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SECOND DIVISION

[G.R. No. 175301. August 15, 2012]

EDITO GULFO and EMMANUELA GULFO, *petitioners, vs.* **JOSE P. ANCHETA,** *respondent.*

SYLLABUS

1. REMEDIAL LAW; JURISDICTION; THE ALLEGATIONS IN THE COMPLAINT AND THE RELIEFS PRAYED FOR ARE THE DETERMINANTS OF THE NATURE OF THE ACTION AND OF WHICH COURT HAS JURISDICTION OVER THE MATTER; APPLICATION IN CASE AT BAR.— "The allegations in the complaint and the reliefs prayed for are the determinants of the nature of the action and of which court has jurisdiction over the matter." x x x Even a cursory reading of these allegations yield no conclusion other than that the complaint is an ordinary action for damages that is purely civil rather than corporate in character. The respondent merely seeks to be indemnified for the harm he suffered; no question about the membership of the petitioners in the association is involved, nor is the existence of the association in any manner under question. In fact, these allegations are based on either Articles 19, 20, and 21 of the Civil Code on human relations, and on the provisions on damages under Title XVIII of the Civil Code. Thus, the CA decision is correct when it held that the acts alleged in the subject complaint may also give rise to indemnification under Article 2176 of the Civil Code. Since the issue of damages arising from the Civil Code, not intra-corporate controversy, is involved, the RTC is the appropriate court with the power to try the case, not the homeowners' association, pursuant to Section 19(8) of *Batas Pambansa Bilang* 129, as amended by Republic Act No. 7691.

2. COMMERCIAL LAW; CORPORATION CODE; INTRA-CORPORATE DISPUTE, DEFINED; TESTS FOR DETERMINING WHETHER THE DISPUTE IS AN INTRA-CORPORATE CONTROVERSY.— Jurisprudence consistently states that an intra-corporate dispute is one that arises from intra-corporate relations; relationships between or among stockholders; or the relationships between the

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stockholders and the corporation. In order to limit the broad definition of intra-corporate dispute, this Court has applied the *relationship* test and the *controversy* test. These two tests, when applied, have been the guiding principle in determining whether the dispute is an intra-corporate controversy or a civil case.

3. ID.; ID.; ID.; ID.; RELATIONSHIP TEST AND CONTROVERSY TEST, EXPLAINED.— In *Union Glass & Container Corp., et al. v. SEC, et al.*, the Court declared that the ***relationship test*** determines whether the relationship is: "[a] between the corporation, partnership or association and the public; [b] between the corporation, partnership or association and its stockholders, partners, members, or officers; [c] between the corporation, partnership or association and the [S]tate [insofar] as its franchise, permit or license to operate is concerned; and [d] among the stockholders, partners or associates themselves." Under this test, no doubt exists that the parties were members of the same association, but this conclusion must still be supplemented by the controversy test before it may be considered as an intra-corporate dispute. Relationship alone does not *ipso facto* make the dispute intra-corporate; the mere existence of an intra-corporate relationship does not always give rise to an intra-corporate controversy. The incidents of that relationship must be considered to ascertain whether the controversy itself is intra-corporate. This is where the controversy test becomes material. Under the ***controversy test***, the dispute must be rooted in the existence of an intra-corporate relationship, and must refer to the enforcement of the parties' correlative rights and obligations under the Corporation Code, as well as the internal and intra-corporate regulatory rules of the corporation, in order to be an intra-corporate dispute. These are essentially determined through the allegations in the complaint which determine the nature of the action.

APPEARANCES OF COUNSEL

Lizardo Carlos & Associates for petitioners.
D.P. Capili Law Offices for respondent.

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D E C I S I O N

BRION, *J.*:

We resolve the petition for review on *certiorari*,[1] filed by Edito Gulfo and Emmanuela Gulfo, under Rule 45 of the Rules of Court, to assail the decision[2] of the Court of Appeals (*CA*) in CA-G.R. CV No. 68784 dated June 27, 2006. The CA reversed and set aside the resolution dated June 20, 2000 of the Regional Trial Court *(RTC)*, Branch 253, Las Piñas City, and remanded the case to the RTC for trial on the merits.

