

REPUBLIC OF THE PHILIPPINES, PLAINTIFF AND APPELLEE, VS. MAMBULAO LUMBER COMPANY, ET AL., DEFENDANTS AND APPELLANTS.

G. R. No. L-17725. February 28, 1962

Ponente: BARRERA, J.

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BARRERA, J.:

From the decision of the Court of First Instance of Manila (in Civil Case No. 34100) ordering it to pay to plaintiff Republic of the Philippines the sum of P4,802.37 with 6% interest thereon from the date of the filing of the complaint until fully paid, plus costs, defendant Mambulao Lumber Company interposed the present appeal.[1]

The facts of the case are briefly stated in the decision of the trial court, to wit:

"The facts of this case are not contested and may be briefly summarized as follows: (a) under the first cause of action, for forest charges covering the period from September 10, 1952 to May 24, 1953, defendants admitted that they have a liability of P587.37, which liability is covered by a bond executed by defendant General Insurance & Surety Corporation for Mambulao Lumber Company, jointly and severally in character, on July 29, 1953, in favor of herein plaintiff; (b) under the second cause of action, both defendants admitted a joint and several liability in favor of plaintiff in the sum of P286.70, also covered by a bond dated November 27, 1953; and (c) under the third cause of action, both defendants admitted a joint and several liability in favor of plaintiff for P3,928.30, also covered by a bond dated July 20, 1954. These three liabilities aggregate to P4,802.37. If the liability of defendants in favor of plaintiff in the amount already mentioned is admitted, then what is the defense interposed by the defendants? The defense presented by the defendants is quite unusual in more ways than one. It appears from Exh. 3 that from July 21, 1948 to December 29, 1956, defendant Mambulao Lumber Company paid to the Republic of the Philippines P8,200.52 for 'reforestation charges' and for the period commencing from April 30, 1947 to June 24, 1948, said defendant paid P927.08 to the Republic of the Philippines for 'reforestation charges'. These reforestation charges were paid to the plaintiff in pursuance of Section 1 of Republic Act 115 which provides that there shall be collected, in addition to the regular forest charges provided under Section 264 of Commonwealth Act 466 known as the National Internal Revenue Code, the amount of P0.50 on each cubic meter of timber * * * cut out and removed from any public forest for commercial purposes. The amount collected shall be expended by the director of forestry, with the approval of the secretary of agriculture and commerce, for reforestation and afforestation of water sheds, denuded areas * * * and other public forest lands, which upon investigation, are found needing reforestation or afforestation * * *. The total amount of the reforestation charges paid by Mambulao Lumber Company is P9,127.50, and it is the contention of defendant Mambulao Lumber Company that since the Republic of the Philippines has not made use of those reforestation charges collected from it for reforestating the denuded area of the land covered' by its license, the Republic of the Philippines, should refund said amount, or, if it cannot be refunded, at least it should be compensated with what Mambulao Lumber Company owed the Republic of the Philippines for reforestation charges. In line with these thought, defendant Mambulao Lumber Company wrote the director of forestry, on February 21, 1957 letter Exh. 1, in paragraph 4 of which said defendant requested 'that our account with your bureau be credited with all the reforestation charges that you have imposed on us from July 1, 1947 to June 14, 1956, amounting to around P2,988.62. * * *'. This letter of defendant Mambulao Lumber

Company was answered by the director of forestry on March 12, 1957, marked Exh. 2, in which the director of forestry quoted an opinion of the secretary of justice, to the effect that he has no discretion to extend the time for paying the reforestation charges and also explained why not all denuded areas are being reforested."

The only issue to be resolved in this appeal is whether the sum of P9,127.50 paid by defendant-appellant company to plaintiff-appellee as reforestation charges from 1947 to 1956 may be set off or applied to the payment of the sum of P4,802.37 as forest charges due and owing from appellant to appellee. It is appellant's contention that said sum of P9,127.50, not having been used in the reforestation of the area covered by its license, the same is refundable to it or may be applied in compensation of said sum of P4,802.37 due from it as forest charges.

We find appellant's claim devoid of any merit. Section 1 of Republic Act No. 115, provides:

"SECTION 1. There shall be collected, in addition to the regular forest charges provided for under section two hundred and sixty-four of Commonwealth Act Numbered Four Hundred sixty-six, known as the National Internal Revenue Code, the amount of fifty centavos on each cubic meter of timber for the first and second groups and forty centavos for the third and fourth groups cut out and removed from any public forest for commercial purposes. The amount collected shall be expended by the Director of Forestry, with the approval of the Secretary of Agriculture and Natural Resources (Commerce), for reforestation and afforestation of watersheds, denuded areas and cogon and open lands within forest reserves, communal forest, national parks, timber lands, sand dunes, and other public forest lands, which, upon investigation, are found needing reforestation or afforestation, or needing to be under forest cover for the growing of economic trees for timber, tannin, oils, gums, and other minor forest products or medicinal plants, or for watersheds protection, or for prevention of erosion and floods and preparation of necessary plans and estimate of costs and for reconnaissance survey of public forest lands and for such other expenses as may be deemed necessary for the proper carrying out of the purposes of this Act.

