



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

MERCY VDA. DE ROXAS,
represented by ARLENE C. ROXAS-
CRUZ, in her capacity as substitute
appellant-petitioner,

Petitioner,

- versus -

OUR LADY'S FOUNDATION, INC.,
Respondent.

G.R. No. 182378

Present:

SERENO, *CJ*, Chairperson,
LEONARDO-DE CASTRO,
BERSAMIN,
VILLARAMA, JR., and
REYES, *JJ*.

Promulgated:

MAR 06 2013

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DECISION

SERENO, *CJ*:

Before this Court is a Rule 45 Petition, seeking a review of the Court of Appeals (CA) 25 September 2007 Decision¹ and 11 March 2008 Resolution² in CA-G.R. SP No. 88622, which nullified the (1) Notices of Garnishment directed against the bank accounts of petitioner's general manager; and (2) the 2 December 2004 Order³ in Civil Case No. 5403 of the Regional Trial Court (RTC) of Sorsogon City, Branch 52. The Order required respondent to reimburse petitioner ₱1,800 per square meter of the 92-square-meter property it had encroached upon.

The antecedent facts are as follows:

On 1 September 1988, Salve Dealca Latosa filed before the RTC a Complaint for the recovery of ownership of a portion of her residential land

¹ *Rollo*, pp. 19-26. Both the Decision and Resolution of the CA were penned by Associate Justice Marina L. Buzon, with Associate Justices Rosmari D. Carandang and Mariflor P. Punzalan Castillo concurring.

² *Id.* at 76-77.

³ *CA rollo*, pp. 44-45.

located at Our Lady's Village, Bibincahan, Sorsogon, Sorsogon, docketed as Civil Case No. 5403. According to her, Atty. Henry Amado Roxas (Roxas), represented by petitioner herein, encroached on a quarter of her property by arbitrarily extending his concrete fence beyond the correct limits.

In his Answer, Roxas imputed the blame to respondent Our Lady's Village Foundation, Inc., now Our Lady's Foundation, Inc. (OLFI). He then filed a Third-Party Complaint against respondent and claimed that he only occupied the adjoining portion in order to get the equivalent area of what he had lost when OLFI trimmed his property for the subdivision road. The RTC admitted the Third-Party Complaint and proceeded to trial on the merits.

After considering the evidence of all the parties, the trial court held that Latosa had established her claim of encroachment by a preponderance of evidence. It found that Roxas occupied a total of 112 square meters of Latosa's lots, and that, in turn, OLFI trimmed his property by 92 square meters. The dispositive portion of the Decision⁴ reads:

WHEREFORE, the Court hereby renders judgment as follows:

On the Complaint:

1. Ordering the defendant to return and surrender the portion of 116 sq. meters which lawfully belongs to the plaintiff being a portion of Lot 19;
2. Ordering defendant to demolish whatever structure constructed [sic] thereon and to remove the same at his own expense;
3. Ordering defendant to reimburse plaintiff the amount of ₱1,500.00 for the expenses in the relocation survey;
4. Ordering the dismissal of the counter claim.

On the 3rd Party Complaint:

1. Ordering the 3rd Party Defendant to reimburse 3rd Party Plaintiff the value of 92 sq. meters which is a portion of Lot 23 of the def-3rd Party Plaintiff plus legal interest to be reckoned from the time it was paid to the 3rd Party Defendant;
2. 3rd Party Defendant is ordered to pay the 3rd Party Plaintiff the sum of ₱10,000.00 as attorney's fees and ₱5,000 as litigation expenses;
3. 3rd Party Defendant shall pay the cost of suit.

SO ORDERED.⁵

Subsequently, Roxas appealed to the CA, which later denied the appeal. Since the Decision had become final, the RTC issued a Writ of

⁴ *Rollo*, pp. 27-31, RTC Decision penned by Judge Honesto A. Villamor.

⁵ *Id.* at 30-31.