The Antecedent Facts

The petitioners are the neighbors of Jose Ancheta *(respondent)*. The parties occupy a duplex residential unit on Zodiac Street, Veraville Homes, Almanza Uno, Las Piñas City. The petitioners live in unit 9-B, while the respondent occupies unit 9-A of the duplex.[3]

Sometime in 1998, respondent's septic tank overflowed; human wastes and other offensive materials spread throughout his entire property. As a result, respondent and his family lived through a very unsanitary environment, suffering foul odor and filthy premises for several months.[4]

In the early months of 1999, the respondent engaged the services of Z.E. Malabanan Excavation & Plumbing Services to fix the overflow. It was then discovered that the underground drainage pipe, which connected respondent's septic tank to the subdivision's drainage system, had been closed by cement that blocked the free flow of the wastes from the septic tank to the drainage system.[5]

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[1] *Rollo,* pp. 9-31.

[2] Penned by Associate Justice Mariflor P. Punzalan Castillo, and concurred in by Associate Justices Mario L. Guariña III and Noel G. Tijam; *id.* at 89-96.

[3] *Id.* at 90.

[4] *Ibid.*

[5] *Id.* at 177.

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The respondent narrated that the petitioners had just recently renovated their duplex unit and, in the process, had made some diggings in the same portion where the drainage pipe had been cemented.[6] The respondent added that the closing of the drainage pipe with cement could not have been the result of an accident, but was the malicious act by the petitioners.[7] On May 19, 1999, the respondent filed a complaint for damages against the petitioners with the RTC, alleging that the petitioners maliciously closed a portion of the respondent's drainage pipe and this led to the overflowing of the respondent's septic tank.

The motion to dismiss

On June 24, 1999, the petitioners moved to dismiss the complaint on the ground of lack of jurisdiction. The petitioners argued that since the parties reside in the same subdivision and are also members of the same homeowners' association (Veraville Homeowners Association, Inc.), the case falls within the jurisdiction of the Home Insurance and Guaranty Corporation *(HIGC)*.[8]

The petitioners noted that the HIGC is a government-owned and-controlled corporation created under Republic Act No. 580[9] which vested the administrative supervision over homeowners' associations to the Securities and Exchange Commission *(SEC)*. This law was later repealed by Executive Order No. 535[10] which transferred the regulatory and adjudicative functions of the SEC over homeowners' associations to the HIGC.

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[6] *Ibid.*

[7] *Id.* at 174.

[8] *Id.* at 175.

[9] AN ACT TO CREATE THE HOME FINANCING COMMISSION, TO STIMULATE HOME BUILDING AND LAND OWNERSHIP AND TO PROMOTE THE DEVELOPMENT OF LAND FOR THAT PURPOSE, PROVIDE LIBERAL FINANCING THROUGH AN INSURED MORTGAGE SYSTEM, AND DEVELOP THRIFT THROUGH THE ACCUMULATION OF SAVINGS IN INSURED INSTITUTIONS.

[10] AMENDING THE CHARTER OF THE HOME FINANCING COMMISSION, RENAMING IT AS HOME FINANCING CORPORATION, ENLARGING ITS POWERS, AND FOR OTHER PURPOSES.

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The petitioners based their arguments on Section 1(b), Rule II of the 1994 Revised Rules of Procedure which regulates the Hearing of Homeowner's Disputes, as follows:

(b) **Controversies arising out of intra-corporate relations between and among members of the association;** between any or all of them and the association of which they are members; and between such association and the state/general public or other entity **in so far as it concerns its right to exist as a corporate entity**.[11] (emphases ours)

The ruling of the RTC

In its resolution promulgated on June 20, 2000, the RTC dismissed the complaint on the ground of lack of jurisdiction. The RTC viewed the case as one involving an intra-corporate dispute falling under the jurisdiction of the HIGC**.** The dispositive portion of the RTC decision reads:

Considering that defendants have complied with the Order of this Court dated May 2, 2000 and have substantiated their allegations that Veraville Homeowners I Association, Almanza Uno, Las Piñas City is duly registered with the Home Insurance Guranty *[sic]* Corporation, this Court is of the considered view that it has no jurisdiction over the instant case, as this Court cannot arrogate unto itself the authority to resolve a controversy, the jurisdiction over which is initially lodged with an administrative body equipped with special competence for the purpose.

WHEREFORE, for lack of jurisdiction[,] the instant case is ordered DISMISSED.[12] (italics supplied).

Aggrieved, the respondent appealed the RTC ruling to the CA. The respondent maintained the argument that no intra-corporate dispute existed.

