

COMMISSIONER OF INTERNAL REVENUE AND COMMISSIONER OF CUSTOMS, PETITIONERS, VS. BOTELHO SHIPPING CORPORATION AND GENERAL SHIPPING CO., INC., RESPONDENTS.

G.R. No. 21633-34. June 29, 1967

Ponente: CONCEPCION, C.J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-21633-34/>

CONCEPCION, C.J.:

Appeal by the Government from a decision of the Court of Tax Appeals, reversing of the decisions of the Commissioner of Internal Revenue and the Commissioner of Customs, in Cases No. 956 and 957 of said Court, holding Botelho Shipping Corporation and General Shipping Co., Inc. - hereinafter referred to collectively as the Buyers - liable for the payment of the sums of P483,433.00 and P494,824.00, respective-ly, as compensating taxes on the vessels "M/S Maria Rosello" and "M/S General Lim."

On August 30, 1960, the Reparations Commission of the Philippines - hereinafter referred to as the Commission - and Botelho Shipping Corporation - hereinafter referred to as Botelho - entered into a "Contract of Conditional Purchase and Sale of Reparations Goods," whereby the former agreed to sell to Botelho for P6,798,888.88 the vessel "M/S Maria Rosello," procured by the Commission from Japan, pursuant to the provisions of the Philippine-Japanese Reparations Agreement of May 9, 1956. On September 19, 1960, the Commission signed a similar contract with General Shipping Co., Inc. - hereinafter referred to as General Shipping - for the sale thereto of "M/S General Lim" at the price of P6,951,666.66. Both agreements, couched in identical terms, except as to price, stipulated that:

"a) The Reparations Commission 'retains title to and ownership of the above described vessel until the same is fully paid for.'" (Exh. 'A', p. 2, both cases)

"b) The stipulated purchase price of the M/S MARIA ROSELLO was to be paid by Botelho to the Commission under a deferred payment plan in 10 equal yearly installments of P717,333.49, bearing 3% interest per annum, beginning August 31, 1962 and August 31 of every year thereafter until the year 1972, while the purchase price of the M/S GENERAL LIM was to be paid by General Shipping to the Commission under a deferred payment plan in 10 equal yearly installments of P723,132.68, bearing 3% interest per annum beginning September 30, 1962 and September 30 of every year until the year 1972. (Exhs. 9, p. 4 and A-2, both cases) (See Respondents' brief, p. 4.)"

Delivered in Japan to its respective buyers, acting on behalf of the Commission, the vessels, upon their departure from Tokyo, on the maiden trip thereof to the Philippines, were issued, by the Philippine Vice-Consul in said city, provisional certificates of Philippine registry, in the name of the Commission, so that the vessels could proceed to the Philippines and secure therein the respective final registration documents.

Upon arrival at the port of Manila, the Buyers filed the corresponding applications for registration of the vessels, but, the Bureau of Customs placed the same under custody and refused to give due course to said applications, unless the aforementioned sums of P483,433 and P494,824 were paid as compensating tax. As the Commissioner of Customs refused to re-consider the stand taken by his office, the Buyers simultaneously filed, with the Court of

Tax Appeals, their respective petitions for review, against the Commissioner of Customs and the Commissioner of Internal Revenue - hereinafter referred to collectively as Appellants - with ur-gent motion for suspension of the collection of said tax. After a joint hearing on this motion, the same was, on October 31, 1960, granted by the Tax Court, upon the filing of a P500,000.00 bond by each one of the Buyers.

On June 17, 1961, while these cases were pending trial in said Court, Republic Act No. 3079 amended Republic Act No. 1789 - the Original Reparations Act, under which the aforementioned contracts with the Buyers had been executed - by exempting buyers of repara-tions goods acquired from the Commission, from liability for the com-pensating tax. Moreover, section 20 of Republic Act No. 3079, pro-vides:

"x x x This Act shall take effect upon its ap-proval, except that the amendment contained in Sec-tion seven hereof relating to the requirements of pro-curement orders including the requirement of down payment by private applicant end-users shall not ap-ply to procurement orders already duly issued and verified at the time of the passage of this amendatory Act, and except further that the amendment contained in Section ten relating to the insurance of the re-parations goods by the end-users upon delivery shall apply also to goods covered by contracts already en-tered into by the Commission and the end-user prior to the approval of this amendatory Act as well as goods already delivered to the end-user, and except further that the amendments contained in Sections eleven and twelve hereof relating to the terms of installment payments on capital goods disposed of to private parties, and the execution of a performance bond before delivery of reparations goods, shall not apply to contracts for the utilization of reparations goods already entered into by the Commission and the end-users prior to the approval of this amenda-tory Act: Provided, That any end-user may apply for the renovation of his utilization contract with the Commission in order to avail of any provision of this amendatory Act which is more favorable to an applicant end-user than has heretofore been granted in like manner and to the same extent as an end-user filing his application after the approval of this amendatory Act, and the Commission may agree to such renovation on condition that the end-user shall voluntarily assume all the new obligations provided for in this amendatory Act."

Invoking the provisions of this section 20, the Buyers applied, therefore, for the renovation of their utilization contracts with the Commission, which granted the application, and, then, filed, with the Tax Court, their supplemental petitions for review. Subsequently, the parties submitted Stipulations of Fact and, after a joint trial, at which they introduced additional evidence, said Court rendered the appealed deci-sion, reversing the decisions of herein Appellants, and declared said Buyers exempt from the compensating tax sought to be assessed against the vessels aforementioned. Hence, these appeals by the Government. G. R. No. L-21633 refers to the case as regards "M/S Maria Rosello," whereas "M/S General Lim" is the subject-matter of G. R. No. L-21634.

