

Title: Tan Kim Kee vs. Court of Tax Appeals

Facts:

- Preliminary Background:** The case revolves around Tan Kim Kee, a producer of copra, appealing against the majority decision of the Court of Tax Appeals. Copra is produced from coconuts, and Tan employs two methods for its production: sun-dried and kiln-dried. The primary dispute concerns whether the conversion of coconuts to copra constitutes a “process of manufacturing” under tax laws and is thus taxable.
- Sales and Payment of Taxes:** From August 24, 1956, to December 31, 1956, Tan sold copra amounting to ₱17,917.73. He paid a 7% sales tax (₱1,254.24) and a fixed tax (₱40) for 1956 and 1957 according to the National Internal Revenue Code.
- Refund Claims:** Tan filed a claim for a refund of these taxes on September 6, 1957. This was denied on November 22, 1957, prompting Tan to request reconsideration twice. Both requests (on February 7, 1958, and April 30, 1958) were denied by February 13, 1958, and July 1, 1958, respectively.
- Procedural Posture:** Following the denial of refunds, Tan filed a petition for review with the Supreme Court on August 12, 1958. The main legal contention was whether Tan’s process of copra-making could be subjected to sales tax under Republic Act No. 1612 modified tax laws.

Issues:

- Definition of Manufacturing:** Whether the process employed by Tan for copra-making constitutes “manufacturing” as defined under Section 194(x) of the National Internal Revenue Code, as amended by Republic Act No. 1612.
- Tax Exemption Scope:** Whether the legislative amendments under Republic Act No. 1612 intended to restrict agricultural tax exemptions only to products in their original, unmodified state.

Court’s Decision:

- Manufacturing Definition:** The Supreme Court upheld that the conversion of coconut to copra involves processes (unhusking, halving, removal, chopping, and drying) that fit within the definition of “manufacturing.” Therefore, copra-making under the conditions

outlined qualifies as taxable manufacturing during the effective period of Republic Act No. 1612.

2. **Legislative Intent and Exemption:** The Court affirmed the legislative modification under Republic Act No. 1612, which restricted exemptions to agricultural products “in their original form.” The Court recognized the legislative intent to increase the tax base and thus, upheld that during the applicability of Republic Act No. 1612, copra-making was indeed taxable.

Doctrine:

- **Manufacturing Under Tax Code:** The alteration of physical form or substance of an agricultural product by any means (such as drying or processing) can constitute manufacturing, making the product ineligible for tax exemptions reserved for unprocessed agricultural products.

- **Strict interpretation of Tax Exemptions:** Tax exemptions are to be construed strictly against claimants asserting an exemption unless a clear intent of exemption is expressed by legislation.

Class Notes:

- **Key Elements:** Under tax law, the process by which a product is altered from its original state can be considered “manufacturing,” subjecting the product to relevant taxes unless clearly exempted.

- **Statutory Reference:** Republic Act No. 1612 amended tax laws, specifying exemptions for agricultural products “in their original form” and excluding products undergoing “the process of manufacturing” as outlined in Section 194(x).

Historical Background:

- The case is set against the backdrop of mid-20th-century tax law reforms in the Philippines aimed at expanding the taxable base to generate increased state revenue. Republic Act No. 1612 temporarily amended existing laws to narrow tax exemptions for agricultural products, thereby including traditionally non-taxed activities like copra-making within the tax net, reflecting legislative efforts to maximize revenue collection during this period. The subsequent swift legislative repeal (Republic Act No. 1856) and restoration of broader exemptions underscore the complexity and sensitivity of agricultural taxation in the

Philippine legal-political landscape at that time.