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Section 1-1 of Rule I of the Rules of Procedure on Corporate Recovery states that the term **claim** "shall include all claims or debts of whatever character against a debtor or its property, whether secured or unsecured," and under which definition clearly falls the obligation of respondent ASBDC to petitioner UBP.

WHEREFORE, the Petition is *DENIED*. The Decision dated 31 May 2005 and Resolution dated 31 May 2006 of the Court of Appeals in CA-G.R. SP No. 85780 are *AFFIRMED*. Costs against petitioner.

SO ORDERED.

Ynares-Santiago (Chairperson), Austria-Martinez, Nachura, and *Reyes, JJ.,* concur.

THIRD DIVISION

[G.R. No. 174134. July 30, 2008]

FIRST PLANTERS PAWNSHOP, INC., *petitioner, vs.* **COMMISSIONER OF INTERNAL REVENUE,** *respondent.*

SYLLABUS

1. COMMERCIAL LAW; PAWNSHOPS; LATEST CLASSIFICATION UNDER THE LAW. — In fine, prior to the EVAT Law, pawnshops were treated as lending investors subject to lending investor's tax. Subsequently, with the Court's ruling in *Lhuillier*, pawnshops were then treated as VAT-able enterprises under the general classification of *"sale or exchange of services"* under Section 108(A) of the Tax Code of 1997, as amended. That pawnshops are to be treated as non-bank financial intermediaries is further bolstered by the fact that pawnshops are under the regulatory supervision of the *Bangko Sentral*

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ng Pilipinas and covered by its Manual of Regulations for Non-Bank Financial Institutions. The Manual includes pawnshops in the list of non-bank financial intermediaries, *viz.*: § 4101Q.1 *Financial Intermediaries* x x x Non-bank financial intermediaries shall include the following: (1) A person or entity licensed and/or registered with any government regulatory body as a non-bank financial intermediary, such as investment house, investment company, financing company, securities dealer/broker, lending investor, **pawnshop**, money broker x x x. *Revenue Regulations No. 10-2004*, in fact, recognized these bases, to wit: SEC. 2. BASES OF QUALIFYING PAWNSHOPS AS NON-BANK FINANCIAL INTERMEDIARIES. — Whereas, in relation to Sec. 2.3 of Rev. Regs No. 9-2004 defining "Non-bank Financial Intermediaries, the term "pawnshop" as defined under Presidential Decree No. 114 which authorized its creation, *to be a person or entity engaged in the business of lending money*, all fall within the classification of Non-bank Financial Intermediaries and therefore, covered by Sec. 4 of R.A. No. 9238. This classification is equally supported by Subsection 4101Q.1 of the BSP Manual of Regulations for Non-Bank Financial Intermediaries and reiterated in BSP Circular No. 204-99, classifying pawnshops as one of Non-bank Financial Intermediaries within the supervision of the Bangko Sentral ng Pilipinas. R.A. No. 9238 finally classified pawnshops as Other Non-bank Financial Intermediaries.

2. ID.; BANKS; FINANCIAL INTERMEDIARIES; DISTINCTION. — R.A. No. 337, as amended, or the General Banking Act characterizes the terms *banking institution* and *bank* as synonymous and interchangeable and specifically include commercial banks, savings bank, mortgage banks, development banks, rural banks, stock savings and loan associations, and branches and agencies in the Philippines of foreign banks. R.A. No. 8791 or the General Banking Law of 2000, meanwhile, provided that *banks* shall refer to entities engaged in the lending of funds obtained in the form of deposits. R.A. No. 8791 also included cooperative banks, Islamic banks and other banks as determined by the Monetary Board of the *Bangko Sentral ng Pilipinas* in the classification of banks. *Financial intermediaries*, on the other hand, are defined as "persons or entities whose principal functions include the lending, investing or placement of funds or evidences of indebtedness or equity deposited with

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them, acquired by them, or otherwise coursed through them, either for their own account or for the account of others."

