

TAN KIM KEE, PETITIONER, VS. THE COURT OF TAX APPEALS, ET AL., RESPONDENTS.

G. R. No. L-18080. April 22, 1963

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

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

Appeal from the majority decision of the Court of Tax Appeals affirming the denial of a claim for refund of fixed and sales taxes.

The case was submitted before the tax court under a stipulation of facts, as follows:

- "1. The petitioner Is a producer of copra which he sells to copra exporters in Davao City.
2. Petitioner produces copra in two ways, namely, the sun-dried method and the kiln-dried-metnod.
3. Under the sun-dried method employed by petitioner, the nuts are first split into halves, and are dried under the sun to partly loosen the meat from the shell. After one or two days of drying in that state, the meat is removed from the shell "with an instrument' designed for the purpose. To facilitate drying and handling, the meat or removed is chopped into small pieces and the same is dried, under the sun for at least three days or until its moisture content is reduced to a minimum acceptable in the market.
4. The processes involved In copra-making under the kiln-dried method employed by the petitioner are the same as the sun-dried method described above except that in the latter method the nuts are first unhusked before being split into halves and the meat is dried in a kiln or oven heated with fuel. Further, the drying process (18-24 hours) under the kiln-dried method is shorter than the sun-dried method.
5. For the period from August 24, 1956 to December 31, 1956, petitioner's gross sales of copra produce⁴ by him amounted to P17,917.73 on which he paid to the treasurer of Dayao City, on January 10, 1957, the sum of P1,254.24 as the 7% sales tax imposed by section 186 o& the National Internal Revenue Code, as amended by Republic Act No. 1612.
6. Petitioner paid also to, the same official on the same date, fixed taxes (c-14) of P40.00 for the years 1956 and 1957, pursuant to section 182 of the said code.
7. For the payment of the above-mentioned sales and fixed taxes, BIR official receipts No. C-146544 and C-14645, respectively, were issued to the petitioner.
8. On September 6, 1957, petitioner filed with respondent a claim for refund of the aforesaid taxes Which claim was denied by the latter on November 22, 1957.
9. On February 7, 1958, petitioner filed with respondent a request for reconsideration of the denial of his claim for refund but said request was denied on February 13, 1958.
10. Petitioner filed on April 30, 1958 his second request for reconsideration which was denied on July 1, 1958.
11. On August 12, 1958 petitioner filed with this Honorable Court the present petition for review which was

answered by respondent on September 26, 1958."

Not stipulated but nevertheless admitted in the pleadings is the additional fact that the petitioner is a producer of copra out of his coconut plantation in Sta. Cruz, Davao. The petitioner ascribes the following errors against the lower court:

"I. The Tax Appeals Court erred in holding that the mere drying out process by which the coconuts produced from petitioner plantation are converted into copra (dried coconut), constitutes manufacturing as defined in section 194(x) of the Tax Code.

"II. The Tax Appeals Court erred in failing to consider the absurd, illogical and mischievous results that would necessarily follow from its interpretation of section 194 (x) of said code, contrary to the consistent legislative policy of encouraging farmers by exempting their products from taxation."

This case involves an interpretation of Section 188 (b) of the Tax Code, as amended by the shortlived revenue statute, Republic Act No. 1612, when applied to copra making. Said Act took effect on 24 August 1956 until it was superseded by Republic Act No. 1856 on 22 June 1957. This section, as it stood before and during the effectivity of Republic Act 1612, and after its subsequent amendment by Republic Act 1856 provides (all italics supplied):

Before effectivity of RA No. 1612

"(b) Agricultural products and the ordinary salt when sold, bartered, or exchanged in this country by the producer or owner of the land where produced, as well as fish and its by-products when sold bartered, or exchanged by the fisherman or fishing operator, whether in their original state or not."

During the eleven month effectivity of RA No. 1612

"(b) Agricultural products and the ordinary salt in their original form when sold, bartered, or exchanged by the producer or owner of the land where produced. The term 'agricultural products' as used herein shall not include cultured fish and other products raised or produced in fishponds and those which have undergone the process of manufacturing as defined in section one hundred -ninety-four (x) of this Code."

After repeal of RA No. 1612 by RA No. 1856

"(b) Agricultural products and the ordinary salt whether in their original form or not when sold, bartered, or exchanged in this country by the producer or owner of the land where produced, as well as all kinds of fish and its by-products when sold, bartered or exchanged by the fisherman or fishing operator whether in their original state or not."

The majority of the Tax Court was of the view that before the passage of Republic Act No. 1612, copra making was not taxable because the law then exempted agricultural products "whether in their original state or not"; but that it became taxable during the effectivity of Republic Act No. 1612 because the agricultural products that were exempted under it were only those "in their original form", and said law excluded from the exemption "those which have undergone the process of manufacturing as defined in section one hundred ninety-four (x) of this Code", that provides:

"(x) 'Manufacturer' includes every person (1) who by physical or chemical process alters the exterior texture or form or inner substance of any raw material or manufactured or partially manufactured product in such a manner as to prepare it for a special use or uses to which it could not have been put in its original condition, or (2) who by any such process alters the quality of any such raw material or manufactured or partially manufactured product so as to reduce it to marketable shape or prepare it for any of the uses of industry, or (3) who by any such process combines any such raw material or manufactured or partially manufactured products

with other material or products of the same or of different kinds and in such manner that the finished products of such process of manufacture can be put to a special use or uses to which such raw material or manufactured or partially manufactured products in their original condition could not have been put and who in addition alters such raw material or manufactured or partially manufactured products, or combines the same to produce such finished products for the purpose of their sale or, distribution to others and not for his own use or consumption."

