REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

CEBU ROSVER PAWNSHOP, INC.,
Petitioner,

- versus -

C.T.A. CASE NO. 6483

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

Promulgated:
APR 0 1 2003

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DECISION

This Petition for Review is a judicial appeal from the decision of the respondent holding petitioner liable for the amount of P1,149,033.89 and P791,097.94 allegedly representing deficiency Value-Added Tax (VAT) for the taxable years 1998 and 1999, respectively.

The antecedent facts of the case are jointly stipulated by the parties and approved by the Court in a Resolution dated October 3, 2002. They are as follows:

1. Petitioner Cebu Rosver Pawnshop, Inc. is a corporation organized and existing under Philippines laws with main office address at 4th Door Gorres-Lacson Bldg., Colon Street, Cebu City. Petitioner corporation operates Ros-Ver Pawnshops;

2. The Respondent, Commissioner of Internal Revenue (hereinafter referred to as "respondent CIR") is sued in his

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official capacity who, through the Regional Director of the Bureau of Internal Revenue, Revenue Region No. 13, Central Visayas, Cebu City, assessed and demanded payment for alleged deficiency Value-Added Tax (VAT) liability from herein petitioner for the years 1998-1999;

3. Petitioner Cebu Rosver Pawnshop, Inc. is a taxpayer duly registered with the Bureau of Internal Revenue with Tax Identification No. 000-552-114-000. Its principal business address is located at Door No. 4, Gorres-Lacson Building, Colon Street, Cebu City. Petitioner operates Res-Ver Pawnshop which in 1998 and 1999 has branches at Juan Luna, Colon and Lincoln Streets, Cebu City and at Tabunok, Talisay, Cebu;

4. Per Letter of Authority (LOA) No. 1998 00020658 dated 19 October 1999, respondent CIR through his authorized representatives of the Bureau of Internal Revenue Region No. 13, Revenue District Office No. 081 made an examination of the books of account and other records of petitioner for "all internal revenue taxes except Income" for the calendar year 1998;

4.a. Per Letter of Authority (LOA) No. 1998 00022144 dated 18 August 2000, respondent CIR through his authorized representatives of the Bureau of Internal Revenue Region No. 13, District Office No. 081 made an examination of the books of account and other records of petitioner for "all internal revenue taxes" for the calendar year 1999;

5. Petitioner religiously filed its quarterly income tax returns and paid its income taxes for the year 1998;

5.a. Likewise, petitioner religiously filed its quarterly income tax returns and paid its income taxes for the year 1999;

6. On 05 September 2000, however, respondent CIR through the Revenue District Officer of Revenue District No. 81 served to petitioner a Post Reporting Notice dated 28 August 2000 informing petitioner of an alleged deficiency value-added tax

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in the total amount of P1,145,308.04, inclusive of penalties and interest, for calendar year 1998;

6.a. Likewise, on 18 October 2001, respondent CIR through the Revenue District Officer of Revenue District No. 81 served to petitioner a Post Reporting Notice dated 28 September 2001 informing petitioner of an alleged deficiency income tax in the amount of P22,469.98 and deficiency value-added tax in the total amount of P776,875.88, inclusive of penalties and interest, for calendar year 1999;

6.b. Per Letter dated 19 October 2001 addressed to the Revenue District Officer of Revenue District No. 81 of Revenue Region No.13, petitioner questioned the assessed VAT deficiency tax for the year 1999;

7. On February 12, 2002, petitioner was served with a Preliminary Assessment Notice dated 30 January 2002 which assessed petitioner alleged deficiency Value-Added Tax (VAT) in the total amount of PESOS: ONE MILLION ONE HUNDRED FORTY NINE THOUSAND THIRTY THREE & 89/100 (P1,149,033.89) for the year 1998;

7.a. On 15 February 2002 petitioner filed its letter-protest to the aforementioned 30 January 2002 Preliminary Assessment Notice contending that pawnshops are not subject to the 10% VAT per decision of the Honorable Court of Tax Appeals in the case of Cebu Rosver Pawnshop, Inc. vs. Commissioner of Internal Revenue (CTA Case No. 6145) dated 16 August 2001 which ruled that Revenue Memorandum Order No. 15-91 and Revenue Memorandum Circular No. 43-91 are null and void citing the Decision of the Court of Appeals in the case of Commissioner of Internal Revenue vs. Honorable Andres Reyes, et al (CA-G.R. SP No. 28824, December 23, 1993);