3. TAXATION; INTERNAL REVENUE CODE; DOCUMENTARY STAMP TAXES; PAWNSHOPS LIABLE THEREFOR. — Lastly, petitioner is liable for documentary stamp taxes. The Court has settled this issue in *Michel J. Lhuillier Pawnshop, Inc. v. Commissioner of Internal Revenue*, in which it was ruled that the subject of Documentary Stamp Tax (DST) is not limited to the document alone. Pledge, which is an exercise of a privilege to transfer obligations, rights or properties incident thereto, is also subject to DST, thus — x x x True, the law does not consider said ticket as an evidence of security or indebtedness. However, for purposes of taxation, the same pawn ticket is proof of an exercise of a taxable privilege of concluding a contract of pledge. At any rate, it is not said ticket that creates the pawnshop's obligation to pay DST but the exercise of the privilege to enter into a contract of pledge. There is therefore no basis in petitioner's assertion that a DST is literally a tax on a document and that no tax may be imposed on a pawn ticket. The settled rule is that tax laws must be construed in favor of the taxpayer and strictly against the government; and that a tax cannot be imposed without clear and express words for that purpose. Taking our bearing from the foregoing doctrines, we scrutinized Section 195 of the NIRC, but there is no way that said provision may be interpreted in favor of petitioner. Section 195 **unqualifiedly subjects all pledges** to DST. It states that "[o]*n every x x x pledge x x x there shall be collected a documentary stamp tax x x x.*" It is clear, categorical, and needs no further interpretation or construction. The explicit tenor thereof requires hardly anything than a simple application.

APPEARANCES OF COUNSEL

Siguion Reyna Montecillo & Ongsiako for petitioner.
The Solicitor General for respondent.

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D E C I S I O N

AUSTRIA-MARTINEZ, *J.*:

First Planters Pawnshop, Inc. (petitioner) contests the deficiency value-added and documentary stamp taxes imposed upon it by the Bureau of Internal Revenue (BIR) for the year 2000. The core of petitioner's argument is that it is not a lending investor within the purview of Section 108(A) of the National Internal Revenue Code (NIRC), as amended, and therefore not subject to value-added tax (VAT). Petitioner also contends that a pawn ticket is not subject to documentary stamp tax (DST) because it is not proof of the pledge transaction, and even assuming that it is so, still, it is not subject to tax since a documentary stamp tax is levied on the document issued and not on the transaction.

The facts:

In a Pre-Assessment Notice dated July 7, 2003, petitioner was informed by the BIR that it has an existing tax deficiency on its VAT and DST liabilities for the year 2000. The deficiency assessment was at ₱541,102.79 for VAT and ₱23,646.33 for DST.[1] Petitioner protested the assessment for lack of legal and factual bases.[2]

Petitioner subsequently received a Formal Assessment Notice on December 29, 2003, directing payment of VAT deficiency in the amount of ₱541,102.79 and DST deficiency in the amount of ₱24,747.13, inclusive of surcharge and interest.[3] Petitioner filed a protest,[4] which was denied by Acting Regional Director Anselmo G. Adriano per Final Decision on Disputed Assessment dated January 29, 2004.[5]

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[1] *Rollo*, Annex "C", p. 84.

[2] *Id.*, Annex "D", pp. 85-90.

[3] *Id.*, Annex "E", pp. 91-95.

[4] *Id.*, Annex "F", pp. 96-107.

[5] *Id.*, Annex "G", p. 108.

