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of this Court in *Asiaworld Publishing House, Inc. vs. Ople*, G.R. No. 56398, July 23, 1987, 152 SCRA 219, where severance pay was awarded to the illegally dismissed employee in lieu of reinstatement.

WHEREFORE, the petition for *certiorari* is dismissed with costs against the petitioners.

SO ORDERED.

Narvasa, Cruz, Gancayco, and *Medialdea, JJ.*, concur.

FIRST DIVISION

[G.R. Nos. L-28502-03. April 18, 1989]

COMMISSIONER OF INTERNAL REVENUE, *petitioner, vs.* **ESSO STANDARD EASTERN, INC. and THE COURT OF TAX APPEALS,** *respondents.*

SYLLABUS

1. TAXATION; INCOME TAX; OVERPAYMENT THEREOF BY MISTAKE; RIGHT OF PAYOR TO REIMBURSEMENT ARISES FROM THE MOMENT PAYMENT IS MADE AND NOT FROM THE TIME THAT THE PAYEE ADMITS THE OBLIGATION TO REIMBURSE. — As early as July 15, 1960, the Government already had in its hands the sum of ₱221,033.00 representing excess income tax payment. Having been paid and received by mistake, that sum unquestionably belonged to ESSO, and the Government had the obligation to return it to ESSO. That acknowledgment of the erroneous payment came some four (4) years afterwards in nowise negates or detracts from its actuality. The obligation to return money mistakenly paid arises from the moment that payment is made, and not from the time that the payee admits the obligation to reimburse. The obligation of the

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payee to reimburse an amount paid to him results from the mistake, not from the payee's confession of the mistake or recognition of the obligation to reimburse. In other words, since the amount of ₱221,033.00 belonging to ESSO was already in the hands of the Government as of July, 1960, although the latter had no right whatever to the amount and indeed was bound to return it to ESSO, it was neither legally nor logically possible for ESSO thereafter to be considered a debtor of the Government in that amount of ₱221,033.00; and whatever other obligation ESSO might subsequently incur in favor of the Government would have to be reduced by that sum, in respect of which no interest could be charged.

2. **ID.; TAX LAWS; INTERPRETATION THEREOF; LEGISLATIVE INTENT PREVAILS WHERE LITERAL INTERPRETATION OF THE STATUTE RESULTS IN ABSURDITY.** — In interpreting a statute, "Nothing is better settled than that courts are not to give words a meaning which would lead to absurd or unreasonable consequences. That is a principle that goes back to *In re Allen* (2 Phil. 630) decided on October 29, 1903, where it was held that a literal interpretation is to be rejected if it would be unjust or lead to absurd results." "Statutes should receive a sensible construction, such as will give effect to the legislative intention and so as to avoid an unjust or absurd conclusion."

APPEARANCES OF COUNSEL

The Solicitor General for petitioner.
Padilla Law Office for private respondent.

D E C I S I O N

NARVASA, *J.*:

In two (2) cases appealed to it[1] by the private respondent, hereafter simply referred to as ESSO, the Court of Tax Appeals rendered judgment,[2] sustaining the decisions of the Commissioner of Internal Revenue excepted to, save "the refund-claim ** in

[1] The appeals were docketed as C.T.A. Cases Numbered 1251 and 1558.

[2] Under date of October 28, 1967.

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the amount of ₱39,787.94 as overpaid interest" which it ordered refunded to ESSO.

Reversal of this decision is sought by the Commissioner by a petition for review on *certiorari* filed with this Court. He ascribes to the Tax Court one sole error: "of applying the tax credit for overpayment of the 1959 income tax of ** ESSO, granted by the petitioner (Commissioner), to ** (ESSO'S) basic 1960 deficiency income tax liability ** and imposing the 1-½% monthly interest[3] only on the remaining balance thereof in the sum of ₱146,961.00"[4] (instead of the full amount of the 1960 deficiency liability in the amount of ₱367,994.00).[5] Reversal of the same judgment of the Court of Tax Appeals is also sought by ESSO in its own appeal (docketed as G.R. Nos. L-28508-09); but in the brief filed by it in this case, it indicates that it will not press its appeal in the event that "the instant petition for review be denied and that judgment be rendered affirming the decision of the Court of Tax Appeals."

The facts are simple enough and are quite quickly recounted.

