

SAN TEODORO DEVELOPMENT ENTERPRISES, INC., PETITIONER AND APPELLANT, VS. SOCIAL SECURITY SYSTEM, RESPONDENT AND APPELLEE.

G.R. No. 17662. May 30, 1963

Ponente: BAUTISTA ANGELO, J.

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BAUTISTA ANGELO, J.:

On January 8, 1959, the San Teodoro Sawmill Co., Inc., which was originally a limited partnership registered in the Register of Deeds of Oriental Mindoro as Chua Lara & Company then doing business under the name of "San Teodoro Sawmill", received a letter from Acting Administrator of the Social Security System notifying it that it falls under the compulsory coverage of the Social Security Law effective September 1, 1957 and that the effective date of its coverage was August 1, 1957 and that of its qualified employees September 1, 1957.

In response to the letter, the counsel for the San Teodoro Sawmill, Inc., which by then was changed to San Teodoro Development Enterprises, Inc., stated that his client was exempt from the compulsory coverage provided for in Section 9 of the Social Security Act (Republic Act 1161, as amended) because it was only incorporated on January 2, 1957 it being an entity distinct and separate from Chua Lam & Company, Ltd. which was organized as a partnership on June 23, 1951, their rights and liabilities being separate and distinct from one another, and that, if at all, the San Teodoro Development Enterprises, Inc. can only be considered as covered by the law, not from September 1, 1957, as intimated, but only from January 3, 1959.

After the company and the counsel for the Commission had submitted memoranda in support of their respective contentions, on July 12, 1960, the Social Security Commission entered a resolution upholding the stand of the counsel of the Administrator of the Social Security System. It held that "the substance of the juridical person owning and operating the business remain the same although its legal personality was changed," and that the San Teodoro Development Enterprises, Inc. was but the continuation of the original entity Chua Lam & Company, Ltd. and so it comes within the purview of the compulsory coverage of the law beginning August 1, 1957. Hence, the company's petition for exemption was denied.

Its motion for reconsideration having been denied, the company interposed the present petition for review.

The pertinent facts, as may be gathered from the stipulation of the parties, are Chua Lam & Company, Ltd. was a limited partnership registered on August 3, 1951. The persons composing it with their capital contribution" are as follows: Chua Lam P25,000.00; Chua Tu, P15,000.00; Chua Guan, P25,000.00; Vicente Keh Ho, P15,000.00; and Lim Te, P5,000.00. Its domicile was San Teodoro Oriental Mindoro. Its purpose was "to engage in, operate and conduct a lumber sawmill for the purpose of sawing logs, lumber or timber or the like." It was agreed that the partnership will operate its sawmill in the name of "San Teodoro Sawmill."

On December 15, 1956, the partners agreed to dissolve the partnership and to appoint Chua Lam as its liquidator. On July 19, 1957, the partnership was formally dissolved.

On January 2, 1957, the San Teodoro Sawmill Co., Inc. was organized, its articles of incorporation having been registered on said date with the Securities and Exchange Commission. Four out of the eight incorporators were former partners of the dissolved partnership. Of the five original directors, three were former partners, and of the eight original subscribers to the capital of the corporation, four were former partners of the partnership. It also appears that of the entire capital stock of the new corporation amounting to P150,000.00, the amount of P101,000.00 was subscribed by the former partners, and of the initial paid up capital of the corporation amounting to P45,000.00, the amount of P24,500.00 was paid by the former partners of the partnership. It also appears that the primary purposes of the new corporation were to engage in the buying and selling of logs and lumber, to operate sawmills, to lease and operate its concession, to purchase or lease real properties, and to construct buildings and warehouses for office and storage purposes.

On January 23, 1958, the articles of incorporation of the new corporation were amended by changing its name to San Teodoro Development Enterprises, Inc. and by adding new purposes such as to conduct and carry on the business of mining, concentrating, converting, treating and dealing in gold, silver, copper, iron, oils and gas and the like.

And on June 4, 1957, Chua Lam & Company, Ltd. executed a deed of absolute sale of the great bulk of the materials and equipment of the partnership in favor of the San Teodoro Sawmill Inc. for the sum of P140,000.00.

On the strength of the foregoing facts, the Social Security Commission found that the dissolution of the partnership and the organization of the corporation were effected in such sequence as to insure the smooth and orderly transfer of the business from the partnership to the corporation without interruption in the function of the business; that the entire business of the partnership, including the materials and equipment used in connection therewith, were transferred to the corporation ostensibly for a valuable consideration; and that even the name of the corporation was the same as the tradename of the partnership, and apparently their employees are also the same. All these, the Commission said, coupled with the fact that the four out of the five members of the partnership do not only own the controlling stock of the corporation but also hold positions having to do with the management and control of the corporation, indicates in a conclusive manner that there was merely a change in the juridical personality of the entity operating the business, so that it may be said that the substance of the juridical person owning and operating the business remain the same even if its legal personality was changed.

