



NO HODGEPODGE PLEASE: The One Subject One Title Rule and the CREATE Bill

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The 1987 Philippine Constitution has laid down certain limitations on the legislative department insofar as the crafting of bills or proposed measures are concerned. In terms of bills on taxation, some of the well-established applicable rules are the *origination rule*, the rule of uniformity and equitability, progressivity, and the one subject one title rule.

A. History of the One Subject – One Title Rule

The **One Subject One Title Rule** is a well-established rule in legislation and is widely adopted by many jurisdictions. In our own country, this rule is enshrined in Section 26(1), Article VI of the Constitution,

“SECTION 26. (1) Every bill passed by the Congress shall embrace only one subject which shall be expressed in the title thereof.”

The rule can be traced to ancient Rome, where crafty lawmakers learned to carry an unpopular provision by “harnessing it up with one more favored”.¹

In 98 B.C. to prevent this nefarious practice, the Romans forbade laws consisting of unrelated provisions.² Similar legislative misbehavior plagued colonial America. The Committee of the Privy Council in 1695 complained that diverse acts in Massachusetts were “joined together under ye same title,” making it difficult to vacate unpopular provisions without also invalidating favorable ones.³ In 1702, Queen Anne tried to check

connected with the subject as expressed in the title, it is unnecessary that they should also have special mention in the title. (Southern Pac. Co. v. Bartine, 170 Fed. 725)".

The liberal construction of the "one title-one subject" rule had been further elucidated in *Lidasan v. Comelec*,¹⁴ to wit:

"Of course, the Constitution does not require Congress to employ in the title of an enactment, language of such precision as to mirror, fully index or catalogue all the contents and the minute details therein. It suffices if the title should serve the purpose of the constitutional demand that it informs the legislators, the persons interested in the subject of the bill and the public, of the nature, scope and consequences of the proposed law and its operation."

The purpose of the Constitutional requirement on a bill having one subject which should be expressed in the title thereof was explained in the cases of *Philippine Constitution Association, Inc. et al. vs. Gimenez*,¹⁵ and in *Philippine Judges Association*,¹⁶ as follows:

- to prevent hodge-podge or "log-rolling" legislation;
- to prevent surprise or fraud upon the Legislature by means of provisions in bills of which the title gives no intimation, and which might therefore be overlooked and carelessly and unintentionally adopted; and
- to fairly apprise the people, through such publication of legislation that are being considered, in order that they may have the opportunity of being heard thereon by petition or otherwise, if they shall so desire.

In *Renman Enterprises, Inc. and the Chamber of Real Estate and Builders*,¹⁷ the Court held that, "The proscription is aimed against the evils of the so-called omnibus bills and log-rolling legislation as well as surreptitious and/or unconsidered encroachments."

To determine whether there has been compliance with the constitutional requirement on having one subject being expressed in the title thereof, hereunder are some decisions of the Supreme Court:

- The Constitutional requirement with respect to titles of statutes as sufficient to reflect their contents is satisfied if all parts of a law relate to the subject expressed in its title, and it is not necessary that the title be a complete index of the content.¹⁸
- It should be a sufficient compliance with such requirement if the title expresses the general subject and all the provisions of the statute are germane to that general subject.¹⁹

- It is sufficient if the title be comprehensive enough reasonably to include the general object which a statute seeks to effect, without expressing each and every end and means necessary or convenient for the accomplishing of that object. Mere details need not be set forth. The title need not be an abstract or index of the Act.²⁰

- It is satisfied if all the parts of the statute are related, and are germane to the subject matter expressed in the title, or as long as they are not inconsistent with or foreign to the general subject and title.²¹

- An act having a single general subject, indicated in the title, may contain any number of provisions, no matter how diverse they may be, so long as they are not inconsistent with or foreign to the general subject, and may be considered in furtherance of such subject by providing for the method and means of carrying out the general object.²²

- It is also well-settled that the "one title-one subject" rule does not require the Congress to employ in the title of the enactment language of such precision as to mirror, fully index or catalogue all the contents and the minute details therein. The rule is sufficiently complied with if the title is comprehensive enough as to include the general object which the statute seeks to effect.²³

From the foregoing decisions of the Court, it is clear that SB 1357 or the CREATE measure satisfactorily meets the constitutional requirement on the one subject, one title rule. The subject of the measure, which is the reformation of the corporate income tax and incentive system, is comprehensive enough to embrace the general objective it seeks to achieve, and all parts of the measure such as the amendment of certain provisions of the National Internal Revenue Code, to include the amount or rates of tax to be levied to corporations, the rationalization of incentives corporations may be able to enjoy, repeal of provisions on incentives under the charters of Investment Promotion Agencies (IPAs) and the governance of these incentives through the Fiscal Incentives and Review Board (FIRB) are not different subject matters, as all pertain to the reformation of income tax and incentives applicable to corporations, and thus germane to the subject matter embodied in the title.

It bears emphasis that, "*The constitutional prohibition of more than one subject in an act does not impose any limitation on the comprehensiveness of the subject, which may be as comprehensive as the legislature chooses to make it, provided, it constitutes, in the constitutional sense, a single subject and not several. To constitute plurality of subject, an act must embrace two or more dissimilar and discordant subjects, that by no fair intendment can be considered as having any legitimate connection with or relation to each other. Within the*

meaning of the constitutional provision, matters which apparently constitute distinct and separate subjects are not so where they are not incongruous and diverse to each other. Generally speaking, the courts are agreed that a statute may include every matter germane, referable, auxiliary, incidental, or subsidiary to, and not inconsistent with, or foreign to, the general subject or object of the act.²⁴ Thus, the provisions of the CREATE bill being germane, referable, ancillary, incidental and subsidiary to the provisions of the NIRC does not violate the constitutional requirement that every bill shall embrace only one subject which shall be expressed in the title thereof.

