661 Phil. 136

FIRST DIVISION

[G.R. No. 169103, March 16, 2011]

COMMISSIONER OF INTERNAL REVENUE, PETITIONER, VS. MANILA BANKERS' LIFE INSURANCE CORPORATION, RESPONDENT.

D E C I S I O N

LEONARDO-DE CASTRO, J.:

This is a Petition for Review on *Certiorari*[1] filed by the Commissioner of Internal Revenue (CIR) of the April 29, 2005 Decision[2] and July 27, 2005 Resolution[3] of the Court of Appeals in CA-G.R. SP No. 70600, which upheld the April 4, 2002 Decision[4] of the Court of Tax Appeals (CTA) in CTA Case No. 6189.

The facts as found by the CTA and Court of Appeals are undisputed.

Respondent Manila Bankers' Life Insurance Corporation is a duly organized domestic corporation primarily engaged in the life insurance business.[5]

On May 28, 1999, petitioner Commissioner of Internal Revenue issued Letter of Authority No. 000020705[6] authorizing a special team of Revenue Officers to examine the books of accounts and other accounting records of respondent for taxable year "1997 & unverified prior years."[7]

On December 14, 1999, based on the findings of the Revenue Officers, the petitioner issued a Preliminary Assessment Notice[8] against the respondent for its deficiency internal revenue taxes for the year 1997. The respondent agreed to all the assessments issued against it except to the amount of P2,351,680.90 representing deficiency documentary stamp taxes on its policy premiums and penalties. [9]

Thus, on January 4, 2000, the petitioner issued against the respondent a Formal Letter of Demand[10] with the corresponding Assessment Notices attached,[11] one of which was **Assessment Notice No. ST-DST2-97-0054-2000**[12] pertaining to the documentary stamp taxes due on respondent's policy premiums:

Documentary Stamp Tax on Policy Premiums

Assessment No. ST-DST2-97-0054-2000

Tax Due	3,954,955.00
Less: Tax Paid	2,308,505.74
Tax Deficiency	1,646,449.26

Add: 20% Int./a	680,231.64
Recommended Compromise Penalty-Late Payment	25,000.00
Total Amount Due	2,351,680.90[13]

The tax deficiency was computed by including the increases in the life insurance coverage or the sum assured by some of respondent's life insurance plans[14]:

		ISSUED	INCREASED
ORDINARY		P648,127,000.00	P 74,755,000.00
GROUP		114,936,000.00	744,164,000.00
TOTAL		P763,063,000.00	P 818,919,000.00
GRAND TOTAL/TAX BASE			P1,581,982,000.00
TAX RATE			P0.50/200.00
TAX DUE			P 3,954,955.00
LESS: TAX PAID			P 2,308,505.74
DEFICIENCY DST	- BASIC		P 1,646,499.26
	- 20% INTEREST		680,231.64
	- SURCHARGE		25,000.00
TOTAL ASSESSMENT			P 2,351,680.90[15]
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The amount of P818,919,000.00 comprises the increases in the sum assured for the respondent's ordinary insurance - the "Money Plus Plan" (P74,755,000.00), and group insurance (P744,164,000.00).[16]

On February 3, 2000, the respondent filed its Letter of Protest[17] with the Bureau of Internal Revenue (BIR) contesting the assessment for deficiency documentary stamp tax on its insurance policy premiums. Despite submission of documents on April 3, 2000,[18] as required by the BIR in its March 20, 2000[19] letter, the respondent's Protest was not acted upon by the BIR within the 180-day period given to it by Section 228 of the 1997 National Internal Revenue Code (NIRC) within which to rule on the protest. Hence, on October 26, 2000, the respondent filed a Petition for Review with the CTA for the cancellation of Assessment Notice No. ST-DST2-97-0054-2000. The respondent invoked the CTA's March 30, 1993 ruling in the similar case of *Lincoln Philippine Life Insurance Company, Inc. (now Jardine-CMA Life Insurance Company, Inc.) v. Commissioner of Internal Revenue*,[20] wherein the CTA held that the tax base to be used in computing the documentary stamp tax is the value at the time the instrument is issued because the documentary stamp tax is levied and paid only once, which is at the time the taxable document is issued.

On April 4, 2002, the CTA granted the respondents' Petition with the dispositive portion as follows:

> **WHEREFORE**, in the light of all the foregoing, respondent Commissioner of Internal Revenue is hereby **ORDERED** to **CANCEL** and **WITHDRAW Assessment Notice No. ST-DST2-97-0054-2000** dated January 4, 2000 in the amount of P2,351,680.90 representing deficiency documentary stamp taxes for the taxable year 1997.[21]

The CTA, applying the Tax Code Provisions then in force, held that:

> [T]he documentary stamp tax on life insurance policies is imposed only once based on the amount insured at the time of actual issuance of such policies. The documentary stamp tax which is in the nature of an excise tax is imposed on the document as originally issued. Therefore, any subsequent increase in the insurance coverage resulting from policies which have been subjected to the documentary stamp tax at the time of their issuance, is no longer subject to the documentary stamp tax.[22]

Aggrieved by the decision, the petitioner went to the Court of Appeals on a Petition for Review[23] docketed as CA-G.R. SP No. 70600 on the ground that:

> THE TAX COURT ERRED IN RULING THAT INCREASES IN THE COVERAGE OR THE SUM ASSURED BY AN EXISTING INSURANCE POLICY IS NOT SUBJECT TO THE DOCUMENTARY STAMP TAX. (DST).[24]