8. Likewise, on December 6, 2001, petitioner was served with a Preliminary Assessment Notice dated 3 December 2001 which assessed petitioner alleged deficiency Value-Added Tax (VAT) in the total amount of PESOS: SEVEN

HUNDRED EIGHTY THREE THOUSAND NINE HUNDRED EIGHTY SIX & 91/100 (P783,986.91) inclusive of interest, and surcharges for the year 1999;

8.a. On 13 December 2001 petitioner filed its letter-protest to the aforementioned 3 December 2001 Preliminary Assessment Notice contending that pawnshops are not subject to the 10% VAT per decision of the Honorable Court of Tax Appeals in the case of Cebu Rosver Pawnshop, Inc. vs. Commissioner of Internal Revenue (CTA Case No. 6145) dated 16 August 2001 which ruled that Revenue Memorandum Order No. 15-91 and Revenue Memorandum Circular No. 43-91 are null and void citing the Decision of the Court of Appeals in the case of Commissioner of Internal Revenue vs. Honorable Andres Reyes, et al (CA-G.R. SP No. 28824, December 23, 1993);

9. On February 20, 2002, petitioner was served with two (2) separate formal letters of demand both dated February 15, 2002 for alleged deficiency value added tax for the years 1998 and 1999 with attached assessment notices of even date. Petitioner was assessed alleged deficiency value added tax in the amount of P1,149,033.89 for the year 1998 and the amount of P791,097.94 for the year 1999, inclusive of interest and surcharges;

10. In a letter dated 26 February 2002 filed with the Office of the Revenue District Office No. 81, Revenue Regional Office No. 13, Cebu City, ROSVER again raised to the respondent the decision of the Honorable Court of Tax Appeals in the petition filed by ROSVER (CTA Case No. 6154) questioning the Value-Added Tax assessment for the year 1996 wherein the Honorable Court has ruled that Revenue Memorandum Circular No. 43-91 and Revenue Memorandum Order No. 15-91 NULL and VOID and further canceling and setting aside 1996 VAT assessment notice against ROSVER;

11. On April 11, 2002 petitioner received a copy of a letter from the Regional Director of Revenue Region No. 13 denying the prayer of herein petitioner to nullify and/or recall the formal letters of demand against petitioner for the alleged deficiency VAT tax for the years 1998 and 1999;

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12. The documents attached to the petition as Annexes "A" to "O" are faithful reproduction of the original and authentic records;

13. In the 16 August 2001 Decision of the Honorable Court of Tax Appeals in the case of CEBU ROSVER PAWNSHOP, INC. versus COMMISSIONER OF INTERNAL REVENUE (CTA Case No. 6154), the Honorable Court declared Revenue Memorandum Circular No. 43-91 and Revenue Memorandum Order No. 15-91 NULL and VOID and further canceling and setting aside the 1996 VAT assessment notice against petitioner.

Considering that there is no factual issue involved, the case was submitted for decision on the basis of the pleadings.

The sole issue for this court's determination is whether or not, as pawnshop operator, petitioner is liable to pay 10% VAT on gross receipts under Section 108(A) of the National Internal Revenue Code, as amended.

Petitioner maintains that it is not liable to pay 10% VAT since pawnshops are not among those liable to pay 10% value-added tax under Section 102(a) {now Section 108(A)} of the Tax Code. Subjecting pawnshops to value-added tax is clearly contrary to the established rules on statutory construction in general and on strict application of tax laws against the taxing authority.

According to petitioner, pawnshops are not lending investors who are subject to 10% value-added tax under the provisions of Section 102 (a) of the Tax Code, as amended. In support of its claim, petitioner cited the ruling in the case of *Commissioner of Internal Revenue vs. Hon. Andres Reyes, et al. (CA-G.R.SP No. 28824, December 23, 1993)*, where the Court of Appeals stated thus:

> "**FOURTH**. Contrary to the petitioner's posture, a pawnshop is not a lending investor, and therefore it is not subject to percentage tax. Pawnshops and their operation are strictly regulated by the Central Bank, pursuant to P.D. 114. The charges and interest rates imposed by pawnshops are prescribed by the Central Bank to protect client's title. On the other hand, there is no law governing lending investors and the charges and interest they impose are flexible, not pegged by the Central Bank. In this case, petitioner seeks to justify the Revenue Circulars in question on the ground that the business of lending money by the pawnshop is akin to lending investors who are subject to percentage tax, hence the pawnshop should also be subjected to percentage tax. This is Taxation by implication which is legally proscribed *(Froelich and Kuttner vs. Collector of Customs, 18 Phil. 461)*.

