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FIRST DIVISION

[G.R. No. 122605. April 30, 2001]

SEA-LAND SERVICE, INC., *petitioner, vs.* **COURT OF APPEALS and COMMISSIONER OF INTERNAL REVENUE,** *respondents.*

SYNOPSIS

Petitioner, an American International Shipping Company licensed by the Securities and Exchange Commission to do business in the Philippines, entered into a contract with the United States Government to transport military household goods and effects of U. S. military personnel assigned to the Subic Naval Base.

For the income earned for the taxable year 1984, petitioner filed and paid the income tax on its gross Phillipine billings in the amount of ₱870,093.12. Realizing that it paid said tax by mistake, petitioner, on 15 April 1987, filed with the Bureau of Internal Revenue a written claim for its refund. Before the respondent Commissioner of Internal Revenue can act on said claim for refund, petitioner filed before the Court of Tax Appeals a petition for review to judicially pursue its claim for refund and to stop the running of the two-year prescriptive period. The Court of Tax Appeals, however, denied petitioner's claim for refund. On appeal, the Court of Appeals affirmed *in toto* the decision of the Court of Tax Appeals.

Hence, this appeal via *certiorari.*

The issue raised in this appeal was whether or not the income that petitioner derived from services in transporting the household goods and effects of U.S. military personnel falls within the tax exemption provided in Article XII, paragraph 4 of the RP-US Military Bases Agreement.

The Supreme Court denied the petition for lack of merit.

Under Article XII (4) of the RP–US Military Bases Agreement, the Philippine Government agreed to exempt from payment of Philippine income tax nationals of the United States,

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or corporations organized under the laws of the United States, residents in the United States in respect of any profit derived under a contract made in the United States with the Government of the United States in connection with the construction, maintenance, operation and defense of the bases. In this case, the Court held that the transport or shipment of household goods and effects of U.S. military personnel is not included in the term "construction, maintenance, operation and defense of the bases." Neither could the performance of this service to the U.S. government be interpreted as directly related to the defense and security of the Philippine territories.

The avowed purpose of tax exemption "is some public benefit or interest, which the lawmaking body considers sufficient to offset the monetary loss entailed in the grant of the exemption." In the present case, the Court found that the hauling or transport of household goods and personal effects of U.S. military personnel would not directly contribute to the defense and security of the Philippines.

SYLLABUS

1. **TAXATION; TAX EXEMPTION; LAWS ON GRANT THEREOF ARE CONSTRUED *STRICTISSIMI JURIS* AGAINST TAXPAYER.** — "Laws granting exemption from tax are construed *strictissimi juris* against the taxpayer and liberally in favor of the taxing power. Taxation is the rule and exemption is the exception." The law "does not look with favor on tax exemptions and that he who would seek to be thus privileged must justify it by words *too* plain to be mistaken and *too* categorical to be misinterpreted."

2. **ID.; ID.; TRANSPORT OF HOUSEHOLD GOODS AND EFFECTS OF MILITARY PERSONNEL NOT EXEMPT FROM TAXATION.** — Under Article XII (4) of the RP–US Military Bases Agreement, the Philippine Government agreed to exempt from payment of Philippine income tax nationals of the United States, or corporations organized under the laws of the United States, residents in the United States in respect of any profit derived under a contract made in the United States with the Government of the United States in connection with the *construction, maintenance, operation and defense of the*

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bases. It is obvious that the transport or shipment of household goods and effects of U.S. military personnel is not included in the term "construction, maintenance, operation and defense of the bases." Neither could the performance of this service to the U.S. government be interpreted as directly related to the defense and security of the Philippine territories. "When the law speaks in clear and categorical language, there is no reason for interpretation or construction, but only for application." Any interpretation that would give it an expansive construction to encompass petitioner's exemption from taxation would be unwarranted.

3. **ID.; ID.; PURPOSE.** — The avowed purpose of tax exemption "is some public benefit or interest, which the lawmaking body considers sufficient to offset the monetary loss entailed in the grant of the exemption." The hauling or transport of household goods and personal effects of U. S. military personnel would not directly contribute to the defense and security of the Philippines.

