REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

THE MANILA TIMES
PUBLISHING CO., INC.,
Petitioner,

versus

C.T.A. CASE NO. ~~2052~~ 2263

COMMISSIONER OF
INTERNAL REVENUE,
Respondent.

Dec 17/73

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D E C I S I O N

On June 27, 1968, Republic Act No. 5431 was approved which amended Section 24 of the Revenue Code increasing the rates of the corporate income tax on the first ₱100,000.00 net income from 22% to 25% and on the amount in excess of ₱100,000, from 30% to 35%. The effectivity clause of the said Act provides as follows:

> SEC. 10. The provisions of this Act shall apply to income for taxable years beginning after June thirty, nineteen hundred sixty-eight. (65 O.G., No. 28, p. 7114.)

Upon the enactment of the above statute, respondent, on November 15, 1968, issued Memorandum Circular No. 41-68 directing that the application of the increased rates of corporate income tax prescribed therein shall apply to income earned beginning July 1, 1968.

Petitioner, a domestic corporation duly

organized and existing under and by virtue of the laws of the Philippines and engaged in business as publisher, filed its income tax return for the calendar year 1968 on April 11, 1969 and paid the income tax due thereon in the amount of ₱3,634,276.00, in two equal installments, viz: on April 11, 1969, and July 9, 1969, based on the increased rates prescribed in Republic Act No. 5431 and as implemented by Memorandum Circular No. 41-68, computed as follows:

Net Income per return		₱ 11,210,079.09	
One-half thereof ₱5,605,039.54			
a. January 1 - June 30/68			
22% on ₱50,000	₱ 11,000.00		
30% on ₱5,555,039.54	₱1,666,511.86		₱1,677,511.86
b. July 1 -Dec. 31/68			
25% on ₱50,000	₱ 12,500.00		
35% on ₱5,555,039.54	1,944,263.84		1,956,763.84
Total tax per BIR method (Par. 5, Petition for Review)			₱3,634,276.00

In a letter dated March 26, 1971, petitioner filed a claim for tax credit with the respondent in the amount of ₱279,252.00 on the ground that insofar as corporations filing income tax returns on the calendar year basis are concerned, like petitioner herein, the increased rates of corporate income tax under Republic Act No. 5431 should be applied to income earned beginning January 1, 1969 and not July 1, 1968 as contended by respondent.

Petitioner filed with this Court the instant petition for review on April 6, 1971, without waiting for respondent's reply on its claim for tax credit.

The sole issue in this case is purely one of law, i.e., whether or not the increased rates of corporate income tax prescribed in Republic Act No. 5431 should apply to income received beginning July 1, 1968, by corporations reporting income on a calendar year basis. There is no question as to the correctness of the amount overpaid by petitioner if the said law is to be applied to it effective January 1, 1969 and not July 1, 1968.

Petitioner contends that Section 10 of Republic Act No. 5431 is clear and unambiguous; hence, it requires no interpretation nor construction but should be given its plain and literal meaning. In this sense, petitioner argues that since its accounting period is the calendar year, its taxable year necessarily begins on January 1 of every year. Since the increased rates of tax, under

Republic Act No. 5431, are applicable only "to income for taxable years beginning after June 30, 1968," it is evident, according to petitioner, that the law should be made to apply to its income received from January 1, 1969, which is the beginning of its taxable year after June 30, 1968; it should not be made to apply to its income from July 1, 1968, because that date is not the beginning of its taxable year. Even on the assumption that the law in question is subject to construction, it is maintained that all aids of construction are against the stand espoused by respondent.

Respondent, on the other hand, although subscribing to petitioner's view that Section 10 of Republic Act No. 5431 is clear and unambiguous, asserts that the meaning of "taxable years beginning after June 30, 1968" is that the effective date of the increased rates is July 1, 1968, and, therefore, income earned from July 1, 1968, is subject to said increased rates regardless of the taxpayer's accounting period.

