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[G.R. No. 117359, July 23, 1998]

DAVAO GULF LUMBER CORPORATION, PETITIONER, VS. COMMISSIONER OF INTERNAL REVENUE AND COURT OF APPEALS, RESPONDENTS.

D E C I S I O N

PANGANIBAN, J.:

Because taxes are the lifeblood of the nation, statutes that allow exemptions are construed strictly against the grantee and liberally in favor of the government. Otherwise stated, any exemption from the payment of a tax must be clearly stated in the language of the law; it cannot be merely implied therefrom.

Statement of the Case

This *principium* is applied by the Court in resolving this petition for review under Rule 45 of the Rules of Court, assailing the Decision[1] of Respondent Court of Appeals[2] in CA-GR SP No. 34581 dated September 26, 1994, which affirmed the June 21, 1994 Decision[3] of the Court of Tax Appeals[4] in CTA Case No. 3574. The dispositive portion of the CTA Decision affirmed by Respondent Court reads:

> "WHEREFORE, judgment is hereby rendered ordering the respondent to refund to the petitioner the amount of P2,923.15 representing the partial refund of specific taxes paid on manufactured oils and fuels."[5]

The Antecedent Facts

The facts are undisputed.[6] Petitioner is a licensed forest concessionaire possessing a Timber License Agreement granted by the Ministry of Natural Resources (now Department of Environment and Natural Resources). From July 1, 1980 to January 31, 1982 petitioner purchased, from various oil companies, refined and manufactured mineral oils as well as motor and diesel fuels, which it used exclusively for the exploitation and operation of its forest concession. Said oil companies paid the specific taxes imposed, under Sections 153 and 156[7] of the 1977 National Internal Revenue Code (NIRC), on the sale of said products. Being included in the purchase price of the oil products, the specific taxes paid by the oil companies were eventually passed on to the user, the petitioner in this case.

On December 13, 1982, petitioner filed before Respondent Commissioner of Internal Revenue (CIR) a claim for refund in the amount of P120,825.11, representing 25% of the specific taxes actually paid on the above-mentioned fuels and oils that were used by petitioner in its operations as forest concessionaire. The claim was based on

Insular Lumber Co. vs. Court of Tax Appeals[8] and Section 5 of RA 1435 which reads:

> "Section 5. The proceeds of the additional tax on manufactured oils shall accrue to the road and bridge funds of the political subdivision for whose benefit the tax is collected: Provided, however, That whenever any oils mentioned above are used by miners or forest concessionaires in their operations, twenty-five per centum of the specific tax paid thereon shall be refunded by the Collector of Internal Revenue upon submission of proof of actual use of oils and under similar conditions enumerated in subparagraphs one and two of section one hereof, amending section one hundred forty-two of the Internal Revenue Code: Provided, further, That no new road shall be constructed unless the routes or location thereof shall have been approved by the Commissioner of Public Highways after a determination that such road can be made part of an integral and articulated route in the Philippine Highway System, as required in section twenty-six of the Philippine Highway Act of 1953."

It is an unquestioned fact that petitioner complied with the procedure for refund, including the submission of proof of the actual use of the aforementioned oils in its forest concession as required by the above-quoted law. Petitioner, in support of its claim for refund, submitted to the CIR the affidavits of its general manager, the president of the Philippine Wood Products Association, and three disinterested persons, all attesting that the said manufactured diesel and fuel oils were actually used in the exploitation and operation of its forest concession.

On January 20, 1983, petitioner filed at the CTA a petition for review docketed as CTA Case No. 3574. On June 21, 1994, the CTA rendered its decision finding petitioner entitled to a partial refund of specific taxes the latter had paid in the reduced amount of P2,923.15. The CTA ruled that the claim on purchases of lubricating oil (from July 1, 1980 to January 19, 1981), and on manufactured oils other than lubricating oils (from July 1, 1980 to January 4, 1981) had prescribed. Disallowed on the ground that they were not included in the original claim filed before the CIR were the claims for refund on purchases of manufactured oils from January 1, 1980 to June 30, 1980 and from February 1, 1982 to June 30, 1982. In regard to the other purchases, the CTA granted the claim, but it computed the refund based on rates deemed paid under RA 1435, and not on the higher rates actually paid by petitioner under the NIRC.

