

****Title:****

Victorias Milling Co., Inc. vs. Commissioner of Internal Revenue

****Facts:****

1. ****Background:**** Victorias Milling Co., Inc. (VMC) imported sugar bags and materials from September 7, 1959, to August 26, 1960.
2. ****Usage of Importation:**** These imported items were used as containers for the sugar sold by VMC.
3. ****Initial Assessment:**** The Commissioner of Internal Revenue (CIR) assessed that these sugar bags and containers were imported for sale and, as such, subject to the advanced sales tax under sections 183(b) and 190 of the Internal Revenue Code.
4. ****Tax Court's Decision:**** The Court of Tax Appeals (CTA) in CTA Case No. 1106 ruled that these items were not subject to the advance sales tax and ordered CIR to refund VMC the sum of P158,269.61 without interest.
5. ****Appeals:**** Both parties appealed the CTA's decision to the Supreme Court.
 - a. ****CIR's Appeal (G.R. No. 24779):**** CIR contested the CTA's decision, claiming that the sugar bags and containers were imported for sale and thus subject to advanced sales tax.
 - b. ****VMC's Appeal (G.R. No. 24769):**** VMC argued that the refund should include interest because CIR acted arbitrarily, previously ruling that such importations were exempt from sales tax.

****Issues:****

1. ****Whether the sugar bags and materials imported by VMC were subject to advanced sales tax under sections 183(b) and 190 of the Internal Revenue Code.****
2. ****Whether the refund of the protested sales tax should include payment of interest, considering the alleged arbitrariness of the CIR's actions in reversing a previous ruling.****

****Court's Decision:****

1. ****First Issue - Advanced Sales Tax on Imported Sugar Bags and Containers:****
 - a. The Supreme Court referenced its prior decision in Victorias Milling Co. vs. Commissioner of Internal Revenue (G.R. No. L-21171, January 31, 1967).
 - b. The Supreme Court upheld the Tax Court's ruling that under section 188(d) of the Revenue Code, articles subject to tax under section 189 are exempt from sales tax.

- c. VMC paid the 2% tax on the gross value of all sugar manufactured or milled.
- d. As there was no evidence that the price of the bags was separate or not included in the selling price of the sugar, the bags were rightfully excluded from the sales tax.
- e. Since no separate consideration for the bags was shown, there was no sale of bags to be taxed.

2. **Second Issue - Refund of Interest:**

- a. The Supreme Court did not find the CIR to be arbitrary.
- b. The reversal of a prior ruling does not constitute arbitrariness per se.
- c. Arbitrariness would entail inexcusable or obstinate disregard of legal provisions, which was not demonstrated in this case.
- d. Consequently, the refund ordered by the CTA did not need to include interest.

Doctrine:

1. **Article Exemption from Sales Tax:** Section 188(d) of the Revenue Code exempts from sales tax those articles subject to tax under section 189. Hence, when a tax is paid under section 189, the containers carrying such articles are also exempt from additional sales tax.
2. **Interest on Tax Refunds:** A mere reversal of a previous administrative ruling by the CIR does not inherently equate to arbitrariness. For interest on refunds to be granted due to arbitrariness, it must be proven that the administrative action was in clear, inexcusable, or obstinate disregard of legal provisions.

Class Notes:

- **Sections of the Internal Revenue Code:**
- **Section 183(b):** Relates to the imposition of advance sales tax.
- **Section 188(d):** Exempts articles taxed under section 189 from the sales tax.
- **Section 189:** Imposes a 2% tax on the gross value of sugar manufactured or milled.
- **Principle on Sales Tax Application:** If the containers of a taxed product under section 189 do not have their value separately charged, containers are exempt from additional sales tax.
- **Interest on Tax Refunds:** Requires demonstration of administrative arbitrariness beyond the reversal of a prior ruling.

Historical Background:

During the late 1950s and early 1960s, tax policies in the Philippines were undergoing scrutiny and refinements. The case of Victorias Milling Co. arose during this period of rigorous tax enforcement by the Bureau of Internal Revenue (BIR). The Supreme Court's decisions during this era sought to clarify interpretations of the tax code amidst evolving administrative practices. This case specifically highlighted the tension between the taxpayer's interpretations and administrative tax assessments, fostering a foundational doctrine on tax exemptions related to processed goods and their containers, integral to the agricultural and manufacturing sectors in the Philippines.