REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

PHILIPPINE FIBER PROCESSING CO.,
Petitioner,

versus

CTA CASE NO. 1563

July 29/69

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

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D E C I S I O N

This is an appeal of petitioner Philippine Fiber Processing Co. from a decision of respondent finding the former liable for deficiency sales tax in the amount of ₱64,728.20 from February to December, 1958, and 1959 to 1961, inclusive, plus 25% surcharge and ₱5,000.00 as compromise penalty.

Petitioner is a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines.

In a letter addressed to the Collector (now Commissioner) of Internal Revenue, dated June 17, 1950, petitioner applied for tax exemption pursuant to the provisions of Republic Act No. 35. The pertinent portion of said application reads as follows:

> The Philippine Fiber Processing Company will primarily dedicate itself to the manufacture of jute bags

> and jute cloth. For the said purpose, it will invest a respectable amount of capitalization, import the necessary mechanical instruments, thus implementing the government's program for industrialization, and most important of all, it will harness to productive use raw materials which are thrown to waste such as raw jute, saluyot, banana peels, sugar cane bagasse, etc.
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> We need not impress here the importance of jute bags and textiles in the economic life of the country and its inhabitants. Suffice it to say that our entire production of rice and sugar is dependent on jute bags for marketing purposes. Our import records and statistics show that jute bags used in the packing of rice and sugar are being imported. Our textile importation has reached such heights that it may be considered as one of the main causes for the weakening of our dollar reserves.
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> It is respectfully submitted that the main object of the Philippine Fiber Processing Company being the manufacture of jute bags and jute cloth and the said items being necessary and essential to the economic life of the country, the said corporation is enttitled, as a matter of right, to claim the benefits of Republic Act No. 35, it being a corporation engaged in a new and necessary industry.

The Secretary of Finance, acting favorably on the aforesaid application for exemption, granted petitioner a tax exemption "in respect to the processing of raw saluyot, and jute fibers and their manufacture into jute bags and jute sacks."

Petitioner's tax exemption was extended by the Secretary of Finance to December 31, 1958 pursuant to Republic Act No. 901.

In a letter dated February 8, 1963, respondent demanded the payment of 7% sales tax on the hessian or jute cloth manufactured by petitioner during the years 1955 to 1958; and deficiency sales tax on the manufactured jute sacks and jute bags for all the years covering 1959 to 1961, plus 25% surcharge in the total amount of ₱121,359.75.

In answer to petitioner's protest against the assessment respondent, in a letter dated November 9, 1964, reduced the deficiency tax assessment from ₱121,359.75 to ₱64,728.20.

Petitioner, not satisfied with the aforesaid reduced assessment, interposed this appeal.

The only question posed before the Court in this case refers to the interpretation of the tax exemption granted petitioner which is that of "processing of raw saluyot and jute fibers and their manufacture into jute bags and jute sacks." Petitioner contends that the exemption includes the manufacture and sale of jute cloth, while respondent insists that only jute bags and jute sacks fall under the exemption. Respondent invokes the rule of strict construction of tax exemptions.

It would seem that jute cloth is not covered by the exemption. Petitioner's application sought a tax exemption for "jute bags and jute cloth" which it proposed to manufacture from "raw jute, saluyot, banana peels, sugar cane bagasse, etc.," but the grant mentions only "jute bags and jute sacks." The omission of jute cloth in the grant is significant; the natural inference from this omission is that it was done to exclude jute cloth from the exemption.

Petitioner however urges that the grant exempts jute cloth as a resultant product of "processing of raw saluyot and raw jute fibers" and not only jute bags and jute sacks which are exempted by specific mention. In other words, it contends that the exemption applies as well to the intermediate product of jute cloth since this is the finished product turned out by processing raw saluyot and raw jute fibers. We are not of this persuasion.

In the first place, it would seem that the grant does not exempt intermediate products. The exemption is so phrased that it seems to require the integrated operations of processing raw saluyot and raw jute fibers and the manufacture of the processed products into jute bags and jute sacks covering only the end products which are jute bags and jute sacks. In the second place jute cloth is not a resultant product of processing of raw saluyot and jute fibers. To put it in another way, the processing of raw saluyot and jute fibers is an operation that does not include the making of jute cloth. Webster's New International Dictionary gives the following meaning of the word "process" when used in relation to raw materials.

> "2. To subject to some special process or treatment. Specif.: a. To heat, as fruit, with steam under pressure, so as to cook or sterilize. b. To subject (esp. raw material) to a process of manufacture, development, preparation for the market, etc.; to convert into marketable form, as livestock by slaughtering, grain by milling, cotton by spinning, milk by pasteurizing, fruits and vegetables by sorting and repacking; —in past part. often distinguished from raw. c. To make usable, marketable, or the like, as waste matter or an inferior, defective, decomposed, substance or product, by a process, often a chemical process; as, to process (rancid) butter, rayon waste, coal (dust), (beet) sugar. . ." (Second Edition, 1954, p. 1972.)

Hereunder are judicial interpretations of the words "process" and "processing":

> The word "process" means to subject, especially raw material, to a process of manufacturing, development, preparation for the market, etc., and to convert into marketable form, as livestock by slaughtering, grain by milling, cotton by spinning, milk by pasteurizing, fruits and vegetables by

> sorting and repacking. Moore v. Farmers Mut. Manufacturing & Ginning Co., Ariz., 77 P.2d 209, 211. (Words and Phrases, Permanent Edition 34, p. 140.)
>
> . . . "Processing" means to subject to some special process or treatment. To subject, especially raw material, to a process of manufacture, development, preparation for the market, etc.; to convert into marketable form, as live stock for slaughtering, grain for milling, cotton for spinning, milk by pasteurizing, fruits and vegetables by sorting and repacking. A "processor" is one who or that which processes; specifically, one who is in the business of converting any agricultural commodity into a marketable form. Kennedy v. State Board of Assessment and Review, Iowa, 276 N.W. 205, 208. (P. 166, supra.)

The processing of raw saluyot and raw jute fiber is, it would seem, limited to operations that prepares these materials for use or for marketing as finished fibers and does not include weaving these finished fibers into cloth. This is specially true in the light of the omission of jute cloth in the tax exemption grant.

Petitioner makes much of the fact that the manufacture of jute cloth is also a new and necessary industry and the material is also in demand here. Speculations on this point however cannot expand the scope of the exemption in disregard of the logical interpretation thereof.

Petitioner refers our attention to an interpretation of the Commissioner of Internal Revenue of a tax exemption also granted under Republic Act 901 enjoyed by Litton Mills Inc. We refrain from commenting on the said interpretation because the assessment involved therein is the subject of CTA Case No. 1761 pending in this Court and we think any comment in connection therewith would be a prejudgment in the said case.

WHEREFORE, the decision appealed from is hereby affirmed, with costs against the petitioner.

SO ORDERED.

Quezon City, July 29, 1969.

RAMON L. AVANCEÑA
Associate Judge

I CONCUR:

ROMAN M. UMALI
Presiding Judge