

Title: The Manufacturers Life Insurance Company v. Bibiano L. Meer, Collector of Internal Revenue, 89 Phil. 351 (1951)

Facts:

The Manufacturers Life Insurance Company (MLIC) is a corporation organized in Canada and licensed to engage in life insurance in the Philippines. It maintained a branch office in Manila before and during the Japanese occupation from 1942 to 1945. MLIC issued life insurance policies in the Philippines that included non-forfeiture clauses, such as the “Automatic Premium Loan” clause and the “Cash and Paid-Up Insurance Values” clause.

Due to World War II, MLIC had to close its Manila branch office from 1942 to September 1945. During this period, and up until the end of 1946, the company applied the Automatic Premium Loan clauses when policyholders failed to pay premiums. MLIC’s head office in Toronto advanced the premiums, accumulating a total of PHP 1,069,254.98. The Collector of Internal Revenue assessed a tax of PHP 17,917.12 on these advanced premiums, pursuant to section 255 of the National Internal Revenue Code, which MLIC paid under protest. MLIC filed a complaint to recover the taxes paid, asserting that the advances did not constitute “premiums collected” and were not subject to tax.

The Manila Court of First Instance, under Judge Buenaventura Ocampo, dismissed the complaint, and MLIC appealed the decision to the Supreme Court of the Philippines.

Issues:

1. Whether premium advances made under the Automatic Premium Loan clause are considered “premiums collected” subject to tax.
2. Whether the application of the Automatic Premium Loan clause constitutes “payment in money, notes, credits, or any substitutes for money.”
3. Whether the collection of the deficiency premium taxes constitutes double taxation.
4. Whether the premium advances occurred in Toronto, Canada, or in the Philippines.
5. Whether MLIC was exempt from paying premium taxes during the period from January 1, 1942, to September 30, 1945, because it was not doing business in the Philippines.

Court’s Decision:

The Supreme Court ruled in favor of the Collector of Internal Revenue, addressing each issue as follows:

1. On the issue of whether premium advances under the Automatic Premium Loan clause are “premiums collected” subject to tax:

The Court concluded that the premium advances were equivalent to premiums collected. The Automatic Premium Loan provided funds to pay the premium due, thus maintaining the policy in force. The transaction involved a loan from the insurer to the policyholder, which was then used to pay the premium, resulting in a “collection” under the law.

2. On the issue of whether the advances constituted “payment in money, notes, credits, or any substitute for money”:

The Court found that the premium was considered paid by a “note” or “credit” as outlined in Section 255 of the National Internal Revenue Code. Although the insurer became a creditor for the loan, the premium payment itself was complete.

3. On the matter of double taxation:

The Court dismissed the argument of double taxation. It clarified that taxes were levied on premiums paid in the past (first ten years) and on the subsequent premiums advanced (eleventh year onwards). Regardless of the source of repayment, the advanced premiums themselves were subject to tax.

4. Regarding the location of the premium advances:

The advances were considered made to policyholders in the Philippines, who used them to pay premiums on policies issued within the country. The place of actual disbursement (Toronto or Manila) was irrelevant to the tax liability.

5. On the issue of whether MLIC was doing business during the war years and hence liable for taxes:

The Court determined that MLIC continued operating in the Philippines during the years 1942 to 1945, through interactions with its existing policyholders and the maintenance of investment risks and benefits. Therefore, MLIC was still considered to be doing business in the Philippines and was liable for premium taxes during that period.

Doctrine:

The doctrine established in this case is that premium advances under the Automatic Premium Loan clause are considered “premiums collected” for tax purposes. Such premiums are paid through “notes,” “credits,” or substitutes for money as defined in Section 255 of the National Internal Revenue Code. Even if a corporation temporarily ceases new business operations but continues engaging with its existing policyholders, it remains liable for relevant business taxes.

Class Notes:

- Elements of this Case:
- Definition of “premiums collected.”
- Application of “notes, credits, or substitutes for money” in tax law.
- Concept of double taxation.
- Determination of doing business during wartime suspension.
- Relevant Statutory Provision:
- Section 255, National Internal Revenue Code: Imposes a 1% tax on total premiums collected by insurance companies, irrespective of the form of payment.
- Principles:
- Advances under policy clauses treated as premium payments.
- Liability for business tax regardless of physical office operations if business engagement persists.

#### Historical Background:

During World War II, many companies operating in occupied territories faced operational disruptions. This case arose in the context of the Japanese occupation of the Philippines, where businesses had to adapt to the circumstances, influencing tax assessments and collections. The legal outcome underlined sustained tax obligations despite wartime interruptions and shaped the understanding of business activities in crisis periods.