

**\*\*Title: United States v. Surla, 20 Phil. 163\*\***

**\*\*Facts:\*\***

Between December 29, 1908, and July 11, 1909, Calixto Surla, licensed by the Bureau of Internal Revenue, manufactured and sold 42,000 cigarettes without paying the required tax outlined in section 101 of the Internal Revenue Law. Surla had previously been fined for a similar offense on March 20, 1908. The discrepancy of 42,000 cigarettes was discovered during an inspection by internal-revenue agents Roullven and Moran. These agents found that entry discrepancies in official and private books led to the unreported cigarettes.

Agents initially couldn't access the warehouse because Surla's superintendent, Eulogio Manalang, claimed Surla, holding the key, was asleep. Under pressure, Surla opened the warehouse, revealing the cigarette shortage. Inspection of local stores uncovered cigarettes from Surla's factory with duplicate package numbers.

On July 12, 1909, a re-inspection revealed additional shortages in tobacco materials, further attributed to bookkeeping errors by Manalang. Despite Surla's claim of exclusive management of the warehouse key since his earlier conviction, the trial findings established his complicity in illegally removing cigarettes to avoid paying taxes.

The Court of First Instance convicted Surla under section 57 of Act No. 1189, sentencing him to one year in prison and ordering the confiscation of his factory and assets.

**\*\*Issues:\*\***

1. Whether the statutory provision mandating forfeiture of the factory and its assets is constitutional.
2. Whether the trial court's judgment was defective for not specifying the disposition of confiscated property and proceeds.

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

1. **\*\*Constitutionality of Forfeiture Provisions:\*\***

- The Court held the forfeiture provisions in the Internal Revenue Law as constitutional, citing precedent from U.S. jurisprudence (U.S. v. Stowell, 133 U.S. 1). The forfeiture of property and assets involved in tax evasion was within legal bounds.

2. **\*\*Form of Judgment on Confiscation:\*\***

- The decision emphasized that from a legal standpoint, how the government disposes of the forfeited property or its proceeds is immaterial to the defendant. The forfeited property

belongs entirely to the government upon forfeiture, and the defendant has no claim over the proceeds.

- The Court clarified that section 42, which pertains to the disposal of distrained property for unpaid taxes, is inapplicable here as it involves property retained by the delinquent. In contrast, forfeited property for a crime passes directly to the government, divesting all rights from the convict.

The judgment by the Court of First Instance was affirmed.

**\*\*Doctrine:\*\***

1. **\*\*Forfeiture for Evasion of Taxes:\*\***

The legal doctrine that forfeiture provisions within tax laws are constitutional, as established in *U.S. v. Stowell*, was reaffirmed. This allows for the forfeiture of factories and related assets if involved in tax evasion.

2. **\*\*Defendant's Lack of Standing on Disposition of Forfeited Property:\*\***

Once property is forfeited for a criminal act, the Government owns it completely, and the defendant has no part in or right to the property or its proceeds.

**\*\*Class Notes:\*\***

1. **\*\*Key Elements of the Crime:\*\***

- Defendant's engagement in producing taxable goods.
- Failure to pay required taxes on said goods.
- Prior conviction for similar offenses.
- Evidence of falsified records or books to conceal actual production/sales.

**\*\*Statutory Provision:\*\***

- Section 101 and 57 of Act No. 1189 (Internal Revenue Law).

2. **\*\*Principles:\*\***

- Constitutionality of forfeiture provisions.
- Government ownership of forfeited property post-conviction.
- Defendant's lack of entitlement to proceeds from forfeited assets.

3. **\*\*Simplified Application:\*\***

- In cases of tax evasion involving goods manufacturing, all related property may be subject to forfeiture.
- Discrepancies in production and sales records may indicate fraud and tax evasion.

- Past convictions enhance the penalties for repeated offenses.

**\*\*Historical Background:\*\***

During the U.S. colonial period in the Philippines, strict internal revenue laws were enforced to stabilize the colonial economy. The application of U.S. legislation and interpretations helped structure local jurisprudence on taxation, reflecting the importance placed on tax compliance in promoting financial order and accountability in colonial administration. This case underscored the stringent measures against tax evasion, reinforcing the colonial government's financial regulations and legal principles adapted from U.S. law.