On the contrary, respondent maintains that pawnshop operators, being engaged in the sale of services, are subject to value-added tax pursuant to Section 108(A) of the Tax Code. According to respondent, the phrase "sale or exchange of services" means the performance of all kinds of services in the Philippines for others for a fee, remuneration or consideration. It includes the services enumerated therein and similar other services regardless of whether or not the performance thereof calls for the exercise or use of physical or mental faculties.

Moreover, in interpreting Section 108(A) of the Tax Code, respondent submits that the enumeration of persons performing services for others for a fee is not exclusive, but is intended to give examples of businesses subject to value-added tax on the sale or exchange of services. Respondent alleged that the legislative intent is not to limit the application of the law to those enumerated because the law speaks of "all kinds of services" and it would be a contradiction should the interpretation of that phrase be limited to those enumerated.

In addition, respondent made use of the definition of a pawnshop as stated in Section 3 of Presidential Decree No. 114, which refers to 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 pawnbrokerage. The act of lending money at interest, according to respondent, constitutes the performance of service for a fee, remuneration or consideration. Hence, pawnshops are engaged in the sale of services, therefore, subject to value-added tax.

Finally, respondent invoked Section 109 of the Tax Code, which enumerates the transactions that are exempt from the value-added tax. Respondent claimed that the enumeration is exclusive. Consequently, unless the sale or exchange is expressly mentioned in Section 109 as exempt from VAT, then such sale or exchange of services is subject to VAT under Section 108 (A) of the Tax Code.

After considering the arguments of the parties and the applicable laws, the court rules that petitioner, as pawnshop operator, is liable to pay value-added tax.

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Section 102(A) [now 108(A)] of the Tax Code provides for the imposition of value-added tax on the sale of services and use and lease of properties, pertinent portions of which are hereunder reproduced for easy reference:

> **Section 108**. *Value-Added Tax on Sale of Services and Use and 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 and lease of properties.
>
> The phrase 'sale or exchange of services' means the performance of <u>all kinds of services</u> in the Philippines for a fee, remuneration or consideration, <u>including</u> those performed or rendered by construction and service contractors; stock, real estate, commercial, customs and immigration brokers; lessors of property, whether personal or real; warehousing services; lessors or distributors of cinematographic films; persons engaged in milling, processing, manufacturing or repacking goods for others; proprietors, operators or keepers of hotels, motels, rest- houses, pension houses, inns, resorts; proprietors or operators of restaurants, refreshment parlors, cafes and other eating places, including clubs and caterers; dealers in securities; <u>lending investors</u>; transportation contractors on their transport of goods or cargoes for hire and other domestic common carriers by land, air and water relative to their transport of goods or cargoes; services of franchise grantees of telephone and telegraph, radio and television broadcasting and all other franchise grantees except those under Section 119 of this Code; services of banks, non-bank financial intermediaries and finance companies; and non-life insurance companies (except their crop insurances), including surety, fidelity, indemnity and

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> 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 x x x (Underscoring supplied).

From the plain language of the law, the enumeration of persons performing services is not exclusive. The enumeration of persons performing services for a fee, remuneration or consideration, such as, construction and service contractors, stock, real estate, commercial, customs and immigration brokers, etc., is merely to give examples of businesses performing services for a fee, remuneration or consideration that are subject to VAT. The enumeration is not exclusive, which means that other persons performing services for a fee, remuneration or consideration, who are not expressly mentioned in the enumeration, are also subject to VAT. As held in the case of ***Gomez vs. Ventura, 54 Phil. 726***:

> "xxx The maxim *expressio unius est exclusio alterius* should be applied only as a means of discovering legislative intent and should not be permitted to defeat the plain indicated purpose of the legislature. It does not apply when words are mentioned by way of example, or to remove doubts. (See Cyc., 1122) x x x." (Underscoring ours.)

Section 108(A) [formerly Section 102(a)] does not limit its application to those enumerated therein because the law speaks of "all kinds of services". To limit its application to the enumeration would contradict the very clear meaning of the phrase "all kinds of services".

In addition, the phrase "including" should be construed merely as an enlargement and not of limitation.

