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[G.R. No. 56568. May 20, 1987]

REPUBLIC OF THE PHILIPPINES, represented by the Bureau of Customs and the Bureau of Internal Revenue, *petitioner*, *vs.* **HONORABLE E. L. PERALTA, PRESIDING JUDGE OF THE COURT OF FIRST INSTANCE OF MANILA, BRANCH XVII, QUALITY TOBACCO CORPORATION, FRANCISCO CANDELARIA, FEDERACION OBRERO DE LA INDUSTRIA TABAQUERA Y OTROS TRABAJADORES DE FILIPINAS (FOITAF), USTC EMPLOYEES ASSOCIATION WORKERS UNION — PTGWO**, *respondents*.

SYLLABUS

1. LABOR AND SOCIAL LEGISLATION; LABOR RELATIONS; SEPARATION PAY; FORMS PART OF REMUNERATION OF OTHER EARNINGS ACCRUING TO EMPLOYEES. — In *Philippine Commercial and Industrial Bank (PCIB) vs. National Mines and Allied Workers Union*, the Solicitor General took a different view and there urged that the term "wages" under Article 110 of the Labor Code may be regarded as embracing within its scope severance pay or termination or separation pay. For the specific purposes of Article 110 and in the context of insolvency, termination or separation pay is reasonably regarded as forming part of the remuneration or other money benefits accruing to employees or workers by reason of their having previously rendered services to their employer; as such, they fall within the scope of "*remuneration or earnings — for services rendered* or to be rendered —." Liability for separation pay might indeed have the effect of a penalty, so far as the employer is concerned. So far as concerns the employees, however, separation pay is additional remuneration to which they become entitled because, having previously rendered services, they are separated from the employer's service.

2. ID.; LABOR CODE; DOUBTS IN THE INTERPRETATION OF THE LABOR CODE PROVISION, CONSTRUED IN FAVOR

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OF LABOR. — The relationship between separation pay and services rendered is underscored by the fact that separation pay is measured by the amount (*i.e.*, length) of the services rendered. This construction is sustained both by the specific terms of Article 110 and by the major purposes and basic policy embodied in the Labor Code. It is also the construction that is suggested by Article 4 of the Labor Code which directs that doubts — assuming that any substantial rather than merely frivolous doubts remain — in the interpretation of the provisions of the Labor Code and of its implementing rules and regulations shall be "resolved in favor of labor."

3. **CIVIL LAW; PREFERENCE OF CREDITS; DUTIES, TAXES AND FEES; STANDS FIRST IN PREFERENCE IN RESPECT OF THE PARTICULAR MOVABLE OR IMMOVABLE PROPERTY TO WHICH THE TAX LIENS HAVE ATTACHED.** — It should be emphasized that "duties, taxes and fees due [on specific movable property of the insolvent] to the State or any subdivision thereof" (Article 2241 [1] and "taxes due upon the [insolvent's] land or building (2242 [1])" stand first in preference in respect of the particular movable or immovable property to which the tax liens have attached. Article 2243 is quite explicit: "*[T]axes mentioned in Number 1, Article 2241 and number 1, Article 2242 shall first be satisfied.*"

4. **ID.; ID.; NON-TAX CREDITS; TO BE SATISFIED *PARI PASSU* AND PRO RATA.** — The other (non-tax) credits, although constituting liens attaching to particular property, are *not* preferred one over another *inter se*. Provided tax liens shall have been satisfied, non-tax liens or special preferred credits which subsist in respect of specific movable or immovable property are to be treated on an equal basis and to be satisfied concurrently and proportionately. Put succinctly, all other special preferred credits are to be satisfied, *pari passu* and *pro rata*, out of any residual value of the specific property to which such other credits relate.

5. **ID.; ID.; SPECIAL PREFERRED CREDITS; TAKE PRECEDENCE OVER ORDINARY PREFERRED CREDITS.** — Credits which are specially preferred because they constitute liens (tax or non-tax) in turn, take precedence over ordinary preferred credits so far as concerns the property to which the liens have attached. The specially preferred credits must be discharged first out of the proceeds of the property to which they relate, before ordinary preferred creditors may lay claim to any part of such proceeds.

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6. **ID.; ID.; RULE WHERE PROPERTY INVOLVED IS GREATER OR LESS THAN THE AGGREGATE TAX LIENS.** — If the value of the specific property involved is greater than the sum total of the tax liens and other specially preferred credits, the residual value will form part of the "free property" of the insolvent — *i.e.*, property not impressed with liens by operation of Articles 2241 and 2242. If, on the other hand, the value of the specific movable or immovable is less than the aggregate of the tax liens and other specially preferred credits, the unsatisfied balance of the tax liens and other such credits are to be treated as ordinary credits under Article 2244 and to be paid in the order of preference there set up.