It seems clear that, under Republic Act No. 1789 - pursuant to which the contracts of Conditional Purchase and Sale in question had been executed - the vessels "M/S Maria Rosello" and "M/S General Lim" were subject to compensating tax. Indeed, Section 14 of said Act provides that "reparations goods obtained by private parties shall be exempt only from the payment of customs duties, consular fees and the special import tax." Although this Section was amended by R. A. No. 3079, to include the "compensating tax" among the exemptions enumerated therein, such amendment took place, not only after the contracts involved in these appeals had been perfected and partly consummated, but, also, after the corresponding compensating tax had become due and payment thereof demanded by Appellants herein. It is, moreover, obvious that said additional exemption should not and cannot be given retroactive operation, in the absence of a manifest intent of Congress to do this effect. The issue in the cases at bar hinges on whether or not such intent is clear.

Appellants maintain the negative, upon the ground that a tax exemption must be clear and explicit; that there is no express provi-sion for the retroactivity of the exemption, established by Republic Act No. 3079, from the compensating tax; that the favorable provi-sions, which are referred to in section 20 thereof, cannot include the

exemption from compensating tax; and, that Congress could not have intended any retroactive exemption, considering that the result there-of would be prejudicial to the Government.

The inherent weakness of the last ground becomes manifest when we consider that, if true, there could be no tax exemption of any kind whatsoever, even if Congress should wish to create one, because every such exemption implies a waiver of the right to collect what otherwise would be due to the Government, and, in this sense, is prejudicial there-to. In fact, however, tax exemptions may and do exist, such as the one prescribed in section 14 of Republic Act No. 1789, as amended by Re-public Act No. 3079, which, by the way, is "clear and explicit," thus, meeting the first ground of appellant's contention. It may not be amiss to add that no tax exemption - like any other legal exemption or exception - is given without any reason therefor. In much the same way as other statutory commands, its avowed purpose is some public bene-fit or interest, which the law-making body considers sufficient to off-set the monetary loss entailed in the grant of the exemption. Indeed, section 20 of Republic Act No. 3079 exacts a valuable consideration for the retroactivity of its favorable provisions, namely, the voluntary assumption, by the end-user who bought reparations goods prior to June 17, 1961, of "all the new obligations provided for in" said Act.

The argument adduced in support of the third ground is that the view adopted by the Tax Court would operate to grant exemption to particular persons, the Buyers herein. It should be noted, however, that there is no constitutional injunction against granting tax exemptions to particular persons. In fact, it is not unusual to grant legislative franchises to specific individuals or entities, conferring tax exemp-tions thereto. What the fundamental law forbids is the denial of equal protection, such as through unreasonable discrimination or classifi-cation.

Furthermore, Section 14 of the Law on Reparations, as amend-ed, exempts from the compensating tax, not particular persons, but persons belonging to a particular class. Indeed, appellants do not as-sail the Constitutionality of said section 14, insofar as it grants exemp-tions to end-users who, after the approval of Republic Act No. 3079, on June 17, 1961, purchased reparations goods procured by the Commis-sion. From the view point of Constitutional Law, especially the equal protection clause, there is no difference between the grant of exemption to said end-users, and the extension of the grant to those whose con-tracts of purchase and sale were made before said date, under Republic Act No. 1789.

It is true that Republic Act No. 3079 does not explicitly declare that those who purchased reparations goods prior to June 17, 1961, are exempt from the compensating tax. It does not say so, because they do not really enjoy such exemption, unless they comply with the provision in Section 20 of said Act, by applying for the renovation of their respective utilization contracts, "in order to avail of any provision of the Amendatory Act which is more favorable" to the applicant. In other words, it is manifest, from the language of said section 20, that the same intend-ed to give such buyers the opportunity to be treated "in like manner and to the same extent as an end-user filing his application after the approval of this Amendatory Act." Like the "most-favored-nation-clause" in in-ternational agreements, the aforementioned section 20 thus seeks, not to discriminate or to create an exemption or exception, but to abolish the discrimination, exemption or exception that would otherwise result, in favor of the end-user who bought after June 17, 1961 and against one who bought prior thereto. Indeed, it is difficult to find a substantial justification for the distinction between the one and the other. As correctly held by the Tax Court in *Philippine Ace Lines, Inc. v. Commissioner of Internal Revenue* (C. T. A. Nos. 964 and 984, January 25, 1963), and reiterated in the cases under consideration:

"x x x In providing that the favorable provision of Republic Act No. 3079 shall be available to applicants for renovation of their utilization contracts, on condition that said applicants shall voluntarily assume all the new obligations provided in the new law, the law intends to place persons who acquired reparations goods before the enactment of the amendatory Act on the same footing as those who acquire reparations goods after its

enactment. This is so because of the provision that once an application for renovation of a utilization contract has been approved, the favorable provisions of said Act shall be available to the applicant 'in like manner and to the same extent, as an end-user filing his application after the approval of this amendatory Act.' To deny exemption from compensating tax to one whose utilization contract has been renovated, while granting the exemption to one who files an application for acquisition of reparations goods after the approval of the new law, would be contrary to the express mandate of the new law, that they both be subject to the same privileges in like manner and to the same extent. It would be manifest distortion of the literal meaning and purpose of the new law."

WHEREFORE, the appealed decision of the Court of Tax Appeals is hereby affirmed in toto, without any pronouncement as to costs.

IT IS SO ORDERED.

Reyes, J.B.L., Makalintal, Bengzon, J.P., Zaldivar, Sanchez, and Ruiz Castro, 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.