Ruling of the CA

On June 27, 2006, the CA reversed the judgment of the RTC and remanded the case to the lower court for trial on the merits.

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[11] *Id.* at 16.

[12] *Rollo,* p. 90.

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The CA ruled that the factual allegations in the complaint support the claim for damages.[13] The CA noted that although the case involves a dispute between members of the homeowners' association, it is not an intra-corporate matter as it does not concern the right of the corporation to exist as an entity.

The petitioners moved for reconsideration, but the CA denied the motion in its resolution of November 7, 2006; hence, the present petition.

We resolve in this petition the lone issue of whether the CA erred in ruling that the RTC has jurisdiction over this dispute.

The Court's Ruling

We deny this petition for lack of merit.

Jurisdiction is determined by the allegations in the complaint

"The allegations in the complaint and the reliefs prayed for are the determinants of the nature of the action and of which court has jurisdiction over the matter."[14] With this in mind, we examined paragraphs 7, 8 and 9 of the complaint[15] which provide:

> 7. That due to the malicious acts of the defendants in cutting-off or closing a portion of the drainage pipe connecting the septic tank of the plaintiff to the village drainage system, that brought about the unwholesome situation above-described, plaintiff suffered from sleepless nights, wounded feelings, anxiety, and worry over the health and physical well-being of his whole family, for which defendants are liable to plaintiff in the amount of ONE MILLION (₱1,000,000.00) PESOS for and as moral damages;

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[13] *Supra* note 2.

[14] *Del Rosario v. Gerry Roxas Foundation, Inc.*, G.R. No. 170575, June 8, 2011, 651 SCRA 414, 416-417, citing *Spouses Huguete v. Spouses Embudo*, 453 Phil. 170, 176-177 (2003); and *Co Tiamco v. Diaz*, 75 Phil. 672, 683-684 (1946).

[15] Annex "B"; *rollo*, pp. 45-47.

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8. That to set an example for those who maliciously and deliberately do acts which are violative of other's rights especially those that are inimical to one's health or life, like that of herein defendants, herein defendantss (sic) be ordered to pay exemplary damages for at least ONE HUNDRED THOUSAND (₱100,000.00) PESOS;

9. That in order to protect and enforce his rights in the instant case, plaintiff has to hire the services of undersigned counsel and agreed to pay the amount of ONE HUNDRED THOUSAND (₱100,000.00) PESOS for and as attorney's fees and ₱2,000.00 for each hearing he attends relative thereto as and for appearance fees; and likewise incur litigation expenses in the amount of not less than ₱25,000.00[.]

Even a cursory reading of these allegations yield no conclusion other than that the complaint is an ordinary action for damages that is purely civil rather than corporate in character. The respondent merely seeks to be indemnified for the harm he suffered; no question about the membership of the petitioners in the association is involved, nor is the existence of the association in any manner under question. In fact, these allegations are based on either Articles 19,[16] 20,[17] and 21[18] of the Civil Code on human relations, and on the provisions on damages under Title XVIII of the Civil Code. Thus, the CA decision is correct when it held that the acts alleged in the subject complaint may also give rise to indemnification under Article 2176 of the Civil Code, which provides:

Article 2176. Whoever by act or omission causes damage to another, there being fault or negligence, is obliged to pay for the damage done. Such fault or negligence, if there is no pre-existing contractual

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[16] Art. 19. Every person must, in the exercise of his rights and in the performance of his duties, act with justice, give everyone his due, and observe honesty and good faith.

[17] Art. 20. Every person who, contrary to law, wilfully or negligently causes damage to another, shall indemnify the latter for the same.

[18] Art. 21. Any person who wilfully causes loss or injury to another in a manner that is contrary to morals, good customs or public policy shall compensate the latter for the damage.

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relation between the parties, is called a quasi-delict and is governed by the provisions of this Chapter.

Since the issue of damages arising from the Civil Code, not intra-corporate controversy, is involved, the RTC is the appropriate court with the power to try the case, not the homeowners' association, pursuant to Section 19(8) of *Batas Pambansa Bilang* 129,[19] as amended by Republic Act No. 7691.[20]

An intra-corporate dispute

We take this opportunity to reiterate what constitutes intra-corporate disputes. Jurisprudence consistently states that an intra-corporate dispute is one that arises from intra-corporate relations; relationships between or among stockholders; or the relationships between the stockholders and the corporation.[21] In order to limit the broad definition of intra-corporate dispute, this Court has applied the *relationship* test and the *controversy* test. These two tests, when applied, have been the guiding principle in determining whether the dispute is an intra-corporate controversy or a civil case.[22]

In *Union Glass & Container Corp., et al. v. SEC, et al.*,[23] the Court declared that the ***relationship test*** determines whether the relationship is: "[a] between the corporation, partnership

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[19] AN ACT REORGANIZING THE JUDICIARY, APPROPRIATING FUNDS THEREFOR, AND FOR OTHER PURPOSES.

