Supreme Court E-Library

Both lower courts correctly found that the accused's acts fell squarely under Article 13(b) of the *Labor Code* due to the number of her victims being at least four. Hence, the penalty of life imprisonment and fine of ₱100,000.00 as prescribed under Article 39 (a) of the *Labor Code* was proper.

WHEREFORE, the Court affirms the decision of the Court of Appeals promulgated on April 29, 2005.

SO ORDERED.

Carpio Morales (Chairperson), Abad,[*] *Villarama, Jr.,* and *Sereno, JJ.,* concur.

FIRST DIVISION

[G.R. No. 169103. March 16, 2011]

COMMISSIONER OF INTERNAL REVENUE, *petitioner, vs.* **MANILA BANKERS' LIFE INSURANCE CORPORATION,** *respondent.*

SYLLABUS

1. TAXATION; DOCUMENTARY STAMP TAX; A TAX ON DOCUMENTS, INSTRUMENTS, LOAN AGREEMENTS, AND PAPERS EVIDENCING THE ACCEPTANCE, ASSIGNMENT, SALE OR TRANSFER OF AN OBLIGATION RIGHT OR PROPERTY INCIDENT THERETO.— Documentary stamp tax is a tax on documents, instruments, loan agreements, and papers evidencing the acceptance, assignment, sale or transfer of an obligation, right or property incident thereto. It is in the nature of an excise

---

[*] In lieu of Justice A. D. Brion who is on leave per Special Order No. 940 dated February 7, 2011.

Supreme Court E-Library

tax because it is imposed upon the privilege, opportunity or facility offered at exchanges for the transaction of the business. It is an excise upon the facilities used in the transaction of the business distinct and separate from the business itself.

2. ID.; ID.; ELUCIDATED.— To elucidate, documentary stamp tax is levied on the exercise of certain privileges granted by law for the creation, revision, or termination of specific legal relationships through the execution of specific instruments. Examples of these privileges, the exercise of which are subject to documentary stamp tax, are leases of lands, mortgages, pledges, trusts and conveyances of real property. Documentary stamp tax is thus imposed on the exercise of these privileges through the execution of specific instruments, independently of the legal status of the transactions giving rise thereto. The documentary stamp tax must be paid upon the issuance of these instruments, without regard to whether the contracts which gave rise to them are rescissible, void, voidable, or unenforceable. Accordingly, the documentary stamp tax on insurance policies, though imposed on the document itself, is actually levied on the privilege to conduct insurance business. Under Section 173, the documentary stamp tax becomes due and payable at the time the insurance policy is issued, with the tax based on the amount insured by the policy as provided for in Section 183.

3. ID.; ID.; STAMP TAX ON LIFE INSURANCE POLICIES; THE INCREASES IN THE SUM ASSURED BROUGHT ABOUT BY THE GUARANTEED CONTINUITY CLAUSE IN CASE AT BAR IS NOT SUBJECT TO DOCUMENTARY STAMP TAX AS INSURANCE MADE UPON THE LIVES OF THE INSURED.— In the case at bar, the clause in contention is the "Guaranteed Continuity Clause" in respondent's Money Plus Plan x x x. The only things guaranteed in the respondent's continuity clause were: the continuity of the policy until the stated expiry date as long as the premiums were paid within the allowed time; the non-change in premiums for the duration of the 20-year policy term; and the option to continue such policy after the 20-year period, subject to certain requirements. In fact, even the continuity of the policy after its term was not guaranteed as the decision to renew it belonged to the insured, subject to certain conditions. Any increase in the sum assured, as a result of the clause, had to survive a new

Supreme Court E-Library

agreement between the respondent and the insured. The increase in the life insurance coverage was only corollary to the new premium rate imposed based upon the insured's age at the time the continuity clause was availed of. It was not automatic, was never guaranteed, and was certainly neither definite nor determinable at the time the policy was issued. Therefore, the increases in the sum assured brought about by the guaranteed continuity clause cannot be subject to documentary stamp tax under Section 183 **as insurance made upon the lives of the insured**. However, it is clear from the text of the guaranteed continuity clause that what the respondent was actually offering in its Money Plus Plan was the option to **renew** the policy, after the expiration of its original term. Consequently, the acceptance of this offer would give rise to the renewal of the original policy.

4. ID.; ID.; ID.; THE AVAILMENT OF THE OPTION IN THE GUARANTEED CONTINUITY CLAUSE IN CASE AT BAR WILL EFFECTIVELY RENEW THE MONEY PLUS PLAN POLICY WHICH IS SUBJECT TO THE IMPOSITION OF DOCUMENTARY STAMP TAX AS AN INSURANCE RENEWED UPON THE LIFE OF THE INSURED.— The provision which specifically applies to renewals of life insurance policies is Section 183 x x x. Section 183 is a substantial reproduction of the earlier documentary stamp tax provision, Section 1449(j) of the Administrative Code of 1917. Regulations No. 26, or The Revised Documentary Stamp Tax Regulations, provided the implementing rules to the provisions on documentary stamp tax under the Administrative Code of 1917. Section 54 of the Regulations, in reference to what is now Section 183, explicitly stated that the documentary stamp tax imposed under that section is also collectible upon renewals of life insurance policies. x x x. To argue that there was no new legal relationship created by the availment of the guaranteed continuity clause would mean that any option to renew, integrated in the original agreement or contract, would not in reality be a renewal but only a discharge of a pre-existing obligation. The truth of the matter is that the guaranteed continuity clause only gave the insured the right to renew his life insurance policy which had a fixed term of twenty years. And although the policy would still continue with essentially the same terms and conditions, the fact is, its maturity date, coverage, and premium rate would have changed. We cannot agree with the CTA in its

