

BELMAN COMPANIA INCORPORADA, PLAINTIFF AND APPELLEE, VS. CENTRAL BANK OF THE PHILIPPINES, DEFENDANT AND APPELLANT.*G.R. No. 10195. November 29, 1958*

Ponente: PADILLA, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-10195-2/>**PADILLA, J.:**

In a complaint filed on 18 March 1955 in the Court of First Instance of Manila the plaintiff, a corporation, alleges that having been a successful bidder to supply the Republic of the Philippines with 1,000 reams of onion skin paper, on 21 September 1950 it applied to the Philippine National Bank for a letter of credit in the sum of \$4,300, United States currency, in favor of Getz Bros. & Co., San Francisco, California, U.S.A., to pay for suGh reams, and the Philippine National Bank approved and granted the application for the letter of credit; that the Philippine National Bank, through the Crocker First National Bank, its correspondent in the United States, paid to the payee the sum of \$4,300, United States currency; that on 26 April 1951 when the plaintiff paid its account to the Philippine National Bank in Manila, the defendant, pursuant to Republic Act No. 601, as amended, assessed and collected from it 17% special excise tax on the amount in Philippine peso of foreign exchange sold, amounting to P1,474.70 which the plaintiff paid to the defendant under protest for the reason that as the letter of credit was approved and granted On 21 September 1950, or before 28 March 1951, the date of the enactment or approval of Republic Act No. 601, as amended, the amount of foreign exchange sold by the defendant bank by the letter of credit to the plaintiff corporation was not subject to such excise tax; that on 28 December 1954 the plaintiff corporation made a demand in writing upon the defendant bank for the refund of the aforesaid sum; and that notwithstanding repeated demands the defendant bank refused to make the refund. The plaintiff corporation prays that the 17% special excise tax assessed and collected from it on the amount in Philippine peso of foreign exchange sold on 21 September 1950, be declared illegal; and that the defendant bank be ordered to refund to it the sum of .P1,474.70 illegally assessed and collected (civil No. 25708).

On 25 March 1955 the defendant bank moved for the dismissal of the complaint on the ground that

- The assessment and collection from the plaintiff of the sum of P1,474.70 as 17% special excise tax is in accordance with law, because! it was a tax collected after March 28, 1951, when the 17% special excise tax law went into effect, when the plaintiff paid to the Philippine National Bank on April 25, 1951 the peso-equivalent of the draft in XL S. dollars accepted by the plaintiff.
- The transaction in which foreign exchange was sold subject to the 17% excise tax is not one of those exempted or refundable under Section 2, 3, 4, and 8 of said 17% tax law, Republic Act No. 601.

On 1 April 1955 the plaintiff corporation objected to the motion to dismiss; on 5 April the defendant bank filed a reply thereto; and on 11 April the plaintiff a "rejoinder to defendant's reply." On 19 April the Court denied the motion to dismiss.

On 28 April 1955 the defendant filed its answer reiterating that although the plaintiff corporation had applied for and been granted a commercial letter of credit on 21 September 1950, before the effectivity of Republic Act No.

601, as amended, no sale of foreign exchange took place on that date, because such sale actually took place on 26 April 1951, when the plaintiff paid to the Philippine National Bank the amount in Philippine currency of the foreign exchange sold. Hence it was subject to the 17% special excise tax.

After hearing and filing by the parties of their respective memoranda, the Court rendered judgment ordering the defendant bank to refund to the plaintiff corporation the sum of P1,474.70, with legal interest thereon from 25 April 1951 until fully paid, and to pay the costs. A motion to set aside the judgment thus rendered was denied. The defendant has appealed.

Foreign exchange is the conversion of an amount of money or currency of one country into an equivalent amount of money or currency of another.[1] The appellant claims that the grant or approval on an application for a letter of credit for an amount payable in foreign currency is only an executory contract, in the sense that until payment, return, or settlement of the amount paid and delivered by, or collected from, the bank in foreign currency be made by the debtor, the contract is not executed or consummated. Hence, if on the date of payment by the debtor to the bank of the amount of foreign exchange sold the law imposing the excise tax was already in force, such tax must be collected. On the other hand, the appellee contends that, upon the approval or grant of an application for a letter of credit for an amount payable in foreign currency, the contract is perfected or consummated. Hence, if on the date of such approval or grant the law imposing the excise tax was not yet in existence, such tax can not be assessed and collected. Both contentions cannot be sustained.

An irrevocable letter of credit granted by a bank, which authorizes a creditor in a foreign country to draw upon a debtor of another and to negotiate the draft through the agent or correspondent bank or any bank in the country of the creditor, is a consummated contract, when the agent or correspondent bank or any bank in the country of the creditor pays or delivers to the latter the amount in foreign currency, as authorized by the bank in the country of the debtor in compliance with the letter of credit granted by it. It is the date of the payment of the amount in foreign currency to the creditor in his country by the agent or correspondent bank of the bank in the country of the debtor that turns from executory to executed or consummated contract. It is not the date of payment by the debtor to the bank in his country of the amount of foreign exchange sold that makes the contract executed or consummated, because the bank may grant the debtor extension of time to pay such debt. The contention of the appellee that as there was a meeting of the minds of the contracting parties as to price and object of the contract[1] upon the approval or grant of an application for a letter of credit for an amount payable in foreign currency, the contract was a valid and executed contract of sale of foreign exchange. True, there was such a contract in the sense that one party who has performed his part may compel the other to perform his.[2] Still until payment be made in foreign currency of the amount applied for in the letter of credit and approved and granted by the bank, the same is not an executed or consummated contract. The payment of the amount in foreign currency to the creditor by the bank or its agent or correspondent is necessary to consummate the contract. Hence the date of such payment or delivery of the amount in foreign currency to the creditor determines whether such amount of foreign currency is subject to the tax imposed by the (Government of the country where such letter of credit was granted.

It appearing that the draft authorized by the letter of credit applied for by the appellee and granted by the appellant must be drawn and presented or negotiated in San Francisco, California, U.S.A., not later than 19 October 1950 (Exhibit H), it may be presumed that the payment of \$4,300 in favor of Getz Bros., Inc. in San Francisco, California, U.S.A., for the account of the appellee was paid by the Crocker First National Bank, as agent or correspondent of the Philippine National Bank, on or before 19 October 1950. Such being the case, the excise tax at the rate of 17% on the amount to be paid by the appellant in Philippine currency for the foreign exchange sold is not subject to such tax, because Republic Act No. 601 imposing such tax took effect only on 28 March 1951.[3]

The judgment appealed from is affirmed, without pronouncement as to costs.[4]

Paras, C. J., Bengzon, Montemayor, Reyes, A., Bautista Angelo, Labrador, Concepcion, Reyes, J. B. L., and Endencia, JJ., concur.

Judgment affirmed.

[1] Janda vs. Lepanto Consolidated Mining Company, 52 Off. Gaz. (9) 4250, 4255; 99 Phil., 197.

[1] Articles 1458 and 1475, new Civil Code.

[2] Article 1475, new Civil code.

[3] Philippine National Bank vs. Zulueta, 101 Phil., 1071; Philippine National Bank vs. Union Books, Inc., 101 Phil., 1084; and Philippine National Bank vs. Arrozal, 103 Phil., 213.

[4] By resolution of the Supreme Court dated 17 December 1958 legal interest from 25 April 1951, to the date of payment awarded by the trial court was ordered stricken off.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.