

Title:

Imus Electric Co., Inc. vs. Commissioner of Internal Revenue

Facts:

Imus Electric Co., Inc. (Petitioner) received a grant on June 23, 1930, from the Municipal Council of Imus, Cavite, allowing operation of an electric plant under a franchise agreement stipulating a 1% franchise tax for the first 20 years and 2% for the following 15 years. However, after Republic Act 39 amended the Tax Code's Section 259 on October 1, 1946, establishing a general franchise tax rate of 5%, the petitioner started paying at this increased rate. Claims for refund for overpayments between July 1, 1948, and December 31, 1951, were partially granted. Despite this, the Commissioner of Internal Revenue (Respondent) assessed the petitioner for deficiency taxes at the 5% rate from July 1, 1948, to September 30, 1960. Reassessments were made for January 1, 1956, to September 30, 1960, for unpaid taxes.

The petitioner sought review with the Court of Tax Appeals (CTA) on November 11, 1963, contesting the applicability of the amended Section 259, alleging it infringed their contract (franchise agreement) and its increased rate was not justified since their franchise specified tax rates. The CTA upheld the Commissioner's decision, leading to this petition for review in the Supreme Court.

Issues:

1. Whether Republic Act 39's amendment to Section 259 of the Tax Code repealed or modified the franchise tax rates stipulated in the petitioner's franchise agreement.
2. If the imposition of a 5% franchise tax rate under Sec. 259 as amended violates the non-impairment clause of the Constitution.
3. Whether the 25% surcharge for late payment is justifiable in this case.

Court's Decision:

- The Supreme Court affirmed the CTA's decision that Imus Electric Co., Inc. is subject to the 5% franchise tax per Section 259 of the Tax Code as amended by Republic Act 39. The Court reasoned that the franchise contained a clause making it subject to amendment or repeal and the specific tax rates did not exclude other subsequent impositions.
- The Court highlighted the franchise's express reservation for amendment or repeal, signifying the alteration in tax rate by Republic Act 39 was a valid exercise of reserved legislative power.
- Regarding the 25% surcharge, considering the petitioner's genuine misunderstanding, the

Court ruled it should not apply, thereby reducing the total tax due.

Doctrine:

Franchise agreements are subject to the legislative power to alter, modify, or repeal the terms, including tax rates, especially when such power is expressly reserved within the franchise itself. Specific tax rates stipulated within a franchise do not inherently preclude the imposition of general laws amending such rates.

Class Notes:

- Franchise Tax: A tax levied on businesses with a franchise agreement, subject to legislative changes.
- Non-Impairment Clause: Prohibits laws impairing contractual obligations but does not protect against changes under expressly reserved legislative power.
- Legislative Power: Includes the authority to amend or repeal laws, including specific provisions within franchise agreements.
- Republic Act 39 amended Section 259 of the Tax Code, establishing a general franchise tax rate of 5%.

Historical Background:

The challenge of aligning specific contractual agreements with overarching legislative changes represents a balance between honoring individual contracts and accommodating necessary fiscal policy adjustments. This case showcases the interplay of franchise agreements, legislative amendments, and constitutional considerations in tax law.