> "The intention of an act will prevail over the literal sense of its terms. Thus, limited words in one part of an act may be expanded by general words in another part, if the general words more nearly express the legislative intent.
>
> A term whose statutory definition declares what it 'includes' is more susceptible to extension of meaning by construction than where the definition declares what a term 'means'. Thus, it has been said that 'the word 'includes' is usually a term of enlargement, and not of limitation... It, therefore, conveys the conclusion that there are other items includable, though not specifically enumerated..." Sutherland, *Statutory Construction*, 4th Ed., Vol. 2A, p. 82, Sec. 47.07 citing United States Argosy Ltd. v. Hennigan, 404 F2d 14 (CA 5th, 1968); See United States v. Gertz, 249 F2d 662 (CA 9th, 1957); Federal Land Bank of St. Paul v. Bismarck Lumber Co., 314 US 95, 86 L Ed 65, 62 S Ct1 (1941). (Emphasis supplied.)

Hence, the terms "includes" and "including" do not exclude items otherwise within the scope of the defined term.

> The terms "includes" and "including" when used in the Code are not deemed to exclude items otherwise within the meaning of the term defined. Thus, where Section 1(e) applies to the taxable income of estates "including" and thereafter lists four types of income from trusts or estates that are taxable, other types of estates may also be subject to taxation under Section 1(e). To hold differently would, in effect, substitute the term "limited to" for "including". Mertens, *Law of Federal Income Taxation*, 1995 Ed., Section 3.37, Chap. 3, pp. 55-56, citing *In re Joplin, Jr.*, 882 F2d 1507 (CA10 1989), applying IRC & 7701(c).

In the cases of ***Genato Commercial Corporation vs. The Court of Tax Appeals, et al., 104 Phil. 615* and *Philippine-American Drug Co. vs. Collector of Internal Revenue and Court of Tax Appeals, 106 Phil. 161***, general words were harmonized with specific words found in the statute in question so as not to limit the coverage of the taxing statute. In determining that the bank charge in question formed part of the charges enumerated in Art. 183-(B) of the then Tax Code, the Supreme Court held:

> As may be seen, an importer is required to pay in advance the necessary percentage tax on the articles imported "based on the import invoice value thereof, certified to as correct by the Philippine Consul at the port of origin if there is any, including freight, postage, insurance, commission, customs duty, and all similar charges." In other words, the law requires that it be included in the assessment not only the import invoice value of the merchandise, which includes freight, postage, insurance, commission and customs duty, but all other similar charges which would necessarily increase the landed cost of the merchandise imported, which, in our opinion, should include the difference of Php 0.15 paid by petitioner to a local bank in the purchase of foreign exchange to carry out the importation. Indeed, the intention of Congress in enacting the above-quoted provision is to include in the assessment all charges, whether specified or otherwise, which an importer has to pay to complete his importation.
>
> Invoking the rule of *ejusdem generis* which provides that "where, in a statute, general words follow a designation of a particular subjects or classes of persons, the meaning of the general words will ordinarily be presumed to be restricted by the particular designation, and to include only things or persons of the same kind, class or nature as those specifically enumerated," petitioner contends that the difference of Php 0.15 which it paid to a local bank in the purchase of foreign exchange to cover the importations in question cannot be included in the assessment for the purpose of determining the advance sales tax because they are not similar to the charges specifically enumerated in the law.

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> With this we disagree, for it cannot be denied that the intention of the law is to include all charges, that may be paid by the importer to bring the importation into the country. In other words, all items of expense that may be incurred by the importer in bringing the importation into the country and which would necessarily increase the landed cost must be deemed included in the phrase "all similar charges" mentioned in the law. The doctrine of *ejusdem generis* is but a rule of construction adopted as an aid to ascertain and give effect to the legislative intent when that intent is uncertain or ambiguous, but the same should not be given such wide application that would operate to defeat the purpose of the law. In other words, the doctrine is not of universal application. Its application must yield to the manifest intent of Congress (*State vs. Prather*, 21 L.R.A. 23, 25).

In the case at bar, the law is not only definite in its intent but also in its wording that "all kinds of services" should be subject to VAT. To emphasize, this court believes that the time-honored rule on statutory construction which states that the maxim "*expressio unius est exclusio alterius*" does not apply when the words are mentioned by way of example or to remove doubts is applicable in the case at bar. Thus, pawnshops, like the other businesses enumerated in the law which are engaged in the sale of services, are subject to VAT.

