

Title: Bank of the Philippine Islands vs. Wenceslao Trinidad, Collector of Internal Revenue

Facts:

On July 13, 1916, the Collector of Internal Revenue seized machinery used for sawing lumber, claiming that the machinery belonged to Pujalte & Co. and was subject to distraint for P2,159.79 in unpaid forestry charges. The machinery was previously owned by Taba Saw Mill Co., a partnership of Pujalte & Co. and Ramon Murga. In April 1914, Murga sold his share to Pujalte & Co., making them sole owner.

On September 26, 1912, Taba Saw Mill Co. had mortgaged the machinery to the Bank of the Philippine Islands to secure two promissory notes totaling P180,000. This chattel mortgage was properly registered on December 26, 1912. At the time of registration, there were no tax liens on the machinery. When the machinery was seized for unpaid forestry charges, it was still under the valid chattel mortgage to the bank.

The Bank of the Philippine Islands, claiming ownership of the machinery, paid the forestry charges under protest to prevent its sale and subsequently sued for a refund in the Court of First Instance of Zamboanga. The lower court dismissed the bank's complaint, stating that the bank voluntarily paid the debt and should have proceeded under a different legal provision. The bank appealed.

Issues:

1. Whether the Bank of the Philippine Islands voluntarily paid the forestry charges of a third party, Pujalte & Co.
2. Whether the chattel mortgage held by the Bank of the Philippine Islands was a valid defense against the seizure and distraint of the machinery.
3. Whether section 140 or section 141 of Act No. 2339 (now sections 1579 and 1580 of Act No. 2711, respectively) was the appropriate legal remedy for the Bank of the Philippine Islands.

Court's Decision:

The Supreme Court reversed the lower court's decision, providing the following analysis:

1. ****Voluntary Payment:**** The Court found no basis for the lower court's conclusion that the payment was voluntary. The bank paid under protest, as explicitly admitted by the defendant and stipulated in the case proceedings.

2. **Validity of the Chattel Mortgage:** The Court affirmed that the Bank of the Philippine Islands had a valid and subsisting chattel mortgage on the machinery, properly registered since December 26, 1912. Consequently, the bank had legal ownership over the machinery at the time of distraint. The ownership and rights conferred by the chattel mortgage meant that the machinery could not legally be seized to cover the taxes owed by Pujalte & Co.

3. **Appropriate Remedy:** The Court determined that section 140 of Act No. 2339 (now section 1579 of Act No. 2711) was the appropriate remedy. Section 140 allowed for the recovery of taxes paid under protest. The distraint of the machinery was to enforce a tax lien, not a forfeiture, which distinguished the case from those covered by section 141.

The Court ordered the refund of P2,159.79 to the Bank of the Philippine Islands with legal interest.

Doctrine:

- A chattel mortgage duly registered provides the mortgagee with legal ownership of the property, barring the seizure of said property for the mortgagor's tax liabilities.
- The appropriate remedy for contesting a tax payment made under protest is provided in section 140 of the Internal Revenue Law (now section 1579 of Act No. 2711), not section 141.

Class Notes:

- **Chattel Mortgage:** Defined as a conditional sale of personal property as security for debt payment, transferring ownership to the creditor upon registration.
- **Tax Remedy Procedures:** Section 140 of Act No. 2339 allows recovery of taxes paid under protest; section 141 pertains to contesting property forfeiture.
- **Seizure vs. Forfeiture:** Seizure to enforce a tax lien should not be confused with seizure for property forfeiture. The distinction impacts the appropriate legal remedy.

Statutory Provisions:

- **Section 140 of Act No. 2339:** Allows recovery of taxes paid under protest.
- **Section 141 of Act No. 2339:** Pertains to contesting property forfeiture.

Historical Background:

Early 20th-century Philippine tax law and practice were undergoing formalization, influenced by American administrative models. The case reflects contentious issues about the interface of tax enforcement and secured lending, specifically regarding the legal protections afforded to financial institutions holding chattel mortgages amidst tax collection

actions. The ruling underscored adherence to procedural fairness and clear statutory directives in tax dispute resolutions.