7. **ID.; ID.; CUSTOMS TAXES AND DUTIES; SPECIALLY PREFERRED ONLY IN RESPECT TO GOODS WHICH ARE STILL SUBJECT TO THE CONTROL OF THE BUREAU OF CUSTOMS.** — The claim of the Bureau of Customs for unpaid customs duties and taxes enjoys the status of a specially preferred credit under Article 2241, No. 1, of the Civil Code, only in respect of the articles importation of which by the Insolvent resulted in the assessment of the unpaid taxes and duties, and which are still in the custody or subject to the control of the Bureau of Customs. The goods imported on one occasion are *not* subject to a lien for customs duties and taxes assessed upon *other importations* though also effected by the Insolvent. Customs duties and taxes which remain unsatisfied after levy upon the imported articles on which such duties and taxes are due, would have to be paid out of the Insolvent's "free property" in accordance with the order of preference embodied in Article 2244 of the Civil Code. Such unsatisfied customs duties and taxes would fall within Article 2244, No. 9, of the Civil Code and hence would be ninth in priority.

8. **ID.; ID.; TOBACCO INSPECTION FEES; GIVEN PREFERENCE OVER ANY OTHER CLAIMS.** — Tobacco inspection fees are specifically mentioned as one of the miscellaneous taxes imposed under the National Internal Revenue Code, specifically Title VIII, Chapter IX of the old Tax Code and Title VIII, Chapter VII of the Tax Code of 1977. Tobacco inspection fees are collected both for purposes of regulation and control and for purposes of revenue generation: half of the said fees accrues to the Tobacco Inspection Fund created by Section 12 of Act No. 2613, as amended by Act No. 3179, while the other half

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accrues to the Cultural Center of the Philippines. Tobacco inspection fees, in other words, are imposed both as a regulatory measure and as a revenue-raising measure. In *Commissioner of Internal Revenue vs. Guerrero, et al.*, this Court held, through Mr. Chief Justice Concepcion, that the term "tax" is used in Section 315 of the old Tax Code: "not in the limited sense [of burdens imposed upon persons and/or properties, by way of contributions to the support of the Government, in consideration of *general* benefits derived from its operation], but, in *a broad* sense, encompassing all government revenues collectible by the Commissioner of Internal Revenue under said Code, whether involving taxes, in the strict technical sense thereof, or not. x x x As used in Title IX of said Code, the term 'tax' *includes* 'any national internal revenue tax, *free* or *charge* imposed by the Code." It follows that the claim of the Bureau of Internal Revenue for unpaid tobacco inspection fees constitutes a claim for unpaid internal revenue taxes which gives rise to a tax lien upon *all the properties and assets, movable and immovable*, of the Insolvent as taxpayer. Clearly, under Articles 2241, No. 1, 2242, No. 1, and 2246-2249 of the Civil Code, this tax claim must be given preference over any other claim of any other creditor, in respect of any and all properties of the Insolvent.

9. **ID.; ID.; UNPAID WAGES; NOT GIVEN PREFERENCE OVER THE CLAIMS OF THE GOVERNMENT OR ANY SUBDIVISION THEREOF.** — We come to the question of what impact Article 110 of the Labor Code has had upon the complete scheme of classification, concurrence and preference of credits in insolvency set out in the Civil Code. We believe and so hold that Article 110 of the Labor Code did not sweep away the overriding preference accorded under the scheme of the Civil Code to tax claims of the government or any subdivision thereof which constitute a lien upon properties of the Insolvent. It is frequently said that taxes are the very lifeblood of government. The effective collection of taxes is a task of highest importance for the sovereign. It is critical indeed for its own survival. It follows that language of a much higher degree of specificity than that exhibited in Article 110 of the Labor Code is necessary to set aside the intent and purpose of the legislator that shines through the precisely crafted provisions of the Civil Code. It cannot be assumed *simpliciter* that the legislative authority, by using in Article 110 the words "first preference" and "any

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provision of law to the contrary notwithstanding" intended to disrupt the elaborate and symmetrical structure set up in the Civil Code. Neither can it be assumed casually that Article 110 intended to subsume the sovereign itself within the term "other creditors" in stating that "unpaid wages shall be paid in full before *other creditors* may establish any claim to a share in the assets of employer." We, however, do not believe that Article 110 has had no impact at all upon the provisions of the Civil Code. Bearing in mind the overriding precedence given to taxes, duties and fees by the Civil Code and the fact that the Labor Code does not impress any lien on the property of an employer, the use of the phrase "first preference" in Article 110 indicates that what Article 110 intended to modify is *the order of preference found in Article 2244*, which order relates, as we have seen, to property of the Insolvent that is not burdened with the liens or encumbrances created or recognized by Articles 2241 and 2242. We have noted that Article 2244, number 2, establishes second priority for claims for wages for services rendered by employees or laborers of the Insolvent "for one year preceding the commencement of the proceedings in insolvency." Article 110 of the Labor Code establishes "first preference" for services rendered "during the period prior to the bankruptcy or liquidation," a period *not limited* to the year immediately prior to the bankruptcy or liquidation.

