

LAGUNA TRANSPORTATION CO., INC., PETITIONER AND APPELLANT, VS. SOCIAL SECURITY SYSTEM, RESPONDENT AND APPELLEE.

G.R. No. L-14606. April 28, 1960

Ponente: BARRERA, J.

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BARRERA, J.:

On January 24, 1958, petitioner Laguna Transportation Co., Inc. filed with the Court of First Instance of Laguna a petition praying that an order be issued by the court declaring that it is not bound to register as a member of respondent Social Security System and, therefore, not obliged to pay to the latter the contributions required under the Social Security Act.[1] To this petition, respondent filed its answer on February 11, 1958 praying for its dismissal due to petitioner's failure to exhaust administrative remedies, and for a declaration that petitioner is covered by said Act, since the latter's business has been in operation for at least 2 years prior to September 1, 1957.

On February 11, 1958, respondent filed a motion for preliminary hearing on its defense that petitioner failed to exhaust administrative remedies. When the case was called for preliminary hearing, it was postponed by agreement of the parties. Subsequently, it was set for trial. On the date of the trial, the parties agreed to present, in lieu of any other evidence, a stipulation of facts, which they did on May 27, 1958, as follows:

"1. That petitioner is a domestic corporation duly organized and existing under the laws of the Philippines, with principal place of business at Biñan, Laguna;

"2. That respondent is an agency created under Republic Act No. 1161, as amended by Republic Act No. 1792, with the principal place of business at the new GSIS Bldg., corner Arroceros and Concepcion Streets, Manila, where it may be served with summons;

"3. That respondent has served notice upon the petitioner requiring it to register as member of the System and to remit the premiums due from all the employees of the petitioner and the, contribution of the latter to the System beginning the month of September, 1957;

"4. That sometime in 1949, the Biñan Transportation Co., a corporation duly registered with the Securities and Exchange Commission, sold part of the lines and equipment it operates to Gonzalo Mercado, Artemio Mercado, Florentino Mata and Dominador Vera Cruz;

"5. That after the sale, the said vendees formed an unregistered partnership under the name of Laguna Transportation Company which continued to operate the lines and equipment bought from the Biñan Transportation Company, in addition to new lines which it was able to secure from the Public Service Commission;

"6. That the original partners forming the. Laguna Transportation Company, with the addition of two new members, organized a corporation known as the Laguna Transportation Company, Inc., which was registered with the Securities and Exchange Commission on June 20, 1956, and which corporation is the plaintiff now in this case;

"7. That the incorporators of the Laguna Transportation Company, Inc., and their corresponding shares are as follows:

Name

No. of Shares

Amount

Subscribed

Amount

Paid

"Dominador Cruz

333 shares

P33,300.00

P9,160.81

Maura Mendoza

333 shares

33,300.00

9,160.81

Gonzalo Mercado

66 shares

6,600.00

1,822.49

Artemio Mercado

94 shares

9,400.00

2,565.90

Florentino Mata

110 shares

11,000.00

3,021.54

Sabina Borja

64 shares

6,400.00

1,750.00

1,000 shares

P100,000.00

P27,481.55

"8. That the corporation continued the same transportation business of the unregistered partnership;

"9. That the plaintiff filed on August 30, 1957 an Employee's Data Record * * * and a supplemental Information Sheet * * *;

"10. That prior to November 11, 1957, plaintiff requested for exemption from coverage by the System on the ground that it started operation only on June 20, 1956, when it was registered with the Securities and Exchange Commission but on November 11, 1957, the Social Security System notified plaintiff that it was covered;

"11. On November 14, 1957, plaintiff through counsel sent a letter to the Social Security System contesting the claim of the System that plaintiff was covered, * * *;

"12. On November 27, 1957, Carlos Sanchez, Manager of the Production Department of the respondent System for and in behalf of the Acting Administrator, informed plaintiff that plaintiff's business has been in actual operation for at least two years, * * *;"

On the basis of the foregoing stipulation of facts, the court, on August 15, 1958, rendered a decision the dispositive part of which, reads:

"Wherefore, the Court is of the opinion and so declares that the petitioner was an employer engaged in business as common carrier which had been in operation for at least two years prior to the enactment of Republic Act No. 1161, as amended by Republic Act 1792 and by virtue thereof, it was subject to compulsory coverage under said law. * * *."

From this decision, petitioner appealed directly to us, raising purely questions of law.

Petitioner claims that the lower court erred in holding that it is an employer engaged in business as a common carrier which had been in operation for at least 2 years prior to the enactment of the Social Security Act and, therefore, subject to compulsory coverage thereunder.

Section 9 of the Social Security Act, in part, provides:

"Sec. 9. Compulsory Coverage.—Coverage in the System shall be compulsory upon all employees between the ages of sixteen and sixty years, inclusive, if they have been for at least six months in the service of an employer who is a member of the System. Provided, That the Commission may not compel any employer to become a member of the System unless he shall have been in operation for at least two years * * *." (Italics supplied.)