“A legislation may contain any number of provisions, no matter how diverse they may be, so long as they are not inconsistent with or foreign to the general subject, and may be considered in furtherance of such subject by providing for the method and means of carrying out the general subject.”²⁵ It is thus sufficient, **if the title expresses the general subject and all the provisions of the statute are germane to that general subject.**²⁶ Or to put it simply, this rule is satisfied “if the title is comprehensive enough to include subjects related to the general purpose which the statute seeks to achieve.”²⁷

The allegation that the repealing clause of the CREATE bill violates the one subject rule as it proposes the modification of at least sixty-two (62) special laws is definitely misconstrued. As we all know, the function of a repealing clause is to list the other related laws that will be affected by the provisions of the proposed measure, and that should be modified or repealed accordingly in order to ensure a smooth implementation of the new law when enacted later on.

There is absolutely nothing new about a repealing clause aiming to repeal numerous special laws especially in instances of a proposed measure that contains numerous amendments to a set of codal provisions such as the National Internal Revenue Code or the NIRC.

In fact, Package 1 of this Tax Reform Program, now popularly known as the Tax Reform for

Acceleration and Inclusion Law Act or the TRAIN Law (RA 10963), also had a very extensive repealing clause wherein it also repealed around sixty (60) special laws.

It is submitted that it is enough that the subject matter of all the proposed repeals is related to each other and to the main objective of the bill to remain within the boundaries of the *one subject rule*. To further elucidate this point, as the subject matter of the acts to be repealed fall under one general heading, then the conclusion to be drawn is that the act only dealt with only one subject.²⁸

The special laws listed under the repealing and amendatory clauses of the proposed CREATE bill all deal with or are related to the general topic of taxes and incentives. It cannot be denied that to allow these laws to remain as it is currently worded will make the implementation of the CREATE bill very impossible as this measure will run counter to the provisions of these existing laws. In other words, the repeal or amendment of these special laws is a necessary step in order to ensure the accomplishment of the goal set by this proposed measure.



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Digest of Supreme Court Cases in Taxation

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TRIDHARMA MARKETING CORPORATION, *Petitioner*, v. COURT OF TAX APPEALS, SECOND DIVISION, AND THE COMMISSIONER OF INTERNAL REVENUE, *Respondents*. [G.R. No. 215950, June 20, 2016 - BERSAMIN, J.]

Facts:

Petitioner Tridharma Marketing Corporation (TMC) received a Preliminary Assessment Notice (PAN) from respondent Commissioner of Internal Revenue (CIR) on August 16, 2013. The CIR assessed TMC with several deficiencies in: (1) income tax [IT], (2) value-added tax [VAT], (3) withholding tax on compensation [WTC], (4) expanded withholding tax [EWT], and (5) documentary stamp tax [DST], in the total amount of P4,640,394,039.97 inclusive of interest and surcharge.

A large portion of the deficiency IT and VAT was from the complete disallowance by the respondent of TMC's purchases in 2010 amounting to P4,942,937,053.82. TMC replied in a letter dated August 30, 2013. On September 23, 2013, TMC received from respondent a Formal Letter of Demand (FLD) assessing it with deficiency taxes for the taxable year ending December 31, 2010 amounting to P4,697,696,275.25, inclusive of surcharge and interest. Petitioner filed a protest against the FLD. Respondent CIR required the

petitioner to submit additional documents to support its protest for which TMC complied. On February 2014, petitioner received CIR's Final Decision on Disputed Assessment. In a decision in May 2014, the CIR denied TMC's Request for Reconsideration.

Before said decision of the respondent CIR, petitioner paid the assessments on WTC, DST and EWT in the amount of P5,836,786.10. On the alleged deficiency on IT and VAT, petitioner echoed its compromise offer.

On June 13, 2014, TMC appealed the CIR's decision to the Court of Tax Appeals (CTA) via Petition for Review with Motion to Suspend Collection of Tax, docketed as CTA Case No. 8833 and raffled to its Second Division.

Said CTA Division rendered a decision granting TMC's Motion for Suspension of Collection of Tax and ordering it to post an acceptable surety bond equivalent to 150% of the assessment or in the amount of Six Billion Seven Hundred One Million Eighty-seven Thousand Eight Hundred Twenty-two and 64/100 Pesos (P6,701,087,822.64) within fifteen (15) days from notice thereof. Additionally, pursuant to Supreme Court (SC) Circular A.M. No. 04-7-02-SC (Proposed Guidelines on Corporate Surety Bonds), TMC was ordered to comply with some documentary and administrative requirements. Later on, the amount was reduced to P4,467,391,881.76 (BIR's deficiency assessment for IT and VAT) on petitioner's Motion for Partial Reconsideration granting TMC's Motion for Suspension of Collection of Tax and ordering it to post an acceptable surety bond equivalent to 150% of the

assessment or in the amount of Six Billion Seven Hundred One Million Eighty-seven Thousand Eight Hundred Twenty-two and 64/100 Pesos (P6,701,087,822.64) within fifteen (15) days from notice thereof. Additionally, pursuant to Supreme Court (SC) Circular A.M. No. 04-7-02-SC (Proposed Guidelines on Corporate Surety Bonds), TMC was ordered to comply with some documentary and administrative requirements. Later on, the amount was reduced to P4,467,391,881.76 (BIR's deficiency assessment for IT and VAT) on petitioner's Motion for Partial Reconsideration.

Issue:

"Did the CTA in Division commit grave abuse of discretion in requiring the petitioner to file a surety bond despite the supposedly patent illegality of the assessment that was beyond the petitioner's net worth but equivalent to the deficiency assessment for IT and VAT?"