10. ID.; PREFERENCE OF CREDITS UNDER ARTICLE 2244; MODIFIED BY ARTICLE 110 OF THE LABOR CODE. — Very substantial effect may be given to the provisions of Article 110 without grievously distorting the framework established in the Civil Code by holding, as we so hold, that Article 110 of the Labor Code has modified Article 2244 of the Civil Code in two respects: (a) firstly, by *removing the one year limitation* found in Article 2244, number 2; and (b) secondly, by moving up claims for unpaid wages of laborers or workers of the Insolvent from second priority to *first priority* in the order of preference established by Article 2244.

CRUZ, *J.*, *dissenting*:

1. LABOR AND SOCIAL LEGISLATION; LABOR RELATIONS; UNPAID WAGES; PREFERRED OVER ALL OTHER CLAIMS AGAINST EMPLOYER. — The Labor Code was promulgated by President Marcos who, we may assume, was aware of the

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usual preference of tax claims. So informed, he would have reserved that primacy in the above article if that was what he really wanted. That fact that he did not is to me a certain indication of his true intention, *viz.*, that under the said article the claims of laborers for unpaid wages shall have *priority above all else.*

2. **STATUTORY CONSTRUCTION; STATUTES ARE GIVEN THEIR NORMAL AND ORDINARY CONNOTATION.** — It is axiomatic that the words of a statute are to be given their normal and ordinary connotation. We cannot read into the law meanings that are not intended and — worse — that are precisely *excluded*, as in this case.

3. **LABOR AND SOCIAL LEGISLATION; LABOR CODE; PREVAILS OVER OTHER LAWS WHERE TAX CLAIMS ARE PREFERRED.** — The Labor Code was promulgated later than the Civil Code, the Insolvency Law and the Internal Revenue Code where the tax claims are preferred. The Labor Code prevails over these earlier statutes as it represents the *later* expression of the legislative will.

4. **POLITICAL LAW; STATE; POWER OF TAXATION, MAY BE SUBORDINATED TO THE DEMANDS OF SOCIAL JUSTICE.** — The power of taxation, while indispensable, is not absolute and may be subordinated to the demands of social justice. I for one am not alarmed by the dire prognostication that this would prejudice the very existence of the state. The amount involved is relatively insubstantial and is not significant enough as to drain the coffers of the government.

APPEARANCES OF COUNSEL

Oscar A. Pascua for assignee F. Candelaria.
Teofilo C. Villarico for respondent Federation.
Pedro A. Lopez for respondent USTC.

D E C I S I O N

FELICIANO, *J.*:

The Republic of the Philippines seeks the review on *certiorari* of the Order dated 17 November 1980 of the Court of First

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Instance of Manila in its Civil Case No. 108395 entitled "*In the Matter of Voluntary Insolvency of Quality Tobacco Corporation, Quality Tobacco Corporation, Petitioner*," and of the Order dated 19 January 1981 of the same court denying the motion for reconsideration of the earlier Order filed by the Bureau of Internal Revenue and the Bureau of Customs for the Republic.

In the voluntary insolvency proceedings commenced in May 1977 by private respondent Quality Tobacco Corporation (the "Insolvent"), the following claims of creditors were filed:

(i) ₱2,806,729.92, by the USTC Association of Employees and Workers Union — PTGWO ("USTC"), as separation pay for their members. This amount plus an additional sum of ₱280,672.99 as attorney's fees had been awarded by the National Labor Relations Commission in NLRC Case No. RB-IV-9775-77.[1]

(ii) ₱53,805.05 by the Federacion de la Industria Tabaquera y Otros Trabajadores de Filipinas ("FOITAF"), as separation pay for their members, an amount similarly awarded by the NLRC in the same NLRC Case.

(iii) ₱1,085,188.22 by the Bureau of Internal Revenue for tobacco inspection fees covering the period 1 October 1967 to 28 February 1973;

(iv) ₱276,161.00 by the Bureau of Customs for customs duties and taxes payable on various importations by the Insolvent. These obligations appear to be secured by surety bonds.[2] Some of these imported items are apparently still in customs custody so far as the record before this Court goes.

In its questioned Order of 17 November 1980, the trial court held that the above-enumerated claims of USTC and FOITAF

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[1] See *Rollo*, p. 36. It appears from USTC's Motion for Leave to Intervene that the Insolvent had partially paid the award. with a remaining deficiency of "more or less two million pesos." The precise amount of this deficiency does not appear in the records before this Court.

[2] *Rollo*, p. 26. The record. however, does not shed any light on whether these surety bonds remain valid and outstanding obligations of the issuers.

