

FIRST DIVISION

[G.R. No. 219340, November 07, 2018]

**COMMISSIONER OF INTERNAL REVENUE, PETITIONER, VS.
STANDARD INSURANCE CO., INC., RESPONDENT.**

DECISION

BERSAMIN, J.:

At issue is the authority of the Regional Trial Court (RTC) to enjoin the enforcement or implementation of Section 108 and Section 184 of the *National Internal Revenue Code of 1997* (NIRC) through an original action for declaratory relief.

The Case

This appeal by petition for review on *certiorari* is being directly brought by the Commissioner of Internal Revenue (petitioner)^[1] to challenge the judgment rendered on May 8, 2015^[2] and the order issued on July 10, 2015,^[3] whereby the Regional Trial Court (RTC), Branch 66, in Makati City in Civil Case No. 14-1330, an action for declaratory relief initiated by the respondent, respectively permanently enjoined the petitioner, or any persons acting on her behalf from proceeding with the implementation or enforcement of Section 108 and Section 184 of the NIRC against the respondent, and denied her motion for reconsideration.

Antecedents

On February 13, 2014, the respondent received from the Bureau of Internal Revenue (BIR) a Preliminary Assessment Notice (PAN) regarding its liability amounting to P377,038,679.55 arising from a deficiency in the payment of documentary stamp taxes (DST) for taxable year 2011. The respondent contested the PAN through its letter dated February 27, 2014, but the petitioner nonetheless sent to it a formal letter of demand dated March 27, 2014. Although the respondent requested reconsideration on April 22, 2014,^[4] it received on December 4, 2014 the Final Decision on Disputed Assessment (FDDA) dated November 25, 2014, declaring its liability for the DST deficiency, including interest and compromise penalty, totaling P418,830,567.46.^[5] On December 11, 2014, it sought reconsideration of the FDDA, and objected to the tax imposed pursuant to Section 184 of the NIRC as violative of the constitutional limitations on taxation.^[6]

Meanwhile, the respondent also received a demand for the payment of its deficiency income tax, value-added tax, premium tax, DST, expanded withholding tax, and fringe benefit tax for taxable year 2012,^[7] and deficiency DST for taxable year 2013.^[8]

On December 19, 2014, the respondent commenced Civil Case No. 14-1330 in the

RTC (with prayer for issuance of a temporary restraining order (TRO) or of a writ of preliminary injunction) for the judicial determination of the constitutionality of Section 108 and Section 184 of the NIRC with respect to the taxes to be paid by non-life insurance companies. In its petition, the respondent contended that the facts of the case must be appreciated in light of the effectivity of Republic Act (R.A.) No. 1000 I entitled *An Act Reducing the Taxes on Life Insurance Policies*, whereby the tax rate for life insurance premiums was reduced from 5% to 2%; and the pendency of deliberations on House Bill (H.B.) No. 3235 entitled *An Act Rationalizing the Taxes Imposed on Non-Life Insurance Policies*, whereby an equal treatment for both life and non-life companies was being sought as a response to the supposed inequality generated by the enactment of R.A. No. 10001.

On December 23, 2014, the RTC issued the TRO prayed for by enjoining the BIR, its agents, representatives, assignees, or any persons acting for and in its behalf from implementing the provisions of the NIRC adverted to with respect to the FDDA for the respondent's taxable year 2011, and to the pending assessments for taxable years 2012 and 2013.

Later, on January 13, 2015, the RTC issued the writ of preliminary injunction.

On May 8, 2015, the RTC rendered the assailed judgment wherein it opined that although taxes were self-assessing, the tax system merely created liability on the part of the taxpayers who still retained the right to contest the particular application of the tax laws; and holding that the exercise of such right to contest was not considered a breach of the provision itself as to deter the action for declaratory relief,^[9] and decreed thusly:

WHEREFORE, premises considered, the respondent, its agents, representatives, or any persons acting on its behalf is hereby permanently enjoined from proceeding with the implementation or enforcement of Sections 108 and 184 of the National Internal Revenue Code against petitioner Standard Insurance Co., Inc. until the Congress shall have enacted and passed into law House Bill No. 3235 in conformity with the provisions of the Constitution.

SO ORDERED.^[10]

The petitioner moved for reconsideration of the judgment, but on July 10, 2015 the RTC denied the motion for reconsideration.^[11]

Hence, the petitioner has appealed directly to the Court,^[12] stating that:

I.

THE TRIAL COURT ERRED IN TAKING COGNIZANCE OF THE INSTANT CASE BECAUSE A PETITION FOR DECLARATORY RELIEF IS NOT APPLICABLE TO CONTEST TAX ASSESSMENTS.

II.

THE TRIAL COURT ERRED IN TAKING COGNIZANCE OF THE INSTANT CASE BECAUSE THE PETITION FOR DECLARATORY RELIEF IS FATALLY

DEFECTIVE FOR FAILING TO SATISFY THE BASIC REQUISITES UNDER RULE 63 OF THE RULES OF COURT.

