

WALTER LUTZ, AS JUDICIAL ADMINISTRATOR OF THE INTESTATE ESTATE OF THE DECEASED ANTONIO JAYME LEDESMA, PLAINTIFF AND APPELLANT, VS. J. ANTONIO ARANETA, AS THE COLLECTOR OF INTERN...

G.R. No. L-7859. December 22, 1955

Ponente: REYES, J.B.L., J.

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REYES, J.B.L., J.:

This case was initiated in the Court of First Instance of Negros Occidental to test the legality of the taxes imposed by Commonwealth Act No. 567, otherwise known as the Sugar Adjustment Act.

Promulgated in 1940, the law in question opens (section 1) with a declaration of emergency, due to the threat to our industry by the imminent imposition of export taxes upon sugar as provided in the Tydings-McDuffie Act, and the "eventual loss of its preferential position in the United States market"; wherefore, the national policy was expressed "to obtain a readjustment of the benefits derived from the sugar industry by the component elements thereof" and "to stabilize the sugar industry so as to prepare it for the eventuality of the loss of its preferential position in the United States market and the imposition of the export taxes."

In section 2, Commonwealth Act 567 provides for an increase of the existing tax on the manufacture of sugar, on a graduated basis, on each picul of sugar manufactured; while section 3, levies on owners or persons in control of lands devoted to the cultivation of sugar cane and ceded to others for a consideration, on lease or otherwise—

"a tax equivalent to the difference between the money value of the rental or consideration collected and the amount representing 12 per centum of the assessed value of such land."

According to section 6 of the law—

"Sec. 6. All collections made under this Act shall accrue to a special fund in the Philippine Treasury, to be known as the 'Sugar Adjustment and Stabilization Fund,' and shall be paid out only for any or all of the following purposes or to attain any or all of the following objectives, as may be provided by law.

First, to place the sugar industry in a position to maintain itself, despite the gradual loss of the preferential position of the Philippine sugar in the United States market, and ultimately to insure its continued existence notwithstanding the loss of that market and the consequent necessity of meeting competition in the free markets of the world;

Second, to readjust the benefits derived from the sugar industry by all of the component elements thereof—the mill, the landowner, the planter of the sugar cane, and the laborers in the factory, and in the field—so that all might continue profitably to engage therein;"

Third, to limit the production of sugar to areas more economically suited to the production thereof; and

Fourth, to afford labor employed in the industry a living wage and to improve their living and working

conditions: Provided, That the President of the Philippines may, until the adjournment of the next regular session of the National Assembly, make the necessary disbursements from the fund herein created (1) for the establishment and operation of sugar experiment station, or stations and the undertaking of researchers (a) to increase the recoveries of the centrifugal sugar factories with the view of reducing manufacturing costs, (b) to produce and propagate higher yielding varieties of sugar cane moire adaptable to different district conditions in the Philippines, (c) to lower the costs of raising sugar Cane, (d) to improve the buying quality of denatured alcohol from molasses for motor fuel, (e) to .determine the possibility of utilising the other by-products of the industry, (f) to determine what crop or crops are suitable for rotation and for the utilization of excess cane lands, and (g) on other problems the solution of which would help rehabilitate and stabilize the industry, and (2) for the improvement of living and working conditions in sugar mills and sugar plantations, authorizing him to organize the necessary agency or agencies to take charge of the expenditure and allocation of said funds to carry out the purpose hereinbefore enumerated, and, likewise, authorizing the disbursement from the fund herein created of the necessary amount; or amounts needed for salaries, wages, travelling expenses, equipment, and other sundry expenses of said agency or agencies."

Plaintiff, Walter Lutz, in his capacity as Judicial Administrator of the Intestate Estate of Antonio Jayme Ledesma, seeks to recover from the Collector of Internal Revenue the sum of P14,666.40 paid by the estate as taxes, under section 3 of the Act, for the crop years 1948-1949 and 1949-1950; alleging that such tax is unconstitutional and void, being levied for the aid and support of the sugar industry exclusively, which in plaintiff's opinion is not a public purpose for which a tax may be constitutionally levied. The action having been dismissed by the Court of First Instance, the plaintiffs appealed the ease directly to this Court (Judiciary Act, section 17),

The basic defect in the plaintiff's position is his assumption that the tax provided for in Commonwealth Act No. 567 is a pure exercise of the taxing power. Analysis of the Act; and particularly of section 6 (heretofore quoted in full), will show that the tax is levied with a regulatory purpose, to provide means for the rehabilitation and stabilization of the threatened sugar industry. In other words, the act is primarily an exercise of the police power.

