

LIM CHAI SENG, PLAINTIFF AND APPELLANT, VS. WENCESLAO TRINIDAD, COLLECTOR OF INTERNAL REVENUE, DEFENDANT AND APPELLANT.*G. R. No. 16671. March 30, 1921*

Ponente: STREET, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-16671/>**STREET, J.:**

The plaintiff, Lim Chai Seng, is a merchant, of Chinese nationality, doing business in Manila; and as¹ such he is subject to the merchant's tax of 1 per cent imposed on all gross sales. In order to comply with the law and regulations of the Bureau of Internal Revenue, it is incumbent on the persons liable to this tax to keep records of their transactions and to make quarterly reports from which the amount of tax due is computed; and it seems sometimes to have been found convenient in the Chinese community for two or more firms to employ jointly a sort of specialist to act as their representative in their relations with the Bureau of Internal Revenue.

It thus happened that during the years 1917 and 1918, one Cu Chiat was the agent and intermediary of the plaintiff, Lim Chai Seng, in making reports to the Collector of Internal Revenue of business done by Lim Chai Seng as well as in the making of payments for the taxes due from the latter. In the performance of these services the books of Lim Chai Seng were consulted in order to discover the amount due to the Bureau of Internal Revenue, and either the proper amount of money or a check was delivered by the merchant to Cu Chiat, whose duty it then became to repair to the office of the collector, to make the proper report of business done by Lim Chai Seng, and to make payment accordingly.

It appears, however, that instead of fulfilling this duty punctually, Cu Chiat, upon five different occasions, submitted false reports of the business of Lim Chai Seng, showing business to have transacted for five particular quarters in amounts much lower than was really the case. By this means Cu Chiat contrived to make it appear that the taxes due from Lim Chai Seng were considerably less than were in fact due, and he misappropriated the excess that had been confided to him. Upon the three occasions when checks had been given to him by Lim Chai Seng for the exact amount really due, the misappropriation was accomplished by causing the Collector of Internal Revenue to apply the excess contained in those checks" to the payment of similar taxes due from other Chinese firms, of whom Cu Chiat was also the representative. The amounts thus misappropriated by Cu Chiat were as follows:

For the second quarter, 1917, P100.

For the third quarter 1917, P200.

For the second quarter, 1918, P500.

For the third quarter, 1918, P500.

For the fourth quarter, 1918, P200.

In time these peculations were found out, and the Internal Revenue Collector required Lim Chai Seng to make good the deficiency in the tax and to pay in addition thereto an additional 25 per cent surcharge thereon under the authority of the second paragraph of section 1458 of the Administrative Code. This payment having been made under protest the present action was instituted by Lim Chai Seng to recover the entire amount paid, or P1,875. The trial judge decided that the amount of P375, collected in the character of surcharge, was properly due, on account of the failure of Cu Chiat to submit correct returns for the five periods with which his peculations' were concerned. As to this amount the trial judge held that there could be no recovery. The same was true, so he decided, in regard to those transactions in connection with which Lim Chai Seng had delivered money to Cu Chiat to be applied to the taxes due. In regard, however, to the three payments when checks were delivered by Lim Chai Seng for the exact amount due, the trial judge held that the Collector of Internal Revenue had no right to apply the excess to the taxes due from other merchants. He accordingly gave judgment in favor of the plaintiff for the excess, amounting to P1,200, carried in these checks over the amount shown to be due on the face of the reports submitted by Cu Chiat and which the collector had, as the trial judge held, improperly applied to other accounts. From this judgment both parties appealed; and for the plaintiff it is assigned as error that the trial judge erroneously refused to allow recovery by the plaintiff of the sum of P300 which had been exacted as a surcharge upon the P1,200 above-mentioned. For the defendant it is assigned as error that the trial judge allowed recovery of the P1,200 as above stated.

It will be convenient first to discuss the point presented by the assignment of error of the defendant as appellant; that is, whether the Collector of Internal Revenue has made himself liable to account to the plaintiff for the P1,200, which represents the excess of the plaintiff's three checks over the amount apparently due upon the returns made, and which the collector applied, under the directions of Cu Chiat, to the payment of the taxes due from other persons.

The point is simple enough and we think it is to be solved with reference to the general rule that a principal is bound by the acts of his agent in the scope of the agency. In this connection it is undeniable that Cu Chiat had full authority to make returns to the Collector of Internal Revenue of the business done each quarter by Lim Chai Seng and to make payment of the proper amount of the taxes due by those returns. This being undeniable, it follows that when Cu Chiat made returns, as he did, showing a certain amount of business transacted and the taxes due were computed according to those returns, the Collector of Internal Revenue could not legitimately collect a greater amount. Furthermore, in view of the authority which, as the Collector of Internal Revenue knew, had been confided to Cu Chiat by Lim Chai Seng it was entirely proper for him to allow the check of Lim Chai Seng to be applied not only to the taxes of the latter but under the directions of Cu Chiat to the similar taxes of other merchants—the more so as according to the proof it was not unusual for checks' drawn by one firm to be thus applied to the taxes of another.

It cannot be overlooked that in the commercial world the checks of persons of known solvency are customarily received as money; and that this check was received and applied by the Collector of Internal Revenue in entire good faith in the usual course of business and without any knowledge whatever that the check, or part thereof, was being misapplied, is shown by the testimony. Nor can it be maintained that the mere fact that the three checks in questions were made payable to the Collector of Internal Revenue and not to Cu Chiat, is a circumstance from which it could be argued that the Collector was put upon notice that the check was applicable only to the taxes of the plaintiff. Even if the Collector had refunded the excess in money to Cu Chiat, the latter could have at once applied it to other taxes; and no question could have been made as to the propriety of the Collector's then receiving it. A check when received and treated as money is the same as money so far as legal consequences are concerned.

We hold the case to be one where the plaintiff, as principal, is bound by the act of his agent, and the effects of the dishonesty of the latter must be borne by the principal, not by an innocent third party who has dealt with the dishonest agent in good faith.

It results that the action of the trial judge in allowing the plaintiff to recover the sum of P1,200, representing the amount misappropriated from said checks by Cu Chiat, must be reversed. In view of this result it is obvious that the error assigned in the brief of the plaintiff as appellant, with reference to the P300, collected as a surcharge upon this sum of P1,200, is untenable, and said assignment need not be discussed.

The judgment appealed from is affirmed in so far as it absolves the defendant from liability for the amount of P375, collected as surcharge upon the delinquent taxes, and is reversed in so far as it concedes to the plaintiff a recovery of the amount of P1,200 from the defendant; and the defendant will be wholly absolved from the complaint. It is so ordered, without express pronouncement as to costs.

Mapa, C. J., Araullo, Malcolm, and Villamor, JJ., concur.

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.