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SECOND DIVISION

[G.R. No. 182722. January 22, 2010]

DUMAGUETE CATHEDRAL CREDIT COOPERATIVE [DCCCO], Represented by Felicidad L. Ruiz, its General Manager, *petitioner, vs.* **COMMISSIONER OF INTERNAL REVENUE,** *respondent.*

SYLLABUS

1. POLITICAL LAW; ADMINISTRATIVE LAW; ADMINISTRATIVE AGENCIES; INTERPRETATIONS OF ADMINISTRATIVE AGENCIES IN CHARGE OF ENFORCING A LAW, GENERALLY ENTITLED TO GREAT WEIGHT AND CONSIDERATION BY THE COURTS. — It bears stressing that interpretations of administrative agencies in charge of enforcing a law are entitled to great weight and consideration by the courts, unless such interpretations are in a sharp conflict with the governing statute or the Constitution and other laws. In this case, BIR Ruling No. 551-888 and BIR Ruling [DA-591-2006] are in perfect harmony with the Constitution and the laws they seek to implement. Accordingly, the interpretation in BIR Ruling No. 551-888 that cooperatives are not required to withhold the corresponding tax on the interest from savings and time deposits of their members, which was reiterated in BIR Ruling [DA-591-2006], applies to the instant case.

2. TAXATION; TAX TREATMENT OF COOPERATIVES; PREFERENTIAL TAX TREATMENT, GRANTED TO COOPERATIVES INCLUDING THEIR MEMBERS. — Under Article 2 of RA 6938, as amended by RA 9520, it is a declared policy of the State to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance and harnessing people power towards the attainment of economic development and social justice. Thus, to encourage the formation of cooperatives and to create an atmosphere conducive to their growth and development, the State extends all forms of assistance to them, one of which is providing cooperatives a preferential tax treatment. The legislative intent to give cooperatives a preferential tax treatment is apparent in Articles 61 and 62 of RA 6938, which read: "ART. 61. *Tax*

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Treatment of Cooperatives. — Duly registered cooperatives under this Code which do not transact any business with non-members or the general public shall not be subject to any government taxes and fees imposed under the Internal Revenue Laws and other tax laws. Cooperatives not falling under this article shall be governed by the succeeding section. ART. 62. *Tax and Other Exemptions*. — Cooperatives transacting business with both members and nonmembers shall not be subject to tax on their transactions to members. Notwithstanding the provision of any law or regulation to the contrary, such cooperatives dealing with nonmembers shall enjoy the following tax exemptions; x x x." This exemption extends to members of cooperatives. It must be emphasized that cooperatives exist for the benefit of their members. In fact, the primary objective of every cooperative is to provide goods and services to its members to enable them to attain increased income, savings, investments, and productivity. Therefore, limiting the application of the tax exemption to cooperatives would go against the very purpose of a credit cooperative. Extending the exemption to members of cooperatives, on the other hand, would be consistent with the intent of the legislature. Thus, although the tax exemption only mentions cooperatives, this should be construed to include the members, pursuant to Article 126 of RA 6938, which provides: "ART. 126. *Interpretation and Construction.* – In case of doubt as to the meaning of any provision of this Code or the regulations issued in pursuance thereof, the same shall be resolved liberally in favor of the cooperatives and their members." x x x [C]ooperatives, including their members, deserve a preferential tax treatment because of the vital role they play in the attainment of economic development and social justice. Thus, although taxes are the lifeblood of the government, the State's power to tax must give way to foster the creation and growth of cooperatives. To borrow the words of Justice Isagani A. Cruz: "The power of taxation, while indispensable, is not absolute and may be subordinated to the demands of social justice."