"All revenues collected, by virtue of, and pursuant to, the provisions of the preceding paragraph and from the sale of barks, medicinal plants and other products derived from plantations as herein provided shall constitute a fund to be known as Reforestation Fund, to be expended exclusively in carrying out the purposes provided for under this Act. All provincial or city treasurers and their deputies shall act as agents of the Director of Forestry for the collection of the revenues or incomes derived from the provisions of this Act." (Italics supplied.)

Under this provision, it seems quite clear that the amount collected as reforestation charges from a timber licensee or concessionaire shall constitute a fund to be known as the Reforestation Fund, and that the same shall be expended by the Director of Forestry, with the approval of the Secretary of Agriculture and Natural Resources for the reforestation or afforestation, among others, of denuded areas which, upon investigation, are found to be needing reforestation or afforestation. Note that there is nothing in the law which requires that the amount collected as reforestation charges should be used exclusively for the reforestation of the area covered by the license of a licensee or concessionaire, and that if not so used, the same should be refunded to him. Observe too, that the licensee's area may or may not be reforested at all, depending on whether the investigation thereof by the Director of Forestry shows that said area needs reforestation. The conclusion seems to be that the amount paid by a licensee as reforestation charges is in the nature of a tax which forms a part of the Reforestation Fund, payable by him irrespective of whether the area covered by his license is reforested or not. Said fund, as the law expressly provides, shall be expended in carrying out the purposes provided for thereunder, namely, the reforestation or afforestation, among others, of denuded areas needing reforestation or afforestation.

Appellant maintains that the principle of compensation in Article 1278 of the new Civil Code^[2] is applicable, such that the sum of P9,127.50 paid by it as reforestation charges may compensate its indebtedness to appellee in the sum of P4,802.37 as forest charges. But in the view we take of this case, appellant and appellee are not mutually creditors and debtors of each other. Consequently, the law on compensation is inapplicable. On this

point, the trial court correctly observed:

"Under Article 1278, NCC, compensation should take place when two persons in their own right are creditors and debtors of each other. With respect to the forest charges which the defendant Mambulao Lumber Company has paid to the government, they are in the coffers of the government as taxes collected, and the government does not owe anything to defendant Mambulao Lumber Company. So, it is crystal clear that the Republic of the Philippines and the Mambulao Lumber Company are not creditors and debtors of each other, because compensation refers to mutual debts. * * *."

And the weight of authority is to the effect that internal revenue taxes, such as the forest charges in question, can not be the subject of set-off or compensation.

"A claim for taxes is not such a debt, demand, contract or judgment as is allowed to be set-off under the statutes of set-off, which are construed uniformly, in the light of public policy, to exclude the remedy in an action or any indebtedness of the state or municipality to one who is liable to the state or municipality for taxes. Neither are they a proper subject of recoupment since they do not arise out of the contract or transaction sued on. * * *." (80 C.J.S. 73-74.)

"The general rule, based on grounds of public policy is well-settled that no set-off is admissible against demands for taxes levied for general or local governmental purposes. The reason on which the general rule is based, is that taxes are not in the nature of contracts between the party and party but grow out of a duty to, and are the positive acts of the government, to the making and enforcing of which, the personal consent of individual taxpayers is not required. * * * If the taxpayer can properly refuse to pay his tax when called upon by the Collector, because he has a claim against the governmental body which is not included in the tax levy, it is plain that some legitimate and necessary expenditure must be curtailed. If the taxpayer's claim is disputed, the collection of the tax must await and abide the result of a lawsuit, and meanwhile the financial affairs of the government will be thrown into great confusion." (47 Am. Jur. 766-767.)

Wherefore, the judgment of the trial court appealed from is hereby affirmed in all respects, with costs against the defendant-appellant. So ordered.

Bengzon, C. J., Padilla, Bautista Angelo, Labrador, Concepcion, Reyes, J. B. L., Paredes, Dizon, and De Leon, JJ., concur.

[1] Originally appealed to the Court of Appeals, but later certified to us by said court, on the ground that it involves questions of law only.

[2] ART. 1278. Compensation shall take place when two persons, in their own right, are creditors and debtors of each other."

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