

SECOND DIVISION

[G.R. No. 132269, April 27, 2000]

HARRISON MOTORS CORPORATION, PETITIONER, VS. RACHEL A. NAVARRO, RESPONDENT.

DECISION

BELLOSILLO, J.:

This is a review on certiorari of the Decision of the Court of Appeals affirming that of the Regional Trial Court of Makati which ordered petitioner to pay private respondent P32,943.00 as reimbursement for taxes paid, P7,500.00 as attorney's fees and the costs of suit.^[1]

Sometime in June of 1987 Harrison Motors Corporation through its president, Renato Claros, sold two (2) Isuzu Elf trucks to private respondent Rachel Navarro, owner of RN Freight Lines, a franchise holder operating and maintaining a fleet of cargo trucks all over Luzon. Petitioner, a known importer, assembler and manufacturer, assembled the two (2) trucks using imported component parts.^[2] Prior to the sale, Renato Claros represented to private respondent that all the BIR taxes and customs duties for the parts used on the two (2) trucks had been paid for.^[3]

On 10 September 1987 the Bureau of Internal Revenue (BIR) and the Land Transportation Office (LTO) entered into a *Memorandum of Agreement* (MOA) which provided that prior to registration in the LTO of any assembled or re-assembled motor vehicle which used imported parts, a *Certificate of Payment* should first be obtained from the BIR to prove payment of all taxes required under existing laws.^[4]

On 12 October 1987 the Bureau of Customs (BOC) issued Customs Memorandum Order No. 44-87 promulgating rules, regulations and procedure for the voluntary payment of duties and taxes on imported motor vehicles assembled by non-assemblers.^[5]

Pursuant to the 10 September 1987 MOA between the BIR and the LTO, the BIR issued on 18 December 1987 *Revenue Memorandum Order No. 44-87* which provided the procedure governing the processing and issuance of the *Certificate of Payment* of internal revenue taxes for purposes of registering motor vehicles.^[6]

On 16 June 1988 the BIR, BOC and LTO entered into a tripartite MOA which provided that prior to the registration in the LTO of any locally assembled motor vehicle using imported component parts, a *Certificate of Payment* should first be obtained from the BIR and the BOC to prove that all existing taxes and customs duties have been paid.^[7]

In December of 1988 government agents seized and detained the two (2) Elf trucks of respondent after discovering that there were still unpaid BIR taxes and customs duties thereon. The BIR and the BOC ordered private respondent to pay the proper assessments or her trucks would be impounded.^[8] Private respondent went to Claros to ask for the receipts evidencing payment of BIR taxes and customs duties; however, Claros refused to comply.^[9] Private respondent then demanded from Claros that he pay the assessed taxes and warned him that he would have to reimburse her should she be forced to pay for the assessments herself. Her demands were again ignored.

But wanting to secure the immediate release of the trucks to comply with her business commitments, private respondent paid the assessed BIR taxes and customs duties amounting to P32,943.00.^[10] Consequently, she returned to petitioner's office to ask for reimbursement, but petitioner again refused, prompting her to send a demand letter through her lawyer.^[11] When petitioner still ignored her letter, she filed a complaint for a sum of money on 24 September 1990 with the Regional Trial Court of Makati.^[12]

On 24 May 1991 private respondent filed a *Motion to Declare Defendant in Default* which was granted by the RTC on the same day.

On 18 November 1991 private respondent filed a *Manifestation and Motion* praying for the scheduling of the reception of her evidence ex-parte since petitioner had not as yet filed a *Motion to Lift Order of Default*. Thus, on 22 November 1991 the trial court ordered the reception of private respondent's evidence ex-parte.^[13]

It was only on 2 December 1991 when petitioner finally filed a *Motion to Lift Order of Default*. However, on 20 January 1992 the trial court denied petitioner's motion for its failure to attach an affidavit of merit showing that it had a valid and meritorious defense.^[14]

On 5 March 1992 the trial court rendered a decision ordering petitioner to reimburse private respondent in the amount of P32,943.00 for the customs duties and internal revenue taxes the latter had to pay to discharge her two (2) Elf trucks from government custody. Petitioner was also required to pay P7,500.00 for attorney's fees plus the costs.^[15]

The Court of Appeals subsequently sustained the lower court, hence this recourse of petitioner.^[16]

Petitioner argues that it was no longer obliged to pay for the additional taxes and customs duties imposed on the imported component parts by the *Memorandum Orders* and the two (2) *Memoranda of Agreement* since such administrative regulations only took effect after the execution of its contract of sale with private respondent. Holding it liable for payment of the taxes specified in the administrative regulations, which have the force and effect of laws, would not only violate the non-impairment clause of the Constitution but also the principle of non-retroactivity of laws provided in Art. 4 of the Civil Code.^[17] Furthermore, petitioner claims that it did pay the assessed taxes and duties otherwise it would not have been able to secure the release of such spare parts from the customs and to register the vehicles

with the LTO under its name.

The records however reveal that the *Memorandum Orders* and *Memoranda of Agreement* do not impose any additional BIR taxes or customs duties.

