

Title: British American Tobacco vs. Secretary of Finance & Commissioner of BIR: A Case of Taxation of Cigarette Brands in the Philippines

Facts:

The case involves British American Tobacco (BAT), which contested certain provisions under the National Internal Revenue Code (NIRC) as amended by Republic Act No. 9334, and implementing revenue regulations concerning the excise taxation of cigarettes. Specifically, BAT targeted the constitutionality of the “classification freeze” provision applied to cigarette brands. This provision, under Section 145 of the NIRC, froze the tax classification of existing cigarette brands as of 1996, allowing them to be taxed based on their net retail prices at that time, while new brands introduced after the enactment were to be taxed based on their current or contemporary net retail prices.

BAT initiated the legal challenge by filing a petition before the Regional Trial Court (RTC) of Makati, seeking to have the questioned provisions declared unconstitutional for allegedly violating equal protection and uniformity of taxation clauses, among other grounds. The RTC’s decision was in favor of the respondents, the Secretary of the Department of Finance and the Commissioner of the Bureau of Internal Revenue, prompting BAT to elevate the case to the Supreme Court.

Issues:

1. Whether the “classification freeze” provision violates the constitutional principles of the equal protection and uniformity of taxation.
2. Whether the questioned provisions contravene the constitutional prohibition against unfair competition.
3. Whether the assailed law transgresses the constitutional mandates against regressive and inequitable taxation.
4. Entitlement of BAT’s Lucky Strike brand to a downward reclassification from the premium-priced to the high-priced tax bracket.

Court’s Decision:

The Supreme Court partially granted the petition, affirming with modification the decision of the RTC. It held:

1. ****Equal Protection and Uniformity in Taxation:**** The “classification freeze” provision does not violate constitutional provisions on equal protection and uniformity in taxation. The Court applied the rational basis test and found legitimate state interests justifying the classification, including administrative concerns in tax collection and the need for stable

revenue generation.

2. **Unfair Competition:** The Court found no violation of the constitutional prohibition on unfair competition. It noted that the law did not create insurmountable barriers for new brands to enter the market and that the classification freeze provision was not shown to substantially affect the competition in ways that would amount to unfair competition.

3. **Regressive and Inequitable Taxation:** The Court dismissed claims that the law was regressive and inequitable, emphasizing that the Constitution does not prohibit indirect taxes which can be regressive. The Court also reiterated that equitable does not necessarily mean identical treatment within the same class but a rational basis for differential treatment.

4. **Reclassification of Lucky Strike:** BAT's petition for Lucky Strike's downward reclassification was denied. The Court found no basis for intervening in the BIR's classification based on the actual net retail price as determined through a survey, adhering to the legal framework established for such taxation matters.

Doctrines:

The Supreme Court reiterated the principle that legislative classifications in taxation, when challenged under the equal protection clause, must satisfy the rational basis test: they must be based on substantial distinctions, must be germane to the law's purposes, must apply to all similarly situated, and must apply equally to those within the class.

Class Notes:

- **Rational Basis Test:** Utilized for evaluating equal protection challenges in social and economic legislation. Requires that the classification be rationally related to achieving a legitimate state interest.
- **Equal Protection and Uniformity in Taxation:** a law does not violate these principles if it meets the four requisites of valid classification.
- **Indirect Taxes and Regressivity:** The Constitution allows for indirect taxes, even if inherently regressive, but mandates Congress to develop a progressive taxation system.
- **Doctrine of Legislative Discretion in Taxation:** Courts defer to the legislature's wisdom in determining the necessity, appropriateness, and reasonableness of a specific tax measure.

Historical Background:

This case underscores the ongoing challenges in balancing the state's revenue generation objectives with constitutional mandates for fair and equitable taxation. It reflects the complexities inherent in taxing "sin" products like cigarettes, where health considerations,

market dynamics, and revenue interests intersect.