Held:

The surety bond amounting to P4,467,391,881.76 imposed by the CTA was within the parameters delineated in Section 11 of R.A. 1125, as amended. However, the Supreme Court held that *"the CTA in Division gravely abused its discretion under Section 11 because it fixed the amount of the bond at nearly five times the net worth of the petitioner without conducting a preliminary hearing to ascertain whether there were grounds to suspend the collection of the deficiency assessment on the ground that such collection would jeopardize the interests of the taxpayer. Although the amount of P4,467,391,881.76 was itself the amount of the assessment, it behooved the CTA in Division to consider other factors recognized by the law itself towards suspending the collection of the assessment, like whether or not the assessment would jeopardize the interest of the taxpayer, or whether the means adopted by the CIR in determining the liability of the taxpayer was legal and valid. Simply prescribing such high amount of the bond like the initial 150% of the deficiency assessment of P4,467,391,881.76 (or P6,701,087,822.64), or later on even reducing the amount of the bond to equal the deficiency assessment would practically deny to the petitioner the meaningful opportunity to contest the validity of the assessments, and would likely even impoverish it as to force it out of business."*

Citing *Philippine Health Care Providers, Inc. v. Commissioner of Internal Revenue* (G.R. No. 167330, September 18, 2009, 600 SCRA 413, 442-444), the High Court said:

"As a general rule, the power to tax is an incident of sovereignty and is unlimited in its range, acknowledging in its very nature no limits, so that security against its abuse is to be found only in the responsibility of the legislature which imposes the

tax on the constituency who is to pay it. So potent indeed is the power that it was once opined that the power to tax involves the power to destroy."

"X x x."

"The power of taxation is sometimes called also the power to destroy. Therefore it should be exercised with caution to minimize injury to the proprietary rights of a taxpayer. It must be exercised fairly, equally and uniformly, lest the tax collector "kill the hen that lays the golden egg."

"Legitimate enterprises enjoy the constitutional protection not to be taxed out of existence. Incurring losses because of a tax imposition may be an acceptable consequence but killing the business of an entity is another matter and should not be allowed. It is counter-productive and ultimately subversive of the nation's thrust towards a better economy which will ultimately benefit the majority of our people."

As to the question on the veracity of the assessment, the SC remanded the case to the CTA as said court is in a better position to determine the same. Said the SC:

"However, the Court is not in the position to rule on the correctness of the deficiency assessment, which is a matter still pending in the CTA. Conformably with the pronouncement in Pacquiao v. Court of Tax Appeals, First Division, and the Commissioner of Internal Revenue, a ruling that has precedential value herein, the Court deems it best to remand the matter involving the petitioner's plea against the correctness of the deficiency assessment to the CTA for the conduct of a preliminary hearing in order to determine whether the required surety bond should be dispensed with or reduced. X x x. The determination of whether the methods, employed by the CIR in its assessment, jeopardized the interests of a taxpayer for being patently in violation of the law is a question of fact that calls for the reception of evidence which would serve as basis. In this regard, the CTA is in a better position to initiate this given its time and resources. The remand of the case to the CTA on this question is, therefore, more sensible and proper."

Finally, the SC pronounced:

"In the conduct of its preliminary hearing, the CTA must balance the scale between the inherent power of the State to tax and its right to prosecute perceived transgressors of the law, on one side; and the constitutional rights of petitioners to due process of law and the equal protection of the laws, on the other. In case of doubt, the tax court must remember that as in all tax cases, such scale should favor the taxpayer, for a citizen's right to due process and equal protection of the law is amply protected by the Bill of Rights under the Constitution."

"Consequently, to prevent undue and

irreparable damage to the normal business operations of the petitioner, the remand to the CTA of the questions involving the suspension of collection and the correct amount of the bond is the proper course of action.”

To recapitulate, the SC ordered the remand of the case to the CTA for it to “conduct a preliminary hearing in CTA Case No. 8833 to determine and rule on whether the bond required under Section 11 of Republic Act No. 1125 may be dispensed with or reduced to restrain the collection of the deficiency taxes assessed against the petitioner.”



Image by 123rf.com

PHILIPPINE BANK OF COMMUNICATIONS (PBCom), Petitioner, v. COMMISSIONER OF INTERNAL REVENUE, Respondent. [G.R. No. 194065, June 20, 2016 – SERENO, C.J.]

Facts:

This case involves the application and interpretation of the provisions of the National Internal Revenue Code (NIRC), as amended, on documentary stamp taxes (DST, Title VII) and Revenue Regulations (RR) Nos. 7-92 and 5-97 issued by the Bureau of Internal Revenue (BIR) implementing the said tax law.

Per RR 7-92 the BIR issued to petitioner a certificate (08-0434, July 31, 2001) authorizing it to operate and use On-line Electronic Documentary Stamp Metering Machine (DS metering machine) with Serial No. SN 363 1711.

For the period 23 March 2004 to 23 December 2004, PBCom executed several repurchase agreements (RAs) with the Bangko Sentral ng Pilipinas (BSP). The documentary stamps were imprinted on the Confirmation Letters corresponding to those RAs through petitioner’s metering machine. Subsequently however, claiming that the RAs were not subject to the DST, petitioner PBCom filed with the BIR (12 May 2006) an administrative claim for the issuance of tax credit certificates (TCCs) for the alleged erroneous payment in the total amount of P11,063,866.67.

The BIR’s inaction on its administrative claim compelled PBCom to file a Petition for Review with the Court of Tax Appeals (CTA), dated May 18, 2006. In said remedy, petitioner reiterated its claim for the refund or issuance of its TCC for the amount of P11,063,866.67 representing the erroneously paid DST for several RAs it had executed with the BSP. Section 199 (h) of the NIRC, as amended, exempts RAs from DST.

Issue:

“Whether the date of imprinting the documentary stamps on the document or the date of purchase of documentary stamps for loading and re-loading on the DS metering machine should be deemed as payment of the DST x x x for the purpose of counting the two-year prescriptive period for filing a claim for a refund or tax credit.”

Held:

The concerned NIRC provisos state:

“Section 200. Payment of Documentary Stamp Tax. -

“(A) In General. - The provisions of Presidential Decree No. 1045 notwithstanding, any person liable to pay documentary stamp tax upon any document subject to tax under Title VII of this Code shall file a tax return and pay the tax in accordance with the rules and regulations to be prescribed by the Secretary of Finance, upon recommendation of the Commissioner.”

“(B) Time for Filing and Payment of the Tax. - Except as provided by rules and regulations promulgated by the Secretary of Finance, upon recommendation of the Commissioner, the tax return prescribed in this Section shall be filed within ten (10) days after the close of the month when the taxable document was made, signed, issued, accepted, or transferred, and the tax thereon shall be paid at the same time the aforesaid return is filed.”