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Petitioner then filed a petition for review with the Court of Tax Appeals (CTA).[6] In a Decision dated May 9, 2005, the 2nd Division of the CTA upheld the deficiency assessment.[7] Petitioner filed a motion for reconsideration[8] which was denied in a Resolution dated October 7, 2005.[9]

Petitioner appealed to the CTA *En Banc* which rendered a Decision dated June 7, 2006, the dispositive portion of which reads as follows:

> WHEREFORE, premises considered, the Petition for Review is hereby DENIED for lack of merit. The assailed Decision dated May 9, 2005 and Resolution dated October 7, 2005 are hereby AFFIRMED.
>
> SO ORDERED.[10]

Petitioner sought reconsideration but this was denied by the CTA *En Banc* per Resolution dated August 14, 2006.[11]

Hence, the present petition for review under Rule 45 of the Rules of Court based on the following grounds:

> I
>
> THE HONORABLE COURT OF TAX APPEALS *EN BANC* GRAVELY ERRED IN FINDING PETITIONER LIABLE FOR VAT.
>
> II
>
> THE HONORABLE COURT OF TAX APPEALS *EN BANC* GRAVELY ERRED IN RULING THAT PETITIONER IS LIABLE FOR DST ON PAWN TICKETS.[12]

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[6] *Id.*, Annex "H", pp. 109-122.

[7] *Id.*, Annex "I", pp. 150-168.

[8] *Id.*, Annex "J", pp. 169-183.

[9] *Id.*, Annex "K", pp. 184-188.

[10] *Id.* at 80.

[11] *Rollo*, pp. 82-83.

[12] *Id.* at 34.

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The determination of petitioner's tax liability depends on the tax treatment of a pawnshop business. Oddly, there has not been any definitive declaration in this regard despite the fact that pawnshops have long been in existence. All that has been stated is what pawnshops are not, but not what pawnshops are.

The BIR itself has maintained an ambivalent stance on this issue. Initially, in *Revenue Memorandum Order No. 15-91* issued on March 11, 1991, a pawnshop business was considered as "akin to lending investor's business activity" and subject to 5% percentage tax beginning January 1, 1991, under Section 116 of the Tax Code of 1977, as amended by E.O. No. 273.[13]

With the passage of Republic Act (R.A.) No. 7716 or the EVAT Law in 1994,[14] the BIR abandoned its earlier position and maintained that pawnshops are subject to 10% VAT, as implemented by Revenue Regulations No. 7-95. This was complemented by *Revenue Memorandum Circular No. 45-01* dated October 12, 2001, which provided that pawnshop operators are liable to the 10% VAT based on gross receipts beginning January 1, 1996, while pawnshops whose gross annual receipts do not exceed ₱550,000.00 are liable for percentage tax, pursuant to Section 109(z) of the Tax Code of 1997.

CTA decisions affirmed the BIR's position that pawnshops are subject to VAT. In *H. Tambunting Pawnshop, Inc. v. Commissioner of Internal Revenue*,[15] the CTA ruled that the petitioner therein was subject to 10% VAT under Section 108 of the Tax Code of 1997. *Antam Pawnshop Corporation v. Commissioner of Internal Revenue*[16] reiterates said ruling. It was the CTA's view that the services rendered by pawnshops

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[13] As clarified by BIR Revenue Memorandum Circular No. 43-91 issued on May 27, 1991.

[14] Entitled, "An Act Restructuring the Value-Added Tax (VAT) System, Widening its Tax Base and Enhancing its Administration, and for these purposes Amending and Repealing the Relevant Provisions of the National Internal Revenue Code, as amended, and for Other Purposes."

[15] C.T.A. Case No. 6915, April 11, 2004.

[16] C.T.A. Case No. 7069, June 17, 2005.

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fall under the general definition of "sale or exchange of services" under Section 108(A) of the Tax Code of 1997.

On July 15, 2003, the Court rendered *Commissioner of Internal Revenue v. Michel J. Lhuillier Pawnshop, Inc.*[17] in which it was categorically ruled that while pawnshops are engaged in the business of lending money, they are not considered "lending investors" for the purpose of imposing percentage taxes.[18] The Court gave the following reasons: first, under the 1997 Tax Code, pawnshops and lending investors were subjected to different tax treatments; second, Congress never intended pawnshops to be treated in the same way as lending investors; third, Section 116 of the NIRC of 1977 subjects to percentage tax dealers in securities and lending investors only; and lastly, the BIR had ruled several times prior to the issuance of RMO No. 15-91 and RMC 43-91 that pawnshops were not subject to the 5% percentage tax on lending investors imposed by Section 116 of the NIRC of 1977, as amended by Executive Order No. 273.