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(hereafter collectively referred to as the "Unions") for separation pay of their respective members embodied in final awards of the National Labor Relations Commission were to be preferred over the claims of the Bureau of Customs and the Bureau of Internal Revenue. The trial court, in so ruling, relied primarily upon Article 110 of the Labor Code which reads thus:

"Article 110. *Worker preference in case of bankruptcy.* — In the event of bankruptcy or liquidation of an employer's business, his workers shall enjoy first preference as regards wages due them for services rendered during the period prior to the bankruptcy or liquidation, any provision of law to the contrary notwithstanding. Unpaid wages shall be paid in full before other creditors may establish any claim to a share in the assets of the employer."

The Solicitor-General, in seeking the reversal of the questioned Orders, argues that Article 110 of the Labor Code is not applicable as it speaks of "wages," a term which he asserts does *not* include the *separation pay* claimed by the Unions. "Separation pay," the Solicitor General contends,

"is given to a laborer for a separation from employment computed on the basis of the number of years the laborer was employed by the employer; *it is a form of penalty or damage against the employer in favor of the employee for the latter's dismissal or separation from service.*[3]

Article 97 (f) of the Labor Code defines "wages" in the following terms:

"'Wage' paid to any employee shall mean *the remuneration or earnings*, however designated, capable of being expressed in terms of money, whether fixed or ascertained on a time, task, piece, or commission basis, or other method of calculating the same, which is *payable by an employer to an employee* under a written or unwritten contract of employment *for work done or to be done, or for services rendered* or to be rendered, and includes the fair and reasonable value, as determined by the Secretary of Labor, of board, lodging, or other facilities customarily furnished by the employer to the employee. 'Fair and reasonable value' shall not include any profit

[3] Brief for Petitioner, p. 9; *Rollo*, p. 143; italics supplied.

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to the employer or to any person affiliated with the employer." (italics supplied)

We are unable to subscribe to the view urged by the Solicitor General. We note, in this connection, that in *Philippine Commercial and Industrial Bank (PCIB) vs. National Mines and Allied Workers Union*,[4] the Solicitor General took a different view and there urged that the term "wages" under Article 110 of the Labor Code may be regarded as embracing within its scope severance pay or termination or separation pay. In *PCIB*, this Court agreed with the position advanced by the Solicitor General.[5] We see no reason for overturning this particular position. We continue to believe that, for the specific purposes of Article 110 and in the context of insolvency, termination or separation pay is reasonably regarded as forming part of the remuneration or other money benefits accruing to employees or workers by reason of their having previously rendered services to their employer; as such, they fall within the scope of "*remuneration or earnings — for services rendered* or to be rendered —." Liability for separation pay might indeed have the effect of a penalty, so far as the employer is concerned. So far as concerns the employees, however, separation pay is additional remuneration to which they become entitled because, having previously rendered services, they are separated from the employer's service. The relationship between separation pay and services rendered is underscored by the fact that separation pay is measured by the amount (*i.e.*, length) of the services rendered. This construction is sustained both by the specific terms of Article 110 and by the major purposes and basic policy embodied in the Labor Code.[6] It is also the construction that is suggested by Article 4 of the Labor Code which directs that doubts — assuming that any substantial rather than merely frivolous doubts remain — in the interpretation of the provisions of the Labor Code and of its implementing rules and regulations shall be "resolved in favor of labor."

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[4] 115 SCRA 873 (1982).

[5] 115 SCRA at 879-880.

[6] Article 3, Labor Code.

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The resolution of the issue of priority among the several claims filed in the insolvency proceedings instituted by the Insolvent cannot, however, rest on a reading of Article 110 of the Labor Code alone.

Article 110 of the Labor Code, in determining the reach of its terms, cannot be viewed in isolation. Rather, Article 110 must be read in relation to the provisions of the Civil Code concerning the classification, concurrence and preference of credits, which provisions find particular application in insolvency proceedings where the claims of all creditors, preferred or non-preferred, may be adjudicated in a binding manner.[7] It is thus important to begin by outlining the scheme constituted by the provisions of the Civil Code on this subject.

Those provisions may be seen to classify credits against a particular insolvent into three general categories, namely:

(a) special preferred credits listed in Articles 2241 and 2242,

(b) ordinary preferred credits listed in Article 2244; and

(c) common credits under Article 2245.

Turning first to special preferred credits under Articles 2241 and 2242, it should be noted at once that these credits constitute liens or encumbrances on the specific movable or immovable property to which they relate. Article 2243 makes clear that these credits "shall be considered as *mortgages or pledges of real or personal property, or liens within the purview of legal provisions governing insolvency.*" It should be emphasized in this connection that "duties, taxes and fees due [on specific movable property of the insolvent] to the State or any subdivision thereof" (Article 2241 [1]) and "taxes due upon the [insolvent's] land or building (2242 [1])" stand first in preference in respect of the particular movable or immovable property to which the tax liens have attached. Article 2243 is quite explicit: "*[T]axes mentioned in Number 1, Article 2241 and Number 1, Article 2242 shall first be satisfied.*" The

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[7] *Barretto vs. Villanueva.* 1 SCRA 288 (1961).