3. ID.; ID.; FINAL TAX ON DEPOSITS; MEMBERS OF COOPERATIVES ARE EXEMPT FROM THE IMPOSITION THEREOF. — We need not belabor that what is within the spirit is within the law even if it is not within the letter of the law because the spirit prevails over the letter. It is also worthy to note that the tax exemption in RA 6938 was retained in RA

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9520. The only difference is that Article 61 of RA 9520 (formerly Section 62 of RA 6938) now expressly states that transactions of members with the cooperatives are not subject to any taxes and fees. Thus: "ART. 61. *Tax and Other Exemptions*. — Cooperatives transacting business with both members and non-members shall not be subjected to tax on their transactions with members. In relation to this, the transactions of members with the cooperative shall not be subject to any taxes and fees, including but not limited to final taxes on members' deposits and documentary tax. Notwithstanding the provisions of any law or regulation to the contrary, such cooperatives dealing with nonmembers shall enjoy the following tax exemptions: x x x" This amendment in Article 61 of RA 9520, specifically providing that members of cooperatives are not subject to final taxes on their deposits, affirms the interpretation of the BIR that Section 24(B)(1) of the NIRC does not apply to cooperatives and confirms that such ruling carries out the legislative intent. Under the principle of legislative approval of administrative interpretation by reenactment, the reenactment of a statute substantially unchanged is persuasive indication of the adoption by Congress of a prior executive construction. Moreover, no less than our Constitution guarantees the protection of cooperatives. Section 15, Article XII of the Constitution considers cooperatives as instruments for social justice and economic development. At the same time, Section 10 of Article II of the Constitution declares that it is a policy of the State to promote social justice in all phases of national development. In relation thereto, Section 2 of Article XIII of the Constitution states that the promotion of social justice shall include the commitment to create economic opportunities based on freedom of initiative and self-reliance. Bearing in mind the foregoing provisions, we find that an interpretation exempting the members of cooperatives from the imposition of the final tax under Section 24(B)(1) of the NIRC is more in keeping with the letter and spirit of our Constitution. All told, we hold that petitioner is not liable to pay the assessed deficiency withholding taxes on interest from the savings and time deposits of its members, as well as the delinquency interest of 20% per annum.

APPEARANCES OF COUNSEL

Mercado & Partners Law Firm for petitioner.
The Solicitor General for respondent.

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D E C I S I O N

DEL CASTILLO, *J.*:

The clashing interests of the State and the taxpayers are again pitted against each other. Two basic principles, the State's inherent power of taxation and its declared policy of fostering the creation and growth of cooperatives come into play. However, the one that embodies the spirit of the law and the true intent of the legislature prevails.

This Petition for Review on *Certiorari* under Section 11 of Republic Act (RA) No. 9282,[1] in relation to Rule 45 of the Rules of Court, seeks to set aside the December 18, 2007 Decision[2] of the Court of Tax Appeals (CTA), ordering petitioner to pay deficiency withholding taxes on interest from savings and time deposits of its members for taxable years 1999 and 2000, pursuant to Section 24(B)(1) of the National Internal Revenue Code of 1997 (NIRC), as well as the delinquency interest of 20% per annum under Section 249(C) of the same Code. It also assails the April 11, 2008 Resolution[3] denying petitioner's Motion for Reconsideration.

Factual Antecedents

Petitioner Dumaguete Cathedral Credit Cooperative (DCCCO) is a credit cooperative duly registered with and regulated by the Cooperative Development Authority (CDA).[4] It was

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[1] An Act Expanding the Jurisdiction of the Court of Tax Appeals (CTA), Elevating its Rank to the Level of a Collegiate Court with Special Jurisdiction and Enlarging its Membership, Amending for the Purpose Certain Sections of Republic Act No. 1125, As Amended, otherwise known as the Law Creating the Court of Tax Appeals, and for Other Purposes.

[2] *Rollo*, pp. 45-64; penned by Associate Justice Olga Palanca-Enriquez and concurred in by Presiding Justice Ernesto D. Acosta and Associate Justices Juanito C. Castañeda, Jr., Lovell R. Bautista, Erlinda P. Uy and Caesar A. Casanova.

[3] *Id.* at 80-81.

[4] *Id.* at 47.

