

Title:

Fritz Bryn Anthony M. Delos Santos vs. Commissioner of Internal Revenue (G.R. No. 215801 & G.R. No. 218924)

Facts:

1. **Background:**

- On October 31, 2012, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular No. 65-2012 (the Circular), imposing Value-Added Tax (VAT) on association dues, membership fees, and other charges collected by condominium corporations.
- Delos Santos resides in Makati City in Classica Tower 2, where he pays condominium association dues to Classica Tower Condominium Association, Inc. (Classica).

2. **Implementation of the Circular:**

- On November 26, 2015, Classica notified unit owners that starting January 3, 2016, it would no longer shoulder VAT on association dues.
- On January 4, 2016, Classica sent Delos Santos a billing statement for his association dues, this time including VAT.
- Delos Santos paid his association dues on January 21, 2016.

3. **Legal Action:**

- Delos Santos filed a Petition for Certiorari under Rule 65 directly before the Supreme Court, challenging the constitutionality of the Circular.
- He alleged the Circular violated substantive due process and expanded the law without legislative basis. He argued the imposition of VAT on association dues was incorrect and caused direct injury.

4. **Procedural History:**

- The Supreme Court required the Commissioner of Internal Revenue to file a comment. Instead, the Office of the Solicitor General (OSG) filed a Manifestation and Motion, aligning with Delos Santos in invalidating the Circular.
- The BIR eventually filed its Comment, asserting that the Circular was a proper exercise of its quasi-legislative power, and the case should have been commenced in the Regional Trial Court.
- Delos Santos reiterated his arguments in a Reply, stating the BIR did not follow the due process in issuing the Circular.

5. **Mootness:**

- Tax Reform for Acceleration and Inclusion (TRAIN) Law amended the tax code to declare that association dues collected by condominium corporations are VAT-exempt, which mooted the Petition.

Issues:

1. **Whether Rule 65 Petition for Certiorari is the appropriate procedure to challenge the Circular.**
2. **Whether the Circular is valid and constitutional.**
3. **Whether the Circular violates substantive due process by expanding the VAT imposition beyond the statutory bounds.**

Court's Decision:

1. **Appropriate Procedure:**

- The Court recognized that while the nature of the Petition was more akin to a declaratory relief, which should be filed before the Regional Trial Court, a Rule 65 Petition can be considered because it raised important constitutional issues.

2. **Validity of the Circular:**

- The Court declared the Circular invalid. The BIR, through the Circular, did not merely interpret the law but substantially changed the nature of tax obligations for condominium corporations.

3. **Substantive Due Process:**

- The Court ruled that the classification of association dues, membership fees, and other charges as subject to VAT and income tax was misplaced. Such dues are not income or compensation for services but are pooled for the maintenance and administration of condominium projects.

4. **Mootness:**

- With the passage of the TRAIN Law exempting these charges from VAT, the case's main issue became moot and academic.

Doctrine:

- **Doctrine of Non-Exclusivity:** The ruling reinforced the principle that a quasi-legislative authority must operate within statutory bounds and cannot expand tax obligations without legislative enactment.

- **Non-Business Nature of Condominium Corporations:** The Court reiterated that association dues collected by condominium corporations do not constitute income or

commercial transactions subject to VAT.

Class Notes:

1. **Key Elements:**

- **Substantive Due Process:** Regulations must align strictly with statutory frameworks and cannot expand obligations beyond what the statute prescribes.
- **Tax Law Interpretation:** Courts limit the taxing authority's interpretative scope to ensure it does not exceed its delegated powers.

2. **Statutory Provisions:**

- **NIRC Section 105 & 108:** Provisions relating to VAT applicability on sale, barter, exchange of goods, and services, which the Court ruled do not extend to association dues purely collected for condominium maintenance.

Historical Background:

- The case was decided in the context of administrative overreach allegations, specifically the BIR's issuance of Circulars that redefined tax obligations. It occurred amid broader tax reforms under the TRAIN Law, reflecting an ongoing effort to streamline and clarify tax laws in the Philippines. The decision underscores judicial checks on tax authorities and emphasizes statutory adherence.