Supreme Court E-Library

holding that "the renewal, is in effect treated as an increase in the sum assured since no new insurance policy was issued." The renewal was not meant to restore the original terms of an old agreement, but instead it was meant to extend the life of an existing agreement, with some of the contract's terms modified. This renewal was still subject to the acceptance and to the conditions of both the insured and the respondent. This is entirely different from a simple mutual agreement between the insurer and the insured, to increase the coverage of an existing and effective life insurance policy. It is clear that the availment of the option in the guaranteed continuity clause will effectively renew the Money Plus Plan policy, which is indisputably subject to the imposition of documentary stamp tax under Section 183 **as an insurance renewed upon the life of the insured**.

5. ID.; ID.; ID.; GROUP LIFE INSURANCE; WHENEVER AN ENROLLMENT CARD IS REGISTERED AND ATTACHED TO AN EXISTING MASTER POLICY IN CASE AT BAR, THE PRIVILEGE TO CONDUCT THE BUSINESS OF INSURANCE IS EXERCISED AND THIS IS SUBJECT TO DOCUMENTARY STAMP TAX AS INSURANCE MADE UPON A LIFE.— When a group insurance is taken out, a group master policy is issued with the coverage and premium rate based on the number of the members covered at that time. In the case of a company group insurance plan, the premiums paid on the issuance of the master policy cover only those employees enrolled at the time such master policy was issued. When the employer hires additional employees during the life of the policy, the additional employees may be covered by the same group insurance already taken out without any need for the issuance of a new policy. x x x [I]t would be instructive to take another look at Section 183: On all policies of insurance or **other instruments by whatever name the same may be called**, whereby any insurance shall be made or renewed upon any life or lives. x x x Whenever a master policy admits of another member, another life is insured and covered. This means that the respondent, by approving the addition of another member to its existing master policy, is once more exercising its privilege to conduct the business of insurance, because it is yet again insuring a life. It does not matter that it did not issue another policy to effect this change, the fact remains that insurance on another life is made and the relationship of

Supreme Court E-Library

insurer and insured is created between the respondent and the additional member of that master policy. In the respondent's case, its group insurance plan is embodied in a contract which includes not only the master policy, but all documents subsequently attached to the master policy. Among these documents are the Enrollment Cards accomplished by the employees when they applied for membership in the group insurance plan. The Enrollment Card of a new employee, once registered in the Schedule of Benefits and attached to the master policy, becomes evidence of such employee's membership in the group insurance plan, and his right to receive the benefits therein. Everytime the respondent registers and attaches an Enrollment Card to an existing master policy, it exercises its privilege to conduct its business of insurance and this is patently subject to documentary stamp tax **as insurance made upon a life** under Section 183.

6. ID.; TAXES; THE LIFEBLOOD OF THE GOVERNMENT.— Along with police power and eminent domain, taxation is one of the three basic and necessary attributes of sovereignty. Taxes are the lifeblood of the government and their prompt and certain availability is an imperious need. It is through taxes that government agencies are able to operate and with which the State executes its functions for the welfare of its constituents. It is for this reason that we cannot let the petitioner's oversight bar the government's rightful claim.

7. ID.; DOCUMENTARY STAMP TAX; STAMP TAX ON LIFE INSURANCE POLICIES; DOCUMENTARY STAMP TAX IS LEVIED ON EVERY DOCUMENT WHICH ESTABLISHES THAT INSURANCE IS MADE OR RENEWED UPON A LIFE.— This Court would like to make it clear that the assessment for deficiency documentary stamp tax is being upheld not because the additional premium payments or an agreement to change the sum assured during the effectivity of an insurance plan are subject to documentary stamp tax, but because documentary stamp tax is levied on every document which establishes that insurance was made or renewed upon a life.

APPEARANCES OF COUNSEL

The Solicitor General for petitioner.
Puyat Jacinto & Santos for respondent.

Supreme Court E-Library

D E C I S I O N

LEONARDO-DE CASTRO, *J.*:

This is a Petition for Review on *Certiorari*[1] filed by the Commissioner of Internal Revenue (CIR) of the April 29, 2005 Decision[2] and July 27, 2005 Resolution[3] of the Court of Appeals in CA-G.R. SP No. 70600, which upheld the April 4, 2002 Decision[4] of the Court of Tax Appeals (CTA) in CTA Case No. 6189.

The facts as found by the CTA and Court of Appeals are undisputed.