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established on February 17, 1968[5] with the following objectives and purposes: (1) to increase the income and purchasing power of the members; (2) to pool the resources of the members by encouraging savings and promoting thrift to mobilize capital formation for development activities; and (3) to extend loans to members for provident and productive purposes.[6] It has the power (1) to draw, make, accept, endorse, guarantee, execute, and issue promissory notes, mortgages, bills of exchange, drafts, warrants, certificates and all kinds of obligations and instruments in connection with and in furtherance of its business operations; and (2) to issue bonds, debentures, and other obligations; to contract indebtedness; and to secure the same with a mortgage or deed of trust, or pledge or lien on any or all of its real and personal properties.[7]

On November 27, 2001, the Bureau of Internal Revenue (BIR) Operations Group Deputy Commissioner, Lilian B. Hefti, issued Letters of Authority Nos. 63222 and 63223, authorizing BIR Officers Tomas Rambuyon and Tarcisio Cubillan of Revenue Region No. 12, Bacolod City, to examine petitioner's books of accounts and other accounting records for all internal revenue taxes for the taxable years 1999 and 2000.[8]

Proceedings before the BIR Regional Office

On June 26, 2002, petitioner received two Pre-Assessment Notices for deficiency withholding taxes for taxable years 1999 and 2000 which were protested by petitioner on July 23, 2002.[9] Thereafter, on October 16, 2002, petitioner received two other Pre-Assessment Notices for deficiency withholding taxes also for taxable years 1999 and 2000.[10] The deficiency withholding taxes cover the payments of the honorarium of the Board of Directors, security and janitorial services, legal

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[5] *Id.* at 7.

[6] *Id.* at 57.

[7] *Id.*

[8] *Id.* at 118.

[9] *Id.* at 48.

[10] *Id.*

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and professional fees, and interest on savings and time deposits of its members.

On October 22, 2002, petitioner informed BIR Regional Director Sonia L. Flores that it would only pay the deficiency withholding taxes corresponding to the honorarium of the Board of Directors, security and janitorial services, legal and professional fees for the year 1999 in the amount of ₱87,977.86, excluding penalties and interest.[11]

In another letter dated November 8, 2002, petitioner also informed the BIR Assistant Regional Director, Rogelio B. Zambarrano, that it would pay the withholding taxes due on the honorarium and *per diems* of the Board of Directors, security and janitorial services, commissions and legal & professional fees for the year 2000 in the amount of ₱119,889.37, excluding penalties and interest, and that it would avail of the Voluntary Assessment and Abatement Program (VAAP) of the BIR under Revenue Regulations No. 17-2002.[12]

On November 29, 2002, petitioner availed of the VAAP and paid the amounts of ₱105,574.62 and ₱143,867.24[13] corresponding to the withholding taxes on the payments for the compensation, honorarium of the Board of Directors, security and janitorial services, and legal and professional services, for the years 1999 and 2000, respectively.

On April 24, 2003, petitioner received from the BIR Regional Director, Sonia L. Flores, Letters of Demand Nos. 00027-2003 and 00026-2003, with attached Transcripts of Assessment and Audit Results/Assessment Notices, ordering petitioner to pay the deficiency withholding taxes, inclusive of penalties, for the years 1999 and 2000 in the amounts of ₱1,489,065.30 and ₱1,462,644.90, respectively.[14]

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[11] *Id.* at 48-49.

[12] *Id.* at 49.

[13] *Id.* at 49-50.

[14] *Id.* at 50-51.