“(C) Where to File. - Except in cases where the Commissioner otherwise permits, the aforesaid tax return shall be filed with and the tax due shall be paid through the authorized agent bank within the territorial jurisdiction of the Revenue District Office which has jurisdiction over the residence or principal place of business of the taxpayer. In places where there is no authorized agent bank, the return shall be filed with the Revenue District Officer, collection agent, or duly authorized Treasurer of the city or municipality in which the taxpayer has his legal residence or principal place of business.”

“(D) Exception. - In lieu of the foregoing provisions of this Section, the tax may be paid either through purchase and actual affixture, or by imprinting the stamps through a documentary stamp metering machine, on the taxable document, in the manner as may be prescribed by rules and regulations to be promulgated by the Secretary of Finance, upon recommendation of the Commissioner.”

“SEC. 229. Recovery of Tax Erroneously or Illegally Collected. - No suit or proceeding shall be maintained in any court for the recovery of any national internal revenue tax hereafter alleged to have been erroneously or illegally assessed or collected, or of any penalty claimed to have been collected

without authority, of any sum alleged to have been excessively or in any manner wrongfully collected without authority, or of any sum alleged to have been excessively or in any manner wrongfully collected, until a claim for refund or credit has been duly filed with the Commissioner; but such suit or proceeding may be maintained, whether or not such tax, penalty, or sum has been paid under protest or duress.”

“In any case, no such suit or proceeding shall be filed after the expiration of two (2) years from the date of payment of the tax or penalty regardless of any supervening cause that may arise after payment: Provided, however, That the Commissioner may, even without a written claim therefor, refund or credit any tax, where on the face of the return upon which payment was made, such payment appears clearly to have been erroneously paid.”

As a backgrounder, RRs “are issuances signed by the Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue, that specify, prescribe or define rules and regulations for the effective enforcement of the provisions of the National Internal Revenue Code (NIRC) and related statutes” (BIR website, viewed on 27 July 2020).

In applying and interpreting the above stipulations and the RR issued by the BIR, the Supreme Court (SC) said:

“Under Section 229 of the NIRC of 1997, the claim for a refund of erroneously paid DST must be within two years from the date of payment of the DST. When read in conjunction with Section 200 of the same Code, Section 229 shows that payment of the DST may be done by imprinting the stamps on the taxable document through a DS metering machine, in the manner as may be prescribed by rules and regulations.”

The SC cited the following portion of RR 5-97, to wit:

“SECTION 5. Documentary Stamp Tax Declaration. - *The following persons are required to accomplish and file a documentary stamp tax declaration under BIR Form 2000;”*

“5.3 Any person duly authorized to use DST Metering Machine shall file a DST Declaration under BIR Form No. 2000 each time documentary stamps are purchased for loading or reloading on the said machine. This declaration shall be filed with any duly Authorized Agent Bank, Revenue Recollection Officer, or duly authorized City or Municipal Treasurer in the Philippines. The amount of documentary stamps to be reloaded on the Metering Machine should be equal to the amount of documentary stamps consumed from previous purchase. The details of usage or consumption of documentary stamps should be indicated on the declaration.”

The High Court did not agree with the ruling of the CTA *En Banc* on the issue of prescription, that RR No. 05-97 should govern the payment of the DST considering that petitioner is a DS metering machine user. The CTA *En Banc* said the DST is deemed paid upon the purchase of documentary stamps for loading/reloading on the DS metering machine through the filing of the DST Declaration (BIR Form No. 2000) as required by the said regulation.

The SC further stressed: *“The DS metering machine was developed and used for businesses with material DST transactions like banks and insurance companies for their regular transactions. These businesses authorized by the BIR may load documentary stamps on their DS metering machine in accordance with the rules and regulations. In other words, this system allows advanced payment of the DST for future applications.”*

The Court added:

“However, for purposes of determining the prescriptive period for a claim for a refund or tax credit, this Court finds it imperative to emphasize the nature of the DST. A DST is a tax on documents, instruments, loan agreements, and papers evidencing the acceptance, assignment, sale or transfer of an obligation, right or property incident thereto. The DST is actually an excise tax, because it is imposed on the transaction rather than on the document.” (Emphasis ours)

“The rule is that the date of payment is when the tax liability falls due. Jurisprudence has made exceptions for reckoning the period of prescription from the actual date of payment of tax by instead reckoning that date from the filing of the final adjusted returns, i.e. income tax and other withholding taxes. These exceptions are nevertheless grounded on the same rationale that payment of the tax is deemed made when it falls due.”

The SC cited a precedent in the case of Gibbs [122 Phil. 714 (1965)] in that:

“payment is a mode of extinguishing obligations (Art. 1231, Civil Code) and it means not only the delivery of money but also the performance, in any other manner, of an obligation. A taxpayer, resident or non-resident, does so not really to deposit an amount to the Commissioner of Internal Revenue, but, in truth, to perform and extinguish his tax obligation for the year concerned. In other words, he is paying his tax liabilities for that year. Consequently, a taxpayer whose income is withheld at source will be deemed to have paid his tax liability when the same falls due at the end of the tax year. It is from this latter date then, or when the tax liability falls due, that the two-year prescriptive period under Section 306 (now part of Section 230) of the Revenue Code starts to run with respect to payments effected through the withholding tax system.” The aforementioned ruling presents two alternative

reckoning dates: (1) the end of the tax year; and (2) the date when the tax liability falls due. X x x.”

“For DS metering machine users, the payment of the DST upon loading/reloading is merely an advance payment for future application. The liability for the payment of the DST falls due only upon the occurrence of a taxable transaction. Therefore, it is only then that payment may be considered for the purpose of filing a claim for a refund or tax credit. Since actual payment was already made upon loading/reloading of the DS metering machine and the filing of the DST Declaration Return, the date of imprinting the documentary stamp on the taxable document must be considered as the date of payment contemplated under Section 229 of the NIRC.” (Underscoring supplied)

“This interpretation is more logical and consistent with Section 200 (D) that “the tax may be paid xxx by imprinting the stamps through a documentary stamp metering machine, on the taxable document, in the manner as may be prescribed by rules and regulations to be promulgated by the Secretary of Finance, upon recommendation of the Commissioner.” The policies issued by the Secretary of Finance were made to regulate the use of the

DS metering machine, but they cannot be interpreted to limit the prescriptive period for claims for a refund. X x x.”