On April 29, 2005, the Court of Appeals sustained the cancellation of Assessment Notice No. ST-DST2-97-0054-2000 in its Decision, the decretal portion of which reads:

> **WHEREFORE**, all considered and finding no merit in the herein appeal, judgment is hereby rendered upholding the April 4, 2002, CTA Decision in CTA Case No. 6189 entitled "Manila Bankers' Life Insurance Corporation, Petitioner, versus Commissioner of Internal Revenue, Respondent.[25]

The Court of Appeals, in upholding the decision of the CTA, said that the subject of the documentary stamp tax is the issuance of the instrument representing the creation, change or cessation of a legal relationship.[26] It further held that because the legal status or nature of the relationship embodied in the document has no bearing at all on the tax, the fulfillment of suspensive conditions incorporated in the respondent's policies, as claimed by the petitioner, would still not give rise to new documentary stamp tax payments.[27]

The petitioner asked for reconsideration of the above Decision and cited this Court's March 19, 2002 Decision in *Commissioner of Internal Revenue v. Lincoln Philippine*

Life Insurance Company, Inc.,[28] the very same case the respondent invoked before the CTA. The petitioner argued that in *Lincoln*, this Court reversed both the CTA and the Court of Appeals and sustained the validity of the deficiency documentary stamp tax imposed on the increase in the sum insured even though no new policy was issued because the increase, by reason of the "Automatic Increase Clause," was already definite at the time the policy was issued.

On July 27, 2005, the Court of Appeals sustained its ruling, and stated that the *Lincoln Case* was not applicable because the increase in the sum assured in Lincoln's insurance policy was definite and determinable at the time such policy was issued as the automatic increase clause, which allowed for the increase, formed an integral part of the policy; whereas in the respondent's case, "the tax base of the disputed deficiency assessment was not [a] definite or determinable increase in the sum assured."[29]

The petitioner is now before us praying for the nullification of the Court of Appeals' April 29, 2005 Decision and July 27, 2005 Resolution and to have the assessment for deficiency documentary stamp tax on respondent's policy premiums, plus 25% surcharge for late payment and 20% annual interest, sustained[30] on the following arguments:

A.

THE APPLICABLE PROVISIONS OF THE NIRC AT THE TIME THE ASSESSMENT FOR DEFICIENCY DOCUMENTARY STAMP TAX WAS ISSUED PROVIDE THAT DOCUMENTARY STAMP TAX IS COLLECTIBLE NOT ONLY ON THE ORIGINAL POLICY BUT ALSO UPON RENEWAL OR CONTINUANCE THEREOF.

B.

THE AMOUNT INSURED BY THE POLICY AT THE TIME OF ITS ISSUANCE NECESSARILY INCLUDED THE ADDITIONAL SUM AS A RESULT OF THE EXERCISE OF THE OPTION UNDER THE "GUARANTEED CONTINUITY" CLAUSE IN RESPONDENT'S INSURANCE POLICIES.

C.

THE "GUARANTEED CONTINUITY" CLAUSE OFFERS TO THE INSURED AN OPTION TO AVAIL OF THE RIGHT TO RENEW OR CONTINUE THE POLICY. IF AND WHEN THE INSURED AVAILS OF SUCH OPTION AND SUCH GUARANTEED CONTINUITY CLAUSE TAKES EFFECT, THE INSURER IS LIABLE FOR DEFICIENCY DOCUMENTARY STAMP TAX CORRESPONDING TO THE INCREASE OF THE INSURANCE COVERAGE.

D.

SECTION 198 OF THE 1997 NIRC CLEARLY STATES THAT THE

DOCUMENTARY STAMP TAX IS IMPOSABLE UPON RENEWAL OR CONTINUANCE OF ANY POLICY OF INSURANCE OR THE RENEWAL OR CONTINUANCE OF ANY CONTRACT BY ALTERING OR OTHERWISE, AT THE SAME RATE AS THAT IMPOSED ON THE ORIGINAL INSTRUMENT.[31]

As can be gleaned from the facts, the deficiency documentary stamp tax was assessed on the increases in the life insurance coverage of two kinds of policies: the "Money Plus Plan," which is an ordinary term life insurance policy; and the group life insurance policy. The increases in the coverage of the life insurance policies were brought about by the premium payments made subsequent to the issuance of the policies. The Money Plus Plan is a 20-year term ordinary life insurance plan with a "Guaranteed Continuity Clause" which allowed the policy holder to continue the policy after the 20-year term subject to certain conditions. Under the plan, the policy holders paid their premiums in five separate periods, with the premium payments, after the first period premiums, to be made only upon reaching a certain age. The succeeding premium payments translated to increases in the sum assured. Thus, the petitioner believed that since the documentary stamp tax was affixed on the policy based only on the first period premiums, then the succeeding premium payments should likewise be subject to documentary stamp tax. In the case of respondent's group insurance, the deficiency documentary stamp tax was imposed on the premiums for the additional members to already existing and effective master policies. The petitioner concluded that any additional member to the group of employees, who were already insured under the existing mother policy, should similarly be subjected to documentary stamp tax.[32]

The resolution of this case hinges on the validity of the imposition of documentary stamp tax on increases in the coverage or sum assured by existing life insurance policies, even without the issuance of new policies.

In view of the fact that the assessment for deficiency documentary stamp tax covered the taxable year 1997, the relevant and applicable legal provisions are those found in the 1977 National Internal Revenue Code (Tax Code) as amended, [33] to wit:

> **Section 173. Stamp Taxes Upon Documents, Loan Agreements, 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 sections 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 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 who is not exempt shall be the one directly liable for the tax. [34]