Respondent Manila Bankers' Life Insurance Corporation is a duly organized domestic corporation primarily engaged in the life insurance business.[5]

On May 28, 1999, petitioner Commissioner of Internal Revenue issued Letter of Authority No. 000020705[6] authorizing a special team of Revenue Officers to examine the books of accounts and other accounting records of respondent for taxable year "1997 & unverified prior years."[7]

On December 14, 1999, based on the findings of the Revenue Officers, the petitioner issued a Preliminary Assessment Notice[8] against the respondent for its deficiency internal revenue taxes for the year 1997. The respondent agreed to all the assessments issued against it except to the amount of ₱2,351,680.90

[1] Under Rule 45 of the 1997 Rules of Civil Procedure.

[2] *Rollo*, pp. 54-62; penned by Associate Justice Godardo A. Jacinto with Associate Justices Bienvenido L. Reyes and Rosalinda Asuncion-Vicente, concurring.

[3] *Id.* at 64-71.

[4] *Id.* at 96-107.

[5] *Id.* at 79.

[6] *Id.* at 72.

[7] *Id.*

[8] *Id.* at 73-74.

Supreme Court E-Library

representing deficiency documentary stamp taxes on its policy premiums and penalties.[9]

Thus, on January 4, 2000, the petitioner issued against the respondent a Formal Letter of Demand[10] with the corresponding Assessment Notices attached,[11] one of which was **Assessment Notice No. ST-DST2-97-0054-2000**[12] pertaining to the documentary stamp taxes due on respondent's policy premiums:

Documentary Stamp Tax on Policy Premiums

Assessment No. ST-DST2-97-0054-2000

Tax Due	3,954,955.00
Less: Tax Paid	2,308,505.74
Tax Deficiency	1,646,449.26
Add: 20% Int./a	680,231.64
Recommended Compromise Penalty-Late Payment	25,000.00
Total Amount Due	2,351,680.90[13]

The tax deficiency was computed by including the increases in the life insurance coverage or the sum assured by some of respondent's life insurance plans[14]:

	ISSUED	INCREASED
ORDINARY	₱648,127,000.00	₱ 74,755,000.00
GROUP	114,936,000.00	744,164,000.00
TOTAL	₱763,063,000.00	₱ 818,919,000.00
GRAND TOTAL/TAX BASE		₱1,581,982,000.00
TAX RATE		₱0.50/200.00

[9] CA *rollo*, p. 37.

[10] *Rollo*, pp. 75-76.

[11] CA *rollo*, pp. 54-57.

[12] *Id.* at 58.

[13] *Rollo*, p. 76.

[14] CA *rollo*, p. 128.

Supreme Court E-Library

TAX DUE		₱ 3,954,955.00
LESS: TAX PAID		₱ 2,308,505.74
DEFICIENCY DST	- BASIC	₱ 1,646,499.26
	- 20% INTEREST	680,231.64
	- SURCHARGE	25,000.00
TOTAL ASSESSMENT		₱ 2,351,680.90[15]

The amount of ₱818,919,000.00 comprises the increases in the sum assured for the respondent's ordinary insurance – the "Money Plus Plan" (₱74,755,000.00), and group insurance (₱744,164,000.00).[16]

On February 3, 2000, the respondent filed its Letter of Protest[17] with the Bureau of Internal Revenue (BIR) contesting the assessment for deficiency documentary stamp tax on its insurance policy premiums. Despite submission of documents on April 3, 2000,[18] as required by the BIR in its March 20, 2000[19] letter, the respondent's Protest was not acted upon by the BIR within the 180-day period given to it by Section 228 of the 1997 National Internal Revenue Code (NIRC) within which to rule on the protest. Hence, on October 26, 2000, the respondent filed a Petition for Review with the CTA for the cancellation of Assessment Notice No. ST-DST2-97-0054-2000. The respondent invoked the CTA's March 30, 1993 ruling in the similar case of *Lincoln Philippine Life Insurance Company, Inc. (now Jardine-CMA Life Insurance Company, Inc.) v. Commissioner of Internal Revenue*,[20] wherein the CTA held that the tax base to be used in computing the documentary stamp tax is the value at the time the instrument is issued because the documentary stamp tax is levied and paid only once, which is at the time the taxable document is issued.

---

[15] *Rollo*, p. 82.

[16] *Id.* at 145.

[17] CA *rollo*, p. 64.

[18] *Id.* at 117.

[19] *Id.* at 65.

[20] CTA Case No. 4583; *rollo*, p. 84.

Supreme Court E-Library

On April 4, 2002, the CTA granted the respondents' Petition with the dispositive portion as follows:

WHEREFORE, in the light of all the foregoing, respondent Commissioner of Internal Revenue is hereby **ORDERED** to **CANCEL** and **WITHDRAW Assessment Notice No. ST-DST2-97-0054-2000** dated January 4, 2000 in the amount of ₱2,351,680.90 representing deficiency documentary stamp taxes for the taxable year 1997.[21]

The CTA, applying the Tax Code Provisions then in force, held that:

[T]he documentary stamp tax on life insurance policies is imposed only once based on the amount insured at the time of actual issuance of such policies. The documentary stamp tax which is in the nature of an excise tax is imposed on the document as originally issued. Therefore, any subsequent increase in the insurance coverage resulting from policies which have been subjected to the documentary stamp tax at the time of their issuance, is no longer subject to the documentary stamp tax.[22]

Aggrieved by the decision, the petitioner went to the Court of Appeals on a Petition for Review[23] docketed as CA-G.R. SP No. 70600 on the ground that:

THE TAX COURT ERRED IN RULING THAT INCREASES IN THE COVERAGE OR THE SUM ASSURED BY AN EXISTING INSURANCE POLICY IS NOT SUBJECT TO THE DOCUMENTARY STAMP TAX. (DST).[24]

On April 29, 2005, the Court of Appeals sustained the cancellation of Assessment Notice No. ST-DST2-97-0054-2000 in its Decision, the decretal portion of which reads:

WHEREFORE, all considered and finding no merit in the herein appeal, judgment is hereby rendered upholding the April 4, 2002, CTA Decision in CTA Case No. 6189 entitled "*Manila Bankers' Life*

---

[21] *Rollo*, p. 106.