In view of said ruling, the BIR issued *Revenue Memorandum Circular No. 36-2004* dated June 16, 2004, canceling the previous lending investor's tax assessments on pawnshops. Said Circular stated, *inter alia*:

> In view of the said Supreme Court decision, all assessments on pawnshops for percentage taxes as lending investors are hereby cancelled. This Circular is being issued for the sole purpose of resolving the tax liability of pawnshops to the 5% lending investors tax provided under the then Section 116 of the NIRC of 1977, as amended, and shall not cover issues relating to their other tax liabilities. All internal revenue officials are enjoined from issuing assessments on pawnshops for percentage taxes on lending investors, under the then Section 116 of the NIRC of 1977, as amended.

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[17] G.R. No. 150947, July 15, 2003, 406 SCRA 178. Penned by Chief Justice Hilario G. Davide, Jr. with the concurrence of Associate Justices Jose Vitug, Consuelo Ynares-Santiago, Antonio T. Carpio and Adolfo S. Azcuna.

[18] *Id.* at 185.

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For purposes of the gross receipt tax provided for under Republic Act No. 9294, the pawnshops are now subject thereof. This shall however, be covered by another issuance.[19]

Revenue Memorandum Circular No. 37-2004 was issued on the same date whereby pawnshop businesses were allowed to settle their VAT liabilities for the tax years 1996-2002 pursuant to a memorandum of agreement entered into by the Commissioner of Internal Revenue and the Chambers of Pawnbrokers of the Philippines, Inc. The Circular likewise instructed all revenue officers to ensure that "all VAT due from pawnshops beginning January 1, 2003, including increments thereto, if any, are assessed and collected from pawnshops under its jurisdiction."

In the interim, however, Congress passed Republic Act (R.A.) No. 9238 on February 5, 2004 entitled, "An Act Amending Certain Sections of the National Internal Revenue Code of 1997, as amended, by Excluding Several Services from the Coverage of the Value-added Tax and Re-imposing the Gross Receipts Tax on Banks and Non-bank Financial Intermediaries Performing Quasi-banking Functions and Other Non-bank Financial Intermediaries beginning January 01, 2004."[20]

Pending publication of R.A. No. 9238, the BIR issued Bank Bulletin No. 2004-01 on February 10, 2004 advising all banks and non-bank financial intermediaries that they shall remain liable under the VAT system.

When R.A. No. 9238 took effect on February 16, 2004, the Department of Finance issued *Revenue Regulations No. 10-2004* dated October 18, 2004, classifying pawnshops as Other Non-bank Financial Intermediaries. The BIR then issued *Revenue Memorandum Circular No. 73-2004* on November 25, 2004, prescribing the guidelines and policies on the assessment and collection of 10% VAT for gross annual sales/receipts exceeding

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[19] ftp://ftp.bir.gov.ph/webadmin1/pdf/1887rmc36_04.pdf.

[20] Republic Act (R.A.) No. 9238 lapsed into law on February 05, 2004 without the signature of the President, in accordance with Article VI, Section 27 (1) of the Constitution.

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₱550,000.00 or 3% percentage tax for gross annual sales/receipts not exceeding ₱550,000.00 of pawnshops prior to January 1, 2005.

In fine, prior to the EVAT Law, pawnshops were treated as lending investors subject to lending investor's tax. Subsequently, with the Court's ruling in *Lhuillier*, pawnshops were then treated as VAT-able enterprises under the general classification of "*sale or exchange of services*" under Section 108(A) of the Tax Code of 1997, as amended. R.A. No. 9238 finally classified pawnshops as Other Non-bank Financial Intermediaries.

