

### Title:

Celestino Co & Company vs. Collector of Internal Revenue, 99 Phil. 841 (1956)

### Facts:

**\*\*From 1946 to 1951\*\*:**

- Celestino Co & Company, operating under the trade name "Oriental Sash Factory," paid a percentage tax of 7% on the gross receipts from its sash, door, and window factory based on Section 186 of the National Revenue Code. This section imposes taxes on the sales of manufactured goods.

**\*\*In 1952\*\*:**

- The company claimed it should only pay a contractor's tax of 3% under Section 191 of the same code, asserting that it was primarily engaged in manufacturing custom orders rather than standard goods.
- The Bureau of Internal Revenue rejected this claim.

**\*\*Procedural Posture\*\*:**

- Celestino Co & Company appealed to the Court of Tax Appeals, which ruled against it, stating that it was correctly taxed under Section 186.
- The company then brought the matter to the Supreme Court of the Philippines.

### Issues:

1. Whether Celestino Co & Company's operations classify it as a manufacturer subject to the tax under Section 186, or as a contractor subject to the tax under Section 191.
2. Whether the company's activities of manufacturing sash, doors, and windows on special orders for customers change its tax obligations.

### Court's Decision:

**\*\*On Issue 1\*\*:**

- The Supreme Court affirmed the decision of the Court of Tax Appeals, ruling that Celestino Co & Company is correctly classified as a manufacturer.
- The company habitually produced sash, windows, and doors, which fits the definition under Section 186 for taxation purposes despite the claim that it operates on special orders.

**\*\*On Issue 2\*\*:**

- The Court pointed out that even if the items were made per customer's specification,

materials used were those regularly manufactured or readily available to the company.

- This did not transform the operation into a contractor's role but maintained its status as a manufacturer.
- The designation "Factory" in the company's trade name and its general advertising to the public corroborated their manufacturing role.

The decision cited that the habitual and large-scale nature of their business did not align with the special, limited scope typically associated with a contractor as defined under Section 191.

### ### Doctrine:

- Regular manufacturing operations, even if fulfilling custom orders, are subject to the tax imposed on manufactured goods.
- Section 186 of the National Revenue Code applies to entities engaged in habitual manufacturing for the market despite the specificity of individual orders.
- Special orders using the manufacturer's existing or ready materials remain categorized under manufacturing sales, not construction or contracting services.

### ### Class Notes:

#### \*\*Key Elements/ Concepts\*\*:

##### 1. \*\*Sales of Manufactured Goods (Section 186)\*\*:

- Tax imposed on habitual manufacturing and market sales.
- Applies to businesses declaring themselves as factories, indicating scale and public sales.

##### 2. \*\*Contractor's Tax (Section 191)\*\*:

- Tax applies to construction or repair work contractors, not manufacturers.
- Limited to specific projects requiring significant unique services not commonly provided by the business.

#### \*\*Relevant Statutes\*\*:

- \*\*National Revenue Code, Section 186\*\*: Imposes percentage tax on the gross receipts from sales of manufactured articles.
- \*\*National Revenue Code, Section 191\*\*: Imposes a tax on various contractor services, not applicable to habitual manufacturing.

### ### Historical Background:

- The case centers on the post-World War II Philippine economy when many businesses were rebuilding and clarifying tax obligations with the Bureau of Internal Revenue.
- The legal environment sought clarity on which businesses were manufacturers versus contractors due to differing tax implications.
- *Celestino Co & Company v. Collector of Internal Revenue* epitomizes the importance of defining business operations concerning tax liability, reflecting efforts to ensure fair and accurate tax collection during a key period of economic recovery and growth in the Philippines.