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Proceedings before the Commissioner of Internal Revenue

On May 9, 2003, petitioner protested the Letters of Demand and Assessment Notices with the Commissioner of Internal Revenue (CIR).[15] However, the latter failed to act on the protest within the prescribed 180-day period. Hence, on December 3, 2003, petitioner filed a Petition for Review before the CTA, docketed as C.T.A. Case No. 6827.[16]

Proceedings before the CTA First Division

The case was raffled to the First Division of the CTA which rendered its Decision on February 6, 2007, disposing of the case in this wise:

> IN VIEW OF ALL THE FOREGOING, the Petition for Review is hereby PARTIALLY GRANTED. Assessment Notice Nos. 00026-2003 and 00027-2003 are hereby MODIFIED and the assessment for deficiency withholding taxes on the honorarium and per diems of petitioner's Board of Directors, security and janitorial services, commissions and legal and professional fees are hereby CANCELLED. However, the assessments for deficiency withholding taxes on interests are hereby AFFIRMED.
>
> Accordingly, petitioner is ORDERED TO PAY the respondent the respective amounts of ₱1,280,145.89 and ₱1,357,881.14 representing deficiency withholding taxes on interests from savings and time deposits of its members for the taxable years 1999 and 2000. In addition, petitioner is ordered to pay the 20% delinquency interest from May 26, 2003 until the amount of deficiency withholding taxes are fully paid pursuant to Section 249 (C) of the Tax Code.
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> SO ORDERED.[17]

Dissatisfied, petitioner moved for a partial reconsideration, but it was denied by the First Division in its Resolution dated May 29, 2007.[18]

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[15] *Id.* at 51.

[16] *Id.*

[17] *Id.* at 46-47.

[18] *Id.* at 51.

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Proceedings before the CTA En Banc

On July 3, 2007, petitioner filed a Petition for Review with the CTA *En Banc*,[19] interposing the lone issue of whether or not petitioner is liable to pay the deficiency withholding taxes on interest from savings and time deposits of its members for taxable years 1999 and 2000, and the consequent delinquency interest of 20% per annum.[20]

Finding no reversible error in the Decision dated February 6, 2007 and the Resolution dated May 29, 2007 of the CTA First Division, the CTA *En Banc* denied the Petition for Review[21] as well as petitioner's Motion for Reconsideration.[22]

The CTA *En Banc* held that Section 57 of the NIRC requires the withholding of tax at source. Pursuant thereto, Revenue Regulations No. 2-98 was issued enumerating the income payments subject to final withholding tax, among which is "interest from any peso bank deposit and yield, or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements x x x." According to the CTA En *Banc*, petitioner's business falls under the phrase "similar arrangements"; as such, it should have withheld the corresponding 20% final tax on the interest from the deposits of its members.

Issue

Hence, the present recourse, where petitioner raises the issue of whether or not it is liable to pay the deficiency withholding taxes on interest from savings and time deposits of its members for the taxable years 1999 and 2000, as well as the delinquency interest of 20% per annum.

Petitioner's Arguments

Petitioner argues that Section 24(B)(1) of the NIRC which reads in part, to wit:

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[19] *Id.* at 11.

[20] *Id.* at 52.

[21] *Id.* at 63.

[22] *Id.* at 80-81.

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SECTION 24. *Income Tax Rates*. —

x x x x x x x x x

(B) Rate of Tax on Certain Passive Income: —

(1) Interests, Royalties, Prizes, and Other Winnings. — A final tax at the rate of twenty percent (20%) is hereby imposed upon the amount of interest from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements; x x x

applies only to banks and not to cooperatives, since the phrase "similar arrangements" is preceded by terms referring to banking transactions that have deposit peculiarities. Petitioner thus posits that the savings and time deposits of members of cooperatives are not included in the enumeration, and thus not subject to the 20% final tax. To bolster its position, petitioner cites BIR Ruling No. 551-888[23] and BIR Ruling [DA-591-2006][24] where the BIR ruled that interests from deposits maintained by members of cooperative are not subject to withholding tax under Section 24(B)(1) of the NIRC. Petitioner further contends that pursuant to Article XII, Section 15 of the Constitution[25] and Article 2 of Republic Act No. 6938 (RA 6938) or the Cooperative Code of the Philippines,[26] cooperatives enjoy a preferential tax treatment

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[23] *Id.* at 18-19.

[24] *Id.* at 75-78.

[25] SEC. 15. The Congress shall create an agency to promote the viability and growth of cooperatives as instruments for social justice and economic development.