The Court finds that pawnshops should have been treated as non-bank financial intermediaries from the very beginning, subject to the appropriate taxes provided by law, thus —

- Under the National Internal Revenue Code of 1977,[21] pawnshops should have been levied the 5% percentage tax on gross receipts imposed on bank and non-bank financial intermediaries under Section 119 (now Section 121 of the Tax Code of 1997);
- With the imposition of the VAT under R.A. No. 7716 or the EVAT Law,[22] pawnshops should have been subjected to the 10% VAT imposed on banks and non-bank financial intermediaries and financial institutions under Section 102 of the Tax Code of 1977 (now Section 108 of the Tax Code of 1997);[23]
- This was restated by R.A. No. 8241,[24] which amended R.A. No. 7716, although the levy, collection and assessment of the 10% VAT on services rendered by banks, non-bank financial intermediaries, finance companies, and other

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[21] Presidential Decree No. 1158.

[22] Effective May 28, 1994.

[23] The implementation of the VAT system under R.A. No. 7716 was made effective January 1, 1996 (see *Commissioner of Internal Revenue v. Philippine Global Communications, Inc.*, G.R. No. 144696, August 16, 2006, 499 SCRA 53).

[24] Approved on December 20, 1996.

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financial intermediaries not performing quasi-banking functions, were made effective January 1, 1998;[25]

- R.A. No. 8424 or the Tax Reform Act of 1997[26] likewise imposed a 10% VAT under Section 108 but the levy, collection and assessment thereof were again deferred until December 31, 1999;[27]
- The levy, collection and assessment of the 10% VAT was further deferred by R.A. No. 8761 until December 31, 2000, and by R.A. No. 9010, until December 31, 2002;
- With no further deferments given by law, the levy, collection and assessment of the 10% VAT on banks, non-bank financial intermediaries, finance companies, and other financial intermediaries not performing quasi-banking functions were finally made effective beginning January 1, 2003;
- Finally, with the enactment of R.A. No. 9238, the services of banks, non-bank financial intermediaries, finance companies,

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[25] R.A. No. 8241, Section 11 provides:

SEC. 11. Section 17 of Republic Act No. 7716 is hereby amended to read as follows:

"SEC. 17. *Effectivity of the Imposition of VAT on Certain Goods, Properties and Services*. — The value-added tax shall be levied, assessed and collected on the following transactions, starting January 1, 1998:

x x x x x x x x x

(b) Services rendered by banks, non-bank financial intermediaries, finance companies and other financial intermediaries not performing quasi-banking functions;

x x x x x x x x x:"

[26] R.A. No. 8424 renamed the National Internal Revenue Code of 1977 to National Internal Revenue Code of 1997, or the Tax Code of 1997, and took effect on January 1, 1998.

[27] R.A. No. 8428, Section 5 provides:

SEC. 5. *Transitory Provisions.* — Deferment of the Effectivity of the Imposition of VAT on Certain Services. — The effectivity of the imposition of the value-added tax on services as prescribed in Section 17(a) and (b) of Republic Act No. 7616, as amended by Republic Act. 8241, is hereby further deferred until December 31, 1999, unless Congress deems otherwise: *Provided,* That the said services shall continue to pay the applicable tax prescribed under the present provisions of the National Internal Revenue Code, as amended.

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and other financial intermediaries not performing quasi-banking functions were specifically exempted from VAT,[28] and the 0% to 5% percentage tax on gross receipts on other non-bank financial intermediaries was reimposed under Section 122 of the Tax Code of 1997.[29]

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[28] R.A. No. 9238, Section 2 provides:

SEC. 2. Section 109 of the same Code is hereby amended by rewording paragraph (1) and inserting additional paragraphs after (z) which shall now read as follows:

"SEC. 109. *Exempt Transactions.* — The following shall be exempt from the value-added tax:

x x x x x x x x x

(aa) Services of banks, non-bank financial intermediaries performing quasi-banking functions, and other non-bank financial intermediaries;

x x x x x x x x x

The foregoing exemptions to the contrary notwithstanding, any person whose sale of goods or properties or services which are otherwise not subject to VAT, but who issue a VAT invoice or receipt therefor shall, in additional to his liability to other applicable percentage tax, if any, be liable to the tax imposed in Section 106 or 108 without the benefit of input tax credit, and such tax shall also be recognized as input tax credit to the purchaser under Section 110, all of this Code."