[20] **AN ACT EXPANDING THE JURISDICTION OF THE METROPOLITAN TRIAL COURTS, MUNICIPAL TRIAL COURTS, AND MUNICIPAL CIRCUIT TRIAL COURTS, AMENDING FOR THE PURPOSE BATAS PAMBANSA BLG. 129, OTHERWISE KNOWN AS THE "JUDICIARY REORGANIZATION ACT OF 1980."**

[21] *Strategic Alliance Development Corporation v. Star Infrastructure Development Corporation*, G.R. No. 187872, November 17, 2010, 635 SCRA 380, citing *Sps. Abejo v. Judge De la Cruz*, 233 Phil. 668, 681 (1987).

[22] *Speed Distributing Corp. v. Court of Appeals*, 469 Phil. 739, 758-759 (2004).

[23] 211 Phil. 222, 230-231 (1983).

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or association and the public; [b] between the corporation, partnership or association and its stockholders, partners, members, or officers; [c] between the corporation, partnership or association and the [S]tate [insofar] as its franchise, permit or license to operate is concerned; and [d] among the stockholders, partners or associates themselves."

Under this test, no doubt exists that the parties were members of the same association, but this conclusion must still be supplemented by the controversy test before it may be considered as an intra-corporate dispute. Relationship alone does not *ipso facto* make the dispute intra-corporate; the mere existence of an intra-corporate relationship does not always give rise to an intra-corporate controversy. The incidents of that relationship must be considered to ascertain whether the controversy itself is intra-corporate.[24] This is where the controversy test becomes material.

Under the ***controversy test***, the dispute must be rooted in the existence of an intra-corporate relationship, and must refer to the enforcement of the parties' correlative rights and obligations under the Corporation Code, as well as the internal and intra-corporate regulatory rules of the corporation,[25] in order to be an intra-corporate dispute. These are essentially determined through the allegations in the complaint which determine the nature of the action.

We found from the allegations in the complaint that the respondent did not question the status of the petitioners as members of the association. There were no allegations assailing the petitioners' rights or obligations on the basis of the association's rules and by-laws, or regarding the petitioners' relationships with the association. What were alleged were only demands for civil indemnity and damages. The intent to seek indemnification only (and not the petitioners' status, membership,

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[24] *DMRC Enterprises v. Este Del Sol Mountain Reserve, Inc*., 217 Phil. 280, 299 (1984).

[25] *Reyes v. Regional Trial Court of Makati,* Br. 142, G.R. No. 165744, August 11, 2008, 561 SCRA 593, 611.

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or their rights in the association) is clear from paragraphs 7, 8 and 9 of the complaint.[26]

In light of these, the case before us involves a simple civil action — the petitioners' liability for civil indemnity or damages — that could only be determined through a full-blown hearing for the purpose before the RTC.

WHEREFORE, we hereby **DENY** the petition, and **AFFIRM** the Decision dated June 27, 2006 and the Resolution dated November 7, 2006 of the Court of Appeals in CA-G.R. CV No. 68784. The records of the case are hereby **REMANDED** to the Regional Trial Court of Las Piñas City, Branch 253, for trial on the merits. In light of the age of this case, we hereby **DIRECT** the Regional Trial Court to prioritize the hearing and disposition of this case.

SO ORDERED.

Carpio (Senior Associate Justice, Chairperson), Villarama, Jr.,[*] *Perez,* and *Reyes, JJ.,* concur.

FIRST DIVISION

[G.R. No. 178288. August 15, 2012]

SPOUSES CHARLIE FORTALEZA and OFELIA FORTALEZA, *petitioners, vs.* **SPOUSES RAUL LAPITAN and RONA LAPITAN,** *respondents.*

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[26] *Supra* note 15.

[*] Designated as Acting Member of the Second Division in lieu of Associate Justice Maria Lourdes P. A. Sereno per Special Order No. 1274 dated July 30, 2012.