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claims listed in Numbers 2 to 13 in Article 2241 and in Numbers 2 to 10 in Articles 2242, all come after taxes in order of precedence; such claims enjoy their privileged character as liens and may be paid only to the extent that taxes have been paid from the proceeds of the specific property involved (or from any other sources) and only in respect of the remaining balance of such proceeds. What is more, these other (non-tax) credits, although constituting liens attaching to particular property, are *not* preferred one over another *inter se*. Provided tax liens shall have been satisfied, non-tax liens or special preferred credits which subsist in respect of specific movable or immovable property are to be treated on an equal basis and to be satisfied concurrently and proportionately.[8] Put succinctly, Articles 2241 and 2242 jointly with Articles 2246 to 2249 establish a two-tier order of preference. The *first tier* includes only taxes, duties and fees due on specific movable or immovable property. All other special preferred credits stand on the same *second tier* to be satisfied, *pari passu* and *pro rata*, out of any residual value of the specific property to which such other credits relate.

Credits which are specially preferred because they constitute liens (tax or non-tax) in turn, take precedence over ordinary preferred credits so far as concerns the property to which the liens have attached. The specially preferred credits must be discharged first out of the proceeds of the property to which they relate, before ordinary preferred creditors may lay claim to any part of such proceeds.[9]

If the value of the specific property involved is greater than the sum total of the tax liens and other specially preferred credits, the residual value will form part of the "free property" of the insolvent — *i.e.*, property not impressed with liens by operation of Articles 2241 and 2242. If, on the other hand, the value of the specific movable or immovable is less than the aggregate of the tax liens and other specially preferred credits, the unsatisfied balance of the tax liens and other such credits are

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[8] Articles 2246-2249, Civil Code.

[9] Articles 2246 and 2248, *Id.*

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to be treated as ordinary credits under Article 2244 and to be paid in the order of preference there set up.[10]

In contrast with Articles 2241 and 2242, Article 2244 creates no liens on determinate property which follow such property. What Article 2244 creates are simply rights in favor of certain creditors to have the cash and other assets of the insolvent applied in a certain sequence or order of priority.[11]

Only in respect of the insolvent's "free property" is an order of priority established by Article 2244. In this sequence, certain taxes and assessments also figure but these do not have the same kind of overriding preference that Articles 2241 No. 1 and 2242 No. 1 create for taxes which constitutes liens on the taxpayer's property. Under Article 2244,

(a) taxes and assessments due to the national government, *excluding* those which result in tax liens under Articles 2241, No. 1 and 2242, No. 1 but *including* the balance thereof not satisfied out of the movable or immovable property to which such liens attached, are *ninth* in priority;

(b) taxes and assessments due any province, *excluding* those impressed as tax liens under Articles 2241, No. 1 and 2242, No. 1, but *including* the balance thereof not satisfied out of the movable or immovable property to which such liens attached, are *tenth* in priority; and

(c) taxes and assessments due any city or municipality, *excluding* those impressed as tax liens under Articles 2241, No. 1 and 2242, No. 2 but *including* the balance thereof not satisfied out of the movable or immovable property to which such liens attached, are *eleventh* in priority.

It is within the framework of the foregoing rules of the Civil Code that the question of the relative priority of the claims of the Bureau of Customs and the Bureau of Internal Revenue, on the one hand, and of the claims of the Unions for separation

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[10] Article 2251, *Id.*

[11] See Note, Classification and Preference of Credits in Insolvency, 26 Phil. L.J. 98 (1951).

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pay of their members, on the other hand, is to be resolved. A related vital issue is what impact Article 110 of the Labor Code has had on those provisions of the Civil Code.

A. Claim of the Bureau of Customs for Unpaid Customs Duties and Taxes —

Under Section 1204 of the Tariff and Customs Code,[12] the liability of an importer

"for duties, taxes and fees and other charges attaching on importation constitute a personal debt due from the importer to the government which can be discharged only by payment in full of all duties, taxes, fees and other charges legally accruing. *It also constitutes a lien upon the articles imported* which may be enforced *while such articles are in the custody or subject to the control of the government.*" (Italics supplied)

Clearly, the claim of the Bureau of Customs for unpaid customs duties and taxes enjoys the status of a specially preferred credit under Article 2241, No. 1, of the Civil Code, only in respect of the articles importation of which by the Insolvent resulted in the assessment of the unpaid taxes and duties, and which are still in the custody or subject to the control of the Bureau of Customs. The goods imported on one occasion are *not* subject to a lien for customs duties and taxes assessed upon *other importations* though also effected by the Insolvent. Customs duties and taxes which remain unsatisfied after levy upon the imported articles on which such duties and taxes are due, would have to be paid out of the Insolvent's "free property" in accordance with the order of preference embodied in Article 2244 of the Civil Code. Such unsatisfied customs duties and taxes would fall within Article 2244, No. 9, of the Civil Code and hence would be ninth in priority.