ESSO overpaid its 1959 income tax by ₱221,033.00. It was accordingly granted a tax credit in this amount by the Commissioner on August 5, 1964. However, ESSO's payment of its income tax for 1960 was found to be short by ₱367,994.00. So, on July 10, 1964, the Commissioner wrote to ESSO demanding payment of the deficiency tax, together with interest thereon for the period from April 18, 1961 to April 18, 1964. On August 10, 1964, ESSO paid under protest the amount alleged to be due, including the interest as reckoned by the Commissioner. It protested the computation of interest, contending it was more than that properly due. It claimed that it should not have been required to pay interest on the total amount of the deficiency tax, ₱367,994.00, but only on the amount of ₱146,961.00 — representing the difference between said deficiency, ₱367,994.00,

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[3] 18% p.a., according to Sec. 51 (d) of the Internal Revenue Code.

[4] Par. 9, petition.

[5] Pp. 23-24, petitioner's brief: *Rollo*, p. 74, *et seq.*

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and ESSO's earlier overpayment of ₱221,033.00 (for which it had been granted a tax credit). ESSO thus asked for a refund.

The Internal Revenue Commissioner denied the claim for refund. ESSO appealed to the Court of Tax Appeals. As aforestated, that Court ordered payment to ESSO of its "refund-claim ** in the amount of ₱39,787.94 as overpaid interest. Hence, this appeal by the Commissioner.

The CTA justified its award of the refund as follows:

"** In the letter of August 5, 1964, ** (the Commissioner) admitted that ** (ESSO) had overpaid its 1959 income tax by ₱221,033.00. Accordingly ** (the Commissioner) granted to ** (ESSO) a tax credit of ₱221,033.00. In short, the said sum of ₱221,033.00 of (ESSO's) money was in the Government's hands at the latest on July 15, 1960 when it (ESSO) paid in full its second installment of income tax for 1959. On July 10, 1964 ** (the Commissioner) claimed that for 1960, ** (ESSO) underpaid its income tax by ₱367,994.00. However, instead of deducting from ₱367,994.00 the tax credit of ₱221,033.00 which ** (the Commissioner) had already admitted was due ** (ESSO), ** (the Commissioner) still insists in collecting the interest on the full amount of ₱367,994.00 for the period April 18, 1961 to April 18, 1964 when the Government had already in its hands the sum of ₱221,033.00 of ** (ESSO's) money even before the latter's income tax for 1960 was due and payable. If the imposition of interest does not amount to a penalty but merely a just compensation to the State for the delay in paying the tax, and for the concomitant use by the taxpayer of funds that rightfully should be in the Government's hand (*Castro v. Collector*, G.R. No. L-1274, Dec. 28, 1962), the collection of the interest on the full amount of ₱367,994.00 without deducting first the tax credit of ₱221,033.00, which has long been in the hands of the Government, becomes erroneous, illegal and arbitrary.

"** (ESSO) could hardly be charged of delinquency in paying ₱221,033.00 out of the deficiency income tax of ₱367,994.00, for which the State should be compensated by the payment of interest, because the said amount of ₱221,033.00 was already in the coffers of the Government. Neither could ** (ESSO) be charged for the concomitant use of funds that rightfully belong to the Government because as early as July 15, 1960, it was the Government that was using ** (ESSO's) funds of ₱221,033.00. In the circumstances, we find it unfair and unjust for ** (the Commissioner) to exact the interest on the

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said sum of ₱221,033.00 which, after all, was paid to and received by the Government even before the incidence of the deficiency income tax of ₱367,994.00. *(Itogon-Suyoc Mines, Inc. v. Commissioner,* C.T.A. Case No. 1327, Sept. 30, 1965). On the contrary, the Government should be the first to blaze the trail and set the example of fairness and honest dealing in the administration of tax laws.

"Accordingly, we hold that the tax credit of ₱221,033.00 for 1959 should first be deducted from the basic deficiency tax of ₱367,994.00 for 1960 and the resulting difference of ₱146,961.00 would be subject to the 18% interest prescribed by Section 51 (d) of the Revenue Code. According to the prayer of ** (ESSO) **, (the Commissioner) is hereby ordered to refund to ** (ESSO) the amount of ₱39,787.94 as overpaid interest in the settlement of its 1960 income tax liability. However, as the collection of the tax was not attended with arbitrariness because ** (ESSO) itself followed ** (the Commissioner's) manner of computing the tax in paying the sum of ₱213,189.93 on August 10, 1964, the prayer of ** (ESSO) that it be granted the legal rate of interest on its overpayment of ₱39,787.94 from August 10, 1964 to the time it is actually refunded is denied. (See *Collector of Internal Revenue v. Binalbagan Estate, Inc.*, G.R. No. L-12752, Jan. 30, 1965)."

