

**\*\*Title:\*\*** Petron Corporation vs. Commissioner of Internal Revenue

**\*\*Facts:\*\***

Petron Corporation imported alkylate on various occasions from July 22, 2012, to November 6, 2012. Based on Customs Memorandum Circular No. 164-2012, the Bureau of Customs (BOC) and Bureau of Internal Revenue (BIR) classified alkylate as subject to excise tax, resulting in Petron paying P219,153,851.00 in excise taxes. Petron subsequently filed two administrative claims for tax refund with the BIR—one on October 10, 2014, and the other on January 23, 2015—arguing that the excise taxes were erroneously collected. Since the BIR did not act on these claims, Petron escalated the dispute to the Court of Tax Appeals (CTA).

Petron filed two separate petitions for review before the CTA, seeking a refund or tax credit certificates for the amounts paid. Both cases were later consolidated by the CTA Second Division, which denied the petitions on December 18, 2018, stating that alkylate qualifies as a product similar to naphtha and, therefore, is subject to excise tax.

Petron appealed to the CTA En Banc, arguing that alkylate should not be taxed as it is merely a blending component in gasoline production and is not listed among the taxable items in Section 148(e) of the National Internal Revenue Code (NIRC) of 1997. The CTA En Banc upheld the decision of the Second Division, finding the administrative claims and judicial claims timely but agreeing that alkylate is subject to excise tax. Petron's motion for reconsideration was subsequently denied due to a lack of the required number of affirmative votes to overturn the decision.

**\*\*Issues:\*\***

1. Whether alkylate is subject to excise tax under Section 148(e) of the NIRC.
2. Whether the CTA correctly applied the doctrine of strict interpretation in construing tax exemptions.

**\*\*Court's Decision:\*\***

The Supreme Court ruled in favor of Petron Corporation, reversing the CTA En Banc's decision, and held that alkylate is not subject to excise tax under Section 148(e) of the NIRC.

**\*\*Issue 1: Subject to Excise Tax\*\***

The Court clarified that alkylate is not listed in Section 148(e) of the NIRC, which specifies excise tax on "naphtha, regular gasoline, and other similar products of distillation." Since

alkylate is produced by the chemical process of alkylation rather than distillation, it does not fall under the listed taxable items, nor can it be considered a “similar product of distillation.” The Court further noted that the inclusion of alkylate under taxable items requires explicit legislative authority, which was absent.

#### **\*\*Issue 2: Doctrine of Strict Construction\*\***

The Court emphasized that since Petron’s claim for a refund is based on erroneous tax imposition—rather than a statutory tax exemption—the appropriate rule is the doctrine of strict construction against the government in tax impositions. Here, the CTA misapplied the doctrine of strict interpretation usually reserved for tax exemptions, which only applies when exemptions are claimed explicitly under the law.

#### **\*\*Doctrine:\*\***

1. **\*\*Strict Interpretation of Tax Laws:\*\*** Taxes should not be imposed without clear statutory authority. Where there are ambiguities or doubts, the interpretation should favor the taxpayer (Philippine American Accident Insurance Company, Inc. case cited).
2. **\*\*Ejusdem Generis Principle:\*\*** General words following specific terms should be interpreted as including items similar to those explicitly mentioned (applicable in defining “similar products of distillation” under Section 148(e) of the NIRC).
3. **\*\*Non-Delegability of Taxation Authority:\*\*** The interpretation by the CIR should not override or extend beyond the language of the law.

#### **\*\*Class Notes:\*\***

- **\*\*Elements of Tax Cases:\*\*** The specificity of tax laws, the doctrine of statutory construction, refund claims based on erroneous payments.
- **\*\*Statutory Provisions:\*\*** Section 148 (e) of the NIRC, principles of ejusdem generis.
- **\*\*Key Concepts:\*\*** Taxability and non-taxability, administrative interpretations, and the limitations of delegated authority in tax imposition.

#### **\*\*Historical Background:\*\***

The case represents a nuanced conflict between corporate taxpayers and the government’s taxing powers, highlighting the delicate balance between the need for government revenue and the protection of taxpayer rights. The ruling serves as a pivotal interpretation of Philippine tax law, reinforcing taxpayer protections against overreach in tax imposition. The decision also underscores the critical role of judicial review in ensuring the Executive’s compliance with legislative bounds.