

COMMISSIONER OF INTERNAL REVENUE, PETITIONER, VS. THE COURT OF APPEALS CENTRAL VEGETABLE MANUFACTURING CO., INC., AND THE COURT OF TAX APPEALS, RESPONDENTS.

G.R. No. 107135. February 23, 1999

Ponente: PURISIMA, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-107135/>

PURISIMA, J.:

Before the Court is a Petition for Review on Certiorari from the judgment of the Court of Appeals affirming in toto the decision of the Court of Tax Appeals which required the Commissioner of Internal Revenue to credit the sales taxes paid by Central Vegetable Oil Manufacturing Co., Inc. (CENVOCO) on containers and packaging materials of its milled products, against the deficiency miller's tax due thereon for the year 1986.

As culled in the decision of the Court of Tax Appeals, the undisputed facts are, as follows:

"Petitioner (private respondent CENVOCO herein) is a manufacturer of edible and coconut/coprameal cake and such other coconut related oil subject to the miller's tax of 3%. Petitioner also manufactures lard, detergent and laundry soap subject to the sales tax of 10%.

In 1986, petitioner purchased a specified number of containers and packaging materials for its edible oil from its suppliers and paid the sales tax due thereon.

After an investigation conducted by respondent's Revenue Examiner, Assessment Notice No. FAS-B-86-88-001661-001664 dated April 22, 1988 was issued against petitioner for deficiency miller's tax in the total amount of P1,575,514.70 x x x .

On June 29, 1988, petitioner filed with respondent a letter dated June 27, 1988 requesting for reconsideration of the above deficiency miller's tax assessments, contending that the final provision of Section 168 of the Tax Code does not apply to sales tax paid on containers and packaging materials, hence, the amount paid therefor should have been credited against the miller's tax assessed against it. Again, thru letter dated September 28, 1988, petitioner reiterated its request for reconsideration.

On November 17, 1988, respondent wrote CENVOCO, the full text of which letter reads

November 17, 1988

Central Vegetable Oil

Manufacturing Co. Inc.

P.O. Box 2816

Manila

Attention: Mr. James Chua

President

Gentlemen:

We have received your letter of September 28, 1988, relative to our assessment against your company in the amount of P1,575,514.75, as deficiency miller's tax for the year 1986.

Section 168 of the Tax Code provides that sales, miller's or excise taxes paid on raw materials or supplies used in the milling process shall not be allowed against the miller's tax due. You contend that since packaging materials are not used in the milling process then, the sales taxes paid thereon should be allowed as a credit against the miller's tax due because they do not fall within the scope of the prohibition.

It is our position, however, that since the law specifically does not allow taxes paid on the raw materials or supplies used in the milling process as a credit against the miller's tax due, with more reason should the sales taxes paid on materials not used in the milling process be allowed as a credit against the miller's tax due. There is no provision of law which allows such a credit-to-be made.

In view of the above, we are reiterating the assessment referred to above. We request that you make payment immediately so that this case may be considered closed and terminated.

Very truly yours,

(SGD) EUFRACIO D. SANTOS

Deputy Commissioner

(CA Decision, pp.31-33 Rollo)

Dissatisfied with the adverse action taken by the BIR, CENVOCO filed a petition for review with the Court of Tax Appeals, which came out with a decision, dated December 3, 1990, in favor of CENVOCO, disposing, thus:

"WHEREFORE, in view of the foregoing, petitioner Central Vegetable Oil Manufacturing Co., Inc., is not liable for deficiency miller's tax for the year 1986 in the amount of P1,575,514.70.

No pronouncement as to costs.

SO ORDERED." (Rollo, p. 53)

Appealed to the Court of Appeals, the said decision was affirmed in toto. (Rollo, p. 38)

The Court of Appeals adopted the reasons cited and ratiocination by the Court of Tax Appeals for allowing the sales tax paid by CENVOCO on the containers and packaging materials of its milled products to be credited against the miller's tax due thereon, viz -

"The main issue in this case is whether or not respondent CENVOCO is liable for deficiency miller's tax for the year 1986 in the amount of P1,575,514.70. This in turn hinges on whether or not containers and packaging materials are raw materials used in the milling process within the contemplation of the final proviso of Section 168 of the National Internal Revenue Code, which reads:

'Provided, finally, that credit for any sales, miller's or excise taxes paid on raw materials or supplies used in the milling process shall not be allowed against the miller's tax due, except in the case of a proprietor or operator of a refined sugar factory as provided hereunder.'

xxx xxx xxx

"xxx We agree with respondent Court that containers and packages cannot be considered "raw materials" utilized in the milling process. In arriving at the conclusion, respondent Court quoted with approval the reasons cited by CENVOCO, as follows:

'FIRST; The raw materials used by Cenvoco in manufacturing edible oil are copra and/or coconut oil. In other

words, the term "used" in the final proviso of Section 168 of the NIRC refers or is strictly confined to "raw materials" or supplies fed, supplied or put into the apparatus, equipment, machinery or its adjuncts that cause or execute the milling process. On the other hand, the containers, such as tin cans, and/or packages are not used or fed into the milling machinery nor were ever intended for conversion to form part of the finished product, i.e., refined coconut/edible oil. Consequently, it would be absurd to say that said containers and packages are "used in the milling process", for the process involves "grinding, crushing, stamping, cutting, shaping or polishing". (See THE DICTIONARY, by TIME, COPYRIGHT 1974, p. 444) x x x

'SECOND; Petitioner's interpretation of the term raw materials is contrary to law and jurisprudence. Thus, raw materials as used in the definition of " manufacture", denotes materials from which final product is made (Black's Law Dictionary, 4th ed. citing State vs. Hennessy Co., 71 Mont. 301, 230, p. 64, 65). And consistent with said definition, Revenue Regulations Nos. 2-86 and 11-86 [effective January 1, 1986 and August 1, 1986, respectively] which govern the filing of quarterly percentage tax returns and payment thereof under the provisions, inter alia, of Section 168 of the NIRC, define raw materials or material, to wit:

Any article which when used in the MANUFACTURE of another article becomes a homogenous part thereof, such that it can no longer be identified in its original state nor may be removed therefrom without destroying or rendering useless the finished article to which it has been merged, mixed or dissolved. x x x'

"Tested in the light of the foregoing statutory definition, it is evident that containers and packages used by Cenvoco are not 'raw materials' and do not fall within the purview of the final proviso of Section 168 of the NIRC. x x x As a coup de grace, it is pertinent to note the case of Caltex (Phils.) Inc. vs. Manila Port Service (17 SCRA 1075) where the Supreme Court aptly defined containers and/or packages.

'x x x a package or a bundle made up for transportation; a packet; a bale; a parcel; or that in which anything is packed: box, case, barrel, crate, etc. in which goods are packed: a container.' (Underscoring Ours)

"The definition is an emphatic rejection of petitioner's construction that Cenvoco's containers and packages are raw materials used in the milling process. x x x

"xxx Moreover, Section 168 of the Revenue Code expressly limits the articles subject to percentage tax (miller's tax) to: 'rope, sugar, coconut oil, palm oil, cassava flour or starch, desiccated coconuts, manufactured, processed or milled by them, including the by-product of the raw materials, from which said articles are produced, processed or manufactured'. x x x "

(CA Decision, Rollo pp. 34-36)

Hence, the petition under consideration, posing the issue:

WHETHER OR NOT THE SALES TAX PAID BY CENVOCO WHEN IT PURCHASED CONTAINERS AND PACKAGING MATERIALS FOR ITS MILLED PRODUCTS CAN BE CREDITED AGAINST THE DEFICIENCY MILLER'S TAX DUE THEREON.

Resolution of the issue posited by the petitioner hinges on the proper application of Section 168 of the then applicable National Internal Revenue Code, particularly the last proviso of said section, which reads:

"Sec. 168. Percentage tax upon proprietors or operators of rope factories, sugar centrals and mills, coconut oil mills, palm oil mills, casava mills and desiccated coconut factories. Proprietors or operators of rope factories, sugar centrals and mills, coconut oil mills, palm oil mills, cassava mills, and desiccated coconut factories, shall pay a tax equivalent to three (3) percent of the gross value of money of all the rope, sugar, coconut, oil, palm oil, cassava flour or starch, dessiccated coconut, manufactured, processed or milled by them, including the by-product of the raw materials, from which said articles are produced, processed or manufactured, such tax to be based on the actual selling price or market value of these articles at the time they leave the factory or mill

warehouse: Provided, however, that this tax shall not apply to rope, coconut oil, palm oil and the by-product of copra from which it is produced or manufactured, and dessicated coconuts, if such rope, coconut oil, palm oil, copra by-products and dessicated coconuts, shall be removed for exportation by the proprietor of operator or the factory or mill himself, and are actually exported without returning to the Philippines, whether in their original state or as an ingredient or part of any manufactured article or product: Provided further, That where the planter or the owner of the raw materials is the exporter of the aforementioned milled or manufactured products, he shall be entitled to a tax credit of the miller's taxes withheld by the proprietor or operator of the factory or mill, corresponding to the quantity exported, which may be used against any internal revenue tax directly due from him: and Provided, finally, That credit for any sales, miller's or excise taxes paid on raw materials or supplies used in the milling process shall not be allowed against the miller's tax due, except in the case of a proprietor or operator of a refined sugar factory as provided hereunder." (underscoring supplied)

Notably, the law relied upon by the BIR Commissioner as the basis for not allowing Cenvoco's tax credit is just a proviso of Section 168 of the old Tax Code. The restriction in the said proviso, however, is limited only to sales, miller's or excise taxes paid "on raw materials used in the milling process".