“Applying the foregoing to this case, the DST fell due when petitioner entered into repurchase agreements with the BSP and the corresponding documentary stamps were imprinted on the Confirmation Letters. Considering, however, that this transaction is exempt from tax, petitioner is entitled to a refund. The prescriptive period for the filing of a claim for a refund or tax credit under Section 229 must be reckoned from the date when the documentary stamps were imprinted on the Confirmation Letters.”

The SC sided with the CTA Division ruling, counting the prescriptive period from the date when the documentary stamps were imprinted in the Confirmation Letters (CLs) of the RAs: that petitioner had substantiated only P10,633,881.20; that the amount, P3,072,521.60 was barred by prescription, and only the claim for the remaining P7,561,359.60 fell within the two-year prescriptive period.

The decision of the Second Division in CTA Case No.7486 dated 13 July 2009 was reinstated.



Photo by the Court of Tax Appeals (<http://cta.judiciary.gov.ph>)

CTA Tax Case Digest

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MERIDIEN BUSINESS LEADER, INC. vs. COMMISSIONER OF INTERNAL REVENUE

CTA Case No. 9316
Promulgated: July 29, 2020

Facts:

On October 6, 2011, respondent issued *Letter of Authority* (LOA) authorizing Revenue Officers to examine petitioner's books of accounts and other accounting records for all internal revenue taxes covering Taxable Year (TY) 2010. Petitioner received the LOA on October 10, 2011.

Other antecedent facts followed:

- During the audit of petitioner's books, it executed three (3) *Waivers of the Defense of Prescription* under the *Statute of Limitations* under the National Internal Revenue Code. Respondent accepted by extending the period to assess the alleged deficiency taxes until September 30, 2014.
- March 27, 2014 Petitioner received a *Preliminary Assessment Notice* (PAN) with *Details of*

Discrepancies for alleged deficiency taxes.

- May 21, 2014 Petitioner received a *Formal Letter of Demand* (FLD) with *Details of Discrepancies* and Audit Result/ Assessment Notices (FAN) for various taxes in the aggregate amount of P2,648,394,062.62.
- June 20, 2014 Petitioner filed a *Letter-Protest* against the FLD and FAN and requested for a reinvestigation of the assessment for lack of legal and/or factual bases.
- September 23, 2015 Petitioner received the *Final Decision on Disputed Assessment* (FDDA) with *Details of Discrepancies*, denying petitioner's protest and finding it liable for alleged deficiency taxes, including penalties and interests in the total amount of P2,361,261,053.16 for TY 2010.

- Petitioner assailed the FDDA which respondent denied in a letter dated February 9, 2016.
- March 18, 2016 Petitioner filed the instant *Petition for Review* before the Court of Tax Appeals in Division.

Issue:

Whether or not Petitioner is liable for the following taxes for TY 2010, plus 25% surcharge, 20% deficiency and delinquency interest pursuant to Sections 248 and 249 of the Tax Code of 1997, as amended:

- 1) Income tax - P1,549,255,298.49
- 2) VAT - P798,901,481.31
- 3) Expanded Withholding Tax - P1,863,362.01
- 4) Tax on Compensation - P9,685,412.78
- 5) Fringe Benefits Tax - P1,355,498.41
- 6) Compromise penalty - P200,000.00

Ruling:

Citing the following Supreme Court cases:

- 1) ***Commissioner of Internal Revenue v. Fitness By Design, Inc.***, which held, “*the issuance of a valid formal assessment is a substantive prerequisite for collection of taxes.*”

“The disputed Final Assessment Notice is not a valid assessment. It lacks the definite amount of tax liability for which respondent is accountable. It does not purport to be a demand for payment of tax due, which a final assessment notice should supposedly be”; and

- 2) ***Commissioner of Internal Revenue v. Avon Products Manufacturing, Inc.***, which held, “*Tax assessments issued in violation of the due process rights of a taxpayer are null and void.*”

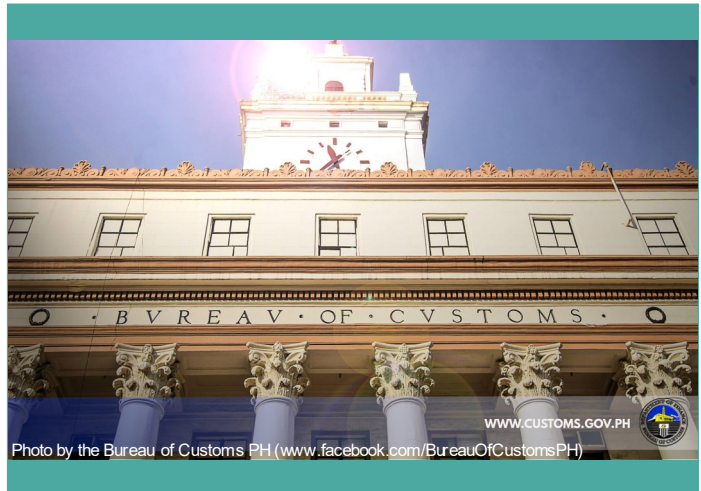
The FDDA and the FLD dated May 19, 2014 cannot be deemed a valid tax assessment as described under pertinent law and prevailing jurisprudence, requiring “*a due tax liability that is definitely set and fixed.*” The FDDA and FLD failed to contain a definite and fixed amount of tax liability which must be paid by petitioner within a date certain. In the absence of such requisites, the subject tax assessments are void.

The *Petition for Review* filed by Meridien Business Leader, Inc. on March 18, 2016 was granted. The FDDA including the tax assessments issued by the CIR for deficiency taxes and compromise penalties in the aggregate amount of P2,361,261,053.16 for TY 2010 were cancelled and set aside.

