

Title:

Secretary of Finance and Commissioner of the Bureau of Internal Revenue vs. La Suerte Cigar and Cigarette Factory, Telengtan Brothers & Sons, Inc.

Facts:

The case originated from the issuance of Revenue Regulations Nos. 9-2003 and 22-2003 by the Bureau of Internal Revenue (BIR), which authorized the BIR to periodically conduct surveys on the current net retail prices of cigarettes registered after January 1, 1997, for the purpose of updating their tax classification. These regulations were issued to implement Republic Act No. 8240 (RA 8240), which amended certain sections of the National Internal Revenue Code (NIRC), specifying different tax rates for cigarettes based on their net retail price.

La Suerte Cigar and Cigarette Factory challenged these regulations in the Regional Trial Court of Parañaque City, asserting that the BIR, under Section 145 of the NIRC, does not have the authority to reclassify the tax bracket of cigarettes introduced into the market after January 1, 1997. The trial court, on July 12, 2004, declared the questioned regulations unconstitutional, thereby permanently enjoining the BIR from implementing them insofar as they pertain to re-determining and re-classifying tax rates for specific cigarette brands.

The petitioners, Secretary of Finance and Commissioner of the BIR, appealed this decision to the Supreme Court, arguing that the regulations were a valid exercise of subordinate legislation pursuant to their statutory mandate.

Issues:

1. Whether the BIR has the authority under RA 8240, as amended by RA 8424, to periodically review or re-determine the current net retail prices of new cigarette brands for the purpose of updating their tax classification.
2. Whether Revenue Regulations Nos. 9-2003 and 22-2003 are valid exercises of subordinate legislation.

Court's Decision:

The Supreme Court denied the petition, affirming the decision of the Regional Trial Court. It held that the BIR does not possess the authority to periodically reclassify the tax rates of cigarette brands based on current net retail prices. The Court reasoned that such power to reclassify tax brackets remains a prerogative of the legislature and cannot be delegated to the BIR unless expressly granted. This was consistent with the Court's ruling in the case of

British American Tobacco v. Camacho, which also dealt with the issue of reclassification of cigarette brands for tax purposes.

Doctrine:

The decision reaffirmed the doctrine that administrative agencies, such as the BIR, cannot usurp legislative prerogatives or exercise powers not expressly delegated to them by the law. In particular, the Court emphasized that the power to tax and classify goods for tax purposes rests with the Congress and not with administrative bodies, unless such power is clearly delegated.

Class Notes:

- **Key Principles**: Authority to Tax, Delegation of Legislative Powers, Administrative Agency Powers.
- **Legal Statutes Referenced**:
 - Republic Act No. 8240: Specifies the different tax rates for cigarettes based on their net retail price.
 - Republic Act No. 8424 (NIRC): Recodifies the National Internal Revenue Code, including provisions related to excise tax on cigarettes.
- **Application**: The BIR cannot reclassify the tax rates of cigarette brands without explicit legislative authority. The decision underscores the principle of non-delegability of legislative power, particularly in the context of tax classifications.

Historical Background:

At the heart of this legal dispute is the amendment of the Philippines' excise tax system through Republic Act No. 8240, which aimed to adjust the tax rates of cigarettes and alcohol products based on their market prices. Subsequent regulations by the BIR to implement these changes, especially concerning the periodic reclassification of cigarettes for tax purposes, led to controversies regarding the scope of the BIR's delegated powers. This case is a significant part of the ongoing jurisprudence clarifying the boundaries between legislative mandate and administrative discretion in the Philippines' tax law.