This Court can take judicial notice of the fact that sugar production is one of the great industries of our nation, Sugar occupying a leading position among its export products ; that it gives employment to thousands of laborers in fields and factories; that it is a great source of the state's wealth, is one of the important sources of foreign exchange needed by our government, and is thus pivotal in the plans of a regime committed to a policy of currency stability. Its promotion, protection and advancement, therefore redounds greatly to the general welfare. Hence it was competent for the legislature to find that the general welfare demanded that the sugar industry should be stabilized in turn; and in the wide field of its police power, the law-making body could provide that the distribution of benefits therefrom be readjusted among its components to enable it to resist the added strain of the increase in taxes that it had to sustain (*Sligh vs. Kirkwood*, 237 U. S. 52, 59 L. Ed. 835; *Johnson vs. State ex rel. Marey*, 99 Fla. 1311, 128 So. 853.; *Maxcy Inc. vs. Mayo*, 103 Fla. 552, 139 So. 121).

As stated in *Johnson vs. State ex rel. Marey*, with reference to the citrus industry in Florida—

"The protection of a large industry constituting one of the great sources of the state's wealth and therefore directly or indirectly affecting the welfare of so great a portion of the population of the State is affected to such an extent by public interests as to be within the police power of the sovereign." (128 So. 857).

Once it is conceded, as it must, that the protection and promotion of the sugar industry is a matter of public concern, it follows that the Legislature may determine within reasonable bounds what is necessary for its protection and expedient for its promotion'. Here, the legislative discretion must be allowed full play, subject only to the test of reasonableness; and it is not contended that the means provided in section 6 of the law (above quoted) bear no relation to the objective pursued or are oppressive in character. If objective and methods are alike constitutionally valid, no reason is seen why the state may not levy taxes to raise funds for their prosecution and

attainment. Taxation may be made the implement of the state's police power (*Great Atl. & Pac. Tea Co. vs. Grosjean*, 301 U. S. 412, 81 L. Ed. 1193; *U. S. vs. Butler*, 297 U. S. 1, 80 L. Ed. 477; *M'Culloch vs. Maryland*, 4 Wheat. 316, 4 L. Ed. 579).

That the tax to be levied should burden the sugar producers themselves can hardly be a ground of complaint; indeed, it appears rational that the tax be obtained precisely from those who are to be benefited from the expenditure of the funds derived from it. At any rate, it is inherent in the power to tax that a state be free to select the subjects of taxation, and it has been repeatedly held that "inequalities which result from a singling out of one particular class for taxation, or exemption infringe no constitutional limitation" (*Carmichael vs. Southern Coal & Coke Co.*, 301 U. S. 495, 81 L. Ed. 1245, citing numerous authorities, at p. 1251).

From the point of view we have taken it appears of no moment that the funds raised under the Sugar Stabilization Act, now in question, should be exclusively spent in aid of the sugar industry, since it is that very enterprise that is being protected. It may be that other industries are also in need of similar protection; but the legislature is not required by the Constitution to adhere to a policy of "all or none." As ruled in *Minnesota ex rel. Pearson vs. Probate Court*, 309 U. S. 270, 84 L. Ed. 744, "if the law presumably hits the evil where it is most felt, it is not to be overthrown because there are other instances to which it might have been applied;" and that "the legislative authority, exerted within its proper field, need not embrace all the evils within its reach" (*N. L. R. B. vs. Jones & Laughlin Steel Corp.* 301 U. S. 1, 81 L. Ed. 893).

Even from the standpoint that the Act is a pure tax measure, it cannot be said that the devotion of tax money to experimental stations to seek increase of efficiency in sugar production, utilization of by-products and solution of allied problems, as well as to the improvement of living and working conditions in sugar mills or plantations, without any part of such money being channeled directly to private persons, constitutes expenditure of tax money for private purposes, (compare *Everson vs. Board of Education*, 91 L. Ed. 472, 168 ALR 1392, 1400).

The decision appealed from is affirmed, with costs against appellant. So ordered.

Paras, C. J., Bengzon, Padilla, Reyes, A., Jugo, Bautista Angelo, Labrador, and Concepcion, JJ., concur.

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