Execution⁶ to implement the ruling ordering OLF I to reimburse Roxas for the value of the 92-square-meter property plus legal interest to be reckoned from the time the amount was paid to the third-party defendant. The trial court then approved the Sheriff's Bill,⁷ which valued the subject property at ₱2,500 per square meter or a total of ₱230,000. Adding the legal interest of 12% per annum for 10 years, respondent's judgment obligations totaled ₱506,000.

Opposing the valuation of the subject property, OLF I filed a Motion to Quash the Sheriff's Bill and a Motion for Inhibition of the RTC judge. It insisted that it should reimburse Roxas only at the rate of ₱40 per square meter, the same rate that Roxas paid when the latter first purchased the property. Nevertheless, before resolving the Motions filed by OLF I, the trial court approved an Amended Sheriff's Bill,⁸ which reduced the valuation to ₱1,800 per square meter.

Eventually, the RTC denied both the Motion for Inhibition and the Motion to Quash the Sheriff's Bill. It cited fairness to justify the computation of respondent's judgment obligation found in the Amended Sheriff's Bill. In its 2 December 2004 Order, the trial court explained:

Although it might be true that the property was originally purchased at ₱40.00 per square meter, the value of the Philippine Peso has greatly devaluated since then ₱40.00 may be able to purchase a square meter of land twenty (20) or more years ago but it could only buy two (2) kilos of rice today. It would be most unfair to the defendants-third party plaintiff if the third party defendant would only be made to reimburse the purchase price at ₱40.00 per square meter. Anyway, this Court is in the best position to determine what amount should be reimbursed since it is the one who rendered the decision which was affirmed *in toto* by the Appellate Court and this Court is of the opinion and so holds that that amount should be ₱1,800.00 per square meter.⁹

To collect the aforementioned amount, Notices of Garnishment¹⁰ were then issued by the sheriff to the managers of the Development Bank of the Philippines and the United Coconut Planters Bank for them to garnish the account of Bishop Robert Arcilla-Maullon (Arcilla-Maullon), OLF I's general manager.

Refusing to pay ₱1,800 per square meter to Roxas, OLF I filed a Rule 65 Petition before the CA.¹¹ Respondent asserted that since the dispositive portion of the Decision ordered it to reimburse Roxas, it should only be

⁶ Id. at 42-43.

⁷ CA *rollo*, p. 32.

⁸ Id. at 43.

⁹ *Rollo*, p. 46-47.

¹⁰ CA *rollo*, pp. 46-47.

¹¹ Id. at 7-17.

made to return the purchase price that he had originally paid, which was ₱40 per square meter for the 92-square-meter property.

Petitioner argues otherwise. Roxas first clarified that the dispositive portion of the Decision is silent as to the value of the subject property – whether the value is to be reckoned from the date of purchase or from the date of payment after the finality of judgment.¹² Following this clarification, petitioner pointed out that the valuation of the subject property was for the trial court to undertake, and that the reimbursement contemplated referred to the repayment of all the expenses, damages, and losses. Roxas ultimately argued that the payment for the property encroached upon must not be absurd and must take into consideration the devaluation of the Philippine peso.

The arguments of Roxas did not persuade the CA. It construed reimbursement as an obligation to pay back what was previously paid and thus required OLFI to merely reimburse him at the rate of ₱40 per square meter, which was the consideration respondent had received when Roxas purchased the subdivision lots. Therefore, for changing the tenor of the RTC Decision by requiring the reimbursement of ₱1,800 per square meter, both the Amended Sheriff's Bill and the 2 December 2004 Order of the RTC were considered null and void.

Further, the CA nullified the Notices of Garnishment issued against the bank accounts of Arcilla-Maullon. It noted that since the general manager of OLFI was not impleaded in the proceedings, he could not be held personally liable for the obligation of the corporation.

Before this Court, petitioner maintains that OLFI should be made to pay ₱1,800, and not ₱40 per square meter as upheld in the 2 December 2004 Order of the RTC.¹³ For the immediate enforcement of the Order, petitioner further argues that because OLFI is a dummy corporation, the bank accounts of its general manager can be garnished to collect the judgment obligation of respondent.¹⁴

Hence, the pertinent issue in this case requires the determination of the correct amount to be reimbursed by OLFI to Roxas. As a corollary matter, this Court also resolves the propriety of issuing the Notices of Garnishment against the bank accounts of Arcilla-Maullon as OLFI's general manager.

