

### Title:

Commissioner of Internal Revenue vs. Court of Appeals, Atlas Consolidated Mining and Development Corporation, and Court of Tax Appeals (G.R. No. 104151 & G.R. No. 105563)

### Facts:

\*\*[Detailed Series of Events]\*\*

1. **Assessments Issued:** On April 9, 1980, the Commissioner of Internal Revenue (CIR) assessed Atlas Consolidated Mining and Development Corporation (ACMDC) for PHP 12,391,070.51 in deficiency taxes for 1975. Another assessment for PHP 13,531,466.80 for 1976 was issued on September 23, 1980.

2. **Protests Filed:** ACMDC filed separate protests against these assessments, both of which were denied by the CIR.

3. **Petition to Court of Tax Appeals (CTA):** ACMDC then filed two petitions for review with the CTA, docketed as C.T.A. Case Nos. 3467 and 3825, which were subsequently consolidated.

4. **CTA Decision:** On May 31, 1991, the CTA ruled that ACMDC was not liable for the deficiency ad valorem taxes on copper and silver but was liable for several other tax deficiencies totaling P1,572,637.48.

**- Particulars of the CTA Decision:**

- a) PHP 297,900.39 as 25% surcharge for silver extracted in 1975.
- b) PHP 161,027.53 as 25% surcharge for silver in 1976.
- c) PHP 315,027.30 as 25% surcharge for gold extracted in 1975.
- d) PHP 260,180.55 as 25% surcharge for gold in 1976.
- e) PHP 53,585.30 for pyrite extracted in 1975.
- f) PHP 53,283.69 for pyrite extracted in 1976.
- g) PHP 316,117.53 as deficiency manufacturing tax and surcharge for 1975.
- h) PHP 23,631.44 as deficiency contractors tax and surcharge for 1975.
- i) PHP 91,883.75 as deficiency contractors tax for 1976.

5. **Appeals to Court of Appeals (CA):** Both parties appealed to the CA. The CIR's petition was docketed as CA-G.R. SP No. 25945, and ACMDC's as CA-G.R. SP No. 26087.

6. **CA Decisions:**

- **CA-G.R. SP No. 25945:** On February 12, 1992, the CA ruled in favor of ACMDC,

upholding the CTA's finding that smelting and refining charges should be deducted in the computation of ad valorem tax.

- **CA-G.R. SP No. 26087:** On May 22, 1992, the CA further reduced ACMDC's tax liabilities, deleting certain surcharges and refining the taxable amount to P906,124.49.

7. **Petitions to Supreme Court:** Unsatisfied with the CA's decisions, the CIR filed G.R. No. 104151 questioning the CA's stance on refining and smelting charges, while ACMDC filed G.R. No. 105563 challenging its remaining tax liabilities.

8. **SC Consolidation and Decision:** The Supreme Court (SC) consolidated the cases and ruled on September 1, 1993.

### ### Issues:

1. **G.R. No. 104151:** Whether smelting and refining charges should be deducted from the price of copper concentrates when computing the ad valorem tax.

2. **G.R. No. 105563:**

- **(a)** Whether ACMDC is liable for the 25% surcharge for late filing/payment of ad valorem tax on silver, gold, and pyrite for 1976.

- **(b)** Whether ACMDC is liable for manufacturer's sales tax and surcharge for 1975 on grinding steel balls.

- **(c)** Whether ACMDC is liable for contractor's tax and surcharge for the lease of personal property in 1975 and 1976.

### ### Court's Decision:

**G.R. No. 104151:**

The SC upheld the CA decision allowing deductions for smelting and refining charges, clarifying that ad valorem tax should be based on the value of minerals before undergoing manufacturing processes.

**G.R. No. 105563:**

**(a) Surcharge on Silver, Gold, and Pyrite:** The SC affirmed the 25% surcharge was mandatory for late filing/payment despite ACMDC's claims, citing that the exact quantities could be reasonably estimated in the Philippines.

**(b) Manufacturer's Tax and Contractor's Tax:**

- **Manufacturer's Tax:** The SC dismissed the manufacturer's tax on ACMDC, recognizing that the isolated sale of grinding balls did not amount to "engaging in business."

- **Contractor's Tax:** The SC upheld the contractor's tax since ACMDC habitually engaged

in leasing out personal properties, evidencing consistent rental income.

**### Doctrine:**

**\*\*Ad Valorem Tax:\*\*** Ad valorem tax should be based on the market value of the raw mineral at the mine site and not the finished product. Charges incurred after extraction, such as smelting and refining, can be deducted if no local market value exists for the raw material.

**### Class Notes:**

- **\*\*Elements of Ad Valorem Tax:\*\*** Imposed on the market value of minerals before processing or manufacturing, not on cost of production or extraction.
- **\*\*Mandatory Surcharges:\*\*** Provided by law for late tax payments, they are automatic and non-discretionary.
- **\*\*Consistency in Business:\*\*** Single transactions don't constitute engaging in business unless intended to be repeat transactions for profit.
- **\*\*Rental Income Taxability:\*\*** Regular income from leasing personal property subjects the income to tax, regardless of profit.

**\*\*Cited Provision:\*\*** Section 243 & 246 of the 1975 National Internal Revenue Code.

**### Historical Background:**

- **\*\*Regalian Doctrine:\*\*** Justifies the imposition of ad valorem taxes as a sovereign right over natural resources.
- **\*\*Case Precedents:\*\*** Similar rulings clarified tax bases for ad valorem taxes and reinforced principles regarding tax liabilities and definitions regarding engagement in business operations.

This case is a seminal one interpreting tax code provisions on ad valorem taxes and refining the legal understanding and treatment of business transactions within raw material extraction, production, and incidental sales or rentals.