Customs Memorandum Order No. 44-87 is concerned with the *Rules, Regulations and Procedures in the Payment of Duties and Taxes on Imported Vehicles Locally Assembled by Non-Assemblers*.^[18] It does not charge any new tax. It simply provides the procedure on how owners/consignees or their purchasers could voluntarily initiate payment for any unpaid customs duties on locally assembled vehicles using imported component parts.

Neither does *BIR Revenue Memorandum Order No. 44-87*^[19] exact any tax. It merely outlines the procedure which governs the processing and issuance of the *Certificate of Payment* of internal revenue taxes for purposes of registering motor vehicles with the LTO. It was passed pursuant to the MOA entered into by the LTO and the BIR on 10 September 1987 implementing Secs. 135-A and 163 of the 1987 National Internal Revenue Code (NIRC).^[20]

It is likewise futile for petitioner to insist that the MOA executed by the BIR and the LTO on 10 September 1987, and the tripartite MOA executed by the BIR, LTO and BOC on 16 June 1988 are administrative regulations prescribing additional taxes.

An examination of the 10 September 1987 MOA shows that it was executed by the BIR and the LTO to curb the scheme employed by unscrupulous importers who evade paying the correct taxes and customs duties on imported vehicles by importing its parts, assembling them locally, and subsequently selling the finished products to local buyers. The aforementioned MOA mandated that prior to registration in the LTO of any assembled automobile using imported parts, a *Certificate of Payment* should first be obtained from the BIR which would then transmit the *Certificate* to the LTO to prove that all the BIR taxes required under existing laws have been paid.

The 16 June 1988 tripartite MOA among the BIR, LTO and the BOC virtually contained the same provisions. The MOA provided that prior to registration with the LTO of any assembled motor vehicle using imported component parts, a *Certificate of Payment* should first be secured from the BIR or the BOC which should then be duly forwarded to LTO. The *Certificate* would serve as proof that all taxes and customs duties required under existing laws, rules and regulations had already been settled.

Clearly, petitioner's contention is unmeritorious. What Sec. 10, Art. III, of the Constitution prohibits is the passage of a law which enlarges, abridges or in any manner changes the intention of the contracting parties.^[21] The *Memorandum Orders* and the two (2) *Memoranda of Agreement* do not impose any additional taxes which would unduly impair the contract of sale between petitioner and private respondent. Instead, these administrative regulations were passed to enforce payment of existing BIR taxes and customs duties at the time of importation.

But who should pay the BIR taxes and customs duties which the administrative regulations sought to enforce?

Petitioner contends that private respondent should be the one to pay the internal revenue taxes and customs duties. It claims that at the time the *Memorandum Orders* and the two (2) *Memoranda of Agreement* took effect the two (2) Elf trucks were already sold to private respondent, thus, it no longer owned the vehicles. Whatever payments private respondent made to the government after the sale were solely her concern and such burden should not be passed on to petitioner.^[22] Petitioner further argues that holding it liable for payment of BIR taxes and customs duties required under the administrative regulations violates the principle of non-retroactivity of laws under the Civil Code.

Such contention deserves scant consideration. It is true that administrative rulings and regulations are generally prospective in nature.^[23] An inspection of the two (2) *Memoranda of Agreement* however demonstrates that their intent is to enforce payment of taxes on assemblers/manufacturers who import component parts without paying the correct assessments. The *WHEREAS* clause of the 10 September 1987 MOA clearly illustrates this -

WHEREAS, in order to avoid or evade the higher taxes on imported motor vehicles, certain persons import parts and assemble and re-assemble them into complete motor vehicles, or assemble or re-assemble motor vehicles using imported parts;

While the *WHEREAS* clause of the 16 June 1988 MOA provides -

WHEREAS, in order to avoid or evade the higher taxes on imported motor vehicles, certain persons, firms or corporations who are non-BOI licensed assemblers of imported motor vehicle component parts would assemble or re-assemble them into whole unit motor vehicles;

It is also apparent in Par. 9 of the 16 June 1988 MOA that the taxes to be enforced are designated as assembler's/manufacturer's tax. It states -

9. The BIR shall collect the assembler's/manufacturer's tax, while the BOC shall collect the duties and taxes and ad valorem tax.

Thus, although private respondent is the one required by the administrative regulations to secure the *Certificate of Payment* for the purpose of registration, petitioner as the importer and the assembler/manufacturer of the two (2) Elf trucks is still the one liable for payment of revenue taxes and customs duties. Petitioner's obligation to pay does not arise from the administrative regulations but from the tax laws existing at the time of importation. Hence, even if private respondent already owned the two (2) trucks when the *Memorandum Orders* and *Memoranda of Agreement* took effect, the fact remains that petitioner was still the one duty-bound to pay for the BIR taxes and customs duties.

It is also quite obvious that as between petitioner, who is the importer-assembler/manufacturer, and private respondent, who is merely the buyer, it is petitioner which has the obligation to pay taxes to the BIR and the BOC. Petitioner would be unjustly enriched if private respondent should be denied reimbursement.^[24] It would inequitably amass profits from selling assembled trucks even if it did not pay the taxes due on its imported spare parts. Imposing the tax burden on