Decision was rendered in relation to the following provision of the *NIRC, as Amended*:

Section 228. Protesting of Assessment. – When the Commissioner or his duly authorized representative finds that proper taxes should be assessed, he shall first notify the taxpayer of his findings xxx;

xxx The taxpayers shall be informed in writing of the law and the facts on which the assessment is made; otherwise, the assessment shall be void. xxx

***In This Corner:***

Customs Administrative Order No. 11-2020

by **Romeo E. Regacho**
LSO III, Legal and Tariff Branch

The Bureau of Customs (BOC) has issued Customs Administrative Order (CAO) No. 11-2020, which governs the establishment and operation of duty- and tax-free stores and warehouses by Duty Free Philippines Corp. (DFPC).

CAO 11-2020 institutes safeguards and controls over DFPC-operated stores and warehouses to prevent abuses of privileges, protect government revenue, and ensure these facilities comply with customs warehousing laws.¹

It applies to all Duty and Tax-Free Stores and warehouses operated by the Government under Republic Act No. 9593 or the Tourism Act of 2009.

(CAO-11-2020) – Rules, Regulations and Procedures Governing the Establishment and Operation of Duty and Tax-Free Stores and Warehouses Operated by Duty Free Philippines Corporation

The following are the CAO highlights:

- One of its objectives is to protect government revenue through the institution of safeguards

¹ In accordance with <https://www.portcalls.com/boc-establishes-rules-for-duty-free-store-warehouse-operations/> dated 19 November 2020.

- and controls over DFPC Stores and Warehouses. (Sec. 2.1)
- The BOC shall exercise supervision and control over warehouses operated by the DFPC and the same shall be considered as a special type of Customs Bonded Warehouses (CBW), and are deemed extension of the customs premises insofar as the dutiable goods stored and introduced are concerned. (Sec. 4.1)
 - The Collection District III – Ninoy Aquino International Airport (NAIA) shall exercise jurisdiction over the existing DFPC Customs Main Bonded Warehouse. (Sec. 4.2)
 - The DFPC's Main Bonded Warehouse shall be used exclusively for receiving, storing and safekeeping of imported duty and tax-free goods and shall serve as the principal transfer and distribution point of all goods for sale in all duty-free shops in international airports and seaports, in Tourism Enterprise Zones (TEZs) and other ports of entry throughout the country. (Sec. 4.3)
 - Duty-free warehouses and sales, display or store counters to be established shall be considered extensions of the DFPC's Main Bonded Warehouses irrespective of location; provided, that each branch or outlet shall be covered by separate and individual warehousing security. The Bureau shall promulgate the rules for the establishment and operation of online duty-free stores which shall be extensions of physical sales, display or store counters. (Sec. 4.4)
 - The Certificate of Authority to Operate a CBW shall be conspicuously displayed at all times at the CBW and its extension offices. The application for subsequent renewal of this Authority shall be filed with the District Collector – NAIA not later than 90 days but not earlier than 120 days before its expiration. This Certificate of Authority shall be valid for 3 years from date of approval. (Sec. 7 and 8)
 - Non-filing within the prescribed period shall cause the imposition of penalties, which may take the form of fines, suspension, or revocation of the Authority to Operate, as may be warranted, in accordance with existing rules and regulation on CBWs. (Sec. 10)
 - The following are the requirements to operate the DFPC Main Bonded Warehouse and store outlets: (Sec. 11)
 1. Presence of customs officers and personnel in the DFPC Main Bonded Warehouse, sales outlets, counters and stores; (Sec. 11.1)
 2. Provision for a suitable working space for Bureau Personnel; (Sec. 11.2)
 3. Customs personnel so assigned in DFPC shall observe regular working hours; (Sec. 11.3) and
 4. The door and entrance to the main DFPC CBW shall have a secured locking system, which complies with the standard and specification set by the BOC. (Sec. 11.4)
 - It shall be the responsibility of the DFPC to comply with the requirements of the BOC on establishment, security, suitability and management, including stock-keeping and accounting of goods. (Sec. 12.1)
 - Imported goods to be sold at DFPC stores shall be entered duty and tax free under Warehousing Entry covered by sufficient security and pertinent documents as provided by the CMTA, to be filed at the NAIA, Collection District III, except for excisable goods which are subject to VAT and Excise Tax. (Sec. 13)
 - Upon arrival of all the duty and tax-free goods which are the subject of a Transit declaration to their final destination or point of exit, the Deputy Collector for Operations or equivalent in the final destination or point of exit shall tag in the system the arrival of the Transit Goods. Immediately after the transfer of imported goods, DFPC shall file the corresponding warehousing entry pursuant to Section 808 of the CMTA. (Sec. 14.2)
 - Withdrawal from the DFPC's Main Bonded Warehouse for transfer to any or all of the duty and tax-free shops/sales outlets and counters shall be made only upon prior application by the DFPC to the District Collector of Customs through the Duty-Free Shops Division, NAIA, who shall permit such withdrawal or transfers under withdrawal entries or transfer slips. The actual transfer shall be underguarded by Customs Personnel concerned and to be covered by Transfer Note. (Sec. 15.1)
 - Before the transfer of newly arrived imported goods from the airport or seaport of entry to the DFPC Main Bonded Warehouse, a sufficient security in amount equal to one hundred percent (100%) of the ascertained duties and taxes and other charges due thereon shall be required. The security shall guarantee the sale of the imported goods which shall be deemed equivalent to their exportation or to guarantee the payment of duties, taxes and other charges in other applicable cases. (Sec. 16)
 - Sale to the following individuals of duty and tax-free goods from Duty Free Philippines

stores and outlets shall be allowed under the following conditions: (Sec. 17)

- 1) Within forty-eight (48) hours upon arrival from a foreign country at an international airport or seaport.
 - ◇ Cigarettes of any brand not exceeding two (2) reams;
 - ◇ Wine and/or liquor of any brand not exceeding two (2) bottles; and
 - ◇ Other consumable goods with a total value not exceeding \$1,000 payable only in acceptable foreign currency.