The majority of the Tax Court further held that because of the unhusking and halving of the coconut fruit, removal and cutting into pieces of its meat, and dehydrating by sun or kiln, the fruit in its original form underwent a process of manufacturing, and, therefore, became taxable but after the, repeal of Republic Act 1612 by Republic Act. 1856, the exempt agricultural products included once more those products "whether in their original state or not". It decided, therefore, that the taxability of copra making under Republic Act No. 1612 is in accordance with the legislative intent to increase revenue by imposing taxes on "greater coverage of subjects of taxation," as expressed in the explanatory note of House Bill 5809, the source of Republic Act 1612; and that the said section, being an exempting provision, the same should be construed strictissimi juris against the party claiming exemption.

Contrary to the above views of the respondents, the petitioner would consider copra as the agricultural product in its original form and the coconut fruit merely the crop of the producer and because copra is the only product that may be produced from coconut lands while the process Of manufacture involved in the conversion of the coconut fruit to copra is a part of the genuine agricultural labor of the farmer. The petitioner adopted the dissenting opinion that the enactment of Republic Act 1612 did not change anything, because the processes that constitute manufacturing under Section 194(x) have not been enlarged or extended, and that the ruling of the respondents would be a radical departure from the time-honored policy of Congress to give preferential treatment to farmers; furthermore, the respondents' interpretation would lead to absurd, illogical, and mischievous results, like the following: coconut planters, abaca planters, and rice farmers would be liable for Ifo tax while operators of coconut oil mills and dessiated coconut factories, rope factories, and rice mill operators are taxable only 2% under Section 189 of the Code; likewise, the coconut planter is not taxable for producing coconuts, but the moment he unhusks them, he is obliged to pay 7% on sales tax. The petitioner insists that the legislative intent in enacting Republic Act 1612 was to exclude copra making, as shown in the explanatory note of House Bill 6094, a bill intended to amend Republic Act 1612, and that this intention to exclude copra making is also reflected in the speeches and debates delivered in the floor of Congress in its session on 30 January 1957 (Congressional Records, Vol. IV, No. 3).

The flaw in petitioner-appellant's argument is that it ignores the legislative change in the phraseology of the exemption of agricultural products. The original statute excepted from the tax "Agricultural products * * * whether in their original state or not"; but under the short- lived R.A. No. 1612 it was altered and reduced to "agricultural products in their original form" exclusively. The change in scope was further emphasized by the qualification in the same Act that "agricultural products * * * shall not include cultured fish * * * and those which have undergone the process of manufacturing * * *". Plainly, R. A. No. 1612 was intended to restrict the exemption and broaden the subject of taxation, in order to increase the state revenues; and this purpose becomes indubitable when we consider that ordinary gait and fish were also originally exempt, but the exemption was not restated in R.A. No. 1612.

If, as contended by the petitioner, there was no intention to limit the exemption of agricultural products, then it may well be wondered why the Legislature found it necessary to change at all the terms of the exemption; and even further, it may be asked why barely a year later, it was found proper to restore (by R. A. No. 1856), the primitive terms of the exemption of agricultural products "whether in their original form or not". It is not to be

presumed that the Legislature, in making such changes, was indulging in mere semantic exercise. There must have been some purpose in making them, and the rational explanation is that the coverage of the exemption was being broadened by R.A. No. 1612, as expressly stated in the original House Bill No. 5809 that later became said Act; and that the policy change was later found inadvisable, so that the Statute was reworded by R.A. 1856 to correspond to the original terminology, so as to restore the original exemption.

Stress is laid on the explanatory note to House Bill No. 6094 that it was "never the intention of Congress, to impose such heavy burden upon our agricultural producers"; but these statements did not go beyond a personal opinion of the proponents of House Bill No. 6094, since the true source of Republic Act 1856 (repealing R.A. No. 1612) was not Bill No. 6094, but House Bill No. 5819. We find no weight in the argument that under the interpretation given to Republic Act 1612 the planters and farmers would pay a higher tax than rice mills and coconut factories. The rule of uniform taxation does not deprive Congress of the power to classify subjects of taxation, and only demands uniformity within the particular class.

The legislative intent to increase revenue by widening the coverage of taxable subjects is evident under Republic Act 1612, and by it the exempt agricultural products were only those, that remain in their original form, and have not undergone the process of manufacture. This Court has had occasion to observe that—

"By the very nature of the changes made in the original statute, it is clear that the amendment is Intended, not to clarify the doubtful meaning of the former law,* * * but to withdraw from the scope of the former exemption the agricultural products that are no longer in their original form because they have undergone the process of manufacture." (Philippine Packing Corporation vs. Collector of Internal Revenue, L-9040, Res. of Jan. 22, 1957)

Wherefore, the decision appealed from is affirmed, with costs against petitioner-appellant.

Bengzon, C. J., Padilla, Bautista Angelo, Concepcion, Barrera, Paredes, Dizon, Regala, and Makalintal, JJ., concur.

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