Insisting that the basis for computing the refund should be the increased rates prescribed by Sections 153 and 156 of the NIRC, petitioner elevated the matter to the Court of Appeals. As noted earlier, the Court of Appeals affirmed the CTA Decision. Hence, this petition for review.[9]

Public Respondent's Ruling

In its petition before the Court of Appeals, petitioner raised the following arguments:

> "I. The respondent Court of Tax Appeals failed to apply the Supreme

Court's Decision in Insular Lumber Co. v. Court of Tax Appeals which granted the claim for partial refund of specific taxes paid by the claimant, without qualification or limitation.

"II. The respondent Court of Tax Appeals ignored the increase in rates imposed by succeeding amendatory laws, under which the petitioner paid the specific taxes on manufactured and diesel fuels.

"III. In its decision, the respondent Court of Tax Appeals ruled contrary to established tenets of law when it lent itself to interpreting Section 5 of R.A. 1435, when the construction of said law is not necessary.

"IV. Sections 1 and 2 of R.A. 1435 are not the operative provisions to be applied but rather, Sections 153 and 156 of the National Internal Revenue Code, as amended.

"V. To rule that the basis for computation of the refunded taxes should be Sections 1 and 2 of R.A. 1435 rather than Section 153 and 156 of the National Internal Revenue Code is unfair, erroneous, arbitrary, inequitable and oppressive."[10]

The Court of Appeals held that the claim for refund should indeed be computed on the basis of the amounts deemed paid under Sections 1 and 2 of RA 1435. In so ruling, it cited our pronouncement in Commissioner of Internal Revenue v. Rio Tuba Nickel Mining Corporation[11] and our subsequent Resolution dated June 15, 1992 clarifying the said Decision. Respondent Court further ruled that the claims for refund which prescribed and those which were not filed at the administrative level must be excluded.

The Issue

In its Memorandum, petitioner raises one critical issue:

"Whether or not petitioner is entitled under Republic Act No. 1435 to the refund of 25% of the amount of specific taxes it actually paid on various refined and manufactured mineral oils and other oil products taxed under Sec. 153 and Sec. 156 of the 1977 (Sec. 142 and Sec. 145 of the 1939) National Internal Revenue Code."[12]

In the main, the question before us pertains only to the computation of the tax refund. Petitioner argues that the refund should be based on the increased rates of specific taxes which it actually paid, as prescribed in Sections 153 and 156 of the NIRC. Public respondent, on the other hand, contends that it should be based on specific taxes deemed paid under Sections 1 and 2 of RA 1435.

The Court's Ruling

The petition is not meritorious.

Petitioner Entitled to Refund Under Sec. 5 of RA 1435

At the outset, it must be stressed that petitioner is entitled to a partial refund under Section 5 of RA 1435, which was enacted to provide means for increasing the Highway Special Fund.

The rationale for this grant of partial refund of specific taxes paid on purchases of manufactured diesel and fuel oils rests on the character of the Highway Special Fund. The specific taxes collected on gasoline and fuel accrue to the Fund, which is to be used for the construction and maintenance of the highway system. But because the gasoline and fuel purchased by mining and lumber concessionaires are used within their own compounds and roads, and their vehicles seldom use the national highways, they do not directly benefit from the Fund and its use. Hence, the tax refund gives the mining and the logging companies a measure of relief in light of their peculiar situation.[13] When the Highway Special Fund was abolished in 1985, the reason for the refund likewise ceased to exist.[14] Since petitioner purchased the subject manufactured diesel and fuel oils from July 1, 1980 to January 31, 1982 and submitted the required proof that these were actually used in operating its forest concession, it is entitled to claim the refund under Section 5 of RA 1435.