[29] R.A. No. 9238, Section 4 reads:

Section 4. Section 122 of the National Internal Revenue Code of 1997, as amended, is hereby restored with amendments to read as follows:

"Sec. 122. *Tax on Other Non-Bank Financial Intermediaries*. — There shall be collected a tax of five percent (5%) on the gross receipts derived by other non-bank financial intermediaries doing business in the Philippines, from interest, commissions, discounts and all other items treated as gross income under this code: *Provided*, that interests, commissions and discounts from lending activities, as well as income from financial leasing, shall be taxed on the basis of remaining maturities of the instruments from which such receipts are derived, in accordance with the following schedule:

maturity period is five (5) years or less..... 5%
maturity period is more than five (5) years..... 1%

Provided, however, that in case the maturity period is shortened thru pretermination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Provided, finally, that the generally accepted accounting principles as may be prescribed by the Securities and Exchange Commission for other non-bank

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At the time of the disputed assessment, that is, for the year 2000, pawnshops were not subject to 10% VAT under the general provision on "sale or exchange of services" as defined under Section 108(A) of the Tax Code of 1997, which states: "'*sale or exchange of services*' means the performance of all kinds of services in the Philippines for others for a fee, remuneration or consideration x x x." Instead, due to the specific nature of its business, pawnshops were then subject to 10% VAT under the category of non-bank financial intermediaries, as provided in the same Section 108(A), which reads:

SEC. 108. *Value-added Tax on Sale of Services and Use or Lease of Properties.* —

(A) *Rate and Base of Tax.* — There shall be levied, assessed and collected, a value-added tax equivalent to ten percent (10%) of gross receipts derived from the sale or exchange of services, including the use or lease of properties.

The phrase "*sale or exchange of services*" means the performance of all kinds or services in the Philippines for others for a fee, remuneration or consideration, including x x x **services of banks, non-bank financial intermediaries and finance companies**; and non-life insurance companies (except their crop insurances), including surety, fidelity, indemnity and bonding companies; and similar services regardless of whether or not the performance thereof calls for the exercise or use of the physical or mental faculties. The phrase 'sale or exchange of services' shall likewise include: x x x (Emphasis and underscoring supplied)

The tax treatment of pawnshops as non-bank financial intermediaries is not without basis.

R.A. No. 337, as amended, or the General Banking Act characterizes the terms *banking institution* and *bank* as synonymous and interchangeable and specifically include commercial banks, savings bank, mortgage banks, development banks, rural banks,

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financial intermediaries shall likewise be the basis for the calculation of gross receipts.

Nothing in this code shall preclude the Commissioner from imposing the same tax herein provided on persons performing similar financing activities."

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stock savings and loan associations, and branches and agencies in the Philippines of foreign banks.[30] R.A. No. 8791 or the General Banking Law of 2000, meanwhile, provided that *banks* shall refer to entities engaged in the lending of funds obtained in the form of deposits.[31] R.A. No. 8791 also included cooperative banks, Islamic banks and other banks as determined by the Monetary Board of the *Bangko Sentral ng Pilipinas* in the classification of banks.[32]

Financial intermediaries, on the other hand, are defined as "persons or entities whose principal functions include the lending, investing or placement of funds or evidences of indebtedness or equity deposited with them, acquired by them, or otherwise coursed through them, either for their own account or for the account of others."[33]

It need not be elaborated that pawnshops are non-banks/ banking institutions. Moreover, the nature of their business activities partakes that of a financial intermediary in that its principal function is lending.