Furthermore, Section 105 of the Tax Code provides:

> "Any person who, in the course of trade or business, sells, barters, exchanges, leases goods or properties, renders services, and any person who imports goods shall be subject to the value-added tax (VAT) imposed in Sections 106 to 108 of this Code."

Inasmuch as pawnshops are engaged in the sale of services for a fee, remuneration or consideration, they are subject to VAT under Section 108(A) of the Tax Code, as amended. This conclusion finds support in recent decisions laid down by the Court of Appeals (***Commissioner of Internal Revenue vs. Agencia Exquisite of Bohol, Inc.***, *C.A. G.R. SP No.59282, March 23, 2001 and* ***Commissioner of Internal Revenue vs. Exquisite Pawnshop and Jewelry, Inc.***, *C.A. G.R. SP No. 59401, September 30, 2002),* the latest of which is the case of ***Commissioner of Internal Revenue vs. Agencia Exquisite of Bohol, Inc.***, *C.A. G.R. SP No. 68180, promulgated on February 10, 2003,* where the Court of Appeals categorically ruled that pawnshops are subject to the 10% VAT imposed under Section 108 (A) of R.A. 8424, thus:

> "A value-added tax is a tax on transactions, imposed at every stage of the distribution process on the sale, barter, exchange of goods or property, and on the performance of services, even in the absence of profit attributable thereto.
>
> In the case at bar, it has been the contention of respondent Agencia Exquisite of Bohol, Inc. that the business of a pawnshop is not similar to that of a lending investor. A pawnshop, according to respondent is principally engaged in the business of delivering money to another, secured by personal property, upon the condition that the latter shall pay the former, otherwise, the thing pawned shall be sold for the payment of the principal obligation. Hence, a pawnshop operator engages in a pledge transaction.
>
> We are not convinced. The business of pawnshops are akin to that of lending investors. Respondent itself admitted that a lending investor is a person who makes a practice of lending money for themselves or others at interest. It seems that respondent forgotten that the business of a pawnshop is also to lend money for others at interest. The difference between lending investors and pawnshops lies only on the security given, that is, a lending investor may require both real and personal property as security for the loan; whereas a pawnshop can require only personal property as security

for the loan. But in the end, a lending investor and a pawnshop both engage in the business of lending money for others at interest. Accordingly, a lending investor and a pawnshop are both subject to VAT, pursuant to the provision of the National Internal Revenue Code of 1997 which provides that "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 of services in the Philippines for others for a fee, remuneration or consideration, including those performed or rendered by x x x lending investors x x x."

Even assuming *arguendo* that we do not classify pawnshops as lending investors, still pawnshops are subject to the 10% VAT imposed under Section 108(A) of R.A. 8424. Pawnshops refer to persons or entities engaged in the business of lending money on personal property delivered as security for loans. As long as the entity provides service for a fee, remuneration or consideration, then the service rendered is subject to value added tax. The personal properties delivered by clients of pawnshops as security for the loans which the former obtained from the latter are in the form of remuneration or consideration, for without such personal properties, pawnshops will not extend any loan to a borrower. Furthermore, the payment of interest imposed on a borrower by a pawnshop is equivalent to a fee in exchange of the service provided by the pawnshop in lending money to such borrower. Thus, the phrase "***all kinds of services***" as stated in the second paragraph of Section 108(A) of R.A. 8424 is broad enough to cover the kind of service, that is, lending money in consideration of personal property delivered as security, which is provided by pawnshops to their borrowers. And the enumeration of sale or exchange of services under Section 108(A) of R.A. 8424 does not limit nor exclude other kinds of services performed for a fee, remuneration or consideration. Rather, such enumeration even expanded the meaning of the phrase "***all kinds of services***".

Besides, pawnshops do not merely engage in the service of lending money to pawners. Rather, pawnshops also sells, at public auction, personal properties pawned to them, in the event that the pawner fails to redeem the pawn within ninety days from the date of maturity of the obligation, the pawnbroker may ***sell or otherwise***

> ***dispose*** of any article taken or received by him in pawn. Thus, by selling properties, pawnshops shall be subject to VAT.
>
> Finally, respondent Agencia Exquisite of Bohol, Inc. reiterates that it is claiming exclusion from the coverage of the value-added tax law and it is not claiming exemption from payment thereof. We are not persuaded. When a taxpayer claims exclusion from payment of the VAT, he is thereby claiming exemption from payment thereof. For what is the effect of exclusion from the VAT other than exemption from payment thereof? They have the same effect. That is, when a taxpayer claims exclusion or exemption from payment of the VAT, he is in effect claiming that he is not liable to pay a value-added tax equivalent to ten percent (10%) of gross receipts derived from the sale or exchange of services.
>
> It is settled that tax exemptions should be strictly construed against those claiming to be qualified thereto. Any exemption from the payment of a tax must be clearly stated in the language of the law. Pawnshops are not clearly stated in the National Internal Revenue Code of 1997 to be exempted from payment of the VAT. Hence, pawnshops shall be liable to pay ten percent (10%) of their gross receipts derived from sale or exchange of services as value-added tax."

Moreover, it bears stressing that Section 3 of Presidential Decree No. 114, otherwise known as the "Pawnshop Regulatory Act", defines a pawnshop as follows:

> "Pawnshop shall refer to 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 pawnbrokerage."

Judicial notice may be taken of the fact that the principal activity of pawnshops is lending money at interest on the security of personal property. The act of lending money at interest constitutes the performance of a service for a fee, remuneration or consideration for such service. In other words, the liability of pawnshop operators to pay the VAT no longer depends on the classification of their business but on the services they rendered. As a consequence thereof, any allegation that pawnshops are not lending investors has lost its bearing. For as long as pawnshops are engaged in lending money on the security of personal property, they are still within the ambit of Section 108(A). Petitioner, being engaged in the pawnshop business, is undoubtedly engaged in the sale of services like lending money. Hence, it cannot escape liability to pay the 10% VAT under Section 108(A) of the Tax Code, as amended.

Lastly, Section 103 [now Section 109] of the Tax Code, as amended by RA 7716, enumerates the transactions that are exempt from VAT. Pawnshop transactions are not among the exempt transactions. Neither are there any express provisions of law exempting pawnshops from VAT. Since the transactions of pawnshops are not among those enumerated in Section 103 [now 109] of the Tax Code or any other express provision of law as VAT exempt, the same are subject to VAT under Section 102(A). In this regard, tax exemptions are strictly construed against the taxpayer. In the absence of any clear provision of law exempting pawnshops from VAT, our conclusion is that pawnshops are subject to VAT on their gross receipts since they are clearly engaged in the performance of services.

In the case of ***Commissioner of Internal Revenue vs. Court of Appeals and Commonwealth Management and Services Corporation, G.R. No. 125355, promulgated on March 30, 2001***, the Supreme Court ruled that the taxpayer, not falling within the exemptions mentioned under Section 109 [formerly 103] of the Tax Code, is subject to VAT. The High Tribunal held:

> "Section 108 of the National Internal Revenue Code of 1997 defines the phrase "sale of services" as the "performance of all kinds of services for others for a fee, remuneration or consideration." x x x
>
> x x x
>
> Hence, it is immaterial whether the primary purpose of a corporation indicates that it receives payments for services rendered to its affiliates on a reimbursement-on-cost basis only, without realizing profit, for purposes of determining liability for VAT on services rendered. As long as the entity provides service for a fee, remuneration or consideration, then the service rendered is subject to VAT.
>
> At any rate, it is a rule that because taxes are the lifeblood of the nation, statutes that allow exemptions are construed strictly against the grantee and liberally in favor of the government. Otherwise stated, any exemption from the payment of a tax must be clearly stated in the language of the law; it cannot be merely implied therefrom. In the case of VAT, Section 109, Republic Act 8424 clearly enumerates the transactions exempted from VAT. [Underscoring ours]

WHEREFORE, in the light of the foregoing, the instant Petition for Review is hereby **DENIED** for lack of merit. Accordingly, petitioner is **ORDERED** to **PAY** the respective amounts of P1,085,033.89 and P739,097.94

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as deficiency value-added tax for the taxable years 1998 and 1999, plus 20% delinquency from March 15, 2002 until fully paid pursuant to Sections 248 and 249 of the Tax Code.

SO ORDERED.

Juanito C. Castañeda Jr.
JUANITO C. CASTAÑEDA, JR.
Associate Judge

WE CONCUR:

ERNESTO D. ACOSTA
Presiding Judge

LOVELL R. BAUTISTA
Associate Judge

CERTIFICATION

I hereby certify that the above decision was reached after due consultation with the members of the Court of Tax Appeals in accordance with Section 13, Article VIII of the Constitution.

ERNESTO D. ACOSTA
Presiding Judge

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