[22] *Id.* at 104.

[23] *Id.* at 108-122.

[24] *Id.* at 115.

Supreme Court E-Library

Insurance Corporation, Petitioner, versus Commissioner of Internal Revenue, Respondent."[25]

The Court of Appeals, in upholding the decision of the CTA, said that the subject of the documentary stamp tax is the issuance of the instrument representing the creation, change or cessation of a legal relationship.[26] It further held that because the legal status or nature of the relationship embodied in the document has no bearing at all on the tax, the fulfillment of suspensive conditions incorporated in the respondent's policies, as claimed by the petitioner, would still not give rise to new documentary stamp tax payments.[27]

The petitioner asked for reconsideration of the above Decision and cited this Court's March 19, 2002 Decision in *Commissioner of Internal Revenue v. Lincoln Philippine Life Insurance Company, Inc.*,[28] the very same case the respondent invoked before the CTA. The petitioner argued that in *Lincoln*, this Court reversed both the CTA and the Court of Appeals and sustained the validity of the deficiency documentary stamp tax imposed on the increase in the sum insured even though no new policy was issued because the increase, by reason of the "Automatic Increase Clause," was already definite at the time the policy was issued.

On July 27, 2005, the Court of Appeals sustained its ruling, and stated that the *Lincoln Case* was not applicable because the increase in the sum assured in Lincoln's insurance policy was definite and determinable at the time such policy was issued as the automatic increase clause, which allowed for the increase, formed an integral part of the policy; whereas in the respondent's case, "the tax base of the disputed deficiency assessment was not [a] definite or determinable increase in the sum assured."[29]

---

[25] *Id.* at 61.

[26] *Id.* at 60.

[27] *Id.*

[28] 429 Phil. 154 (2002).

[29] *Rollo*, p. 66.

Supreme Court E-Library

The petitioner is now before us praying for the nullification of the Court of Appeals' April 29, 2005 Decision and July 27, 2005 Resolution and to have the assessment for deficiency documentary stamp tax on respondent's policy premiums, plus 25% surcharge for late payment and 20% annual interest, sustained[30] on the following arguments:

A.

THE APPLICABLE PROVISIONS OF THE NIRC AT THE TIME THE ASSESSMENT FOR DEFICIENCY DOCUMENTARY STAMP TAX WAS ISSUED PROVIDE THAT DOCUMENTARY STAMP TAX IS COLLECTIBLE NOT ONLY ON THE ORIGINAL POLICY BUT ALSO UPON RENEWAL OR CONTINUANCE THEREOF.

B.

THE AMOUNT INSURED BY THE POLICY AT THE TIME OF ITS ISSUANCE NECESSARILY INCLUDED THE ADDITIONAL SUM AS A RESULT OF THE EXERCISE OF THE OPTION UNDER THE "GUARANTEED CONTINUITY" CLAUSE IN RESPONDENT'S INSURANCE POLICIES.

C.

THE "GUARANTEED CONTINUITY" CLAUSE OFFERS TO THE INSURED AN OPTION TO AVAIL OF THE RIGHT TO RENEW OR CONTINUE THE POLICY. IF AND WHEN THE INSURED AVAILS OF SUCH OPTION AND SUCH GUARANTEED CONTINUITY CLAUSE TAKES EFFECT, THE INSURER IS LIABLE FOR DEFICIENCY DOCUMENTARY STAMP TAX CORRESPONDING TO THE INCREASE OF THE INSURANCE COVERAGE.

D.

SECTION 198 OF THE 1997 NIRC CLEARLY STATES THAT THE DOCUMENTARY STAMP TAX IS IMPOSABLE UPON RENEWAL OR CONTINUANCE OF ANY POLICY OF INSURANCE OR THE RENEWAL OR CONTINUANCE OF ANY CONTRACT BY ALTERING OR OTHERWISE, AT THE SAME RATE AS THAT IMPOSED ON THE ORIGINAL INSTRUMENT.[31]

[30] *Id.* at 45-46.

[31] *Id.* at 27-29.