¹² Id. at 114; Comment dated 24 October 2005.

¹³ *Rollo*, pp. 13-16; Petition for Review dated 8 May 2008.

¹⁴ Id. at 15; Petition for Review dated 13 May 2008.

RULING OF THE COURT

Based on the dispositive portion of the RTC Decision, OLF1 was ordered to reimburse Roxas for the value of the 92-square-meter property plus legal interest to be reckoned from the time it was paid to the third-party defendant.

In interpreting this directive, both the trial and the appellate courts differed in interpreting the amount of reimbursement payable by respondent to petitioner. The RTC pegged the reimbursable amount at ₱1,800 per square meter to reflect the current value of the property, while the CA maintained the original amount of the lot at ₱40 per square meter.

To settle the contention, this Court resorts to the provisions of the Civil Code governing encroachment on property. Under Article 448 pertaining to encroachments in good faith, as well as Article 450 referring to encroachments in bad faith, the owner of the land encroached upon – petitioner herein – has the option to require respondent builder to pay the price of the land.

Although these provisions of the Civil Code do not explicitly state the reckoning period for valuing the property, *Ballatan v. Court of Appeals*¹⁵ already specifies that in the event that the seller elects to sell the lot, “the price must be fixed at the prevailing market value at the time of payment.” More recently, *Tuatis v. Spouses Escol*¹⁶ illustrates that the present or current fair value of the land is to be reckoned at the time that the landowner elected the choice, and not at the time that the property was purchased. We quote below the relevant portion of that Decision:¹⁷

Under the *second option*, Visminda may choose not to appropriate the building and, instead, oblige Tuatis to pay the present or current fair value of the land. **The ₱10,000.00 price of the subject property, as stated in the Deed of Sale on Installment executed in November 1989, shall no longer apply, since Visminda will be obliging Tuatis to pay for the price of the land in the exercise of Visminda’s rights under Article 448 of the Civil Code, and not under the said Deed.** Tuatis’ obligation will then be statutory, and not contractual, arising only when Visminda has chosen her option under Article 448 of the Civil Code.

Still under the second option, if the present or current value of the land, the subject property herein, turns out to be considerably more than that of the building built thereon, Tuatis cannot be obliged to pay for the subject property, but she must pay Visminda reasonable rent for the same. Visminda and Tuatis must agree on the terms of the lease; otherwise, the court will fix the terms. (Emphasis supplied)

¹⁵ 363 Phil. 408, 423 (1999).

¹⁶ G.R. No. 175399, 27 October 2009, 604 SCRA 471.

¹⁷ Id. at 493.

In *Sarmiento v. Agana*,¹⁸ we reckoned the valuation of the property at the time that the real owner of the land asked the builder to vacate the property encroached upon. Moreover, the oft-cited case *Depra v. Dumlao*¹⁹ likewise ordered the courts of origin to compute the current fair price of the land in cases of encroachment on real properties.

From these cases, it follows that the CA incorrectly pegged the reimbursable amount at the old market value of the subject property – ₱40 per square meter – as reflected in the Deed of Absolute Sale²⁰ between the parties. On the other hand, the RTC properly considered in its 2 December 2004 Order the value of the lot at ₱1,800 per square meter, the current fair price as determined in the Amended Sheriff's Bill. Thus, we reverse the ruling of the CA and reinstate the 2 December 2004 Order of the RTC directing OLF I to reimburse petitioner at ₱1,800 per square meter.

Nevertheless, with regard to the issue pertaining to the Notices of Garnishment issued against the bank accounts of Arcilla-Maullon, we affirm the ruling of the CA.

The appellate court appreciated that in the main case for the recovery of ownership before the court of origin, only OLF I was named as respondent corporation, and that its general manager was never impleaded in the proceedings *a quo*.