A pawnshop's business and operations are governed by Presidential Decree (P.D.) No. 114 or the Pawnshop Regulation Act and Central Bank Circular No. 374 (Rules and Regulations for Pawnshops). Section 3 of P.D. No. 114 defines *pawnshop* as "a person or entity engaged in the business of lending money on personal property delivered as security for loans and shall be synonymous, and may be used interchangeably, with pawnbroker or pawn brokerage."

That pawnshops are to be treated as non-bank financial intermediaries is further bolstered by the fact that pawnshops are under the regulatory supervision of the *Bangko Sentral ng Pilipinas* and covered by its Manual of Regulations for Non-

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[30] Section 2.

[31] Section 3.1.

[32] Section 3.1 (e), (f), and (g).

[33] General Banking Act, Section 2-D(c); Manual of Regulations for Non-Bank Financial Institutions, § 4101Q.1.

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Bank Financial Institutions. The Manual includes pawnshops in the list of non-bank financial intermediaries, *viz.*:

§ 4101Q.1 *Financial Intermediaries*

x x x x x x x x x

Non-bank financial intermediaries shall include the following:

(1) A person or entity licensed and/or registered with any government regulatory body as a non-bank financial intermediary, such as investment house, investment company, financing company, securities dealer/broker, lending investor, **pawnshop**, money broker x x x. (Emphasis supplied)

Revenue Regulations No. 10-2004, in fact, recognized these bases, to wit:

SEC. 2. BASES OF QUALIFYING PAWNSHOPS AS NON-BANK FINANCIAL INTERMEDIARIES. —Whereas, in relation to Sec. 2.3 of Rev. Regs No. 9-2004 defining "Non-bank Financial Intermediaries, the term "pawnshop" as defined under Presidential Decree No. 114 which authorized its creation, *to be a person or entity engaged in the business of lending money*, all fall within the classification of Non-bank Financial Intermediaries and therefore, covered by Sec. 4 of R.A. No. 9238.

This classification is equally supported by Subsection 4101Q.1 of the BSP Manual of Regulations for Non-Bank Financial Intermediaries and reiterated in BSP Circular No. 204-99, classifying pawnshops as one of Non-bank Financial Intermediaries within the supervision of the Bangko Sentral ng Pilipinas.

Ultimately, R.A. No. 9238 categorically confirmed the classification of pawnshops as non-bank financial intermediaries.

Coming now to the issue at hand — Since petitioner is a non-bank financial intermediary, it is subject to 10% VAT for the tax years 1996 to 2002; **however, with the levy, assessment and collection of VAT from non-bank financial intermediaries being specifically deferred by law**,[34] **then petitioner is not liable for VAT during these tax years**. But with the full

[34] See pages 7-8 of this Decision.

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implementation of the VAT system on non-bank financial intermediaries starting January 1, 2003, petitioner is liable for 10% VAT for said tax year. And beginning 2004 up to the present, by virtue of R.A. No. 9238, petitioner is no longer liable for VAT but it is subject to percentage tax on gross receipts from 0% to 5 %, as the case may be.

Lastly, petitioner is liable for documentary stamp taxes.

The Court has settled this issue in *Michel J. Lhuillier Pawnshop, Inc. v. Commissioner of Internal Revenue*,[35] in which it was ruled that the subject of DST is not limited to the document alone. Pledge, which is an exercise of a privilege to transfer obligations, rights or properties incident thereto, is also subject to DST, thus —

> x x x the subject of a DST is not limited to the document embodying the enumerated transactions. A DST is an excise tax on the exercise of a right or privilege to transfer obligations, rights or properties incident thereto. In *Philippine Home Assurance Corporation v. Court of Appeals*, it was held that:
>
> x x x x x x x x x
>
> Pledge is among the privileges, the exercise of which is subject to DST. A pledge may be defined as an accessory, real and unilateral contract by virtue of which the debtor or a third person delivers to the creditor or to a third person movable property as security for the performance of the principal obligation, upon the fulfillment of which the thing pledged, with all its accessions and accessories, shall be returned to the debtor or to the third person. This is essentially the business of pawnshops which are defined under Section 3 of Presidential Decree No. 114, or the Pawnshop Regulation Act, as persons or entities engaged in lending money on personal property delivered as security for loans.
>
> Section 12 of the Pawnshop Regulation Act and Section 21 of the Rules and Regulations For Pawnshops issued by the Central Bank to implement the Act, require every pawnshop or pawnbroker to issue, at the time of every such loan or pledge, a memorandum or ticket signed by the pawnbroker and containing the following details: (1) name

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[35] G.R. No. 166786, May 3, 2006, 489 SCRA 147.