Provided, that purchases in excess of \$1,000.00 shall be subject to payment of full duty and tax. (Sec. 17.1)

- 2) Tax-exempt maximum purchase in the amount of One Thousand Five Hundred United States dollars (US\$1,500.00) or its equivalent in Philippine peso and in other foreign currencies at all DFPC stores or outlets.

Kabuhayan shopping privilege and additional tax-exempt purchase in the maximum amount of Two Thousand United States dollars (US\$2,000.00) or its equivalent in Philippine peso and other acceptable foreign currencies; exclusive for the purchase of livelihood tools at all government-owned and controlled/operated duty-free shops.

- The tax-free purchases privileges accorded to Balikbayan shall be subject to the following limitations:
 - a) OFW and Balikbayans as defined under Republic Act No. 9174. Purchase shall be made within fifteen (15) calendar days from the date of arrival, provided that:
 - ◇ During the Christmas season, reckoned from November 15 to January 15, the privilege is extended to thirty (30) calendar days from the date of arrival;
 - ◇ The privilege shall be availed of on one-time shopping basis only; and
 - ◇ In the case of senior citizens and handicapped balikbayan, they shall be allowed to enjoy the privilege within one (1) year from date of arrival in the country. (Sec. 18.1)
 - b) The following privileges shall be availed by tourists and returning residents categorized as Regular Filipino Travelers and Foreign Individual Travelers.
 - ◇ Purchases shall only be made in US dollars or other acceptable foreign

currencies within forty-eight (48) hours from date of arrival. The privilege is non-transferable and can be availed of by the arriving traveler only once a year; and

- ◇ Purchase of One Thousand United States dollars (US\$1,000.00) but not to exceed Ten Thousand United States dollars (US\$10,000.00) in any given year for Tourists and Filipinos traveling to or returning from foreign destinations. (Sec. 18.2)
- All DFPC stores shall establish effective ICT-enabled audit and inventory system specific on the storage, sale, and disposition of duty and tax-free goods. The District Collector concerned shall assign customs officer who shall account the said activities and the assigned customs officer shall submit periodic report as may be required. (Sec. 22.4)
- In order to support and to showcase Philippine culture, craftsmanship and industry as embodied in Section 5 of RA No. 9174, goods may be allowed entry and sale subject to customs clearance and procedure upon submission of a Bring-In Permit as supported by DFPC Purchase Order and other pertinent documents. (Sec. 23)



On December 7, 1914, within the bleak backdrop of World War I, Pope Benedict XV implored a temporary cessation of hostilities between the contending troops. The call was not heeded and no official ceasefire was declared. But on Christmas day, in a fleeting, marvelous moment, weary soldiers at the battlefield laid down their arms, moved out of trenches, sang Christmas carols, and shared gestures of goodwill among comrades and enemies.

The so-called Christmas Truce of 1914 occurred just a few months after the outbreak of war in Europe and is regarded as a rare and outdated manifestation of chivalry between enemies in

*Written by: **Norberto M. Villanueva**
Director III, Tax Policy and Administration Branch

warfare. Such poignant instance was never repeated but it served as a living testament to mankind's innate yearning for peace and harmony amidst a hostile and unforgiving world. Moreover, it put emphasis on the dominance of the real spirit of Christmas over man's greed and lust for power and wealth – the usual causes of conflict and war.

Recently, the enemy has gone invincible and has metamorphosed into a more ruthless and indiscriminate assassin. Unseen and thus, more dreadful than the most potent weapons of mass destruction ever built, the COVID-19 virus has adversely altered the way people live and survive in these modern times. In just a few months after the health crisis has progressed into a pandemic, the world felt the shock and literally stopped evolving. The strict health protocols that were adopted for the main purpose of mitigating contamination and death have ironically caused the disruption of business activities, job displacement and the collapse of economies.

As the cold breeze starts to blow and suggest the dawning of the Christmas season, most of us suddenly go numb. Neither because of the chilly weather nor a rush of ecstatic emotion but due to

our sheer inability to feel the spirit and be merry. In this time when the country's economy is down, livelihoods are persistently disrupted, and the risk of contamination and even death remains high, the reason to be happy and grateful to God's bountiful blessings is understandably lost to many.

But Christmas is not about lavish and grand celebrations. Its essence is beyond material and temporal things that normally fade, vanish and then forgotten. Christmas is still about Jesus Christ, our humble Messiah and King who came into this world to redeem us from our sins. Yet, even if it is about Christ, Christmas should not simply be centered on commemorating His birthday – as pompous as most of us do – but more on living His blessed life.

And just like in the Truce of 1914, when the soldiers' desires to celebrate Christmas were not dampened by the violence and carnage around them, our will to celebrate the genuine spirit of the season should not be diminished by the threat and perils of the COVID-19 pandemic. This Christmas may be different and like no other, but it does not necessarily have to be that bad. After all, as writer Natasha Burton says, *"It'll be easier to avoid that family party you usually dread!"*



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Tax Bits is an official publication of the Senate Tax Study and Research Office (STSR)

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“Tuloy Pa Rin Ang Pasko”

[STSR DOOR DECOR ENTRY]

Ang mga salu-salo, beso-beso, apir, ngiti, at yakap ay pinalitan na ng pagsuot ng mask at face shield, social distancing, at iba pang health protocols. Tunay na binago ng COVID-19 ang ating mundo at ang ating pamumuhay. Ang pinsala na idinulot nito sa ating mga kababayan ay hindi maikakaila.

Ang ating mga bagong bayani na “frontliners”, pati na ang mga kababayan nating naapektuhan ng pandemya o ng nagdaang kalamidad ay patuloy nating ipagdasal at tulungan. Sa pamamagitan ng teknolohiya, ang Senado ay nakapagpasa ng mga panukala na makakatulong sa atin ngayon kagaya ng Bayanihan 1 at 2, at CREATE.