The doctrine that has been steadfastly adhered to by the courts is that its first and fundamental duty is the application of the law according to its express terms, interpretation being called for only when such literal application is impossible. No process of interpretation or construction need be resorted to where a provision of law peremptorily calls for a literal application. Where a requirement or condition is made in explicit and unambiguous terms, no discretion is left to the courts. They must see to it that the mandate of the law is obeyed. (Quijano v. Development Bank of the Phil., 35 SCRA 270; Pacific Oxygen & Acetylene Co. v. Central Bank, 22 SCRA 917; Luzon Surety Co., Inc. v. De Garcia, 30 SCRA 111; Republic Flour Mills, Inc. v. Comm. of Customs, 39 SCRA 269.)

With this recognized rule of statutory construction in mind, we are now going to determine whether the questioned statute is vague or ambiguous to justify judicial construction or interpretation. For covenience, we are reproducing again the law involved:

> SEC. 10. The provisions of this Act shall apply to income for taxable years beginning after June thirty, nineteen hundred sixty-eight.

Respondent agrees with petitioner that the aforequoted law is clear and unambiguous. The only difference lies on the meaning attributed by them to the said provision. Petitioner maintains that the increased rates of corporate income tax applied, as to calendar year corporations, to income earned beginning January 1, 1969. Respondent, however, insists that what the law means is that the effective date of the increased rates for corporations, whether on a calendar or fiscal year basis, is July 1, 1968.

It is the opinion of this Court, as the parties likewise do, that the terms of Section 10 of Republic Act No. 5431 are clear and unambiguous and should be accorded its literal meaning. Analyzing carefully the wording of the law, we find that the key which could unravel the true and plain meaning thereof is the phrase "taxable year". The law has defined the term "taxable year" as the calendar year, or the fiscal year ending during such calendar year, upon the basis of which the net income is computed; and the term "fiscal year" means an accounting period of twelve months ending on the last day of any month other than December. [Sec. 84(o) & (p), Revenue Code.] In accounting and income taxation, the term "taxable year" has acquired the accepted meaning as an accounting period of twelve months beginning January 1 and ending December 31, which is called a calendar year, or an accounting period of twelve months ending on the last day of any month other than December, which is termed a fiscal year. In the United States from which our Income Tax Law is patterned, the term "taxable year" has been similarly defined as follows:

> Relating income to a fixed period of time is a settled practice under the income tax law. Usually that period, whether a fiscal year or a calendar year, is 12 months and is known as the "taxable year." The return of a taxpayer is made and his income and deductions computed on the basis of a "taxable year," that is, his calendar year or fiscal year depending on which taxable year he has adopted. (Merten's Law of Federal Income Taxation, Vol. 2, Sec. 13.01.)

> "Year" means period of twelve months, and adjective "taxable" does not change or suggest different length of time, but only indicates distinction between calendar year, from January 1 to December 31, and "taxable year" which means a "fiscal year,". . . (Revenue Act 1921, Sec. 204/b/. Hoffman v. U. S. (D.C. Mo.) 52 F. (2d) 269, 270. (41 Words and Phrases 197.)

As defined by law and applicable jurisprudence, "taxable year" refers to a period of twelve uninterrupted months. For this purpose, corporate taxpayers are classified into two, i.e., calendar year corporations and fiscal year corporations. Calendar year corporations have a taxable year beginning January 1 and ends December 31; while fiscal year corporations have a taxable year beginning the first day of any month except January 1.

