REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

SECOND DIVISION

SPLASH CORPORATION, Petitioner,	**CTA CASE NO. 8904**
	Members:
- versus -	**CASTAÑEDA, JR.,** *Chairperson,* **CASANOVA,** *and* **MANAHAN,** *JJ.*
COMMISSIONER OF INTERNAL REVENUE, Respondent.	Promulgated: JUN 1 1 2018 11:10 am

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RESOLUTION

CASANOVA, *J.*:

For the Court's resolution is respondent's **Motion for Reconsideration (re: Decision promulgated on 02 February 2018)**, filed on February 21, 2018 by registered mail and received by the Court on March 1, 2018, with petitioner's **Comment (To Respondents'** [*sic*] **Motion for Reconsideration dated February 20, 2018)**, filed on March 23, 2018.

Respondent seeks reconsideration of the Decision promulgated on February 2, 2018 (assailed Decision), the dispositive portion of which reads:

> **WHEREFORE**, premises considered, the instant Petition for Review is **GRANTED**. Accordingly, the deficiency income tax assessment issued against petitioner for CY 2010 in the amount of Eighty Million Nine Hundred Eighty-Four Thousand Seven Hundred and

Forty-Five Pesos and Seventy-Five Centavos (₱80,984,745.75) is hereby **CANCELLED** and **WITHDRAWN**.

SO ORDERED.

Respondent alleges that petitioner is not eligible to claim income tax exemption privilege under Republic Act (RA) No. 7459 or the Investors and Invention Incentives Acts of the Philippines. According to respondent, the said tax exemption applies only to the sale of the inventions by the inventor Dr. Hortaleza.

Respondent avers that RA No. 7459, as implemented by Revenue Regulations No. 19-93, provides that "Inventors" as certified by the Filipino Inventors Society and duly confirmed by the Screening Committee, shall qualify for tax exemption during the first ten (10) years from the date of the first sale of the "invented property". Said tax exemption privilege shall be extended to the legal heir or assignee upon the death of the inventor.

Invoking the above portion of the law, respondent claims the inventor that was endorsed by the Filipino Inventors Society (FIS) and the Department of Science and Technology (DOST) that may avail of the tax exemption privilege under RA No. 7459 was Dr. Hortaleza and not petitioner. Respondent maintains that the registered owner of the intellectual properties ("invented skin care formulations") per Bureau of Patents was also Dr. Hortaleza and not petitioner and that no invention was prepared by Dr. Hortaleza in behalf of petitioner.

Respondent also claims that Dr. Hortaleza is merely a stockholder of petitioner who has a separate and distinct personality from petitioner. Thus, respondent argues that petitioner cannot invoke that petitioner and Dr. Hortaleza are one and the same.

In addition, the last statement of Section 6 of RA No. 7459, which provides that "This tax exemption privilege pertaining of the tax exemption shall be extended to the legal heir/assignee upon the death of the inventor", allegedly suggests that the privilege is for the benefit of the inventor and not for the benefit of the company commercializing the invention.

Respondent further cites the ruling in CTA Case No. 8483 wherein the First Division made a thorough discussion on the true legislative intent of RA No. 7459. On the basis of the said ruling, respondent concludes that the intention of the lawmakers is to grant the exemption incentive exclusively to the actual inventor and not to any party whom he may allow to profit from his patented invention. The exemption granted to Mr. Hortaleza allegedly remains with him and was not transferred in any manner to petitioner in this case.

Petitioner opposes the above allegations and raises the following counter-arguments:

1. Implementing Rules and Regulations cannot go beyond the bounds set by legislation;

2. The Tax Incentive under Section 6 of RA No. 7459 is clearly and unequivocally worded, and is not subject to further interpretation under the rule of *Verba Legis*;

3. The Tax Incentives under RA No. 7459 do not only extend to inventors but also to any income derived from the commercialization of the technology invented since it is clear that Section 5 of the said law pertains to incentives extended to the inventor while Section 6 thereof pertains to the exemptions extended to the invention;

4. Respondent misapplied the principle of separate corporate personality which provides that a corporation has a personality separate and distinct from those of the stockholders; and

5. Income tax exemption claimed by the petitioner stems from Section 6 of RA No. 7459, and not Section 5 of the same law. This being the case, the deliberations in the House of Representative concerning tax incentives should not apply to the instant case, considering that Section 6 of RA No. 7459 was not even present in House Bill No. 24801.

A careful study of the foregoing shows that they are the very same arguments raised by respondent in his Answer filed on

December 19, 2014, which the Court already passed upon and discussed in the assailed Decision.

In the instant motion, respondent mainly anchors his claim on the alleged legislative intent of the law to exempt only the investors and does not include petitioner.

To again emphasize, Section 6 of RA No. 7459 clearly states that "**any income**" derived from the sale of the patented products shall be exempt from the payment of income taxes for a period of ten (10) years from the date of the product's first sale on a commercial scale, subject to the rules and regulations of the Department of Finance.

Section 6 of RA No. 7459[1] reads:

> "SECTION 6. Tax Exemption. — To promote, encourage, develop and accelerate commercialization of technologies developed by local researchers or adapted locally from foreign sources including inventions, **any income derived from these technologies shall be exempted from all kinds of taxes during the first ten (10) years from the date of the first sale**, subject to the rules and regulations of the Department of Finance: Provided, that this tax exemption privilege pertaining to invention shall be extended to the legal heir or assignee upon the death of the inventor.
>
> **The technologies, their manufacture or sale**, shall also be exempt from payment of license, permit fees, customs duties and charges on imports." (*Emphasis supplied*)

The law is clear that it exempts the income on the inventions from taxes. *Absolute Sentencia Expositore Non Indiget*, when the language of the law is clear, no explanation of it is required.[2]

As already held in the assailed Decision, when the law is clear, no statutory construction or interpretation is needed. Neither can conditions or limitations be introduced where none is provided for.

[1] Inventor and Invention Incentives Act of the Philippines.
[2] *Barcellano vs. Bañas,* G.R. No. 165287, September 14, 2011.

Rewriting the law is a forbidden ground that only Congress may tread upon.[3]

The Court may not construe a statute that is free from doubt. "[W]here the law speaks in clear and categorical language, there is no room for interpretation. There is only room for application." The Court has no choice but to "see to it that its mandate is obeyed."[4]

Accordingly, the Court applied the pertinent law and correctly found that the income of petitioner for CY 2010 in the total amount of ₱159,490,000.00 which is said to pertain to the commercial sale of qualified invented products is exempt from income tax pursuant to RA No. 7459, regardless of whether the income earner is the inventor. Thus, the Court finds no cogent reason to reverse or modify the assailed Decision.

With the foregoing findings, the Court finds it unnecessary to delve on the other issues raised by the parties.

WHEREFORE, respondent's **Motion for Reconsideration (re: Decision promulgated on 02 February 2018)** is **DENIED** for lack of merit.

SO ORDERED.

CAESAR A. CASANOVA
Associate Justice

WE CONCUR:

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

(On Official Business)
CATHERINE T. MANAHAN
Associate Justice

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[3] *Commissioner of Internal Revenue vs. American Express International, Inc., (Philippine Branch),* G.R. No. 152609, June 29, 2005.
[4] *Ibid.*