Supreme Court E-Library

As can be gleaned from the facts, the deficiency documentary stamp tax was assessed on the increases in the life insurance coverage of two kinds of policies: the "Money Plus Plan," which is an ordinary term life insurance policy; and the group life insurance policy. The increases in the coverage of the life insurance policies were brought about by the premium payments made subsequent to the issuance of the policies. The Money Plus Plan is a 20-year term ordinary life insurance plan with a "Guaranteed Continuity Clause" which allowed the policy holder to continue the policy after the 20-year term subject to certain conditions. Under the plan, the policy holders paid their premiums in five separate periods, with the premium payments, after the first period premiums, to be made only upon reaching a certain age. The succeeding premium payments translated to increases in the sum assured. Thus, the petitioner believed that since the documentary stamp tax was affixed on the policy based only on the first period premiums, then the succeeding premium payments should likewise be subject to documentary stamp tax. In the case of respondent's group insurance, the deficiency documentary stamp tax was imposed on the premiums for the additional members to already existing and effective master policies. The petitioner concluded that any additional member to the group of employees, who were already insured under the existing mother policy, should similarly be subjected to documentary stamp tax.[32]

The resolution of this case hinges on the validity of the imposition of documentary stamp tax on increases in the coverage or sum assured by existing life insurance policies, even without the issuance of new policies.

In view of the fact that the assessment for deficiency documentary stamp tax covered the taxable year 1997, the relevant and applicable legal provisions are those found in the 1977 National Internal Revenue Code (Tax Code) as amended,[33] to wit:

---

[32] CA *rollo,* pp. 128-129.

[33] Republic Act No. 8424 or the Tax Reform Act of 1997 became effective only on January 1, 1998.

Supreme Court E-Library

Section 173. Stamp Taxes Upon Documents, Loan Agreements, Instruments and Papers. — Upon documents, instruments, loan agreements and papers, and upon acceptances, assignments, sales and transfers of the obligation, right or property incident thereto, there shall be levied, collected and paid for, and in respect of the transaction so had or accomplished, the corresponding documentary stamp taxes prescribed in the following sections of this Title, by the person making, signing, issuing, accepting, or transferring the same **wherever the document is made, signed, issued, accepted, or transferred** when the obligation or right arises from Philippine sources or the property is situated in the Philippines, **and the same time such act is done or transaction had**: *Provided*, That whenever one party to the taxable document enjoys exemption from the tax herein imposed, the other party who is not exempt shall be the one directly liable for the tax.[34]

Section 183. Stamp Tax on Life Insurance Policies. — On all policies of insurance or other instruments by whatever name the same may be called, whereby any insurance shall be made or renewed upon any life or lives, there shall be collected a documentary stamp tax of fifty centavos on each two hundred pesos or fractional part thereof, **of the amount insured by any such policy**.[35] (Emphases ours.)

Documentary stamp tax is a tax on documents, instruments, loan agreements, and papers evidencing the acceptance, assignment, sale or transfer of an obligation, right or property incident thereto.[36] It is in the nature of an excise tax because it is imposed upon the privilege, opportunity or facility offered at exchanges for the transaction of the business. It is an excise

---

[34] Presidential Decree No. 1158 as renumbered and amended by Section 32 of Presidential Decree No. 1994, November 5, 1985; Section 23 of Executive Order No. 273, July 25, 1987; and Section 1 of Republic Act No. 7660, December 23, 1993.

[35] Presidential Decree No. 1158 as amended by Section 29 of Annex of Presidential Decree No. 1457, June 11, 1978; Section 27 of Presidential Decree No. 1959, October 10, 1984; Section 45 of Presidential Decree No. 1994, November 5, 1985; and Section 23 of Executive Order No. 273, July 25, 1987.

[36] *Commissioner of Internal Revenue v. First Express Pawnshop Company, Inc.*, G.R. Nos. 172045-46, June 16, 2009, 589 SCRA 253, 263.

Supreme Court E-Library

upon the facilities used in the transaction of the business distinct and separate from the business itself.[37]

To elucidate, documentary stamp tax is levied on the exercise of certain privileges granted by law for the creation, revision, or termination of specific legal relationships through the execution of specific instruments. Examples of these privileges, the exercise of which are subject to documentary stamp tax, are leases of lands, mortgages, pledges, trusts and conveyances of real property. Documentary stamp tax is thus imposed on the exercise of these privileges through the execution of specific instruments, independently of the legal status of the transactions giving rise thereto. The documentary stamp tax must be paid upon the issuance of these instruments, without regard to whether the contracts which gave rise to them are rescissible, void, voidable, or unenforceable.[38]

Accordingly, the documentary stamp tax on insurance policies, though imposed on the document itself, is actually levied on the privilege to conduct insurance business. Under Section 173, the documentary stamp tax becomes due and payable at the time the insurance policy is issued, with the tax based on the amount insured by the policy as provided for in Section 183.

Documentary Stamp Tax on the "Money Plus Plan"

The petitioner would have us reverse both the CTA and the Court of Appeals based on our decision in *Commissioner of Internal Revenue v. Lincoln Philippine Life Insurance Company, Inc.*[39]

The *Lincoln* case has been invoked by both parties in different stages of this case. The respondent relied on the CTA's ruling

---

[37] *Lincoln Philippine Life Insurance Company, Inc. (Now Jardine-CMG Life Insurance Co. Inc.) v. Court of Appeals*, 354 Phil. 896, 904 (1998).

[38] *Philippine Home Assurance Corporation v. Court of Appeals*, 361 Phil. 368, 372-373 (1999).

[39] *Supra* note 28.