Accordingly, after June 30, 1968, the beginning of the taxable year in the case of fiscal year corporations would be July 1, August 1, September 1, October 1, November 1, 1968, February 1, March 1, April 1, May 1, and June 1, 1969. With respect to calendar year corporations, the beginning of its taxable year after June 30, 1968 is January 1, 1969. When the law, therefore, states that "The provisions of this Act shall apply to income for taxable years beginning after June 30, 1968", it simply means that the increased rates apply to those whose "taxable year" begins after June 30, 1968, or to income earned for fiscal periods beginning July 1, 1968, etc., in the case of fiscal year corporations, and for those whose taxable period is the calendar year, beginning January 1, 1969, these periods being the first and next taxable years beginning after June 30, 1968. Applied to the case at bar, petitioner is subject to the increased rates (25%-35%) of tax only on income received from January 1, 1969, bhis date being the beginning of its first taxable year after June 30, 1968. Its income earned prior to January 1, 1969 is, therefore, still subject to the old rates (22%-30%).

This was the view taken by respondent himself in a letter addressed to the Tax Service of the

Philippines, Inc. dated November 14, 1969, pertinent portions of which read as follows:

> The term "taxable year", in accounting and income taxation had indeed acquired the accepted meaning as an accounting period of twelve months beginning January 1 and ending December 31 which is termed a calendar year or an accounting period of twelve months ending on the last day of any month other than December which (is) termed a fiscal year. (Section 84 (o) and (p), Tax Code) Since R.A. No. 5431 is an amendment to the corporate income tax law, this Office believes that Congress used the term "taxable year" in the light of its meaning as defined by the Tax Code itself.
>
> After June 30, 1968, the first and next taxable years are the fiscal years beginning July 1, 1968 - December 1, 1968 and the calendar year beginning January 1, 1969. Therefore, when Congress stated in Section 10 of R.A. No. 5431 that "The provisions of this Act shall apply to income for taxable years beginning after June 30, 1968", it is indubitable that it fixed the reckoning period of the increased rates of corporate income tax to income earned for fiscal periods beginning July 1, 1968 - December 1, 1968 and for the calendar period beginning January 1, 1969, these periods being the first and next taxable years beginning after June 30, 1968.
>
> In view of the foregoing as well as of the now well entrenched doctrine in jurisprudence that terms used in statutes should be understood in their ordinary meaning unless the context provides otherwise, it is the opinion of this Office as it hereby holds that as regards cal-

> endar year corporations the increased rates of corporate income tax prescribed by R. A. No. 5431 shall apply on income earned by them only beginning January 1, 1969. (See pp. 5-6, CTA rec.)

The ruling quoted above was reiterated in another ruling addressed to the San Miguel Corporation, dated November 18, 1969. (See pp. 7-8, CTA rec.)[1]

Respondent has reversed himself and now wants this Court to agree with him that by Section 10 of Republic Act No. 5431, the law has intended that the increased rates of corporate income tax should apply to income earned from July 1, 1968 regardless of the taxpayers' accounting period. The effect of this interpretation is that only fiscal year corporations whose taxable year begins on July 1 would be subject to a uniform rate of tax while other fiscal year corporations, including calendar year corporations, would be subject partly to the old rates and partly to the new rates of tax.

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[1]Ex-Congressman Natalio P. Castillo, Chairman of the Ways and Means Committee of the House of Representatives, and ex-Senator Wenceslao Rancap Lagumbay, Chairman of the Senate Ways and Means Committee, who both took active part in the consideration and passage of the bill which became Rep. Act No. 5431, expressed the same view. (See Exhs. F & G, pp. 5-7, BIR rec.)

To subscribe to respondent's contention would be to veer away from the clear and explicit mandate of the law which provides that only "income for taxable years beginning after June 30, 1968" is subject to the increased rates. Being on a calendar year period, petitioner's taxable year (for 1968) began on January 1, 1968, or <u>before</u> June 30, 1968, and if we are to apply the increased rates to petitioner's income beginning July 1, 1968, we would not only be ignoring the law but defying the very meaning it explicitly conveys because we would be subjecting petitioner to the increased rates when the law emphatically and categorically applies the new rates only to income for the taxable year which began <u>after</u> June 30, 1968. Petitioner's taxable year after June 30, 1968 did not begin on July 1, 1968; it began on January 1, 1969. Respondent's contention would have been tenable if the phrase "taxable year" was nowhere to be found in the law. The presence, however, of such phrase, which this Court cannot disregard or ignore without doing violence to the positive meaning of the law, amply support petitioner's stand.

