

Tambunting Pawnshop, Inc. v. Commissioner of Internal Revenue

Title: Tambunting Pawnshop, Inc. v. Commissioner of Internal Revenue, 624 Phil. 507 (2009)

Facts:

- **January 15, 2003:** The Commissioner of Internal Revenue (CIR) sent Tambunting Pawnshop, Inc. an assessment notice for various tax deficiencies amounting to P3,550,582.14 for the year 1999.
- **Assessment Breakdown:**
 - Deficiency Value-Added Tax (VAT): P3,055,564.34
 - Deficiency Documentary Stamp Tax (DST) on pawn tickets: P406,092.50
 - Deficiency Withholding Tax on Compensation: P67,201.55
 - Deficiency Expanded Withholding Tax: P21,723.75
- **Petitioner's Protest:**
 - Pawnshops are not subject to VAT based on Section 108 of the National Internal Revenue Code (NIRC).
 - Correct amount of expanded withholding tax on compensation was withheld and remitted.
 - Assessment for withholding tax on compensation should be canceled as P14,398.38 has already been paid.
 - Pawn tickets are not subject to DST as per existing laws and jurisprudence.
- **Court of Tax Appeals (CTA) First Division:**
 - **Ruling:** Tambunting is liable for VAT and DST, but not for withholding tax on compensation and expanded withholding tax.
 - **Disposition:** Petition partially granted.
 - **Motion for Partial Reconsideration:** Denied by the CTA First Division.
 - **Petition for Review to CTA En Banc:** Dismissed by the CTA En Banc.
 - **Motion for Reconsideration by CTA En Banc:** Denied.
 - **Petition for Review on Certiorari:** Filed before the Supreme Court.

Issues:

1. Whether pawnshops are subject to VAT.
2. Whether the pawn tickets issued by pawnshops are subject to DST.
3. Whether petitioner should be liable for surcharges and interest for the tax deficiencies.

Court's Decision:

****1. Liability for VAT:****

- ****Legal Basis:**** Section 108 of the NIRC.
- ****Court's Ruling:**** The Supreme Court referred to its previous decisions, particularly *First Planters Pawnshop, Inc. v. Commissioner of Internal Revenue*, which classified pawnshops as non-bank financial intermediaries subject to the appropriate taxes as per law.
- ****Analysis:****
- ****Legislation Journey:****
- Originally, pawnshops were subject to percentage taxes.
- With the implementation of VAT through R.A. No. 7716, they were classified under "sale or exchange of services."
- R.A. No. 9238 later exempted pawnshops from VAT starting in 2004, reinstating percentage tax instead.
- ****Conclusion:**** Since the imposition of VAT on pawnshops was deferred for tax years 1996 to 2002, Tambunting is not liable for VAT for the tax year 1999.

****2. Liability for DST:****

- ****Legal Basis:**** Section 195 of the NIRC.
- ****Court's Ruling:**** Pawn tickets are subject to DST since they function as evidence for pawn transactions, which are pledges requiring documentary stamps.
- ****Analysis:****
- ****Section 195 Clarification:**** It specifies that any pledge made as security for payment of a sum of money is subject to DST.
- ****Jurisprudence:**** The Supreme Court reinforced its stance from *Michel J. Lhuillier Pawnshop, Inc. v. Commissioner of Internal Revenue*, asserting that although pawn tickets are not securities or printed evidence of indebtedness, they are taxable proof of transactions.

****3. Surcharges and Interest:****

- ****Argument:**** Tambunting claimed good faith reliance on prior CIR and CTA rulings.
- ****Court's View:**** Good faith and honest belief in the non-liability of taxes, based on existing interpretations from authorities, justify a waiver of surcharges and interest.

****Doctrine:****

- ****VAT and Non-Bank Financial Intermediaries:**** Prior to 2003, pawnshops were classified as non-bank financial intermediaries subject to percentage tax and were not subject to the 10% VAT.
- ****Documentary Stamp Tax (DST):**** Pawn tickets are subject to DST since they evidence

the exercise of a taxable privilege—the pledge.

****Class Notes:****

- ****Key Elements:****

- VAT applicability on non-bank financial intermediaries (including pawnshops).
- DST on instruments evidencing a pledge, such as pawn tickets.

- ****Statutory Provisions:****

- ****Section 108 of NIRC:**** Definitions and taxes applicable to “sale or exchange of services.”

- ****Section 195 of NIRC:**** DST on pledges and similar security agreements.

- ****Application:****

- VAT deferred on pawnshops until January 1, 2003.
- Pawn tickets considered under the ambit of DST due to their role in pledge transactions.

****Historical Background:****

This case is part of a broader legal evolution concerning the tax liabilities of pawnshops in the Philippines. Initial tax treatment evolved through multiple legislative changes and judicial interpretations. The case reflects the complexity of tax classifications and how specific business types are re-evaluated over time in response to legislative amendments and economic considerations. The ruling illustrates how historical legislative changes (e.g., VAT laws, percentage tax structures) specifically impacted financial intermediaries and their subsequent interpretations by courts.