B. Claims of the Bureau of Internal Revenue for Tobacco Inspection Fees —

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[12] R.A. No. 1937, as amended.

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Under Section 315 of the National Internal Revenue Code ("old Tax Code"),[13] later reenacted in identical terms as Section 301 of the Tax Code of 1977,[14] an unpaid "internal revenue tax," together with related interest, penalties and costs, constitutes a lien in favor of the Government from the time an assessment therefor is made and until paid, "upon all property and rights to property belonging to the taxpayer."

Tobacco inspection fees are specifically mentioned as one of the miscellaneous taxes imposed under the National Internal Revenue Code, specifically Title VIII, Chapter IX of the old Tax Code and Title VIII, Chapter VII of the Tax Code of 1977.[15] Tobacco inspection fees are collected both for purposes of regulation and control and for purposes of revenue generation: half of the said fees accrues to the Tobacco Inspection Fund created by Section 12 of Act No. 2613, as amended by Act No. 3179, while the other half accrues to the Cultural Center of the Philippines. Tobacco inspection fees, in other words, are imposed both as a regulatory measure and as a revenue-raising measure. In *Commissioner of Internal Revenue vs. Guerrero, et al.*,[16] this Court held, through Mr. Chief Justice Concepcion, that the term "tax" is used in Section 315 of the old Tax Code:

"not in the limited sense [of burdens imposed upon persons and/or properties, by way of contributions to the support of the Government, in consideration of *general* benefits derived from its operation], but, in a *broad* sense, encompassing all government revenues collectible by the Commissioner of Internal Revenue under said Code, whether involving taxes, in the strict technical sense thereof, or not. x x x As

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[13] C.A. No. 466, as amended by P.D. No. 69 dated 24 November 1972.

[14] P.D. No. 1158, dated 3 June 1977. Section 301 was not amended but has been renumbered as Section 252 of the Tax Code of 1977 as last amended by P.D. No. 2031 dated 4 February 1986.

[15] Now Title VIII, Chapter VI, Section 239 of the National Internal Revenue Code of 1977, as amended.

[16] 19 SCRA 205 (1967).

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used in Title IX of said Code, the term 'tax' *includes* 'any national internal revenue tax, *fee* or *charge* imposed by the Code.'"[17]

It follows that the claim of the Bureau of Internal Revenue for unpaid tobacco inspection fees constitutes a claim for unpaid internal revenue taxes[18] which gives rise to a tax lien upon *all the properties and assets, movable and immovable, of the Insolvent as taxpayer*. Clearly, under Articles 2241 No. 1, 2242 No. 1, and 2246-2249 of the Civil Code, this tax claim must be given preference over any other claim of any other creditor, in respect of any and all properties of the Insolvent.[19]

C. Claims of the Unions for Separation Pay of Their Members —

Article 110 of the Labor Code does not purport to create a lien in favor of workers or employees for unpaid wages either upon all of the properties or upon any particular property owned by their employer. Claims for unpaid wages do not therefore fall at all within the category of specially preferred claims established under Articles 2241 and 2242 of the Civil Code, *except to the extent that such claims for unpaid wages are already covered by Article 2241, Number 6*: "claims for laborers' wages, on the goods manufactured or the work done";

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[17] 19 SCRA at 211-212; italics in the original. Section 315 is part of Title IX of the old Tax Code.

[18] *La Suerte Cigar and Cigarette Factory vs. Court of Tax Appeals*, 134 SCRA 29 (1985).

[19] The tax lien resulting from an unpaid internal revenue tax, and which attaches to all properties of whatever kind of the taxpayer, may be distinguished from other tax liens created by other statutes. Thus, real property taxes constitute *a lien only upon the particular real property subject to such taxes*, and not upon other properties, real or personal, of the taxpayer: see Section 56 of the Real Property Tax Code, Presidential Decree No. 464 dated 20 May 1974, as amended. In contrast, local taxes and other revenues due a local government constitute a lien in its favor "*not only upon any property which may be subject to the charge but also upon property used in the exercise of the occupation, business or privilege in respect to which the charge is imposed and upon all property rights therein.*" (Section 61, Local Tax Code, Presidential Decree No. 231, dated 28 June 1973, as amended.

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or by Article 2242, Number 3: "claims of laborers and other workers engaged in the construction, reconstruction or repair of buildings, canals and other works, upon said buildings, canals or other works." To the extent that claims for unpaid wages fall outside the scope of Article 2241, Number 6 and 2242, Number 3, they would come within the ambit of the category of ordinary preferred credits under Article 2244.

