

FIRST DIVISION

[G.R. No. 119176, March 19, 2002]

**COMMISSIONER OF INTERNAL REVENUE, PETITIONER, VS.
LINCOLN PHILIPPINE LIFE INSURANCE COMPANY, INC. (NOW
JARDINE-CMA LIFE INSURANCE COMPANY, INC.) AND THE
COURT OF APPEALS, RESPONDENTS.**

DECISION

KAPUNAN, J.:

This is a petition for review on *certiorari* filed by the Commission on Internal Revenue of the decision of the Court of Appeals dated November 18, 1994 in C.A. G.R. SP No. 31224 which reversed in part the decision of the Court of Tax Appeals in C.T.A. Case No. 4583.

The facts of the case are undisputed.

Private respondent Lincoln Philippine Life Insurance Co., Inc., (now Jardine-CMA Life Insurance Company, Inc.) is a domestic corporation registered with the Securities and Exchange Commission and engaged in life insurance business. In the years prior to 1984, private respondent issued a special kind of life insurance policy known as the "Junior Estate Builder Policy," the distinguishing feature of which is a clause providing for an automatic increase in the amount of life insurance coverage upon attainment of a certain age by the insured without the need of issuing a new policy. The clause was to take effect in the year 1984. Documentary stamp taxes due on the policy were paid by petitioner only on the initial sum assured.

In 1984, private respondent also issued 50,000 shares of stock dividends with a par value of P100.00 per share or a total par value of P5,000,000.00. The actual value of said shares, represented by its book value, was P19,307,500.00. Documentary stamp taxes were paid based only on the par value of P5,000,000.00 and not on the book value.

Subsequently, petitioner issued deficiency documentary stamps tax assessment for the year 1984 in the amounts of (a) P464,898.75, corresponding to the amount of automatic increase of the sum assured on the policy issued by respondent, and (b) P78,991.25 corresponding to the book value in excess of the par value of the stock dividends. The computation of the deficiency documentary stamp taxes is as follows:

On Policies Issued:

Total policy issued
during the year

P1,360,054,000.00

Documentary stamp tax due thereon (P1,360,054,000.00 divided by P200.00 multiplied by P0.35)	P 2,380,094.50
Less: Payment	P1,915,495.75
Deficiency	P 464,598.75
Add: Compromise Penalty	300.00

TOTAL AMOUNT DUE & COLLECTIBLE	P464,898.75

Private respondent questioned the deficiency assessments and sought their cancellation in a petition filed in the Court of Tax Appeals, docketed as CTA Case No. 4583.

On March 30, 1993, the Court of Tax Appeals found no valid basis for the deficiency tax assessment on the stock dividends, as well as on the insurance policy. The dispositive portion of the CTA's decision reads:

WHEREFORE, the deficiency documentary stamp tax assessments in the amount of P464,898.76 and P78,991.25 or a total of P543,890.01 are hereby cancelled for lack of merit. Respondent Commissioner of Internal Revenue is ordered to desist from collecting said deficiency documentary stamp taxes for the same are considered withdrawn.

SO ORDERED.^[1]

Petitioner appealed the CTA's decision to the Court of Appeals. On November 18, 1994, the Court of Appeals promulgated a decision affirming the CTA's decision insofar as it nullified the deficiency assessment on the insurance policy, but reversing the same with regard to the deficiency assessment on the stock dividends. The CTA ruled that the correct basis of the documentary stamp tax due on the stock dividends is the actual value or book value represented by the shares. The dispositive portion of the Court of Appeals' decision states:

IN VIEW OF ALL THE FOREGOING, the decision appealed from is hereby *REVERSED* with respect to the deficiency tax assessment on the stock dividends, but *AFFIRMED* with regards to the assessment on the Insurance Policies. Consequently, private respondent is ordered to pay the petitioner herein the sum of P78,991.25, representing documentary stamp tax on the stock dividends it issued. No costs pronouncement.

SO ORDERED.^[2]

A motion for reconsideration of the decision having been denied,^[3] both the Commissioner of Internal Revenue and private respondent appealed to this Court, docketed as G.R. No. 118043 and G.R. No. 119176, respectively. In G.R. No. 118043, private respondent appealed the decision of the Court of Appeals insofar as it upheld the validity of the deficiency tax assessment on the stock dividends. The Commissioner of Internal Revenue, on his part, filed the present petition questioning that portion of the Court of Appeals' decision which invalidated the deficiency assessment on the insurance policy, attributing the following errors:

THE HONORABLE COURT OF APPEALS ERRED WHEN IT RULED THAT THERE IS A SINGLE AGREEMENT EMBODIED IN THE POLICY AND THAT THE AUTOMATIC INCREASE CLAUSE IS NOT A SEPARATE AGREEMENT, CONTRARY TO SECTION 49 OF THE INSURANCE CODE AND SECTION 183 OF THE REVENUE CODE THAT A RIDER, A CLAUSE IS PART OF THE POLICY.

THE HONORABLE COURT OF APPEALS ERRED IN NOT COMPUTING THE AMOUNT OF TAX ON THE TOTAL VALUE OF THE INSURANCE ASSURED IN THE POLICY INCLUDING THE ADDITIONAL INCREASE ASSURED BY THE AUTOMATIC INCREASE CLAUSE DESPITE ITS RULING THAT THE ORIGINAL POLICY AND THE AUTOMATIC CLAUSE CONSTITUTED ONLY A SINGULAR TRANSACTION.^[4]

Section 173 of the National Internal Revenue Code on documentary stamp taxes provides:

Sec. 173. Stamp taxes upon documents, instruments and papers.

- Upon documents, instruments, loan agreements, and papers, and upon acceptances, assignments, sales, and transfers of the obligation, right or property incident thereto, there shall be levied, collected and paid for, and in respect of the transaction so had or accomplished, the corresponding documentary stamp taxes prescribed in the following section of this Title, by the person making, signing, issuing, accepting, or transferring the same wherever the document is made, signed, issued, accepted, or transferred when the obligation or right arises from Philippine sources or the property is situated in the Philippines, and at the same time such act is done or transaction had: **Provided**, That whenever one party to the taxable document enjoys exemption from the tax herein imposed, the other party thereto who is not exempt shall be the one directly liable for the tax. (As amended by PD No. 1994) The basis for the value of documentary stamp taxes to be paid on the insurance policy is Section 183 of the National Internal Revenue Code which states in part:

The basis for the value of documentary stamp taxes to be paid on the insurance policy is Section 183 of the National Internal Revenue Code which states in part:

Sec. 183. Stamp tax on life insurance policies. - On all policies of insurance or other instruments by whatever name the same may be called, whereby any insurance shall be made or renewed upon any life or lives, there shall be collected a documentary stamp tax of thirty (now 50c) centavos on each Two hundred pesos per fractional part thereof, of the amount insured by any such policy.

Petitioner claims that the "automatic increase clause" in the subject insurance policy is separate and distinct from the main agreement and involves another transaction; and that, while no new policy was issued, the original policy was essentially re-issued when the additional obligation was assumed upon the effectivity of this "automatic increase clause" in 1984; hence, a deficiency assessment based on the additional insurance not covered in the main policy is in order.

The Court of Appeals sustained the CTA's ruling that there was only one transaction