[26] ART. 2. *Declaration of Policy*.— It is the declared policy of the State to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance and harnessing people power towards the attainment of economic development and social justice. The State shall encourage the private sector to undertake the actual formation and organization of cooperatives and shall create an atmosphere that is conducive to the growth and development of these cooperatives.

Toward this end, the Government and all its branches, subdivisions, instrumentalities and agencies shall ensure the provision of technical guidance, financial assistance and other services to enable said cooperatives to develop into viable and responsive economic enterprises and thereby bring about a

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which exempts their members from the application of Section 24(B)(1) of the NIRC.

Respondent's Arguments

As a counter-argument, respondent invokes the legal maxim "*Ubi lex non distinguit nec nos distinguere debemos*" (where the law does not distinguish, the courts should not distinguish). Respondent maintains that Section 24(B)(1) of the NIRC applies to cooperatives as the phrase "similar arrangements" is not limited to banks, but includes cooperatives that are depositaries of their members. Regarding the exemption relied upon by petitioner, respondent adverts to the jurisprudential rule that tax exemptions are highly disfavored and construed *strictissimi juris* against the taxpayer and liberally in favor of the taxing power. In this connection, respondent likewise points out that the deficiency tax assessments were issued against petitioner not as a taxpayer but as a withholding agent.

Our Ruling

The petition has merit.

Petitioner's invocation of BIR Ruling No. 551-888, reiterated in BIR Ruling [DA-591-2006], is proper.

On November 16, 1988, the BIR declared in BIR Ruling No. 551-888 that cooperatives are not required to withhold taxes on interest from savings and time deposits of their members. The pertinent BIR Ruling reads:

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strong cooperative movement that is free from any conditions that might infringe upon the autonomy or organizational integrity of cooperatives.

Further, the State recognizes the principle of subsidiarity under which the cooperative sector will initiate and regulate within its own ranks the promotion and organization, training and research, audit and support services relative to cooperatives with government assistance where necessary.

(Now amended by Republic Act No. 9520 or the Philippine Cooperative Code of 2008.)

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November 16, 1988
BIR RULING NO. 551-888
24 369-88 551-888

Gentlemen:

This refers to your letter dated September 5, 1988 stating that you are a corporation established under P.D. No. 175 and duly registered with the Bureau of Cooperatives Development as full fledged cooperative of good standing with Certificate of Registration No. FF 563-RR dated August 8, 1985; and that one of your objectives is to provide and strengthen cooperative endeavor and extend assistance to members and non-members through credit scheme both in cash and in kind.

Based on the foregoing representations, you now request in effect a ruling as to whether or not you are exempt from the following:

1. Payment of sales tax
2. Filing and payment of income tax
3. Withholding taxes from compensation of employees and savings account and time deposits of members. (Underscoring ours)

In reply, please be informed that Executive Order No. 93 which took effect on March 10, 1987 withdrew all tax exemptions and preferential privileges *e.g.*, income tax and sales tax, granted to cooperatives under P.D. No. 175 which were previously withdrawn by P.D. No. 1955 effective October 15, 1984 and restored by P.D. No. 2008 effective January 8, 1986. However, implementation of said Executive Order insofar as electric, agricultural, irrigation and waterworks cooperatives are concerned was suspended until June 30, 1987. (Memorandum Order No. 65 dated January 21, 1987 of the President) Accordingly, your tax exemption privilege expired as of June 30, 1987. Such being the case, you are now subject to income and sales taxes.

Moreover, under Section 72(a) of the Tax Code, as amended, every employer making payment of wages shall deduct and withhold upon such wages a tax at the rates prescribed by Section 21(a) in relation to Section 71, Chapter X, Title II, of the same Code as amended by Batas Pambansa Blg. 135 and implemented by Revenue Regulations No. 6-82 as amended. Accordingly, as an employer you are required to withhold the corresponding tax due from the compensation of your employees.