Applying Article 2241, Number 6 to the instant case, the claims of the Unions for separation pay of their members constitute liens attaching to the processed leaf tobacco, cigars and cigarettes and other products produced or manufactured by the Insolvent, but not to other assets owned by the Insolvent. And even in respect of such tobacco and tobacco products produced by the Insolvent, the claims of the Unions may be given effect only after the Bureau of Internal Revenue's claim for unpaid tobacco inspection fees shall have been satisfied out of the products so manufactured by the Insolvent.

Article 2242, Number 3, also creates a lien or encumbrance upon a building or other real property of the Insolvent in favor of workmen who constructed or repaired such building or other real property. Article 2242, Number 3, does not however appear relevant in the instant case, since the members of the Unions to whom separation pay is due rendered services to the Insolvent not (so far as the record of this case would show) in the construction or repair of buildings or other real property, but rather, in the regular course of the manufacturing operations of the Insolvent. The Unions' claims do not therefore constitute a lien or encumbrance upon any immovable property owned by the Insolvent, but rather, as already indicated, upon the Insolvent's existing inventory (if any) of processed tobacco and tobacco products.

We come to the question of what impact Article 110 of the Labor Code has had upon the complete scheme of classification, concurrence and preference of credits in insolvency set out in the Civil Code. We believe and so hold that Article 110 of the Labor Code did not sweep away the overriding preference accorded under the scheme of the Civil Code to tax claims of

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the government or any subdivision thereof which constitute a lien upon properties of the Insolvent. It is frequently said that taxes are the very lifeblood of government. The effective collection of taxes is a task of highest importance for the sovereign. It is critical indeed for its own survival. It follows that language of a much higher degree of specificity than that exhibited in Article 110 of the Labor Code is necessary to set aside the intent and purpose of the legislator that shines through the precisely crafted provisions of the Civil Code. It cannot be assumed *simpliciter* that the legislative authority, by using in Article 110 the words "first preference" and "any provision of law to the contrary notwithstanding" intended to disrupt the elaborate and symmetrical structure set up in the Civil Code. Neither can it be assumed casually that Article 110 intended to subsume the sovereign itself within the term "other creditors" in stating that "unpaid wages shall be paid in full before *other creditors* may establish any claim to a share in the assets of employer." Insistent considerations of public policy prevent us from giving to "other creditors" a linguistically unlimited scope that would embrace the universe of creditors save only unpaid employees.

We, however, do not believe that Article 110 has had no impact at all upon the provisions of the Civil Code. Bearing in mind the overriding precedence given to taxes, duties and fees by the Civil Code and the fact that the Labor Code does not impress any lien on the property of an employer, the use of the phrase "first preference" in Article 110 indicates that what Article 110 intended to modify is *the order of preference found in Article 2244*, which order relates, as we have seen, to property of the Insolvent that is not burdened with the liens or encumbrances created or recognized by Articles 2241 and 2242. We have noted that Article 2244, Number 2, establishes second priority for claims for wages for services rendered by employees or laborers of the Insolvent "for one year preceding the commencement of the proceedings in insolvency." Article 110 of the Labor Code establishes "first preference" for services rendered "during the period prior to the bankruptcy or liquidation," a period *not limited* to the year immediately prior to the

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bankruptcy or liquidation. Thus, very substantial effect may be given to the provisions of Article 110 without grievously distorting the framework established in the Civil Code by holding, as we so hold, that Article 110 of the Labor Code has modified Article 2244 of the Civil Code in two respects: (a) firstly, by *removing the one year limitation* found in Article 2244, Number 2; and (b) secondly, by moving up claims for unpaid wages of laborers or workers of the Insolvent from second priority to *first priority* in the order of preference established by Article 2244.

Accordingly, and by way of recapitulating the application of Civil Code and Labor Code provisions to the facts herein, the trial court should inventory the properties of the Insolvent so as to determine specifically: (a) whether the assets of the Insolvent before the trial court includes stocks of processed or manufactured tobacco products; and (b) whether the Bureau of Customs still has in its custody or control articles imported by the Insolvent and subject to the lien of the government for unpaid customs duties and taxes.

In respect of (a), if the Insolvent has inventories of processed or manufactured tobacco products, such inventories must be subjected firstly to the claim of the Bureau of Internal Revenue for unpaid tobacco inspection fees. The remaining value of such inventories after satisfaction of such fees (or should such inspection fees be satisfied out of other properties of the Insolvent) will be subject to a lien in favor of the Unions by virtue of Article 2241, Number 6. In case, upon the other hand, the Insolvent no longer has any inventory of processed or manufactured product, then the claim of the Unions for separation pay would have to be satisfied out of the "free property" of the Insolvent under Article 2244 of the Civil Code, as modified by Article 110 of the Labor Code.