It is not disputed that the Laguna Transportation Company, an unregistered partnership composed of Gonzalo

Mercado, Artemio Mereado, Florentina Mata, and Dominador Vera Cruz, commenced the operation of its business as a common carrier on April 1, 1949. These 4 original partners, with 2 others (Maura Mendoza and Sabina Borja) later converted the partnership into a corporate entity, by registering its articles of incorporation with the Securities and Exchange Commission on June 20, 1956. The firm name "Laguna Transportation Company" was not altered, except with the addition of the word "Inc." to indicate that petitioner was duly incorporated under existing laws. The corporation continued the same transportation business of the unregistered partnership, using the same lines and equipment. There was, in effect, only a change in the form of the organization of the entity engaged in the business of transportation of passengers. Hence, said entity as an employer engaged in business, was already in operation for at least 3 years prior to the enactment of the Social Security Act on June 18, 1954 and for at least two years prior to the passage of the amendatory act on June 21, 1957. Petitioner argues that, since it was registered as a corporation with the Securities and Exchange Commission only on June 20, 1956, it must be considered to have been in operation only on said date. While it is true that a corporation once formed is conferred a juridical personality separate and distinct from the persons composing it, it is but a legal fiction introduced for purposes of convenience and to subserve the ends of justice. The concept cannot be extended to a point beyond its reasons and policy, and when invoked in support of an end subversive of this policy, will be disregarded by the courts. (13 Am. Jur. 160.)

"If any general rule can be laid down, in the present state of authority, it is that a corporation will be looked upon as a legal entity as a general rule, and until sufficient reason to the contrary appears; but, when the notion of legal entity is used to defeat public convenience, justify wrong, protect fraud, or defend crime, the law will regard the corporation as an association of persons." (1 Fletcher Cyclopedic Corporations [Perm. Ed.] 135-136; U.S. Milwaukee Refrigeration Transit Co., 142 Fed. 247, cited in Koppel Philippines, Inc. vs. Yatco, 43 Off. Gaz., 4604.)

To adopt petitioner's argument would defeat, rather than promote, the ends for which the Social Security Act was enacted. An employer could easily circumvent the statute by simply changing his form of organization every other year, and then claim exemption from contribution to the System as required, on the theory that, as a new entity, it has not been in operation for a period of at least 2 years. The door to fraudulent circumvention of the statute would, thereby, be opened.

Moreover, petitioner admitted that as an employer engaged in the business of a common carrier, its operation commenced on April 1, 1949 while it was a partnership and continued by the corporation upon its formation on June 20, 1956. Unlike in the conveyance made by the Biñan Transportation Company to the partners Gonzalo Mercado, Artemio Mercado, Florentino Mata, and Dominador Vera Cruz, no mention whatsoever is made either in the pleadings or in the stipulation of facts that the lines and equipment of the unregistered partnership had been sold and transferred to the corporation, petitioner herein. This omission, to our mind, clearly indicates that there was, in fact, no transfer of interest, but a mere change in the form of the organization of the employer engaged in the transportation business, i.e., from an unregistered partnership to that of a corporation. As a rule, courts will look to the substance and not to the form. (Colonial Trust Co. vs. Montollo Eric Works, 172 Fed. 310; Metropolitan Holding Co. vs. Snyder, 79 F. 2d 263, 103 A.L.R. 612; Arnold vs. Willits, et al., 44 Phil., 634; 1 Fletcher Cyclopedic Corporations [Perm. Ed.] 139-140.)

Finally, the weight of authority supports the view that where a corporation was formed by, and consisted of members of a partnership whose business and property was conveyed and transferred to the corporation for the purpose of continuing its business, in payment for which corporate capital stock was issued, such corporation is presumed to have assumed partnership debts, and is prima facie liable therefor. (Stowell vs. Garden City News Corps., 57 P. 2d 12; Chicago Smelting & Refining Corp. vs. Sullivan, 246 IU, App. 538; Ball vs. Bros., 83 June 19, N.Y. Supp. 692.) The reason for the rule is that the members of the partnership may be said to have simply put

on a new coat, or taken on a corporate cloak, and the corporation is a mere continuation of the partnership. (8 Fletcher Cyclopedia Corporations [Perm. Ed.] 402-411.)

Wherefore, finding no error in the judgment of the court a quo, the same is hereby affirmed, with costs against petitioner-appellant. So ordered.

Paras, C. J., Bengzon, Montemayor, Bautista Angelo, Labrador, Concepcion and Gutierrez David, JJ., concur.
Padilla and Endencia, JJ., on leave, took no part.

[1] Rep. Act No. 1161, as amended by Rep. Act No. 1792, which took effect on June 21, 1957.

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