

****Title:****

Republic of the Philippines v. Honorable E.L. Peralta, et al.

****Facts:****

In May 1977, Quality Tobacco Corporation (the “Insolvent”) initiated voluntary insolvency proceedings in the Court of First Instance (CFI) of Manila. Various creditor claims were filed, including:

1. USTC Association of Employees and Workers Union (PTGWO) claimed P2,806,729.92 for separation pay awarded by the National Labor Relations Commission (NLRC) in NLRC Case No. RB-IV-9775-77, and an additional P280,672.99 for attorney’s fees.
2. Federacion de la Industria Tabaquera y Otros Trabajadores de Filipinas (FOITAF) claimed P53,805.05 for separation pay awarded by the NLRC in the same case.
3. The Bureau of Internal Revenue (BIR) claimed P1,085,188.22 for unpaid tobacco inspection fees covering October 1967 to February 1973.
4. The Bureau of Customs (BOC) claimed P276,161.00 for unpaid customs duties and taxes on imports secured by surety bonds, with some items still in customs custody.

On November 17, 1980, the CFI ruled that the separation pay claims from USTC and FOITAF had priority over the claims of BIR and BOC based on Article 110 of the Labor Code. The Solicitor General filed a motion for reconsideration on behalf of the Republic, arguing Article 110 applied only to wages, not separation pay. This motion was denied on January 19, 1981. The Republic then petitioned the Supreme Court for review of these orders.

****Issues:****

1. Whether separation pay constitutes “wages” under Article 110 of the Labor Code, granting first preference in insolvency.
2. The effect of Article 110 of the Labor Code on the priority of claims, specifically tax claims under the Civil Code.
3. The classification and prioritization of the various creditor claims in the insolvency proceedings.

****Court’s Decision:****

The Supreme Court granted the petition for review and remanded the case to CFI based on detailed reasoning:

1. ****Separation Pay as Wages:****
 - The Court refused the Solicitor General’s argument, reiterating that for the specific

purposes of Article 110 and in the context of insolvency, separation pay is deemed as part of the remuneration for services rendered and thus falls within the scope of “wages”. The decision aligns with the previous PCIB case. Thus, separation pay is given the preferential status accorded to wages.

2. **Impact of Article 110 on Civil Code Provisions:**

- Article 110 modifies Article 2244 of the Civil Code, not to the extent of overriding tax claims classified under Articles 2241 and 2242 which are secure lien claims but instead shifts priority within the framework of Article 2244. Specifically:
- Article 110 extends priority for wages beyond the one year before insolvency specified in Article 2244(2).
- Unpaid wages have the highest priority under Article 2244 as modified, outranking other unenumerated claims such as the ninth-priority tax claims under Article 2244(9) if assets fall within the “free property” not subject to liens.

3. **Application of Preferences:**

- The trial court must inventory the Insolvent’s assets, including processing tobacco products and determining the status of importations under BOC custody.
- Claims of BIR for tobacco inspection fees shall take precedence over other creditors as they attach to all the properties of the taxpayer.
- Articles 2241 and 2242 tax liens take precedence on specific properties, and remaining assets (free property) are subject to the modified Article 2244 prioritization.

Doctrine:

- **Broad Interpretation of Wages:** Separation pay is included within the broad interpretation of wages for the purposes of priority in insolvency.
- **Modification by Labor Law:** Article 110 alters the preference for wage claims in insolvency proceedings under the Civil Code.

Class Notes:

Key concepts for this case:

1. **Separation Pay as Wages:** Interpretation of wages to include separation and termination pay.
2. **Priority of Claims in Insolvency:**
 - Special Preferred Credits: Articles 2241 and 2242.
 - Ordinary Preferred Credits: Article 2244, now modified by Article 110.
 - Tax Liens: Overriding preference on specific properties under Articles 2241 and 2242.

3. **Concurrent and Pro Rata Satisfaction:** Non-tax credits are satisfied concurrently from the remaining property value.

Historical Background:

This case sits within the framework of Philippine labor and insolvency law, reflecting a legislative timeline where Labor Code reforms aimed at enhancing workers' rights were enacted by former President Ferdinand Marcos. The friction between the Constitution's protection of workers' rights and the traditional priority of tax claims presents a rich backdrop of evolving welfare policies amid a dictatorial regime.