Turning to (b), should the Bureau of Customs no longer have any importations by the Insolvent still within customs custody or control, or should the importations still held by the Bureau of Customs be or have become insufficient in value for the purpose, customs duties and taxes remaining unpaid would have only ninth priority by virtue of Article 2244, Number 9. In respect

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therefore of the Insolvent's "free property," the claims of the Unions will enjoy first priority under Article 2244 as modified and will be paid ahead of the claims of the Bureau of Customs for any customs duties and taxes still remaining unsatisfied.

It is understood that the claims of the Unions referred to above do *not* include the 10% claim for attorney's fees. Attorney's fees incurred by the Unions do not stand on the same footing as the Unions' claims for separation pay of their members.

WHEREFORE, the petition for review is granted and the Orders dated 17 November 1980 and 19 January 1981 of the trial court are modified accordingly. This case is hereby remanded to the trial court for further proceedings in insolvency compatible with the rulings set forth above. No pronouncement as to costs.

SO ORDERED.

Teehankee, C.J., Yap, Fernan, Narvasa, Melencio-Herrera, Gutierrez, Jr., Paras, Gancayco, Padilla, Bidin, Sarmiento, and *Cortes, JJ.*, concur.

Cruz, J., see dissent.

CRUZ, *J.*, *dissenting*:

I regret I cannot give my concurrence to the majority opinion because it reads into the law an exception that is not there. In so doing, it arrogates for the Court a power rightfully belonging to the legislature.

It seems to me that the erudite *ponencia* "doth protest too much."

The language of the provision in question is clear and categorical. Article 110 of P.D. No. 442 states quite plainly:

"Art. 110. *Worker preference in case of bankruptcy.* — In the event of bankruptcy or liquidation of an employer's business, his workers shall enjoy first preference as regards wages due them for services rendered during the period prior to the bankruptcy or liquidation, *any provision of law to the contrary notwithstanding.*

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Unpaid wages shall be paid in full before other creditors may establish any claim to a share in the assets of the employer." (Italics mine).

I take the phrase "any provision of law to the contrary notwithstanding" to mean *exactly* what it says. I submit that if the law had intended an exception, it would have — and could easily have — provided for it.

The Labor Code was promulgated by President Marcos who, we may assume, was aware of the usual preference of tax claims. So informed, he would have reserved that primacy in the above article if that was what he really wanted.

That fact that he did not is to me a certain indication of his true intention, *viz.*, that under the said article the claims of laborers for unpaid wages shall have *priority above all else*.

It is axiomatic that the words of a statute are to be given their normal and ordinary connotation. We cannot read into the law meanings that are not intended and — worse — that are precisely *excluded*, as in this case.

Moreover, the Labor Code was promulgated later than the Civil Code, the Insolvency Law and the Internal Revenue Code where the tax claims are preferred. The Labor Code prevails over these earlier statutes as it represents the *later* expression of the legislative will.

While I recognize the need for the usual preference of taxes over other claims, I suggest that that general rule must be read in the light of the basic policy embodied in the Labor Code for the protection of the working class.

The power of taxation, while indispensable, is not absolute and may be subordinated to the demands of social justice. I for one am not alarmed by the dire prognostication that this would prejudice the very existence of the state. The amount involved is relatively insubstantial and is not significant enough as to drain the coffers of the government.

By contrast, that same amount could, without exaggeration, spell the difference between subsistence and starvation for the laborer and affect the very survival of the faith we hope he still retains in the concern of the state for his welfare.

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Social justice is not a mere catchphrase to be mouthed with sham fervor in Labor Day celebrations for the delectation and seduction of the working class. It is a mandate we should pursue with energy and sincerity if we are to truly insure the dignity and well-being of the laborer.

By the decision reached today, I feel the Court has reneged on its hitherto consistent commitment for the protection of labor under the policy of social justice. It is for me a cause for deep disappointment.

EN BANC

[G.R. No. 65831. May 20, 1987]

CELSO DEFALOBOS, *petitioner*, *vs.* **HON. GREGORIO U. AQUILIZAN, Regional Trial Judge of the Regional Trial Court of North Cotabato, 12th Judicial Region Branch XVI, Kabacan, North Cotabato, P/CAPT. LUIS M. GONZAGA, SR., *etc.*, *respondents*.**

SYLLABUS

1. **REMEDIAL LAW; PROVISIONAL REMEDIES; TEMPORARY RESTRAINING ORDER; CANNOT BE EXTENDED AFTER THE EXPIRATION OF THE 20-DAY PERIOD.** — The extension by the respondent judge of the restraining order issued on March 23, 1983 was already void for being violative of Batas Pambansa Blg. 224. It is well-settled that the life span of a temporary restraining order automatically expires on the 20th day by the sheer force of law and no judicial declaration to that effect is necessary.