

THIRD DIVISION

[G.R. NO. 158085, October 14, 2005]

**REPUBLIC OF THE PHILIPPINES, REPRESENTED BY THE
COMMISSIONER OF INTERNAL REVENUE, PETITIONER, VS.
SUNLIFE ASSURANCE COMPANY OF CANADA, RESPONDENT.**

D E C I S I O N

PANGANIBAN, J.:

Having satisfactorily proven to the Court of Tax Appeals, to the Court of Appeals and to this Court that it is a bona fide cooperative, respondent is entitled to exemption from the payment of taxes on life insurance premiums and documentary stamps. Not being governed by the Cooperative Code of the Philippines, it is not required to be registered with the Cooperative Development Authority in order to avail itself of the tax exemptions. Significantly, neither the Tax Code nor the Insurance Code mandates this administrative registration.

The Case

Before us is a Petition for Review^[1] under Rule 45 of the Rules of Court, seeking to nullify the January 23, 2003 Decision^[2] and the April 21, 2003 Resolution^[3] of the Court of Appeals (CA) in CA-GR SP No. 69125. The dispositive portion of the Decision reads as follows:

"WHEREFORE, the petition for review is hereby DENIED."^[4]

The Facts

The antecedents, as narrated by the CA, are as follows:

"Sun Life is a mutual life insurance company organized and existing under the laws of Canada. It is registered and authorized by the Securities and Exchange Commission and the Insurance Commission to engage in business in the Philippines as a mutual life insurance company with principal office at Paseo de Roxas, Legaspi Village, Makati City.

"On October 20, 1997, Sun Life filed with the [Commissioner of Internal Revenue] (CIR) its insurance premium tax return for the third quarter of 1997 and paid the premium tax in the amount of P31,485,834.51. For the period covering August 21 to December 18, 1997, petitioner filed with the CIR its [documentary stamp tax (DST)] declaration returns and paid the total amount of P30,000,000.00.

"On December 29, 1997, the [Court of Tax Appeals] (CTA) rendered its decision in *Insular Life Assurance Co. Ltd. v. [CIR]*, which held that mutual life insurance companies are purely cooperative companies and

are exempt from the payment of premium tax and DST. This pronouncement was later affirmed by this court in *[CIR] v. Insular Life Assurance Company, Ltd.* Sun Life surmised that[,] being a mutual life insurance company, it was likewise exempt from the payment of premium tax and DST. Hence, on August 20, 1999, Sun Life filed with the CIR an administrative claim for tax credit of its alleged erroneously paid premium tax and DST for the aforestated tax periods.

"For failure of the CIR to act upon the administrative claim for tax credit and with the 2-year period to file a claim for tax credit or refund dwindling away and about to expire, Sun Life filed with the CTA a petition for review on August 23, 1999. In its petition, it prayed for the issuance of a tax credit certificate in the amount of P61,485,834.51 representing P31,485,834.51 of erroneously paid premium tax for the third quarter of 1997 and P30,000[,000].00 of DST on policies of insurance from August 21 to December 18, 1997. Sun Life stood firm on its contention that it is a mutual life insurance company vested with all the characteristic features and elements of a cooperative company or association as defined in [S]ection 121 of the Tax Code. Primarily, the management and affairs of Sun Life were conducted by its members; secondly, it is operated with money collected from its members; and, lastly, it has for its purpose the mutual protection of its members and not for profit or gain.

"In its answer, the CIR, then respondent, raised as special and affirmative defenses the following:

"7. Petitioner's (Sun Life's) alleged claim for refund is subject to administrative routinary investigation/examination by respondent's (CIR's) Bureau.

"8. Petitioner must prove that it falls under the exception provided for under Section 121 (now 123) of the Tax Code to be exempted from premium tax and be entitled to the refund sought.

"9. Claims for tax refund/credit are construed strictly against the claimants thereof as they are in the nature of exemption from payment of tax.

"10. In an action for tax credit/refund, the burden is upon the taxpayer to establish its right thereto, and failure to sustain this burden is fatal to said claim x x x.

"11. It is incumbent upon petitioner to show that it has complied with the provisions of Section 204[,] in relation to Section 229, both in the 1997 Tax Code."

"On November 12, 2002, the CTA found in favor of Sun Life. Quoting largely from its earlier findings in *Insular Life Assurance Company, Ltd. v. [CIR]*, which it found to be on all fours with the present action, the CTA ruled:

"The [CA] has already spoken. It ruled that a mutual life insurance company is a purely cooperative company[;] thus, exempted from the payment of premium and documentary stamp taxes. Petitioner Sun Life is without doubt a mutual life insurance company. x x x.

x x x x x x x x x

"Being similarly situated with Insular, Petitioner at bar is entitled to the same interpretation given by this Court in the earlier cases of *The Insular Life Assurance Company, Ltd. vs. [CIR]* (CTA Case Nos. 5336 and 5601) and by the [CA] in the case entitled *[CIR] vs. The Insular Life Assurance Company, Ltd., C.A. G.R. SP No. 46516, September 29, 1998*. Petitioner Sun Life as a mutual life insurance company is[,] therefore[,] a cooperative company or association and is exempted from the payment of premium tax and [DST] on policies of insurance pursuant to Section 121 (now Section 123) and Section 199^[1] (now Section 199[a]) of the Tax Code."