Supreme Court E-Library

in the *Lincoln* case when it elevated its protest there; and when we reversed the CTA's ruling therein, the petitioner called the Court of Appeals' attention to it, and prayed for a decision upholding the assessment for deficiency documentary stamp tax just like in the *Lincoln* case.

It is therefore necessary to briefly discuss the *Lincoln case* to determine its applicability, if any, to the case now before us. Prior to 1984, *Lincoln Philippine Life Insurance Company, Inc. (Lincoln)* had been issuing its "Junior Estate Builder Policy," a special kind of life insurance policy because of a clause which provided for an automatic increase in the amount of life insurance coverage upon attainment of a certain age by the insured without the need of a new policy. As *Lincoln* paid documentary stamp taxes only on the initial sum assured, the CIR issued a deficiency documentary stamp tax assessment for the year 1984, the year the clause took effect. Both the CTA and the Court of Appeals found no basis for the deficiency assessment. As discussed above, however, this Court reversed both lower courts and sustained the CIR's assessment.

This Court ruled that the increase in the sum assured brought about by the "automatic increase" clause incorporated in *Lincoln's* Junior Estate Builder Policy was still subject to documentary stamp tax, notwithstanding that no new policy was issued, because the date of the effectivity of the increase, as well as its amount, were already definite and determinable at the time the policy was issued. As such, the tax base under Section 183, which is "the amount fixed in the policy," is "the figure written on its face and whatever increases will take effect in the future by reason of the 'automatic increase clause.'"[40] This Court added that the automatic increase clause was "in the nature of a conditional obligation under Article 1181,[41] by which the increase of the insurance coverage shall depend upon the happening of the event which constitutes the obligation."[42]

[40] *Commissioner of Internal Revenue v. Lincoln Philippine Life Insurance Company, Inc., supra* note 28.

[41] New Civil Code.

[42] *Commissioner of Internal Revenue v. Lincoln Philippine Life Insurance Company, Inc., supra* note 28 at 161-162.

Supreme Court E-Library

Since the *Lincoln* case, wherein the then CIR's arguments for the BIR are very similar to the petitioner's arguments herein, was decided in favor of the BIR, the petitioner is now relying on our ruling therein to support his position in this case. Although the two cases are similar in many ways, they must be distinguished by the nature of the respective "clauses" in the life insurance policies involved, where we note a major difference. In *Lincoln*, the relevant clause is the "Automatic Increase Clause" which provided for the automatic increase in the amount of life insurance coverage upon the attainment of a certain age by the insured, without any need for another contract. In the case at bar, the clause in contention is the "Guaranteed Continuity Clause" in respondent's Money Plus Plan, which reads:

GUARANTEED CONTINUITY

We guarantee the continuity of this Policy until the Expiry Date stated in the Schedule provided that the effective premium is consecutively paid when due or within the 31-day Grace Period.

We shall not have the right to change premiums on your Policy during the 20-year Policy term.

At the end of each twenty-year period, and provided that you have not attained age 55, you may renew your Policy for a further twenty-year period. To renew, you must submit proof of insurability acceptable to MBLIC and pay the premium due based on attained age according to the rates prevailing at the time of renewal.[43]

A simple reading of respondent's guaranteed continuity clause will show that it is significantly different from the "automatic increase clause" in *Lincoln.* The only things guaranteed in the respondent's continuity clause were: the continuity of the policy until the stated expiry date as long as the premiums were paid within the allowed time; the non-change in premiums for the duration of the 20-year policy term; and the option to continue such policy after the 20-year period, subject to certain requirements. In fact, even the continuity of the policy after its term was not guaranteed as the decision to renew it belonged to the insured, subject to certain conditions. Any increase in

[43] CA *rollo*, p. 68.

Supreme Court E-Library

the sum assured, as a result of the clause, had to survive a new agreement between the respondent and the insured. The increase in the life insurance coverage was only corollary to the new premium rate imposed based upon the insured's age at the time the continuity clause was availed of. It was not automatic, was never guaranteed, and was certainly neither definite nor determinable at the time the policy was issued.

Therefore, the increases in the sum assured brought about by the guaranteed continuity clause cannot be subject to documentary stamp tax under Section 183 **as insurance made upon the lives of the insured**.

However, it is clear from the text of the guaranteed continuity clause that what the respondent was actually offering in its Money Plus Plan was the option to **renew** the policy, after the expiration of its original term. Consequently, the acceptance of this offer would give rise to the renewal of the original policy.

The petitioner avers that these life insurance policy renewals make the respondent liable for deficiency documentary stamp tax under Section 198.

Section 198 of the old Tax Code reads:

Section 198. Stamp Tax on Assignments and Renewals of Certain Instruments. – Upon each and every assignment or transfer of any mortgage, lease or policy of insurance, or the renewal or continuance of any agreement, contract, charter, or any evidence of obligation or indebtedness by altering or otherwise, there shall be levied, collected and paid a documentary stamp tax, at the same rate as that imposed on the original instrument.[44]

Section 198 speaks of assignments and renewals. In the case of insurance policies, this section applies only when such policy was assigned or transferred. The provision which specifically applies to renewals of life insurance policies is Section 183:

---

[44] Presidential Decree No. 1158 as renumbered by Section 45 of Presidential Decree No. 1994, November 5, 1985 and Section 23 of Executive Order No. 273, July 25, 1987.