Given this finding, this Court holds that since OLF I's general manager was not a party to the case, the CA correctly ruled that Arcilla-Maullon cannot be held personally liable for the obligation of the corporation. In *Santos v. NLRC*,²¹ this Court upholds the doctrine of separate juridical personality of corporate entities. The case emphasizes that a corporation is a juridical entity with a legal personality separate and distinct from those acting for and on its behalf and, in general, of the people comprising it.²² Hence, the obligations incurred by the corporation, acting through its officers such as in this case, are its sole liabilities.²³

To hold the general manager of OLF I liable, petitioner claims that it is a mere business conduit of Arcilla-Maullon, hence, the corporation does not maintain a bank account separate and distinct from the bank accounts of its members. In support of this claim, petitioner submits that because OLF I did not rebut the attack on its legal personality, as alleged in petitioner's Opposition and Comments on the Motion to Quash Notice/Writ of

¹⁸ 214 Phil. 101 (1984).

¹⁹ 221 Phil. 168 (1985).

²⁰ *CA rollo*, p. 96.

²¹ 325 Phil. 145 (1996).

²² *Id.*

²³ *Id.*

Garnishment dated 15 March 2005,²⁴ respondent effectively admitted by its silence that it was a mere dummy corporation.

This argument does not persuade us, for any piercing of the corporate veil has to be done with caution.²⁵ Save for its rhetoric, petitioner fails to adduce any evidence that would prove OLF's status as a dummy corporation. In this regard, we recently explained in *Sarona v. NLRC*²⁶ as follows:

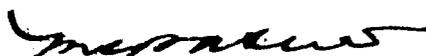
A court should be mindful of the milieu where it is to be applied. It must be certain that the corporate fiction was misused to such an extent that injustice, fraud, or crime was committed against another, in disregard of rights. The wrongdoing must be clearly and convincingly established; it cannot be presumed. Otherwise, an injustice that was never unintended may result from an erroneous application. (Citation omitted)

In any event, in order for us to hold Arcilla-Maullon personally liable alone for the debts of the corporation and thus pierce the veil of corporate fiction, we have required that the bad faith of the officer must first be established clearly and convincingly.²⁷ Petitioner, however, has failed to include any submission pertaining to any wrongdoing of the general manager. Necessarily, it would be unjust to hold the latter personally liable.

Therefore, we refuse to allow the execution of a corporate judgment debt against the general manager of the corporation, since in no legal sense is he the owner of the corporate property.²⁸ Consequently, this Court sustains the CA in nullifying the Notices of Garnishment against his bank accounts.

IN VIEW THEREOF, the 25 September 2007 Decision and 11 March 2008 Resolution of the Court of Appeals in CA-GR SP No. 88622 are **AFFIRMED with MODIFICATION** in that the value of the 92-square-meter property for which respondent should reimburse petitioner, as determined by the 2 December 2004 Order of the Regional Trial Court in Civil Case No. 5403, is hereby reinstated at ₱1,800 per square meter.

SO ORDERED.



MARIA LOURDES P. A. SERENO
Chief Justice, Chairperson

²⁴ CA rollo, pp. 168-169.

²⁵ *Kukan International Corporation v. Reyes*, G.R. No. 182729, 29 September 2010, 631 SCRA 596 citing *PEA-PTGWO v. NLRC*, 581 SCRA 598 (2009).

²⁶ G.R. No. 185280, 18 January 2012, 663 SCRA 394, 417.

²⁷ *Carag v. NLRC*, G.R. No. 147590, 2 April 2007, 520 SCRA 28.

²⁸ *Good Earth Emporium Inc., v. Court of Appeals*, G.R. No. 82797, 27 February 1991, 194 SCRA 544.

WE CONCUR:

Teresita Leonardo de Castro
TERESITA J. LEONARDO-DE CASTRO
Associate Justice

Lucas P. Bersamin
LUCAS P. BERSAMIN
Associate Justice

Martin S. Villarama, Jr.
MARTIN S. VILLARAMA, JR.
Associate Justice

Bienvenido L. Reyes
BIENVENIDO L. REYES
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

Maria Lourdes P. A. Sereno
MARIA LOURDES P. A. SERENO
Chief Justice