III.

THE TRIAL COURT ERRED IN ADJUDGING SECTIONS 108 AND 184 OF THE NIRC AS VIOLATIVE OF THE EQUAL PROTECTION CLAUSE.

IV.

THE TRIAL COURT GRAVELY ERRED IN GRANTING INJUNCTIVE RELIEF IN FAVOR OF RESPONDENT, THE SAME (I) BEING SPECIFICALLY PROHIBITED BY SECTION 218 OF THE NIRC; AND (II) HAVING BEEN GRANTED WITHOUT FACTUAL OR LEGAL BASIS.

V.

THE TRIAL COURT ERRED IN ACCORDING THE RELIEF ADJUDGED, GIVEN THAT: (A) THE RESULTANT REMEDY FALLS OUTSIDE THE PURVIEW OF AN ACTION FOR DECLARATORY RELIEF; AND (II) IT IS VIOLATIVE OF THE RULE THAT JUDICIAL DECISIONS MUST FINALLY DETERMINE THE RIGHTS, OBLIGATIONS AND RESPONSIBILITIES OF PARTIES.^[13]

Two substantial issues are presented for resolution. The first is the propriety of the action for declaratory relief; the other, the legal competence of the RTC to take cognizance of the action for declaratory relief.

Ruling of the Court

The appeal is meritorious.

1.

The injunctive relief is not available as a remedy to assail the collection of a tax

The more substantial reason that should have impelled the RTC to desist from taking cognizance of the respondent's petition for declaratory relief except to dismiss the petition was its lack of jurisdiction.

We start by reminding the respondent about the inflexible policy that taxes, being the lifeblood of the Government, should be collected promptly and without hindrance or delay. Obeisance to this policy is unquestionably dictated by law itself. Indeed, Section 218 of the NIRC expressly provides that "*[n]o court shall have the authority to grant an injunction to restrain the collection of any national internal revenue tax, fee or charge imposed by th[e] [NIRC].*"^[14] Also, pursuant to Section 11^[15] of R.A. No. 1125, as amended, the decisions or rulings of the Commissioner of Internal Revenue, among others, assessing any tax, or levying, or distraining, or selling any property of taxpayers for the satisfaction of their tax liabilities are immediately executory, and their enforcement is not to be suspended by any appeals thereof to the Court of Tax Appeals unless "*in the opinion of the Court [of Tax Appeals] the collection by the Bureau of Internal Revenue or the Commissioner of Customs may*

jeopardize the interest of the Government and/or the taxpayer," in which case the Court of Tax Appeals "at any stage of the proceeding may suspend the said collection and require the taxpayer either to deposit the amount claimed or to file a surety bond for not more than double the amount."

In view of the foregoing, the RTC not only grossly erred in giving due course to the petition for declaratory relief, and in ultimately deciding to permanently enjoin the enforcement of the specified provisions of the NIRC against the respondent, but even worse acted without jurisdiction.

2.

Action for declaratory relief was procedurally improper as a remedy

We further indicate that even assuming, *arguendo*, that the RTC had jurisdiction to act on the petition in Civil Case No. 14-1330, it nevertheless misappreciated the propriety of declaratory relief as a remedy.

An action for declaratory relief is governed by Section 1, Rule 63 of the *Rules of Court*.^[16] It is predicated on the attendance of several requisites, specifically: (1) the subject matter of the controversy must be a deed, will, contract or other written instrument, statute, executive order or regulation, or ordinance; (2) the terms of said documents and the validity thereof are doubtful and require judicial construction; (3) there must have been no breach of the documents in question; (4) there must be an actual justiciable controversy or the "ripening seeds" of one between persons whose interests are adverse; (5) the issue must be ripe for judicial determination; and (6) adequate relief is not available through other means or other forms of action or proceeding.^[17]

The third, fourth, fifth and sixth requisites were patently wanting.

Firstly, the third requisite was not met due to the subject of the action (*i.e.* statute) having been infringed or transgressed *prior to* the institution of the action.^[18] We observe in this regard that the RTC seemed to believe that the tax assessments issued had merely created a liability against the respondent as the taxpayer, and that its suit for declaratory relief was but consistent with protesting the assessments. The RTC's belief was absolutely devoid of legal foundation, however, simply because internal revenue taxes, being self-assessing, required no further assessment to give rise to the liability of the taxpayer.^[19]

Specifically, the assessments for DST deficiencies of the respondent for the years 2011, 2012 and 2013, as imposed pursuant to Section 184 of the NIRC were the subject of the respondent's petition for declaratory relief. Said legal provision states:

Section 184. *Stamp Tax on Policies of Insurance Upon Property.* - On all policies of insurance or other instruments by whatever name the same may be called, by which insurance shall be made or renewed upon property of any description, including rents or profits, against peril by sea or on inland waters, or by fire or lightning, there shall be collected a documentary stamp tax of Fifty centavos (P0.50) on each Four pesos (P4.00), or fractional part thereof, of the amount of premium charged: