

THE MUNICIPALITY OF JOSE PANGANIBAN, PROVINCE OF CAMARINES NORTE, ETC., PLAINTIFF AND APPELLANT, VS. THE SHELL COMPANY OF THE PHILIPPINES, LTD., DEFENDANT AND APPELLEE.

G.R. No. 18349. July 30, 1966

Ponente: REGALA, J.

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REGALA, J.:

This is an appeal from the decision of the Court of First Instance of Manila in Civil Case No. 43404, dated January 27, 1961, dismissing plaintiff-appellant's complaint for the collection of sales taxes from the defendant-appellee on the ground that the law which authorizes the said plaintiff to impose and collect the same, Republic Act No. 1435, is unconstitutional.

Republic Act 1435, entitled "An Act To Provide Means For Increasing Highway Special Fund," is actually an amendment to Sections 142 and 145 of the National Internal Revenue Code, Commonwealth Act 466, for as its first two sections read:

"Sec. 1. Section one hundred and forty-two of the National Internal Revenue Code, as amended, is further amended to read as follows:

* * * * *

"Sec. 2. Section one hundred and forty-five of the National Internal Revenue Code, is amended to read as follows:

* * * * *

The amendments consist mainly in increasing the rate of specific tax on manufactured oils and other motor fuels, diesel fuel oil, naphtha, gasoline and similar distilled products.

Aside from introducing the aforementioned amendments, however, R.A. 3435 likewise authorizes municipal boards or councils to "levy an additional tax of not exceeding twenty-five per cent of the rates fixed in (Sections 142 and 145 of the National Internal Revenue Code) on manufactured oils sold or distributed within the limits of the city or municipality." (Sec. 4), directing in the premises, however, that the proceeds from the above levy "shall accrue to the road and bridge funds of the political subdivision for whose benefit the tax is collected." (Sec. 5). The full texts of Sections 4 and 5 read:

"Sec. 4. Municipal Boards or councils may, notwithstanding the Provisions of sections one hundred and forty-two and one hundred forty-five of the National Internal Revenue Code, as hereinabove tended, levy an additional tax of not exceeding twenty-five percent of the rates fixed in said sections, on manufactured oils sold or distributed within the limits of the city or municipality: Provided, That municipal taxes heretofore levied by cities through city ordinances on gasoline, airplane fuel, lubricating oil and other fuels, are hereby ratified and declared valid. The method of collecting said additional tax shall be prescribed by the municipal

board or council concerned.

"Sec. 5. The proceeds of the additional tax on manufactured oils shall accrue to the road and bridge funds of the political subdivision for whose benefit the tax is collected: Provided, however, That whenever any oils mentioned above are used by miners or forest concessionaires in their operations, twenty-five percentum of the specific tax paid thereon shall be refunded by the Collector of Internal Revenue upon submission of proof of actual use of oils and under similar conditions enumerated in subparagraphs one and two of section one hereof, amending section one hundred forty-two of the Internal Revenue Code: Provided, further, That no new road shall be constructed unless the routes or location thereof shall have been approved by the Commissioner of Public Highways after a determination that such road can lie made part of an integral and articulated route in the Philippine Highway System, as required in section twenty-six of the Philippine Highway Act of 1953."

Pursuant to the above provisions, the plaintiff Municipality enacted Ordinances Nos. 3 and 7, series of 1956 and 1957, respectively, levying taxes on all manufactured oils sold and distributed within its territorial jurisdiction. And, on the authority of the above-numbered ordinances, the plaintiff municipality assessed against the defendant-appellee herein a tax liability of P46,531.39 for the latter's admitted sales of the taxable product in the plaintiff municipality for the period of October 1, 1958 to December 31, 1957 and from January 1, 1953 to May 17, 1960.

In connection with the sales which were taxed under the aforementioned ordinances, the parties hereto entered into a partial stipulation of facts to the effect that:

"(d) During the period starting on October 1, 195G up to and including December 31, 1957, defendant Shell sold to the Philippine Iron Mines, Inc. 1,006,400 liters of gasoline, 64,718 liters lubricating oil and 855 metric tons of diesoline. These goods were delivered to the Philippine Iron Mine, Inc. in the following manners:

- 295,200 liters of gasoline and 220 metric tons of diesoline were delivered by defendant Shell by its own lorries to the Philippine Iron Mines, Inc. at Larap within the territorial jurisdiction of plaintiff municipality.
- 711,200 liters of gasoline and 635 metric tons of diesoline and 64,713 liters of lubricating oil were delivered by defendant Shell to the Philippine Iron Mines, Inc. through a common carrier, the A.L. Ammen Transportation Co. (ALATCO)

"(e) During the period from January 1, 1958 up to and including May 17, 1960, defendant Shell sold to the Philippine Iron Mines, Inc. 2,224,900 liters of gasoline, 1,861 metric tons of diesoline and 294,339 liters of lubricating oil. These goods were delivered to the Philippine Iron Mines, Inc. in the following manners:

- 1,318,500 liters of gasoline and 424 metric tons of diesoline were delivered by defendant Shell by its own lorries to the Philippine Iron Mines, Inc. at Larap within the territorial jurisdiction of plaintiff municipality.
- 906,400 liters of gasoline, 1,437 metric tons of diesoline and 224,339 liters of lubricating oil were delivered by defendant Shell to the Philippine Iron Mines, Inc. through a common carrier, the A.L. Ammen Transportation Co. (ALATCO).

"(f) The charges for the deliveries made through the ALATCO were paid for by defendant Shell, but were charged to the Philippine Iron Mines, Inc. which company paid for said charges to defendant Shell, together with the purchase price.

* * * * *

"(h) Except for those above-mentioned, defendant Shell has not sold and/or delivered any other manufactured oils within the territorial jurisdiction of plaintiff municipality during the period from October 1, 1956 up to and including May 17, 1960. Plaintiff municipality, therefore, admits that it has no claims for taxes for said period under the subject ordinances, except those mentioned in the next preceding paragraph.

"(i) Defendant Shell has no depot, establishment, office or place of business within the territorial jurisdiction of plaintiff municipality. All the above-mentioned goods sold to the Philippine Iron Mines, Inc. originated from the orders therefor made, and the sales Perfected, outside plaintiff municipality.

"(j) Defendant Shell admits having received a letter of demand dated March 9, 1960 from plaintiff municipality demanding payment of taxes."

The defendant Shell resisted the above demand and, at the trial on the complaint filed by the plaintiff municipality for its collection, maintained that it was not liable on the said claims of the plaintiff because: First, Republic Act 1435, the law pursuant to which Ordinances Nos. 3 and 7 above were enacted, was unconstitutional since it embraced more than one subject, contrary to Section 21, Article VI of the Constitution. And second, assuming the said law to be constitutional, still the levy made by the plaintiff municipality was illegal because it referred to transactions made and consummated outside the territorial jurisdiction of the said municipality.

In brief, the defendant-appellee argues that R.A. 1435 actually legislates on two subject matters, namely: (1) the amendment of Sections 142 and 145 of the National Internal Revenue Code and (2) the grant of a taxing power to local governments, contrary to the provision of the Constitution that "no bill which may be enacted into law shall embrace more than one subject which shall be expressed in the title of the bill." (Par. 1, Section 21, Article VI). Moreover, the said defendant-appellee maintains that there is absolutely nothing in the title of R.A. 1435—An Act to Provide Means for Increasing Highway Special Fund—which suggests that it is a statute granting local governments certain specific taxing powers so that even if the said subject matter were reasonably related to the task of increasing the Highway Special Fund, the law would still be fatally defective because the recital in its body is not expressed in its title. In the premises, Shell points out that while R.A. 1435 announces in its title that it is an enactment to increase the Highway Special Fund, Section 5 of it decrees the accrual of the collections thereunder to the Road and Bridge Fund. According to the defendant-appellee, the aforementioned variance testifies to the failure of the title of the law in question to express its subject because the Highway Special Fund, by statutory definition, is separate and distinct from the Road and Bridge Fund, the former being a national fund while the latter is a local appropriation. In support of this contention, the defendant-appellee cites Section 3(g) of R.A. 917 which reads:

"(g) The term 'local funds' includes funds raised under the authority of a province, chartered city, or municipality; allotments of internal revenue accruing by law to their general funds and the 'road and bridge' funds; and other revenue accruing to their general funds and made available by resolution of the Board or Council concerned for expenditures, but does not include apportionment or allotments from the Highway Special Fund."

The lower court sustained the above arguments and declared R.A. 1435 as unconstitutional and, consequently, dismissed the plaintiff's complaint. And so this appeal.

We find for the appellant.

Republic Act No. 1435 deals with only one subject and proclaims just one policy, namely, the necessity for increasing the Highway Special Fund. Its provisions that certain sections of the revenue code should be amended and that local governments should be granted a taxing-power not theretofore enjoyed by them are not really its subject matter, but rather, the two modes or means devised by Congress to realize or achieve the alleviation of the Highway Special Fund. Plainly, therefore, the said law measures up to the standard set by aforequoted Constitutional provision.

Insofar as the assault on the constitutionality of R.A. 1435 is concerned, the distinction drawn by R.A. 917 between the Highway Special Fund and the Road and Bridge

Fund proves hardly anything. On the contrary, R. A. 917 is a documentary evidence on the direct and substantial relation of the above two funds one to the other.