Our attention has been drawn to the deliberations of both houses of Congress on House Bill

No. 14543, which became Republic Act No. 5431, in an effort to show that the legislative intent in enacting the law is to apply the increased rates of corporate income tax on income earned beginning July 1, 1968 regardless of the taxpayer's accounting period. If we are to inquire into the legislative intent and purpose, we would in effect be indulging in the construction and interpretation of a law which we have already considered to be clear and free from ambiguity, thus violating the established canon of statutory construction. Be that as it may, we wish to point out that there is nothing in the legislative history of the law which would suggest that the legislative intent and purpose are different from what the language of the law conveys.

One thing on which we want to dwell more in particular is the assertion of respondent that when Section 10 of Republic Act No. 5431 was passed by Congress, there was already a provision in the United States Revenue Code interpreting the clause "shall apply to income for taxable year beginning after" to mean that a change or increase of rate within the taxable year is allowed. (Sec. 21, 1954 U.S. Internal Revenue Code.) Respondent then concludes that inasmuch as our income tax laws are patterned after those of the United States, our lawmakers must have been aware of the existence of such a similar provision in the U.S. Internal Revenue Code and enacted Section 10 of Republic Act No. 5431 in the light of the interpretation given by the U.S. Code itself.

Before the phrase "taxable year beginning after or ending after" was interpreted or defined by the law itself in the Revenue Act of 1942 which was subsequently reiterated in the Revenue Act of 1954, the term had received judicial interpretation. Thus, in the Revenue Act of 1934, when the phrase "taxable year beginning after" appeared for the first time, it was interpreted to mean as not allowing a change of rate within the taxable year. In other words, only one rate is applied to a taxable year.

> Most of the Revenue Acts prior to 1934 were made effective on a calendar year basis, hence a difference in rates in two successive years required a dual computation for a fiscal year taxpayer. But in the Revenue Act of 1934 it was provided that it should be applicable to taxable years beginning after December 31, 1933. Section 1, 26 U.S.C.A. Int. Rev. Acts, p. 664. That meant that a taxpayer such as the plaintiff, with a fiscal year beginning November 1 and ending October 31, would not be covered by the new rates until ten months later than a calendar year taxpayer would. If the new law increased the rates, the delay would be to the fiscal year taxpayer's advantage and, of course, *vice versa*. (Hoosier Factories, Inc. vs. United States, 104 F. Supp. 544; underscoring supplied.)

Subsequently, the U.S. Congress passed the Revenue Act of 1942, amending the 1934 Revenue Act, by allowing in Section 140 thereof (Sec. 108 of the Int. Rev. Code, 26 U.S.C.A.) a change or increase of rates within a taxable year, or adopting the so-called dual method of computation. This amendment was initiated because of the unequal taxation of the calendar year taxpayers and the fiscal year taxpayers. This resulted when the effectivity date began with a taxable year beginning after December 31, so that fiscal year taxpayers were covered later than calendar year taxpayers, and the delay was to the advantage of fiscal year taxpayers in case the rates of tax were increased. This advantage of fiscal year taxpayers was sought to be remedied by the amendment. Said the court:

> x x x <u>The high rates proposed to be fixed in the Revenue Act of 1942 naturally suggested that fiscal year taxpayers should not escape the new high rates for a part of the time that calendar year taxpayers were paying them, as they would have done under the system of the 1934 Act</u>. For that reason, Section 140 of the Revenue Act of 1942, which became Section 108 of the Internal Revenue Code, 26 U.S.C.A. § 108, was enacted. x x x (Hoosier Factories, Inc. vs. United States, <u>supra</u>; underscoring supplied.)

