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REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
MANILA

November 17, 1960

ORIENTAL KAPOK INDUSTRY,
Petitioner,

- versus -

C.T.A.
CASE NO. 506

COMMISSIONER OF INTERNAL
REVENUE,
Respondent.

X - - - - - X

D E C I S I O N

The petitioner is engaged in the business of buying unhusked kapok, and after separating the fiber from the seeds and cleaning the fiber, it is sold to manufacturers of mattresses, pillows and cushions. On its sales of kapok fiber from 1955 to 1956, it paid the sum of ₱7,246.89 as sales tax under Section 186 of the National Internal Revenue Code. Contending that it is not a manufacturer of kapok fiber, it filed a claim for refund. The claim for refund having been denied, petitioner has appealed.

In this appeal, it is contended on behalf of respondent that the claim for refund of the sum of ₱4,034.20 corresponding to the sales tax paid during the year 1955 has already prescribed. Petitioner admits that its claim for refund of the said amount has prescribed, so that the only question raised is whether or not petitioner is entitled to the refund of the sum of ₱3,212.69 corresponding to the sales tax paid for the year 1956.

The processing of kapok fiber by petitioner is

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done in the following manner:

"(1) MACHINERY USED- The machinery used in the processing of the Kapok fibers by the ORIENTAL KAPOK INDUSTRIES, Cebu City, is a locally-made contraption consisting of a horizontal cylinder divided lengthwise into two compartments by a wire netting. The upper compartment (Marked as Chamber A in the enclosed diagram) housed a revolving shaft running lengthwise thru the middle of the said compartment in which sets of blades or paddles are attached a few feet apart. This revolving shaft functions by means of a series of pulleys and belts attachment powered by a 50 horsepower diesel engine. Above this cylinder is a wooden platform coming from the storage room of the raw kapok. The raw kapok passes on this platform and enters into Chamber A of the cylinder thru the opening at the right upper end. Once the raw kapok is inside Chamber A, it is beaten by the blades or paddles. In this process the seeds and the broken cores are loosened and fall down thru the wire netting to Chamber B, which is the lower compartment of the cylinder. At the right end of Chamber B a blower is installed which blows the loosened kapok fibers thru a piping to another room which is marked as Chamber X in the enclosed diagram. The kapok fiber blown to Chamber X is the finished product which is to be packed in bags for the market. The machine is called by the management as the 'SEPARATOR'.

"(2) CHEMICALS AND/OR INGREDIENTS USED- No chemicals and/or ingredients are used before, during and after the cleaning process. The raw kapok, with seeds and cores but without husks or skins, is first aired in the yard of the compound enclosed by wire nettings. After a day or two, it is then fed to the 'separator' machine thru the entrance in the wooden platform.

"(3) PURIFYING OR REFINING PROCESS- In the particular machine used by the Oriental Kapok Industries, Cebu City, there is only one chamber equipped with a shaft wherein sets of blades or paddles are attached. The raw kapok which is fed thru an opening is being beaten by the rotating blades, loosening the fibers, seeds

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and cores in so doing. The seeds and broken cores fall to the lower chamber where they are collected for other uses. It should be noted that this mechanized process evolved from the primitive form of separating the seeds from the kapok fibers for household use which is by placing the kapok fibers, devoid of husks or skins, in a cylindrical bamboo basket and rotating a small bamboo stick, sliced into several pieces at the lower extremity, by rolling the said stick with the pressed palms of both hands, within the basket. The 'separator' machine used by the Oriental Kapok Industries is so simply constructed along the abovementioned principle except for the blower installed to blow the light fibers thru the piping to the depositing chamber.

*(4) CHANGES EFFECTED ON THE FINISHED PRODUCTS AS COMPARED WITH THE RAW MATERIAL- The raw material is the dry, not-thoroughly-unloosened fibers with seeds, cores and a few sprinkling of foreign matters. The finished product is the light, loose and fluffy fibers cleaned of seeds, cores and other foreign matters. No apparent change in the color can be detected." (See Exh. 3, pp. 60-61, BIR records.)

✓ In *Cosmos Kapok Factory v. Araneta*, C.T.A. No. 125, March 29, 1957, and *Pacific Kapok Factory*, C.T.A. No. 342, June 29, 1959, it was held that the processing of raw kapok into clean kapok fiber by means of a machine constitutes manufacturing and the manufacturer is subject to the sales tax on his sales of kapok fiber prescribed in Section 186 of the Revenue Code.] We quote:

In *Cosmos Kapok Factory v. Araneta*, C.T.A. No. 125, March 29, 1957, wherein the facts are the same as in the instant case, it was held that -

"x x x petitioner falls squarely under the second classification mentioned in section 194(x) of the Tax Code, viz: 'any one who by any

done in the following manner:

*(1) MACHINERY USED- The machinery used in the processing of the Kapok fibers by the ORIENTAL KAPOK INDUSTRIES, Cebu City, is a locally-made contraption consisting of a horizontal cylinder divided lengthwise into two compartments by a wire netting. The upper compartment (Marked as Chamber A in the enclosed diagram) housed a revolving shaft running lengthwise thru the middle of the said compartment in which sets of blades or paddles are attached a few feet apart. This revolving shaft functions by means of a series of pulleys and belts attachment powered by a 50 horsepower diesel engine. Above this cylinder is a wooden platform coming from the storage room of the raw kapok. The raw kapok passes on this platform and enters into Chamber A of the cylinder thru the opening at the right upper end. Once the raw kapok is inside Chamber A, it is beaten by the blades or paddles. In this process the seeds and the broken cores are loosened and fall down thru the wire netting to Chamber B, which is the lower compartment of the cylinder. At the right end of Chamber B a blower is installed which blows the loosened kapok fibers thru a piping to another room which is marked as Chamber X in the enclosed diagram. The kapok fiber blown to Chamber X is the finished product which is to be packed in bags for the market. The machine is called by the management as the 'SEPARATOR'.

*(2) CHEMICALS AND/OR INGREDIENTS USED- No chemicals and/or ingredients are used before, during and after the cleaning process. The raw kapok, with seeds and cores but without husks or skins, is first aired in the yard of the compound enclosed by wire nettings. After a day or two, it is then fed to the 'separator' machine thru the entrance in the wooden platform.

*(3) PURIFYING OR REFINING PROCESS- In the particular machine used by the Oriental Kapok Industries, Cebu City, there is only one chamber equipped with a shaft wherein sets of blades or paddles are attached. The raw kapok which is fed thru an opening is being beaten by the rotating blades, loosening the fibers, seeds

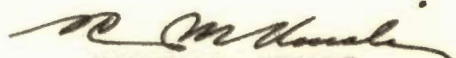
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In line with our opinion in the cases cited above, the decision appealed from is affirmed. With costs against petitioner.

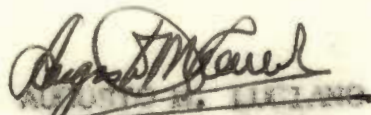
SO ORDERED.

Manila, November 12, 1960.


ROMAN M. UNALI
Associate Judge

WE CONCUR


MARIANO R. UNALI
Presiding Judge


ROMAN M. UNALI
Associate Judge