Marami ang nagbago sa ating mundo ngayong taon. Ngunit sa kabila ng lahat ng ito, sana hindi magbago ang halaga ng Pasko para sa ating mga Pinoy. Paglayuin man tayo ng distansya, mananatili tayong magkalapit dahil sa ating pag-ibig para sa isa’t isa, at sa ating pananampalataya sa Diyos. Manalig tayo na ang lakas ng ating pamilya ay hindi kayang gibain ng kahit ano mang suliranin o pandemya. Sa tulong ng teknolohiya, ang koneksyon natin sa isa’t isa ay mananatiling matatag. Wala man ang magarbang handaan, makulay na palara, at maingay na pagtitipon, maari pa rin tayong magdiwang sapagkat nandito pa rin ang ating pamilya. Maipapadama pa rin natin ang ating pagmamahal sa isa’t isa sa tulong ng teknolohiya. Habang nananahan si Jesus sa ating mga puso ay mananatili ang pag-asa at ligaya sa bawat isa. Kaya kahit ano man ang mangyari, tuloy pa rin ang Pasko!

Mga ginamit na materyales sa paggawa ng dekorasyon:

1. **BANIG** – gawa sa lumang dyaryo na kinulayan ng brown acrylic paint at pinakintab ng varnish
2. **KAWAYAN** – gawa sa kartong tubo na lagayan ng Senate LED light na kinulayan ng brown acrylic paint
3. **MGA BULAKLAK** – gawa sa makulay na face masks at paper clips
4. **MGA BITUIN** – gawa sa mga tinuping makukulay na papel
5. **ZOOM DESIGN** – gawa sa mga litrato na inimprenta gamit ang papel
6. **ZOOM BLACK BACKGROUND** – gawa sa illustration board na kinulayan ng itim
7. **WALIS TAMBO**
8. **LUMANG TARPAULIN** – ginamit na background sa pintuan ay ang Tarpaulin ng STSR Christmas Party in 2019 at nilagyan ng mga gamit na folders na nilagyan ng kopya ng mga bills (e.g. Bayanihan 1 at Bayanihan 2 at CREATE bills)



Christmas Tree of Hope and Unity



4th Place	
Creativity	34%
Overall Impact	33%
Indigenous Effect	30%
<hr/>	
Total	97%

2020 SENATE CHRISTMAS DOOR DECORATION CONTEST
"THE CHRISTMAS MOOD IN THE NEW NORMAL"



Congratulatory Messages on the Publication of the 5th Edition of The STSRO Primer



REPUBLIC OF THE PHILIPPINES
Office of the Senate President
Senator Vicente C. Sotto III

MESSAGE



My sincerest congratulations to the Senate Tax Study and Research Office (STSRO) for the successful publication of the STSRO Manual 5th Edition!

Your role as the technical arm of the senate responsible for tax research and legislation is highly significant not only in the culmination of varied legislations relative to taxation, but more importantly to the dissemination of valid and comprehensible information to the public regarding our tax laws.

Taxation is the lifeblood of the government. Therefore, it is truly necessary to keep the public well-informed with the latest and recent developments in policies relative to taxation. Through your efforts, taxation matters that are otherwise so technical and complex to an ordinary layman can be made simpler and easier to understand. More than that, the STSRO has been one of the most helpful references of legislators for purposes of enacting tax laws.

Over the years, you have made significant contributions that aided all members of the Senate to come up with policies that will improve the lives of our countrymen. May you continue to stay true and dedicated to your mandate that is geared towards the fulfillment of our objectives.

Let us continue to work together towards elevating the lives of the Filipino people bearing in mind the values of excellence, integrity and genuine public service.

CONGRATULATIONS! MABUHAY KAYONG LAHAT!


VICENTE C. SOTTO III



SENATOR PIA S. CAYETANO

Chairperson, Committee on Sustainable Development Goals, Innovation, and Futures Thinking
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SENATOR PIA S. CAYETANO'S MESSAGE TO THE SENATE TAX STUDY AND RESEARCH OFFICE (STSRO) ON THE RELEASE OF ITS NEW PRIMER

I extend my heartfelt congratulations to the Senate Tax Study and Research Office (STSRO) for the release of your 5th Edition Primer this year!

Thank you for your continuing effort to disseminate useful information about our budgetary and fiscal policies which directly impact our economy and the lives of our people.

As Chair of the Senate Committee on Ways and Means, I consider the STSRO a partner in advancing tax and fiscal reforms to foster sustainable growth.

Last year, we successfully passed Republic Act 11467 or the Sin Tax Reform Law. This measure increased excise taxes on alcohol and imposed new duties on heated tobacco and vapor products to help us fund the Universal Health Care Program.

Meanwhile, as the world grapples with the pandemic, we in government are tasked to find a calibrated approach to help the recovery of industries affected by the economic fallout, and attract more investments in the post-COVID era. Towards this objective, I am sponsoring the Corporate Recovery & Tax Incentives for Enterprises Act, otherwise known as the CREATE bill. This measure seeks to immediately reduce our Corporate Income Tax (CIT) rate and establish a more targeted, time-bound, performance-based, and transparent tax incentives regime.

Through the collective wisdom of lawmakers and with the help of various sectors and think-tanks like the STSRO, I am hopeful that we could craft measures that will genuinely address the needs of our economy, especially in these trying times.

Congratulations and more power to the STSRO! #



REPUBLIC OF THE PHILIPPINES

Senate

Pasay City

Office of the Secretary

MESSAGE

I would like to congratulate the Senate Tax Study and Research Office (STSRO), led by Director General Rodello T. Dascal, for coming up with another important publication this year.

The 5th Edition of the STSRO Primer provides the Senate technical staff, academic and media researchers, and the general public with a reservoir of information on budgetary and fiscal matters, revenue collection and incentives. The Primer gives its readers a deep understanding and appreciation of current issues and concerns relative to the abovementioned subjects.

I commend the STSRO for constantly coming up with timely and relevant publications. May you continue to provide our dear Senators and the Committee on Ways and Means with outstanding technical support.

Mabuhay ang STSRO!


ATTY. MYRA MARIE D. VILLARICA
 Senate Secretary