

FIRST DIVISION

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

**SEA-LAND SERVICE, INC., PETITIONER, VS. COURT OF APPEALS
AND COMMISSIONER OF INTERNAL REVENUE, RESPONDENTS.**

D E C I S I O N

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 P870,093.12.^[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 P58,006,207.54. 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 P870,093.12.

"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.

"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 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 P58,006,207.54, and paid income tax thereon of 1.5% amounting to P870,093.12.

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 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.

No costs.

SO ORDERED.

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

[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.

[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.

[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].

[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].



Source: Supreme Court E-Library

This page was dynamically generated by the E-Library Content Management System (E-LibCMS)