It is true that under Section 3(g) of R.A. 917 the High-way Special Fund should be distinguished from the Road and Bridge Fund. But the distinction was made therein not for the purpose of separating one from the other but merely, among others, "to control the disposition of all funds accruing to the Highway Special Fund." (Section 2, R.A. 917). To be sure, fifty per centum of the apportionable balance in the Highway Special Fund is assigned or allocated by the said law to the Road and Bridge Fund (Section S). There can be nothing constitutionally questionable, therefore, in a law which, makes reference to the Road and Bridge Fund although its title speaks alone of the Highway Special Fund. As above illustrated, the said two funds are, while distinguishable, directly and substantially germane to each other. Thus, they so relate to each other that the use of one in the title do justify legislating in the body on the other. The constitutional rule at bar is satisfied if all parts of a law relate to the subject expressed in its title. (*People vs. Carlos*, 78 Phil. 535; *Gov't vs. Binalonan*, 32 Phil. 634; and *Nuval vs. de la Fuente*, L-5695, January 21, 1953.)

Besides, the definition of the Highway Special Fund as distinguished from the Road and Bridge Fund under Section 3(g) of R.A. 917 is expressly qualified thereunder as the definition "when used in this Act and in subsequent Acts having reference thereto, unless the context indicates otherwise." It is evident that its use in the title of R.A. 1435 is different from its use in R.A. 917.

The primary purpose of the constitutional provision that "no bill which may be enacted into law shall embrace more than one subject which shall be expressed in the title of the bill," is to prohibit duplicity in legislation the title of which might completely fail to apprise the legislators or the public of the nature, scope and consequences of the law or its operation. (*Ichong vs. Hernandez*, 101 Phil., 1155). This does not seem to this Court to have been ignored in the passage of R.A. 1435 since, as the records of its proceedings bear out, a full debate on precisely the issue of whether its title reflects its complete subject was had by the Congress which passed it. (See Congressional Record, House of Representatives, Vol. III, No. 67, p. 2098 if.)

In deciding the constitutionality of a statute alleged to be defectively titled, every presumption favors the validity of the Act. As is true in cases presenting other constitutional issues, the courts avoid declaring an Act unconstitutional whenever possible. Where there is any doubt as to the insufficiency of either the title, or the Act, the legislation should be sustained. (*Sutherland, Statutory Construction*, Vol. I, p. 295). In the instant on hand, this Court does not even have any doubt.

The other issue raised in the instant appeal has long been settled by this Court. It is not the place where the contract was perfected, but the place of delivery, which determines the taxable situs of the property sought to be taxed. Thus, it is all inconsequential that, as the herein appellee makes much of, the subject transactions were perfected and consummated in Manila and that Payments therefor to Shell were made in Manila by the purchasers. As We ruled in the case of *Shell vs. Sipocot*, G. R. No. L-12680, March 20, 1959, sustaining the theory advanced by the very appellee herein—

'From the explanatory note and the general discussion in Congress over the bill (House Bill No. 5288), it can be readily gathered that one of the main purposes for the enactment of the law was to provide for the construction and the improvement of principal road systems in municipalities. (Congressional Record, House of Rep., Vol. III, No. 67, pp. 2093 et seq.) The logical conclusion would accordingly follow that the taxable situs of the property to be taxed should be where the same is used. This place is ordinarily the place of delivery. As correctly pointed out by the appellants (SHELL) the term 'sold' under the statute and the ordinance in question does not mean a mere perfected contract but a consummated sale, where delivery becomes of the essence in determining the situs of the sale. In the cases of *Soriano y Cia. vs. Collector: of Internal Revenue*,

51 Off. Gaz.; 4548; Vegetable Oil Corporation vs. Trinidad, 45 Phil. 822; and Earnshaw Docks and Honolulu Iron Works vs. Collector of Internal Revenue, 54 Phil. 696, it has been ruled that for a sale to be taxed in the Philippines it must be consummated there; thus indicating that the place of consummation (associated with the delivery of the things subject matter of the contract) is the accepted criterion in determining the situs of the contract for purposes of taxation, and not merely the place of the perfection of the contract." (p. 5. *Italics supplied*)

It does not seem, sporting of the appellee herein to disavow the above ruling now. It was the one who vigorously argued its merit then, and now that it is sought to be given full effect and meaning, it complains that the said ruling is wrong, evidently because it is the subject of the implementation. Such an attitude speaks very weakly of the herein appellee's good faith.

Of course, Shell now maintains that while the Sipocot ruling was to the effect that the place where the contract was perfected could not tax the sales thereunder if the delivery of its object was at some other locality, the said ruling did "not state that the tax can be imposed by the municipality where delivery is made." This argument is meritorious but only to the end that this Court has cast suspicion on the appellee's lack of good faith in asserting the same.

In view of all the foregoing, judgment is hereby rendered reversing the decision appealed from. The appellee is ordered to pay the claims of the herein appellant as recited in the first three paragraphs of its prayer to its Complaint dated June 16, 1960, plus interest computed at the legal rate from the filing of the said complaint to their actual payment and costs.

Dizon, Makalintal, Bengzon, J. P., Zaldivar, Sanchez and Ruiz Castro, JJ., concur.

Concepción, C. J. and Reyes, J. B. L., J., concur in the result.

Judgment reversed.

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