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Furthermore, under Section 50(a) of the Tax Code, as amended, the tax imposed or prescribed by Section 21(c) of the same Code on specified items of income shall be withheld by payor-corporation and/or person and paid in the same manner and subject to the same conditions as provided in Section 51 of the Tax Code, as amended. Such being the case, and since interest from any Philippine currency bank deposit and yield or any other monetary benefit from deposit substitutes are paid by banks, you are not the party required to withhold the corresponding tax on the aforesaid savings account and time deposits of your members. (Underscoring ours)

Very truly yours,
(SGD.) BIENVENIDO A. TAN, JR.
Commissioner

The CTA First Division, however, disregarded the above quoted ruling in determining whether petitioner is liable to pay the deficiency withholding taxes on interest from the deposits of its members. It ratiocinated in this wise:

> This Court does not agree. As correctly pointed out by respondent in his Memorandum, nothing in the above quoted resolution will give the conclusion that savings account and time deposits of members of a cooperative are tax-exempt. What is entirely clear is the opinion of the Commissioner that the proper party to withhold the corresponding taxes on certain specified items of income is the payor-corporation and/or person. In the same way, in the case of interests earned from Philippine currency deposits made in a bank, then it is the bank which is liable to withhold the corresponding taxes considering that the bank is the payor-corporation. Thus, the ruling that a cooperative is not the proper party to withhold the corresponding taxes on the aforementioned accounts is correct. However, this ruling does not hold true if the savings and time deposits are being maintained in the cooperative, for in this case, it is the cooperative which becomes the payor-corporation, a separate entity acting no more than an agent of the government for the collection of taxes, liable to withhold the corresponding taxes on the interests earned.[27] (Underscoring ours)

The CTA *En Banc* affirmed the above-quoted Decision and found petitioner's invocation of BIR Ruling No. 551-88 misplaced.

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[27] *Rollo*, pp. 62-63.

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According to the CTA *En Banc*, the BIR Ruling was based on the premise that the savings and time deposits were placed by the members of the cooperative in the bank.[28] Consequently, it ruled that the BIR Ruling does not apply when the deposits are maintained in the cooperative such as the instant case.

We disagree.

There is nothing in the ruling to suggest that it applies only when deposits are maintained in a bank. Rather, the ruling clearly states, without any qualification, that since interest from any Philippine currency bank deposit and yield or any other monetary benefit from deposit substitutes are paid by banks, cooperatives are not required to withhold the corresponding tax on the interest from savings and time deposits of their members. This interpretation was reiterated in BIR Ruling [DA-591-2006] dated October 5, 2006, which was issued by Assistant Commissioner James H. Roldan upon the request of the cooperatives for a confirmatory ruling on several issues, among which is the alleged exemption of interest income on members' deposit (over and above the share capital holdings) from the 20% final withholding tax. In the said ruling, the BIR opined that:

x x x x x x x x x

3. Exemption of interest income on members' deposit (over and above the share capital holdings) from the 20% Final Withholding Tax.

The National Internal Revenue Code states that a "final tax at the rate of twenty percent (20%) is hereby imposed upon the amount of interest on currency bank deposit and yield or any other monetary benefit from the deposit substitutes and from trust funds and similar arrangement x x x" for individuals under Section 24(B)(1) and for domestic corporations under Section 27(D)(1). *Considering the members' deposits with the cooperatives are not currency bank deposits nor deposit substitutes, Section 24(B)(1) and Section 27(D)(1), therefore, do not apply to members of cooperatives and to deposits of primaries with federations, respectively.*

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[28] *Id.* at 62.

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It bears stressing that interpretations of administrative agencies in charge of enforcing a law are entitled to great weight and consideration by the courts, unless such interpretations are in a sharp conflict with the governing statute or the Constitution and other laws.[29] In this case, BIR Ruling No. 551-888 and BIR Ruling [DA-591-2006] are in perfect harmony with the Constitution and the laws they seek to implement. Accordingly, the interpretation in BIR Ruling No. 551-888 that cooperatives are not required to withhold the corresponding tax on the interest from savings and time deposits of their members, which was reiterated in BIR Ruling [DA-591-2006], applies to the instant case.

