

Title: Commissioner of Internal Revenue v. Hantex Trading Co., Inc.

Facts: Hantex Trading Co., Inc. is a corporation engaged in selling plastic products by importing synthetic resin and other chemicals. They are required to file an Import Entry and Internal Revenue Declaration (Consumption Entry) with the Bureau of Customs per Section 1301 of the Tariff and Customs Code. Allegations arose that Hantex underdeclared its 1987 importations. The Economic Intelligence and Investigation Bureau (EIIB) recommended an inventory audit which was authorized by then EIIB Commissioner Jose T. Almonte.

Hantex refused to comply with subpoenas for its accounting records, claiming repetitive examination by the BIR previously. EIIB retrieved certified copies of Hantex's Profit and Loss Statements and machine copies of 77 Consumption Entries supplied by informers, which suggested undervaluation. Unable to authenticate these as the originals reportedly were destroyed by termites, EIIB based their investigation on these documents.

Using machine copies of Consumption Entries and other documents, EIIB found discrepancies in declared sales and unreported sales amounting to P63,032,989.17 for 1987. The EIIB recommended to BIR the collection of the assessed deficiency income and sales tax against Hantex. After further investigation, including the examination of customs and SEC records, and following an unfruitful invitation to a conference with Hantex, the BIR took formal steps to collect the tax liabilities.

Hantex protested the assessment, claiming it had already been investigated multiple times without finding evasion and that the documents used for the assessment were inadmissible. The BIR maintained the assessment's correctness, and when the matter was unresolved administratively, Hantex filed a petition for review with the Court of Tax Appeals (CTA).

The CTA denied the petition, siding with the BIR, ruling Hantex failed to prove the tax assessment was incorrect and owed the deficiency income and sales taxes. Upon appeal, the Court of Appeals (CA) reversed the CTA's decision, holding that the assessments based on unauthenticated documents were unlawful and denied Hantex due process.

Issues:

1. Whether the petition of the Commissioner of Internal Revenue complies with the Rules of Court.
2. Whether the deficiency income tax and sales tax assessment against Hantex is based on competent evidence and the law.
3. The proper amount of deficiency taxes due from Hantex, if applicable.

Court's Decision:

The Supreme Court remanded the case to the CTA for further proceedings. It held that while the BIR Commissioner might resort to the best evidence obtainable when a taxpayer fails to submit the required documents, this rule does not include mere photocopies of documents. The BIR's reliance on uncertified photocopies was arbitrary and lacked a factual basis. The Supreme Court granted the petition of the BIR but set aside the CA decision and ordered further proceedings to allow BIR to present certified or duplicate original Consumption Entries and enable both parties to adduce evidence. The Supreme Court emphasized that taxation must be based on facts and sound evidence, not on unfounded presumptions or arbitrary approximations.

Doctrine:

In tax assessments, while the BIR can utilize the best evidence obtainable when the taxpayer fails to comply with the submission of documents, this does not extend to mere photocopies. Certiorari under Rule 45 may be granted when necessary to resolve factual issues and to serve the interests of justice. The tax assessments must be based on actual facts, not presumptions or inadequate evidence.

Historical Background:

The case reflects the tension between due process and the tax authority's duty to collect revenues. It is situated in a period where the Philippines was enhancing its revenue collection mechanisms, including dealing with tax evasion more vigorously. The decision underscores the principle that tax collection, while essential, must be carried out within the bounds of the law, ensuring taxpayers are not arbitrarily penalized based on inadequate evidence.