Under the rules of statutory construction, exceptions, as a general rule, should be strictly but reasonably construed. They extend only so far as their language fairly warrants, and all doubts should be resolved in favor of the general provisions rather than the exception. Where a general rule is established by statute with exceptions, the court will not curtail the former nor add to the latter by implication. x x x (Samson vs. Court of Appeals, 145 SCRA 659 [1986]).

The exception provided for in Section 168 of the old Tax Code should thus be strictly construed. Conformably, the sales, miller's and excise taxes paid on all other materials (except on raw materials used in the milling process), such as the sales taxes paid on containers and packaging materials of the milled products under consideration, may be credited against the miller's tax due therefor.

It is a basic rule of interpretation that words and phrases used in the statute, in the absence of a clear legislative intent to the contrary, should be given their plain, ordinary and common usage or meaning. (Mustang Lumber Inc. v. CA, 257 SCRA 430 [1996] citing Ruben E. Agpalo, Statutory Construction, second ed. [1990], 131).

From the disquisition and rationalization aforequoted, containers and packaging materials are certainly not raw materials. Cans and tetrapaks are not used in the manufacture of Cenvoco's finished products which are coconut, edible oil or coprameal cake. Such finished products are packed in cans and tetrapaks.

Petitioner laments the pronouncement by the Court of Appeals that Deputy Commissioner Eufracio Santos' 1988 ruling may not reverse Commissioner Ruben Ancheta's favorable ruling on a similar claim of CENVOCO of October, 1984, which reads in part:

"x x x This refers to your letter dated September 5, 1984 requesting that the 10% sales tax paid on container cans purchased by you, be credited against the 2% (now 3%) miller's tax due on the refined coconut edible oil.

It is represented that you process copra and/or coconut oil and sell the refined edible oil in cans; that said cans are purchased from can manufacturers who in turn bill to you the price of the cans and the 10% tax paid thereon which are separately shown on the invoice; and that the cost of the cans, including the 2% millier's tax is computed.

In reply, I have the honor to inform you that your request is hereby granted. x x x (Pacific Oxygen & Acetylene Co. vs. Commissioner, GR No. L-17708, April 30, 1965)." (Rollo p. 36)

According to petitioner, to hold, as what the Court of Appeals did, that a reversal of the aforesaid ruling would be violative of the rule on non-retroactivity of rulings of tax officials when prejudicial to the taxpayer (Section 278 of

the old Tax Code) would, in effect, create a perpetual exemption in favor of CENVOCO although there may be subsequent changes in circumstances warranting a reversal.

This Court is mindful of the well-entrenched principle that the government is never estopped from collecting taxes because of mistakes or errors on the part of its agents, but this rule admits of exceptions in the interest of justice and fairplay. (ABS CBN Broadcasting Corp. vs. Court of Tax Appeals, 108 SCRA 151 [1981]) More so in the present case, where we discern no error in allowing the sales taxes paid by CENVOCO on the containers and packages of its milled products, to be credited against the deficiency miller's tax due thereon, for a proper application of the law.

It bears stressing that tax burdens are not to be imposed, nor presumed to be imposed beyond what the statute expressly and clearly imports, tax statutes being construed strictissimi juris against the government. (The Province of Bulacan, et. al, vs. Hon. CA, et. al., GR No. 126232, November 27, 1998; Republic vs. IAC, 196 SCRA 335[1991]; CIR vs. Firemen's Fund Ins. Co., 148 SCRA 315 (1987); CIR vs. CA, 204 SCRA 182 [1991])

Then, too, it has been the long standing policy and practice of this Court to respect conclusions arrived at by quasi-judicial agencies, especially the Court of Tax Appeals which, by the nature of its functions, is dedicated exclusively to the study and consideration of tax problems, and which has thus developed an expertise on the subject, unless an abuse or improvident exercise of its authority is shown. Finding no such abuse or improvident exercise of authority or discretion under the premises, the decision of the Court of Appeals, affirming that of the Court of Tax Appeals, should be upheld. (Commissioner of Internal Revenue vs. Court of Appeals, 204 SCRA 189 [1991])

WHEREFORE, the petition is hereby DISMISSED and the decision of the Court of Appeals AFFIRMED. No pronouncement as to costs.

SO ORDERED.

Romero (Chairman), Panganiban, and Gonzaga-Reyes, JJ., concur.

Vitug, J., on official leave.

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.