The dual computation allowed in the amendment introduced by the U. S. Revenue Act of 1942 was reiterated in Section 21 of the 1954 U.S. Internal Revenue Code.

It is true that when our Congress passed Section 10 of Republic Act No. 5431, which provides that the rates provided therein shall apply to income "for taxable years beginning after June 30, 1968", a similar effectivity clause had already been interpreted by the U.S. Revenue Acts (Rev. Act of 1942 and 1954 Int. Rev. Code) as permitting a dual computation of the tax. It cannot, however, be argued, as respondent wants it, that Section 10 of Republic Act No. 5431 was enacted in the light of said interpretation because no similar provision is found in our law. We would not hesitate to accept respondent's theory as correct had our Congress enacted a law providing for a similar effectivity clause as that found in the aforesaid U. S. Revenue Acts. The fact that there is no similar provision in our law is an eloquent proof that our legislature, in enacting Section 10 of Republic Act No. 5431, wanted to adhere to the U.S. Revenue Act of 1934 and the interpretation given to it by U.S. courts. Furthermore, although the U.S. Revenue Act of 1942 and the Internal Revenue Code of 1954 interpreted the U.S. Revenue Act of 1934, such interpretation cannot be applied to Republic Act No. 5431 for the reason that said Republic Act is posterior to the U.S. Revenue Acts of 1942 and 1954.

> x x x Furthermore, Act No. 2833 with which we are now dealing, took effect on January 1, 1920, and is therefore subsequent to the Revenue Act of the Congress of the United States passed in 1918, amending the United States Revenue Act of 1916, from section 9, subdivision (a), of which section 9, subdivision (a), of the aforementioned Act No. 2833 is taken. Even admitting that an act amending another may be considered as interpreting the act so amended, this cannot be applied to said section 9, subdivision (a), of Act No. 2833, for the reason that this Act is posterior to the Act of Congress of 1918. (Collector of Internal Revenue v. Villegas, 56 Phil. 554; underscoring supplied.)

The rate of corporate income tax as originally fixed by Commonwealth Act No. 466 (National Internal Revenue Code) had been increased through several amendments. Noteworthy is the fact that all these amendments previous to Republic Act No. 2343 (Rep. Acts Nos. 82, 590, 600, 868, 1065, 1291 & 1505) have effectivity clauses, the wordings of which more or less state as follows:

> The provisions of this Act shall apply to income received from January 1 x x x

Under Republic Act No. 2343 (effective June 20, 1959), later amended by Republic Act No. 5431, the effectivity clause reads:

> x x x That the rate hereinabove stipulated shall apply to

> income received from January 1, 1959, and for fiscal periods ending after June 30, 1959. (Underscoring supplied.)

From the above, it can be gleaned that prior to Republic Act No. 2343, the effectivity of the increased rates was made to depend on when the income was received and the same was applied to both corporations on the calendar or fiscal year basis. Under Republic Act No. 2343, the effectivity of the increased rates, insofar as calendar year corporations are concerned, likewise depends on when the income was received, but as to fiscal year corporations, the effectivity was made to depend on when the fiscal periods ended. Under Republic Act No. 5431, the effectivity of the increased rates depends on when the taxable year of a corporation begins. Analyzing these various amendments to the effectivity clauses of the increased rates of corporate income tax, it can be gleaned that Congress intended to make the date of effectivity of the increased rates of the corporate income tax dependent on the accounting period of each corporate taxpayer. If it had wanted to impose the increased rates beginning July 1, 1968, without regard to the accounting period of corporate taxpayers, as claimed by respondent, it could have easily worded the law, viz: "This Act shall apply to income received from July 1, 1968." That Congress chose to provide for an effectivity clause different from those provided in prior laws, is a clear indication that a change was intended.

Congressional records show that House Bill No. 14543, which finally became Republic Act No. 5431, was originally introduced in the House of Representatives in 1967 with the following effectivity clause:

> The provisions of this Act shall apply only to taxable years beginning after December 31, 1967.