Tax Refund Strictly Construed Against the Grantee

Petitioner submits that it is entitled to the refund of 25 percent of the specific taxes it had actually paid for the petroleum products used in its operations. In other words, it claims a refund based on the increased rates under Sections 153 and 156 of the NIRC.[15] Petitioner argues that the statutory grant of the refund privilege, specifically the phrase "twenty-five per centum of the specific tax paid thereon shall be refunded by the Collector of Internal Revenue," is "clear and unambiguous" enough to require construction or qualification thereof.[16] In addition, it cites our pronouncement in *Insular Lumber vs. Court of Tax Appeals:*[17]

> "x x x Section 5 [of RA 1435] makes reference to subparagraphs 1 and 2 of Section 1 only for the purpose of prescribing the procedure for refund. This express reference cannot be expanded in scope to include the limitation of the period of refund. If the limitation of the period of refund of specific taxes paid on oils used in aviation and agriculture is intended to cover similar taxes paid on oil used by miners and forest concessionaires, there would have been no need of dealing with oil used by miners and forest concessions separately and Section 5 would very well have been included in Section 1 of Republic Act No. 1435, notwithstanding the different rate of exemption."

Petitioner then reasons that "the express mention of Section 1 of RA 1435 in Section 5 cannot be expanded to include a limitation on the tax rates to be applied x x x [otherwise,] Section 5 should very well have been included in Section 1 x x x."[18]

The Court is not persuaded. The relevant statutory provisions do not clearly support petitioner's claim for refund. RA 1435 provides:

"SECTION 1. Section one hundred and forty-two of the National Internal Revenue Code, as amended, is further amended to read as follows:

"SEC. 142. *Specific tax on manufactured oils and other fuels.* -- On refined and manufactured mineral oils and motor fuels, there shall be collected the following taxes:

"(a) Kerosene or petroleum, per liter of volume capacity, two and one-half centavos;

"(b) Lubricating oils, per liter of volume capacity, seven centavos;

"(c) Naptha, gasoline, and all other similar products of distillation, per liter of volume capacity, eight centavos; and

"(d) On denatured alcohol to be used for motive power, per liter of volume capacity, one centavo: Provided, That if the denatured alcohol is mixed with gasoline, the specific tax on which has already been paid, only the alcohol content shall be subject to the tax herein prescribed. For the purpose of this subsection, the removal of denatured alcohol of not less than one hundred eighty degrees proof (ninety *per centum* absolute alcohol) shall be deemed to have been removed for motive power, unless shown to the contrary.

"Whenever any of the oils mentioned above are, during the five years from June eighteen, nineteen hundred and fifty two, used in agriculture and aviation, fifty *per centum* of the specific tax paid thereon shall be refunded by the Collector of Internal Revenue upon the submission of the following:

(1) A sworn affidavit of the producer and two disinterested persons proving that the said oils were actually used in agriculture, or in lieu thereof

"(2) Should the producer belong to any producers' association or federation, duly registered with the Securities and Exchange Commission, the affidavit of the president of the association or federation, attesting to the fact that the oils were actually used in agriculture.

"(3) In the case of aviation oils, a sworn certificate satisfactory to the Collector proving that the said oils were actually used in aviation: Provided, That no such refunds shall be granted in respect to the oils used in aviation by citizens and corporations of foreign countries which do not grant equivalent refunds or exemptions in respect to similar oils used in aviation by citizens and corporations of the Philippines."

SEC. 2. Section one hundred and forty-five of the National Internal Revenue Code, as amended, is further amended to read as follows:

"SEC. 145. *Specific Tax on Diesel fuel oil.* -- On fuel oil, commercially known as diesel fuel oil, and on all similar fuel oils, having more or less the same generating power, there shall be collected, per metric ton, one