commissioner of Internal Revenue (CIR) sought to impose a 5% lending investor's tax on pawnshops, specifically Michel J. Lhuillier Pawnshop, Inc. (Lhuillier), for the year 1994, amounting to P3,360,335.11, under then Section 116 of the National Internal Revenue Code (NIRC) of 1977, as amended by Executive Order No. 273. This was in line with Revenue Memorandum Order (RMO) No. 15-91 and Revenue Memorandum Circular (RMC) No. 43-91, which classified pawnshops as lending investors subject to this tax. Lhuillier opposed this, arguing that pawnshops were distinct from lending investors and that the RMO and RMC effectively created a new tax category, which only Congress could establish. After its administrative protest was not acted upon, Lhuillier appealed to the Court of Tax Appeals (CTA), which ruled in its favor by canceling the tax assessment. The CIR's subsequent appeal to the Court of Appeals (CA) was unsuccessful, leading to the filing of a petition for review with the Supreme Court.

Issues:

1. Whether pawnshops are included in the term "lending investors" for the purpose of imposing the 5% percentage tax under Section 116 of the NIRC of 1977, as amended.
2. The validity of RMO No. 15-91 and RMC No. 43-91 in classifying pawnshops as lending investors.
3. Whether there was a need to publish RMO No. 15-91 and RMC No. 43-91 for them to be effective.

Court's Decision:

The Supreme Court dismissed the petition, affirming the decisions of the CTA and CA. It held that pawnshops are not "lending investors" within the meaning of Section 116 of the NIRC of 1977, as amended. Consequently, it declared RMO No. 15-91 and RMC No. 43-91 null and void for lack of publication and for being beyond the scope of the CIR's rule-making authority as these issuances imposed a new tax measure rather than merely implementing the existing law.

Doctrine:

The case reiterated the principle that administrative issuances must remain consistent with the law they intend to carry out and cannot override, supplant, or modify the law. Additionally, it highlighted the necessity of publishing legislative rules to give them effect.

Class Notes:

1. In tax law, the principle of legality requires that taxes can only be imposed or increased by a law passed by the legislature. Administrative agencies cannot impose taxes or tax measures without statutory authority.
2. The distinction between “interpretative rules” and “legislative rules”: interpretative rules are issued by an administrative agency to explain how it interprets a statute it is charged with enforcing and do not require publication to be effective; legislative rules, which have the force and effect of law, substantially add to or modify the law and must be published to become effective.
3. The principle of *expressio unius est exclusio alterius* underlies statutory interpretation, suggesting that the inclusion of one is the exclusion of the other not listed.

Historical Background:

This case occurred within the context of evolving tax legislation and administrative interpretation in the Philippines. Previously, the Bureau of Internal Revenue (BIR) maintained a distinction between pawnshops and lending investors regarding tax treatments. The attempt to classify pawnshops as lending investors through administrative issuances represented a significant shift in policy, reflecting broader questions about the scope of administrative authority, the nature of tax law, and the limits of regulatory interpretation. The Supreme Court decision underscored the principle of strict legality in tax matters and the importance of adhering to formal legislative processes for imposing taxes.