Members of cooperatives deserve a preferential tax treatment pursuant to RA 6938, as amended by RA 9520.

Given that petitioner is a credit cooperative duly registered with the Cooperative Development Authority (CDA), Section 24(B)(1) of the NIRC must be read together with RA 6938, as amended by RA 9520.

Under Article 2 of RA 6938, as amended by RA 9520, it is a declared policy of the State to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance and harnessing people power towards the attainment of economic development and social justice. Thus, to encourage the formation of cooperatives and to create an atmosphere conducive to their growth and development, the State extends all forms of assistance to them, one of which is providing cooperatives a preferential tax treatment.

The legislative intent to give cooperatives a preferential tax treatment is apparent in Articles 61 and 62 of RA 6938, which read:

ART. 61. *Tax Treatment of Cooperatives*. — Duly registered cooperatives under this Code which do not transact any business

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[29] *Nestle Philippines, Inc. v. Court of Appeals*, G.R. No. 86738, November 13, 1991, 203 SCRA 504, 510.

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with non-members or the general public shall not be subject to any government taxes and fees imposed under the Internal Revenue Laws and other tax laws. Cooperatives not falling under this article shall be governed by the succeeding section.

ART. 62. *Tax and Other Exemptions*. — Cooperatives transacting business with both members and nonmembers shall not be subject to tax on their transactions to members. Notwithstanding the provision of any law or regulation to the contrary, such cooperatives dealing with nonmembers shall enjoy the following tax exemptions; x x x.

This exemption extends to members of cooperatives. It must be emphasized that cooperatives exist for the benefit of their members. In fact, the primary objective of every cooperative is to provide goods and services to its members to enable them to attain increased income, savings, investments, and productivity.[30] Therefore, limiting the application of the tax exemption to cooperatives would go against the very purpose of a credit cooperative. Extending the exemption to members of cooperatives, on the other hand, would be consistent with the intent of the legislature. Thus, although the tax exemption only mentions cooperatives, this should be construed to include the members, pursuant to Article 126 of RA 6938, which provides:

ART. 126. *Interpretation and Construction*. – In case of doubt as to the meaning of any provision of this Code or the regulations issued in pursuance thereof, the same shall be resolved liberally in favor of the cooperatives and their members.

We need not belabor that what is within the spirit is within the law even if it is not within the letter of the law because the spirit prevails over the letter.[31] *Apropos* is the ruling in the case of *Alonzo v. Intermediate Appellate Court*,[32] to wit:

But as has also been aptly observed, we test a law by its results; and likewise, we may add, by its purposes. It is a cardinal rule that,

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[30] REPUBLIC ACT NO. 6938, Article 7.

[31] *Tañada and Macapagal v. Cuenco, et al.*, 103 Phil. 1051, 1086 (1957).

[32] 234 Phil. 267, 272-273 (1987).

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in seeking the meaning of the law, the first concern of the judge should be to discover in its provisions the intent of the lawmaker. Unquestionably, the law should never be interpreted in such a way as to cause injustice as this is never within the legislative intent. An indispensable part of that intent, in fact, for we presume the good motives of the legislature, is to render justice.

Thus, we interpret and apply the law not independently of but in consonance with justice. Law and justice are inseparable, and we must keep them so. To be sure, there are some laws that, while generally valid, may seem arbitrary when applied in a particular case because of its peculiar circumstances. In such a situation, we are not bound, because only of our nature and functions, to apply them just the same, [is] slavish obedience to their language. What we do instead is find a balance between the word and the will, that justice may be done even as the law is obeyed.