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and residence of the pawner; (2) date the loan is granted; (3) amount of principal loan; (4) interest rate in percent; (5) period of maturity; (6) description of pawn; (7) signature of pawnbroker or his authorized agent; (8) signature or thumb mark of pawner or his authorized agent; and (9) such other terms and conditions as may be agreed upon between the pawnbroker and the pawner. In addition, Central Bank Circular No. 445, prescribed a standard form of pawn tickets with entries for the required details on its face and the mandated terms and conditions of the pledge at the dorsal portion thereof.

Section 3 of the Pawnshop Regulation Act defines a pawn ticket as follows:

x x x x x x x x x

True, the law does not consider said ticket as an evidence of security or indebtedness. However, for purposes of taxation, the same pawn ticket is proof of an exercise of a taxable privilege of concluding a contract of pledge. At any rate, it is not said ticket that creates the pawnshop's obligation to pay DST but the exercise of the privilege to enter into a contract of pledge. There is therefore no basis in petitioner's assertion that a DST is literally a tax on a document and that no tax may be imposed on a pawn ticket.

The settled rule is that tax laws must be construed in favor of the taxpayer and strictly against the government; and that a tax cannot be imposed without clear and express words for that purpose. Taking our bearing from the foregoing doctrines, we scrutinized Section 195 of the NIRC, but there is no way that said provision may be interpreted in favor of petitioner. Section 195 **unqualifiedly subjects all pledges** to DST. It states that "[o]*n every x x x pledge x x x there shall be collected a documentary stamp tax x x x.*" It is clear, categorical, and needs no further interpretation or construction. The explicit tenor thereof requires hardly anything than a simple application.

x x x x x x x x x

In the instant case, there is no law specifically and expressly exempting pledges entered into by pawnshops from the payment of DST. Section 199 of the NIRC enumerated certain documents which are not subject to stamp tax; but a pawnshop ticket is not one of them. Hence, petitioner's nebulous claim that it is not subject to DST is without merit. It cannot be over-emphasized that tax exemption represents a loss of revenue to the government and must, therefore,

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not rest on vague inference. Exemption from taxation is never presumed. For tax exemption to be recognized, the grant must be clear and express; it cannot be made to rest on doubtful implications.

Under the principle of *stare decisis et non quieta movere* (follow past precedents and do not disturb what has been settled), once a case has been decided one way, any other case involving exactly the same point at issue, as in the case at bar, should be decided in the same manner.[36]

WHEREFORE, the petition is *PARTIALLY GRANTED*. The Decision dated June 7, 2006 and Resolution dated August 14, 2006 of the Court of Tax Appeals *En Banc* is *MODIFIED* to the effect that the Bureau of Internal Revenue assessment for VAT deficiency in the amount of ₱541,102.79 for the year 2000 is *REVERSED and SET ASIDE,* while its assessment for DST deficiency in the amount of ₱24,747.13, inclusive of surcharge and interest, is *UPHELD.*

SO ORDERED.

Ynares-Santiago (Chairperson), Chico-Nazario, Nachura, and *Reyes, JJ.,* concur.

THIRD DIVISION

[G.R. No. 176995. July 30, 2008]

PABLO D. ACAYLAR, JR., *petitioner, vs.* **DANILO G. HARAYO,** *respondent.*

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[36] *Commissioner of Internal Revenue v. Trustworthy Pawnshop, Inc.*, G.R. No. 149834, May 2, 2006, 488 SCRA 538, 545.