4. **ID.; COURT OF TAX APPEALS; CONCLUSION THEREOF WILL NOT BE SET ASIDE ABSENT IMPROVIDENT EXERCISE OF AUTHORITY.** — The Supreme "Court will not set aside lightly the conclusion reached by the Court of Tax Appeals which, by the very nature of its function, is dedicated exclusively to the consideration of tax problems and has necessarily developed an expertise on the subject, unless there has been an abuse or improvident exercise of authority."

APPEARANCES OF COUNSEL

C.V. Jaurigue & A.J.G. D. Ruiz for petitioner.
The Solicitor General for respondents.

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DECISION

PARDO, *J.*:

The Case

Appeal *via certiorari* from the decision of the Court of Appeals affirming *in toto* that of the Court of Tax Appeals which denied petitioner's claim for tax credit or refund of income tax paid on its gross Philippine billings for taxable year 1984, in the amount of ₱870,093.12.[1]

The Facts

The facts, as found by the Court of Appeals, are as follows:

"Sea-Land Service Incorporated (SEA-LAND), an American international shipping company licensed by the Securities and Exchange Commission to do business in the Philippines entered into a contract with the United States Government to transport military household goods and effects of U.S. military personnel assigned to the Subic Naval Base.

"From the aforesaid contract, SEA-LAND derived an income for the taxable year 1984 amounting to ₱58,006,207.54. During the taxable year in question, SEA-LAND filed with the Bureau of Internal Revenue (BIR) the corresponding corporate Income Tax Return (ITR) and paid the income tax due thereon of 1.5% as required in Section 25 (a) (2) of the National Internal Revenue Code (NIRC) in relation to Article 9 of the RP-US Tax Treaty, amounting to ₱870,093.12.

"Claiming that it paid the aforementioned income tax by mistake, a written claim for refund was filed with the BIR on 15 April 1987. However, before the said claim for refund could be acted upon by public respondent Commissioner of Internal Revenue, petitioner-appellant filed a petition for review with the CTA docketed as CTA Case No. 4149, to judicially pursue its claim for refund and to stop the running of the two-year prescriptive period under the then Section 243 of the NIRC.

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[1] In CA-G.R. SP No. 36796, promulgated on October 26, 1995, *Rollo*, pp. 37-41. Jacinto, *J.*, *ponente*, Montoya and Agcaoili, *JJ.*, concurring.

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"On 21 February 1995, CTA rendered its decision denying SEA-LAND's claim for refund of the income tax it paid in 1984."[2]

On March 30, 1995, petitioner appealed the decision of the Court of Tax Appeals to the Court of Appeals.[3]

After due proceedings, on October 26, 1995, the Court of Appeals promulgated its decision dismissing the appeal and affirming *in toto* the decision of the Court of Tax Appeals.[4]

Hence, this petition.[5]

The Issue

The issue raised is whether or not the income that petitioner derived from services in transporting the household goods and effects of U. S. military personnel falls within the tax exemption provided in Article XII, paragraph 4 of the RP-US Military Bases Agreement.

The Court's Ruling

We deny the petition.

The RP-US Military Bases Agreement provides:

"No national of the United States, or corporation organized under the laws of the United States, resident in the United States, shall be liable to pay income tax in the Philippines in respect of any profits derived under a contract made in the United States with the government of the United States in connection with the construction, maintenance, operation and defense of the bases, or any tax in the nature of a license in respect of any service or work for the United States in

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[2] *Ibid.*, at pp. 37-38.

[3] Docketed as CA-G.R. SP No. 36796.

[4] *Supra*, Note 1.

[5] Filed on December 22, 1995. *Rollo*, pp. 14-36-A. On March 11, 1996, the Court required respondents to comment on the petition within ten (10) days from notice. *Rollo*, p. 44. On September 23, 1996, respondent Commissioner of Internal Revenue filed his comment. *Rollo*, pp. 61-67.

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connection with the construction, maintenance, operation and defense of the bases."[6]

Petitioner Sea-Land Service, Inc. a US shipping company licensed to do business in the Philippines earned income during taxable year 1984 amounting to ₱58,006,207.54, and paid income tax thereon of 1.5% amounting to ₱870,093.12.

The question is whether petitioner is exempted from the payment of income tax on its revenue earned from the transport or shipment of household goods and effects of US personnel assigned at Subic Naval Base.

"Laws granting exemption from tax are construed *strictissimi juris* against the taxpayer and liberally in favor of the taxing power. Taxation is the rule and exemption is the exception."[7] The law "does not look with favor on tax exemptions and that he who would seek to be thus privileged must justify it by words *too* plain to be mistaken and *too* categorical to be misinterpreted."[8]

Under Article XII (4) of the RP–US Military Bases Agreement, the Philippine Government agreed to exempt from payment of Philippine income tax nationals of the United States, or corporations organized under the laws of the United States, residents in the United States in respect of any profit derived under a contract made in the United States with the Government of the United States in connection with the *construction, maintenance, operation and defense of the bases.*

It is obvious that the transport or shipment of household goods and effects of U. S. military personnel is not included in

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[6] Agreement between the Republic of the Philippines and the United States of America concerning Military Bases, Article XII (4).

[7] *Cyanamid Philippines, Inc. v. Court of Appeals*, 322 SCRA 639, 650 [2000], citing *Commissioner of Internal Revenue v. Mitsubishi Metal Corporation*, 181 SCRA 214, 223-224 [1990].

[8] *Commissioner of Internal Revenue v. P. J. Kiener Co., Ltd.*, 65 SCRA 142, 153 [1975], citing *Reagan v. Commissioner of Internal Revenue*, 141 Phil. 621, 633 [1969].

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the term "construction, maintenance, operation and defense of the bases." Neither could the performance of this service to the U.S. government be interpreted as directly related to the defense and security of the Philippine territories. "When the law speaks in clear and categorical language, there is no reason for interpretation or construction, but only for application."[9] Any interpretation that would give it an expansive construction to encompass petitioner's exemption from taxation would be unwarranted.

The avowed purpose of tax exemption "is some public benefit or interest, which the lawmaking body considers sufficient to offset the monetary loss entailed in the grant of the exemption."[10] The hauling or transport of household goods and personal effects of U.S. military personnel would not directly contribute to the defense and security of the Philippines.

We see no reason to reverse the ruling of the Court of Appeals, which affirmed the decision of the Court of Tax Appeals. The Supreme "Court will not set aside lightly the conclusion reached by the Court of Tax Appeals which, by the very nature of its function, is dedicated exclusively to the consideration of tax problems and has necessarily developed an expertise on the subject, unless there has been an abuse or improvident exercise of authority."[11]

Hence, the Court of Appeals did not err or gravely abuse its discretion in dismissing the petition for review. We can not grant the petition.

The Judgment

WHEREFORE, the Court *DENIES* the petition for lack of merit.

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[9] *Republic v. Court of Appeals*, 359 Phil. 530, 559 [1998], citing Land *Bank of the Philippines v. Court of Appeals*, 327 Phil. 1047, 1052 [1996].

[10] *Commissioner of Internal Revenue v. Botelho Shipping Corp.*, 126 Phil. 846, 851 [1967].

[11] *Cyanamid Philippines, Inc. v. Court of Appeals*, *supra*, Note 6, at p. 654, citing *Commissioner of Internal Revenue v. Court of Appeals*, 338 Phil., 322. 336-337 [1997].

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No costs.

SO ORDERED.

Davide, Jr., C.J. (Chairman), Puno, Kapunan, and *Ynares-Santiago, JJ.,* concur.

FIRST DIVISION

[G.R. No. 126145. April 30, 2001]

PEOPLE OF THE PHILIPPINES, *plaintiff-appellee, vs.* **HERMES B. SARMIENTO, RUDY SARMIENTO, and LOLITA B. SARMIENTO,** *accused.* **HERMES B. SARMIENTO and RUDY SARMIENTO,** *accused-appellants.*

SYNOPSIS

Appellants Hermes and Rudy and accused Lolita were charged with murder for the death of Nilo Tablizo. The victim sustained 12 wounds including 2 fatal wounds on the chest. All pleaded not guilty. Rudy, who owned the killing, interposed self-defense and in defense of his father claiming that the victim boxed his father and that he ran to his succor by stabbing the victim. Three eyewitnesses testified for the prosecution. Rodel, the victim's 17-year old brother, testified that Hermes, upon seeing his brother beside the road, immediately approached him from behind and stabbed him on the chest. Rudy followed suit in stabbing the victim and both continued stabbing him even when his brother was already fallen. His testimony was corroborated by Eustaquio and John Aldave. Judgment of conviction was rendered against appellants, while accused Lolita was acquitted. Hence, this recourse of appellants.