As judges, we are not automatons. We do not and must not unfeelingly apply the law as it is worded, yielding like robots to the literal command without regard to its cause and consequence. "Courts are apt to err by sticking too closely to the words of a law," so we are warned, by Justice Holmes again, "where these words import a policy that goes beyond them." While we admittedly may not legislate, we nevertheless have the power to interpret the law in such a way as to reflect the will of the legislature. While we may not read into the law a purpose that is not there, we nevertheless have the right to read out of it the reason for its enactment. In doing so, we defer not to "the letter that killeth" but to "the spirit that vivifieth," to give effect to the lawmaker's will.

> The spirit, rather than the letter of a statute determines its construction, hence, a statute must be read according to its spirit or intent. For what is within the spirit is within the statute although it is not within the letter thereof, and that which is within the letter but not within the spirit is not within the statute. Stated differently, a thing which is within the intent of the lawmaker is as much within the statute as if within the letter; and a thing which is within the letter of the statute is not within the statute unless within the intent of the lawmakers. (Underscoring ours)

It is also worthy to note that the tax exemption in RA 6938 was retained in RA 9520. The only difference is that Article 61

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of RA 9520 (formerly Section 62 of RA 6938) now expressly states that transactions of members with the cooperatives are not subject to any taxes and fees. Thus:

> ART. 61. *Tax and Other Exemptions*. — Cooperatives transacting business with both members and non-members shall not be subjected to tax on their transactions with members. In relation to this, the transactions of members with the cooperative shall not be subject to any taxes and fees, including but not limited to final taxes on members' deposits and documentary tax. Notwithstanding the provisions of any law or regulation to the contrary, such cooperatives dealing with nonmembers shall enjoy the following tax exemptions: (Underscoring ours)
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> x x x x x x x x x

This amendment in Article 61 of RA 9520, specifically providing that members of cooperatives are not subject to final taxes on their deposits, affirms the interpretation of the BIR that Section 24(B)(1) of the NIRC does not apply to cooperatives and confirms that such ruling carries out the legislative intent. Under the principle of legislative approval of administrative interpretation by reenactment, the reenactment of a statute substantially unchanged is persuasive indication of the adoption by Congress of a prior executive construction.[33]

Moreover, no less than our Constitution guarantees the protection of cooperatives. Section 15, Article XII of the Constitution considers cooperatives as instruments for social justice and economic development. At the same time, Section 10 of Article II of the Constitution declares that it is a policy of the State to promote social justice in all phases of national development. In relation thereto, Section 2 of Article XIII of the Constitution states that the promotion of social justice shall include the commitment to create economic opportunities based on freedom of initiative and self-reliance. Bearing in mind the foregoing provisions, we find that an interpretation exempting the members of cooperatives from the imposition of the final

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[33] *Commissioner of Internal Revenue v. American Express International, Inc. (Philippine Branch)*, 500 Phil. 586 (2005).

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tax under Section 24(B)(1) of the NIRC is more in keeping with the letter and spirit of our Constitution.

All told, we hold that petitioner is not liable to pay the assessed deficiency withholding taxes on interest from the savings and time deposits of its members, as well as the delinquency interest of 20% per annum.

In closing, cooperatives, including their members, deserve a preferential tax treatment because of the vital role they play in the attainment of economic development and social justice. Thus, although taxes are the lifeblood of the government, the State's power to tax must give way to foster the creation and growth of cooperatives. To borrow the words of Justice Isagani A. Cruz: "The power of taxation, while indispensable, is not absolute and may be subordinated to the demands of social justice."[34]

WHEREFORE, the Petition is hereby *GRANTED*. The assailed December 18, 2007 Decision of the Court of Tax Appeals and the April 11, 2008 Resolution are *REVERSED* and *SET ASIDE*. Accordingly, the assessments for deficiency withholding taxes on interest from the savings and time deposits of petitioner's members for the taxable years 1999 and 2000 as well as the delinquency interest of 20% per annum are hereby *CANCELLED*.

SO ORDERED.

Carpio (Chairperson), Brion, Abad, and *Perez, JJ.*, concur.

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[34] Dissenting Opinion of Justice Isagani A. Cruz in *Republic of the Philippines v. Judge Peralta,* 234 Phil. 40, 59 (1987).