Supreme Court E-Library

Section 183. Stamp Tax on Life Insurance Policies. — On all policies of insurance or other instruments by whatever name the same may be called, whereby any insurance shall be **made or renewed** upon any life or lives, there shall be collected a documentary stamp tax of fifty centavos on each two hundred pesos or fractional part thereof, of the amount insured by any such policy. (Emphasis ours.)

Section 183 is a substantial reproduction of the earlier documentary stamp tax provision, Section 1449(j) of the Administrative Code of 1917. Regulations No. 26, or The Revised Documentary Stamp Tax Regulations,[45] provided the implementing rules to the provisions on documentary stamp tax under the Administrative Code of 1917. Section 54 of the Regulations, in reference to what is now Section 183, explicitly stated that the documentary stamp tax imposed under that section is also collectible upon renewals of life insurance policies, *viz*:

Section 54. Tax also due on renewals. – The tax under this section is collectible not only on the original policy or contract of insurance but also upon the renewal of the policy or contract of insurance.

To argue that there was no new legal relationship created by the availment of the guaranteed continuity clause would mean that any option to renew, integrated in the original agreement or contract, would not in reality be a renewal but only a discharge of a pre-existing obligation. The truth of the matter is that the guaranteed continuity clause only gave the insured the right to renew his life insurance policy which had a fixed term of twenty years. And although the policy would still continue with essentially the same terms and conditions, the fact is, its maturity date, coverage, and premium rate would have changed. We cannot agree with the CTA in its holding that "the renewal, is in effect treated as an increase in the sum assured since no new insurance policy was issued."[46] The

[45] March 26, 1924. Amended by Regulations No. 77 (August 8, 1933); Revenue Regulations Nos. 4-68, (August 16, 1967); 1-72 (January 28, 1972); 3-75 (May 27, 1975); and Presidential Decree Nos. 1158 (June 3, 1977) and 1457. See also Presidential Decree No. 1959 (October 15, 1984), re omnibus amendments to the Tax Code.

[46] *Rollo*, p. 106.

Supreme Court E-Library

renewal was not meant to restore the original terms of an old agreement, but instead it was meant to extend the life of an existing agreement, with some of the contract's terms modified. This renewal was still subject to the acceptance and to the conditions of both the insured and the respondent. This is entirely different from a simple mutual agreement between the insurer and the insured, to increase the coverage of an existing and effective life insurance policy.

It is clear that the availment of the option in the guaranteed continuity clause will effectively renew the Money Plus Plan policy, which is indisputably subject to the imposition of documentary stamp tax under Section 183 **as an insurance renewed upon the life of the insured**.

Documentary Stamp Tax on Group Life Insurance

The petitioner is also asking this Court to sustain his deficiency documentary stamp tax assessment on the additional premiums earned by the respondent in its group life insurance policies.

This Court, in *Pineda v. Court of Appeals*[47] has had the chance to discuss the concept of "group insurance," to wit:

> In its original and most common form, group insurance provides life or health insurance coverage for the employees of one employer.
>
> The coverage terms for group insurance are usually stated in a master agreement or policy that is issued by the insurer to a representative of the group or to an administrator of the insurance program, such as an employer. The employer acts as a functionary in the collection and payment of premiums and in performing related duties. Likewise falling within the ambit of administration of a group policy is the disbursement of insurance payments by the employer to the employees. Most policies, such as the one in this case, require an employee to pay a portion of the premium, which the employer deducts from wages while the remainder is paid by the employer. This is known as a contributory plan as compared to a non-contributory plan where the premiums are solely paid by the employer.

[47] G.R. No. 105562, September 27, 1993, 226 SCRA 754.

Supreme Court E-Library

Although the employer may be the titular or named insured, the insurance is actually related to the life and health of the employee. Indeed, the employee is in the position of a real party to the master policy, and even in a non-contributory plan, the payment by the employer of the entire premium is a part of the total compensation paid for the services of the employee. Put differently, the labor of the employees is the true source of the benefits, which are a form of additional compensation to them.[48] (Emphasis ours.)

When a group insurance plan is taken out, a group master policy is issued with the coverage and premium rate based on the number of the members covered at that time. In the case of a company group insurance plan, the premiums paid on the issuance of the master policy cover only those employees enrolled at the time such master policy was issued. When the employer hires additional employees during the life of the policy, the additional employees may be covered by the same group insurance already taken out without any need for the issuance of a new policy.

The respondent claims that since the additional premiums represented the additional members of the same existing group insurance policy, then under our tax laws, no additional documentary stamp tax should be imposed since the appropriate documentary stamp tax had already been paid upon the issuance of the master policy. The respondent asserts that since the documentary stamp tax, by its nature, is paid at the time of the issuance of the policy, "then there can be no other imposition on the same, regardless of any change in the number of employees covered by the existing group insurance."[49]

To resolve this issue, it would be instructive to take another look at Section 183: On all policies of insurance or **other instruments by whatever name the same may be called,** whereby any insurance shall be made or renewed upon any life or lives.