The bill was finally passed by the House of Representatives on June 29, 1967, the effectivity clause of which provided as follows:

> The provisions of this Act shall apply only to income for taxable years beginning after December 31, 1966.

The Senate passed the bill on March 8, 1968 and the effectivity provision reads:

> The provisions of this Act shall apply only to taxable years beginning after December 31, 1968.

To reconcile the conflict between the two houses on the various provisions of the bill, a Conference Committee was formed and it finally submitted its recommendations, which included the following effectivity clause, to wit:

> The provisions of this Act shall apply to income for taxable years beginning after June 30, 1968.

which was approved by both houses and became Section 10 of Republic Act No. 5431.

It would appear from the above history of the law that the House of Representatives in the original draft of the bill wanted the new rates of tax to apply to income in 1968, the income tax on which would have been collectible in 1969. When the bill was finally passed by the House of Representatives on June 29, 1967, its effectivity was made earlier, or made applicable in 1967, the income tax collectible in 1968. And as passed by the Senate on March 8, 1968, the effectivity was made to apply to income in 1969, the income tax collectible in 1970. All these clearly manifest that Congress, contrary to respondent's assertion, did not intend to fix July 1, 1968 as the target date for the effectivity of the increased rates for corporate taxpayers which would then be collectible in 1969. It only happened that both Houses of Congress, thru the Conference Committee, finally came to terms and approved the bill in 1968.

Finally, it is claimed by respondent that the position advocated by petitioner would result in inequality, which is violative of the uniformity of taxation because corporations reporting their income on the calendar year basis would pay the increased rates of tax only on income earned beginning 1969, while corporations reporting their income on the fiscal year basis would be paying said tax on income earned beginning July 1, 1968, if their fiscal year began on July 1, 1968 or thereafter. Again, we are unable to subscribe to this argument because the term "uniformity", as applied to the constitutional requirement that all taxes shall be uniform, means that all property or subject belonging to the same class shall be taxed alike. (See Churchill v. Concepcion, 34 Phil. 969; Cooley on Taxation, Vol. 1, Sec. 334, p. 712, 4th Ed.) It is recognized that Congress, without violating the said constitutional requirement, can make distinctions and classifications and the distinction made by the law in question between "calendar year" taxpayers and "fiscal year" taxpayers is a valid and reasonable exercise of such power. Corporations on a fiscal year basis belong to one class and corporations on a calendar year basis belong to another class.

Under Section 10 of Republic Act No. 5431, corporations filing income tax returns on the fiscal year basis and having the same fiscal period are subject to the same rates of tax effective at the same time, while corporations on the calendar year basis are likewise subject to the same rates of tax effective on the same date. By the way, respondent himself has construed a similar provision of Republic Act No. 2343 as providing for a date of effectivity for calendar year corporations different from that of a fiscal year corporation. (See memorandum of counsel for respondent dated June 18, 1973.) We cannot see any logic in respondent's assertion that there would be a violation of the uniformity rule in one case and no violation in the other.

In resumé, we are of the opinion that the ruling of respondent of November 14, 1969 contained in his letter to the Tax Service of the Philippines, Inc. and that of November 18, 1969 addressed to The San Miguel Corporation are in accordance with law. Accordingly, the decision appealed from, which is contrary to said rulings, is hereby reversed.

It appearing that the sum of ₱279,252.00 which was sought to be credited to petitioner's future tax liability has already been credited against petitioner's income tax liability for 1970, the judgment in this case shall be deemed to have been satisfied. Without pronouncement as to costs.

SO ORDERED.

Quezon City, December 17, 1973.

ROMAN M. UMALI
Presiding Judge

WE CONCUR:

ESTANISLAO R. ALVAREZ
Associate Judge

RAMON L. AVANCEÑA
Associate Judge