"Seeking reconsideration of the decision of the CTA, the CIR argued that Sun Life ought to have registered, foremost, with the Cooperative Development Authority before it could enjoy the exemptions from premium tax and DST extended to purely cooperative companies or associations under [S]ections 121 and 199 of the Tax Code. For its failure to register, it could not avail of the exemptions prayed for. Moreover, the CIR alleged that Sun Life failed to prove that ownership of the company was vested in its members who are entitled to vote and elect the Board of Trustees among [them]. The CIR further claimed that change in the 1997 Tax Code subjecting mutual life insurance companies to the regular corporate income tax rate reflected the legislature's recognition that these companies must be earning profits.

"Notwithstanding these arguments, the CTA denied the CIR's motion for reconsideration.

"Thwarted anew but nonetheless undaunted, the CIR comes to this court via this petition on the sole ground that:

"The Tax Court erred in granting the refund[,] because respondent does not fall under the exception provided for under Section 121 (now 123) of the Tax Code to be exempted from premium tax and DST and be entitled to the refund."

"The CIR repleads the arguments it raised with the CTA and proposes further that the [CA] decision in *[CIR] v. Insular Life Assurance Company, Ltd.* is not controlling and cannot constitute *res judicata* in the present action. At best, the pronouncements are merely persuasive as the decisions of the Supreme Court alone have a universal and mandatory effect."^[5]

Ruling of the Court of Appeals

In upholding the CTA, the CA reasoned that respondent was a purely cooperative corporation duly licensed to engage in mutual life insurance business in the Philippines. Thus, respondent was deemed exempt from premium and documentary stamp taxes, because its affairs are managed and conducted by its members with money collected from among themselves, solely for their own protection, and not for profit. Its members or policyholders constituted both insurer and insured who contribute, by a system of premiums or assessments, to the creation of a fund from which all losses and liabilities were paid. The dividends it distributed to them were not profits, but returns of amounts that had been overcharged them for insurance.

For having satisfactorily shown with substantial evidence that it had erroneously paid and seasonably filed its claim for premium and documentary stamp taxes, respondent was entitled to a refund, the CA ruled.

Hence, this Petition.^[6]

The Issues

Petitioner raises the following issues for our consideration:

"I.

"Whether or not respondent is a purely cooperative company or association under Section 121 of the National Internal Revenue Code and a fraternal or beneficiary society, order or cooperative company on the lodge system or local cooperation plan and organized and conducted solely by the members thereof for the exclusive benefit of each member and not for profit under Section 199 of the National Internal Revenue Code.

"II.

"Whether or not registration with the Cooperative Development Authority is a sine qua non requirement to be entitled to tax exemption.

"III.

"Whether or not respondent is exempted from payment of tax on life insurance premiums and documentary stamp tax."^[7]

We shall tackle the issues *seriatim*.

The Court's Ruling

The Petition has no merit.

First Issue:

Whether Respondent Is a Cooperative

The Tax Code defines a cooperative as an association "conducted by the members thereof with the money collected from among themselves and solely for their own

protection and not for profit."^[8] Without a doubt, respondent is a cooperative engaged in a mutual life insurance business.

First, it is managed by its members. Both the CA and the CTA found that the management and affairs of respondent were conducted by its member-policyholders.^[9]

A stock insurance company doing business in the Philippines may "alter its organization and transform itself into a mutual insurance company."^[10] Respondent has been mutualized or converted from a stock life insurance company to a nonstock mutual life insurance corporation^[11] pursuant to Section 266 of the Insurance Code of 1978.^[12] On the basis of its bylaws, its ownership has been vested in its member-policyholders who are each entitled to one vote;^[13] and who, in turn, elect from among themselves the members of its board of trustees.^[14] Being the governing body of a nonstock corporation, the board exercises corporate powers, lays down all corporate business policies, and assumes responsibility for the efficiency of management.^[15]

Second, it is operated with money collected from its members. Since respondent is composed entirely of members who are also its policyholders, all premiums collected obviously come only from them.^[16]

The member-policyholders constitute "both insurer and insured"^[17] who "contribute, by a system of premiums or assessments, to the creation of a fund from which all losses and liabilities are paid."^[18] The premiums^[19] pooled into this fund are earmarked for the payment of their indemnity and benefit claims.

Third, it is licensed for the mutual protection of its members, not for the profit of anyone.

As early as October 30, 1947, the director of commerce had already issued a license to respondent -- a corporation organized and existing under the laws of Canada -- to engage in business in the Philippines.^[20] Pursuant to Section 225 of Canada's Insurance Companies Act, the Canadian minister of state (for finance and privatization) also declared in its Amending Letters Patent that respondent would be a mutual company effective June 1, 1992.^[21] In the Philippines, the insurance commissioner also granted it annual Certificates of Authority to transact life insurance business, the most relevant of which were dated July 1, 1997 and July 1, 1998.^[22]

A mutual life insurance company is conducted for the benefit of its member-policyholders,^[23] who pay into its capital by way of premiums. To that extent, they are responsible for the payment of all its losses.^[24] "The cash paid in for premiums and the premium notes constitute their assets x x x."^[25] In the event that the company itself fails before the terms of the policies expire, the member-policyholders do not acquire the status of creditors.^[26] Rather, they simply become debtors for whatever premiums that they have originally agreed to pay the company, if they have not yet paid those amounts in full, for "[m]utual companies x