Republic of the Philippines
COURT OF TAX APPEALS
Manila

E. RODRIGUEZ, INC.,
Petitioner,

- versus -

C.T.A. CASE NO. 849

THE COLLECTOR OF INTERNAL REVENUE,
Respondent.

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D E C I S I O N

This is an appeal from the decision of the respondent holding the petitioner liable for deficiency income tax in the sum of ₱63,880.00 for the year 1950.

The records of the case show that sometime in 1948, the Government sought to expropriate certain parcels of land in Quezon City belonging to plaintiff and four others. After trial, the Court of First Instance of Quezon City rendered judgment declaring the Government "entitled to retain and appropriate the property involved in this proceeding, as site for the development and establishment of the new capital city of the Philippines," and ordering the Government to pay the defendants in said case the amounts stated in said decision. Subsequently, however, the parties entered into a compromise agreement containing, among others, the following provisions:

> "(d) That defendants named above agree to the payment of the price awarded by the Court subject to the foregoing stipulations in the total sum of ONE MILLION TWO HUNDRED FIFTY THOUSAND SIX HUNDRED THIRTY-ONE PESOS AND EIGHTY CENTAVOS (₱1,250,631.80), payable in the following manner:

(195)

(1) SIX HUNDRED TWENTY-FIVE THOUSAND THREE HUNDRED FIFTEEN PESOS AND NINETY CENTAVOS (₱625,-315.90) in government bonds in favor of Eulogio Rodriguez, Sr. and E. Rodriguez, Inc., payable within five (5) years at not less than three per cent (3%) per annum;

(2) THREE HUNDRED THOUSAND PESOS (₱300,000.00), to be given to the Philippine National Bank in payment of the mortgage indebtedness of defendants Eulogio Rodriguez, Sr. and E. Rodriguez, Inc.;

(3) The balance of THREE HUNDRED TWENTY-FIVE THOUSAND TWO HUNDRED FIFTEEN PESOS AND NINETY CENTAVOS (₱325,215.90) in cash to be paid to all defendants above named, through Eulogio Rodriguez, Sr., within a reasonable time."

On the basis of the aforesaid compromise agreement, petitioner received ₱1,238,204.00, of which ₱625,315.90 was in Government bonds. Since the cost to petitioner of the property acquired from it by the Government was ₱827,279.82, it derived a profit of ₱410,924.18. However, since part of the purchase price in the sum of ₱625,315.90 was paid in the form of bonds, petitioner treated this amount as exempt from income tax and consequently did not include the gain of ₱410,924.18 derived from the sale of its property to the Government in its income tax return for 1950. Holding that the portio n of the purchase price of the property in question represented by Government bonds is not exempt from income tax, respondent assessed a deficiency income tax against petitioner in the sum of ₱63,880.00, computed as follows:

Net income per return (loss) -- (₱17,982.02)
Amount received
for property-- ₱1,238,204.00

Less: Cost of land --	827,279.82
Gain -------	₱ 410,924.18

Undeclared gain -----------	410,924.18
Accounts receivable charged off as bad debts but not forming part of gross income ------------------	1,860.00
Miscellaneous expenses not connected with the business --------------------	4,450.00
Net income ----------------	₱399,252.12
Tax due on ₱399,252.12 -----	₱ 63,880.00

Petitioner contends that since the Government bonds which it received as part payment of the price of its lot were exempt from taxation, the deficiency assessment made by respondent against it is not in order. On the other hand, respondent claims that the exemption of Government bonds refers only to documentary stamps on the bonds and does not include income tax on the income derived by petitioner which was paid to in the form of bonds.

The pertinent portion of Section 9 of Republic Act No. 333, which is the sole basis of petitioner's claim for exemption, provides:

> "Said bonds shall be exempt from taxation by the Government of the Republic of the Philippines or by any political or municipal subdivisions thereof, which fact shall be stated upon their face, in accordance with this Act, under which the said bonds are issued."

There can be no question that petitioner is taxable on its income derived from the sale of its property to the Government. The fact that a portion of the purchase price of the property was paid by the Government in the form of tax exempt bonds does not operate to exempt said income from income tax. The income from the sale of the land in question and the bonds are two different and distinct taxable items so that the exemption of one does not operate to exempt the other, unless the law expressly so provides.

It is alleged that to deny exemption from income tax on the amount represented by the said bonds would be to nullify the purpose of the law in granting exemption. The question has been asked: If income or gain derived from the acceptance of such bonds in exchange for private estates would be taxed, what inducement did such provision of Republic Act No. 333 give to land owners to accept payment in bonds for their properties in the proposed site of the Capital City? To our mind, there is sufficient inducement, and that is, the exemption not only of the bonds from documentary stamp tax but also of the interest derived from such bonds. Section 29(b)(4) of the National Internal Revenue Code exempts interest derived from such bonds from income tax to the extent provided in the law authorizing the issue thereof.

Counsel for petitioner also allege that the prevailing rule obtaining in the United States before removal of exemptions of government obligations was to exempt such bonds from income tax both as to principal and interest. To quote from the memorandum of counsel:

> ". . . Actually, most of the Federal Treasury Bonds issued by the U.S. Government from 1921 to 1941, or before the Public Debt Acts of 1941 and 1942 that removed tax exemptions on obligations issued by the United States and its agencies and instrumentalities, were -
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> "'exempt, both as to principal and

> interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, known as surtaxes, and excess profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations.' (I Mertens, Law of Federal Income Taxation, pp. 297-313)." (See page 12, Memorandum of counsel for petitioner, March 20, 1963.)

Apparently the import of the ruling quoted above from the book of Mertens has not been clearly understood. We think that the exemption referred to therein of both principal and interest has reference to the exemption from income tax of the income derived from the sale or exchange of the bonds and the interest paid by the U.S. Government on such bonds. The opinion quoted from Mertens is inapplicable to the instant case because it does not refer to any income derived by petitioner from the sale or exchange of the bonds received by petitioner from the Government under Republic Act No. 333. The tax here involved is on the income derived from the sale of petitioner's property to the Government, not the income derived from the sale or exchange of the bonds.

Mention has been made of Republic Act No. 1400, Section 22 of which provides that "the purchase price paid by the Government for any agricultural land acquired for resale to tenants under the authority of this Act, whether by negotiation or expropriation, shall not be considered as income of the landowner concerned for purposes of the income tax." It is argued that since Republic Acts Nos. 333 and 1410 are in pari materia, both should be construed together, and since Republic Act No. 1400 exempts income derived from the sale of property to the Government under said Act, the same exemption should also apply to income derived from the sale of property to the Government under Republic Act No. 333. It is precisely because Republic Act No. 1400 contains an express exemption from income tax of the income derived by property owners from the sale of their lands under said Act and the absence of a similar provision in Republic Act No. 333 which indicates plainly that Congress intended not to grant such exemption to landowners under Republic Act No. 333. If Congress had intended to grant exemption from income tax with respect to income derived by a person from the sale of his property under Republic Act No. 333, it should have expressly made an express provision to that effect as it did in Republic Act No. 1400; that it did not, is a clear indication that its purpose was to withhold such exemption.

Finding the decision appealed from in order, the same is hereby affirmed, with costs against petitioner.

SO ORDERED.

Manila, April 30, 1964.

MARIANO NABLE
Presiding Judge

I CONCUR:

ROMAN M. UMALI
Associate Judge