The phrase "other instruments" as also found in the earlier version of Section 183, *i.e.*, Section 1449(j) of the Administrative Code of 1917, was explained in Regulations No. 26, to wit:

---

[48] *Id.* at 765-766.

[49] *Rollo*, p. 230.

Supreme Court E-Library

Section 52. "Other instruments" defined. – The term "other instruments" includes **any instrument by whatever name the same is called whereby insurance is made or renewed**, *i.e.*, **by which the relationship of insurer and insured is created or evidenced**, whether it be a letter of acceptance, cablegrams, letters, binders, covering notes, or memoranda. (Emphasis ours.)

Whenever a master policy admits of another member, another life is insured and covered. This means that the respondent, by approving the addition of another member to its existing master policy, is once more exercising its privilege to conduct the business of insurance, because it is yet again insuring a life. It does not matter that it did not issue another policy to effect this change, the fact remains that insurance on another life is made and the relationship of insurer and insured is created between the respondent and the additional member of that master policy. In the respondent's case, its group insurance plan is embodied in a contract which includes not only the master policy, but all documents subsequently attached to the master policy.[50] Among these documents are the Enrollment Cards accomplished by the employees when they applied for membership in the group insurance plan. The Enrollment Card of a new employee, once registered in the Schedule of Benefits and attached to the master policy, becomes evidence of such employee's membership in the group insurance plan, and his right to receive the benefits therein. Everytime the respondent registers and attaches an Enrollment Card to an existing master policy, it exercises its privilege to conduct its business of insurance and this is patently subject to documentary stamp tax **as insurance made upon a life** under Section 183.

The respondent would like this Court to ignore the petitioner's argument that renewals of insurance policies are also subject to documentary stamp tax for being raised for the first time. This Court was faced with the same dilemma in *Commissioner of Internal Revenue v. Procter & Gamble Philippine Manufacturing Corporation*,[51] when the petitioner also raised

[50] CA *rollo*, p. 107.

[51] 243 Phil. 703 (1988).

Supreme Court E-Library

an issue therein for the first time in the Supreme Court. In addressing the procedural lapse, we said:

As clearly ruled by Us "To allow a litigant to assume a different posture when he comes before the court and challenges the position he had accepted at the administrative level," would be to sanction a procedure whereby the Court - which is supposed to review administrative determinations - would not review, but determine and decide for the first time, a question not raised at the administrative forum. Thus it is well settled that under the same underlying principle of prior exhaustion of administrative remedies, on the judicial level, issues not raised in the lower court cannot generally be raised for the first time on appeal. x x x.[52]

However, in the same case, we also held that:

Nonetheless it is axiomatic that the State can never be in estoppel, and this is particularly true in matters involving taxation. **The errors of certain administrative officers should never be allowed to jeopardize the government's financial position**.[53] (Emphasis ours.)

Along with police power and eminent domain, taxation is one of the three basic and necessary attributes of sovereignty.[54] Taxes are the lifeblood of the government and their prompt and certain availability is an imperious need. It is through taxes that government agencies are able to operate and with which the State executes its functions for the welfare of its constituents.[55] It is for this reason that we cannot let the petitioner's oversight bar the government's rightful claim.

This Court would like to make it clear that the assessment for deficiency documentary stamp tax is being upheld not because the additional premium payments or an agreement to change

---

[52] *Id.* at 709.

[53] *Id*.

[54] *Compagnie Financiere Sucres Et Denrees v. Commissioner of Internal Revenue*, G.R. No. 133834, August 28, 2006, 499 SCRA 664, 667-668.

[55] *Proton Pilipinas Corporation v. Republic of the Philippines, represented by the Bureau of Customs*, G.R. No. 165027, October 12, 2006, 504 SCRA 528, 547-548.

Supreme Court E-Library

the sum assured during the effectivity of an insurance plan are subject to documentary stamp tax, but because documentary stamp tax is levied on every document which establishes that insurance was made or renewed upon a life.

WHEREFORE, the petition is *GRANTED*. The April 29, 2005 Decision and the July 27, 2005 Resolution of the Court of Appeals in CA-G.R. SP No. 70600 are hereby *SET ASIDE*. Respondent Manila Bankers' Life Insurance Corp. is hereby ordered to pay petitioner Commissioner of Internal Revenue the deficiency documentary stamp tax in the amount of ₱1,646,449.26, plus the delinquency penalties of 25% surcharge on the amount due and 20% annual interest from January 5, 2000 until fully paid.

SO ORDERED.

Corona, C.J. (Chairperson), Velasco, Jr., del Castillo, and *Perez, JJ.,* concur.

SECOND DIVISION

[G.R. No. 169599. March 16, 2011]

REPUBLIC OF THE PHILIPPINES, *petitioner, vs.* **JUANITO MANIMTIM, JULIO UMALI, represented by AURORA U. JUMARANG, SPOUSES EDILBERTO BAÑANOLA and SOFIA BAÑANOLA, ZENAIDA MALABANAN, MARCELINO MENDOZA, DEMETRIO BARRIENTOS, FLORITA CUADRA, and FRANCISCA MANIMTIM,** *respondents.*

SYLLABUS

1. CIVIL LAW; LAND REGISTRATION; PRESIDENTIAL DECREE NO. 1529 (THE PROPERTY REGISTRATION