The Commissioner's position is that income taxes are determined and paid on an annual basis, and that such determination and payment of annual taxes are separate and independent transactions; and that a tax credit could not be so considered until it has been finally approved and the taxpayer duly notified thereof. Since in this case, he argues, the tax credit of ₱221,033.00 was approved only on August 5, 1964, it could not be availed of in reduction of ESSO's earlier tax deficiency for the year 1960; as of that year, 1960, there was as yet no tax credit to speak of, which would reduce the deficiency tax liability for 1960. In support of his position, the Commissioner invokes the provisions of Section 51 of the Tax Code pertinently reading as follows:

"(c) Definition of deficiency — As used in this Chapter in respect of tax imposed by this Title, the term 'deficiency' means:

(1) The amount by which the tax imposed by this Title exceeds the amount shown as the tax by the taxpayer upon his return; but the amount so shown on the return shall first be increased by the

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amounts previously assessed (or collected without assessment) as a deficiency, and decreased by the amount previously abated, credited, returned, or otherwise in respect of such tax; **

xxx xxx xxx.

(d) Interest on deficiency. — Interest upon the amount determined as deficiency shall be assessed at the same time as the deficiency and shall be paid upon notice and demand from the Commissioner of Internal Revenue; and shall be collected as a part of the tax, at the rate of six per centum per annum from the date prescribed for the payment of the tax (or, if the tax is paid in installments, from the date prescribed for the payment of the first installment) to the date the deficiency is assessed; *Provided*, That the amount that may be collected as interest on deficiency shall in no case exceed the amount corresponding to a period of three years, the present provision regarding prescription to the contrary notwithstanding."

The fact is that, as respondent Court of Tax Appeals has stressed, as early as July 15, 1960, the Government already had in its hands the sum of ₱221,033.00 representing excess payment. Having been paid and received by mistake, as petitioner Commissioner subsequently acknowledged, that sum unquestionably belonged to ESSO, and the Government had the obligation to return it to ESSO. That acknowledgment of the erroneous payment came some four (4) years afterwards in nowise negates or detracts from its actuality. The obligation to return money mistakenly paid arises from the moment that payment is made, and not from the time that the payee admits the obligation to reimburse. The obligation of the payee to reimburse an amount paid to him results from the mistake, not from the payee's confession of the mistake or recognition of the obligation to reimburse. In other words, since the amount of ₱221,033.00 belonging to ESSO was already in the hands of the Government as of July, 1960, although the latter had no right whatever to the amount and indeed was bound to return it to ESSO, it was neither legally nor logically possible for ESSO thereafter to be considered a debtor of the Government in that amount of ₱221,033.00; and whatever other obligation ESSO might subsequently incur in favor of the Government would have

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to be reduced by that sum, in respect of which no interest could be charged. To interpret the words of the statute in such a manner as to subvert these truisms simply can not and should not be countenanced. "Nothing is better settled than that courts are not to give words a meaning which would lead to absurd or unreasonable consequences. That is a principle that goes back to *In re Allen* (2 Phil. 630) decided on October 29, 1903, where it was held that a literal interpretation is to be rejected if it would be unjust or lead to absurd results."[6] "Statutes should receive a sensible construction, such as will give effect to the legislative intention and so as to avoid an unjust or absurd conclusion."[7]

WHEREFORE, the petition for review is DENIED, and the Decision of the Court of Tax Appeals dated October 28, 1967 subject of the petition is AFFIRMED, without pronouncement as to costs.

Cruz, Gancayco, Griño-Aquino, and *Medialdea, JJ.*, concur.

FIRST DIVISION

[G.R. No. L-46127. April 18, 1989]

CONCEPCION DELA ROSA, *petitioner, vs.* **TARCELA FERNANDEZ, as natural guardian of the minors SHEILA, NILO and JOSE, JR., all surnamed FERNANDEZ, HON. EDUARDO C. TUTAAN, Judge, CFI of Rizal (Q.C.), and the SHERIFF OF MANILA,** *respondents.*

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[6] *Automotive Paints & Equipment Co., Inc. v. Lingad,* 30 SCRA 255 [1969].

[7] *People v. Rivera,* 59 Phil. 242 [1933].