Petitioner disagrees with the foregoing conclusions contending that they run counter to the very nature of the organization of the two entities. But in so doing it merely relies on the theory that the defunct partnership Chua Lara & Company, Ltd., doing business under the style of San Teodoro Sawmill, has a juridical personality separate and distinct from that of the new corporation, which is petitioner herein, the latter having been organized at a much later date, and having assumed liabilities and obligations different from those of the former. But this corporate fiction cannot help petitioner any if its desire is to escape its liability under the law. Thus, in one case this Court observed: "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 court." [1] And in support hereof the Court cited with approval the following ruling:

"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, CYC. CORP. [Perm. Ed.], 135-136; U.S. Milwaukee Refrigeration Transit Co., 242 Fed. 247, cited in Koppel Philippines, Inc. V8. Yatco, 77 Phil., 496;

43 Off. Gaz. 4604.)"

In support of its theory that it is separate and distinct from the defunct partnership Chua Lam & Company, Ltd., petitioner advances the following points: (1) the San Teodoro Sawmill Inc., which later became the San Teodoro Development Enterprises, Inc., was organized on June 2, 1957, whereas the partnership was dissolved only on July 19, 1957; (2) the partnership and the new corporation entered into a contract of sale covering the former's assets and equipment on June 4, 1957; (3) not all the partners of the defunct partnership are members of the new corporation; (4) petitioner did not assume the liabilities of the defunct partnership; and (5) petitioner was not organized to evade its liabilities under the law. But these points were squarely met by the government in the following lucid refutation, to which we agree:

"The defunct partnership under the Articles of Partnership which was entered into by the partners on June 22, 1951, has for its object to engage in, operate and conduct a lumber sawmill for the purpose of sawing logs, lumber or timber or the like, for a valuable consideration, in San Teodoro, Oriental Mindoro, under the style of San Teodoro Sawmill. Before the term of the partnership expired, the partners agreed among themselves at their meeting on December 15, 1956, to dissolve the partnership and appointed its managing partner, Mr. Chua Lam, as the liquidator of its assets and liabilities. It was pursuant to the agreement of the partners to dissolve the partnership that the liquidator, by a Deed of Absolute Sale dated June 4, 1957. (Eec. on Appeal, pp. 128-134), sold all the assets of the partnership to the San Teodoro Sawmill, Inc., later to become the San Teodoro Development Enterprises, Inc., petitioner-appellant herein. And although the latter company, which is composed mostly of the partners together with others, was formally organized only on June 2, 1957 by the issuances of its Certificate of Incorporation, it is significant that four out of the five members of the partnership actually signed the Articles of Incorporation on November 7, 1956, or before the partners agreed to dissolve the partnership on December 15, 1956. These circumstances clearly show the intention of four out of five partners at least, to expand the business of the partnership by the formation of a corporation and the addition of new stockholders. This purpose to expand the business of the partnership is shown and bolstered by the execution of the Amendment to the Articles of Incorporation (R.A., pp. 115-128), whereby it was sought to authorize the company to acquire agricultural lands, either public or private, through lease or purchase, for the purpose of development, and to engage in the manufacture of its product at wholesale only, to acquire, exploit and develop forest concessions from the government, and to conduct and carry on the business of mining, etc. It should also be noted that of the eight incorporators of the petitioner-appellant, four as already stated, were former partners of the defunct partnership, and of the five original directors of the petitioner-appellant, three were former partners of the partnership. Moreover, Chua Guan and Chua Tu, who were former members of the partnership are now the General Manager and Treasurer, respectively, of petitioner-appellant, and, more significantly, the four former members of the partnership own the controlling stocks of petitioner-appellant. It is furthermore significant that, as in the Laguna Transportation Co. case, supra, the firm-name San Teodoro Sawmill was not altered when the petitioner-appellant was first organized, except with the addition of the word Inc., to indicate that it was duly incorporated under existing laws."

Petitioner contends that it has acted in good faith because it was organized on June 2, 1957 whereas Republic Act 1161, the Social Security Law, was enacted only on June 22, 1957, so that it cannot be presumed that it adopted the scheme which is now denounced as a mere ruse to evade its liability under the law.

Republic Act No. 1161 was enacted not on June 22, 1957, but on June 18, 1954, or before the partners had decided to dissolve the partnership to organize a new corporation. While it may not have been the intention of petitioner to evade a statutory obligation, yet in substance its theory that it has a separate and distinct personality from the defunct partnership would precisely result in such an evasion that cannot but defeat the purpose of the law. Such is what this Court intended to prevent when it made the following pronouncement in the Laguna Transportation Co. case supra:

"To adopt petitioner's argument would defeat, rather than promote, the ends from 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."

WHEREFORE, the resolution of the Social Security Commission is hereby affirmed, with costs against petitioner.

Bengzon, C. J., Padilla, Concepcion, Reyes, J. B. L., Barrera, Paredes, Dizon, Regala, and Makalintal, JJ., concur.

[1] Laguna Transportation Co., Inc. vs. Social Security System, 107 Phil., 833

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