

COLLECTOR OF INTERNAL REVENUE, PETITIONER, VS. MARCELO STEEL CORPORATION AND COURT OF TAX APPEALS, RESPONDENTS.

G.R. No. L-9248. October 31, 1956

Ponente: LABRADOR, J.

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LABRADOR, J.:

This is an appeal from a judgment of the Court of Tax Appeals, declaring respondent Marcelo Steel Corporation exempt from the payment of the donee's gift tax on six parcels of land received by the said respondent from the Philippine Land Improvement Co., and ordering petitioner herein Collector of Internal Revenue to refund to said respondent the sum of P4,064.25, which was assessed and collected from said respondent.

It appears that on April 24, 1951, the Philippine Land Improvement Co. donated to the respondent corporation six parcels of land, designated as road lots Nos. 7-A, 7-B, 8, 9-B-2, 10-B-1 and 11-A of PSD 29930. These lots are found between 33 lots belonging to respondents herein, and served as passageways between said 33 parcels of land owned by the donee. The donee wanted that said parcels form one contiguous whole by the possession of said six road lots. The donation was accepted and the respondent filed a return. Thereupon the Collector of Internal Revenue made an assessment on the donation and as respondent would not conform to the assessment, it presented a petition in the Court of Tax Appeals, asking for the reversal of the assessment and the refund of the sum assessed and paid.

It is to be noted that according to the stipulation of facts the respondent corporation started the construction of its nail factory as early as 1950, and that prior to April 24, 1951, it had been manufacturing nails in its factories occupying the six lands donated by the Philippine Land Improvement Co.

The Court of Tax Appeals held that the exemption provided in section 1 of Republic Act No. 35 refers to taxes directly payable by the new industry. It also held that as the exemption extends to all taxes the exemption should be liberally construed to carry out the intention of the Legislature to help the new industries.

On this appeal the Solicitor General submits the following contentions: That the exemption contemplates only direct taxes and not indirect ones; that the interpretation of the Law by the Secretary of Finance is to the effect that it refers only to taxes in respect to the manufacture of nails; that the exemption is not clearly included within the language of the legal provision; and that the exemption granted should be strictly construed. It is true that the exemption applies to all taxes directly payable, but the law adds a condition in that said taxes must be "in respect to said industry." This limitation was clearly overlooked by the Court of Tax Appeals. Granting that in the legislative proceedings for the approval of the law a Congressman who sponsored the same declared that the purpose of the law is "to exempt new and necessary industry from the payment of all internal revenue taxes/ said statement cannot override the express limitation in the law that the taxes from which the exemption is made must be payable by an industry "in respect thereto." Not all possible transactions or activities of industries are directly related thereto. The tax on products manufactured for the industry, the occupation or business tax thereon, the import or compensating tax on machineries used therein, the tax on gasoline and oils necessary to move or operate

its machineries—from all of these it would certainly be exempt because they are absolutely essential in the operation and maintenance of the industry. The purchase of the original site may perhaps be a transaction in respect to the industry because it is necessary and essential to the establishment of its original plant. But the acquisition by donation of lots contiguous to the original lots, after the operation had lasted some few years, no longer falls under the above category. The convenience that the new lots contribute should not justify further extension of the exemption. Such a course would lead to exemption from all taxes, whereas the law is restrictive in its language and limits said exemption only to those that directly relate to the new industry. We hold that the new acquisition is beyond the intent and spirit of the legislation in question.

The decision appealed from is hereby reversed and the appellee's action for refund is hereby dismissed. Without costs.

Paras, C. J., Padilla, Montemayor, Bautista Angelo, Concepcion, Reyes, J. B. L., Endencia, and Felix, JJ., concur.

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