

Title: Hilado v. The Collector of Internal Revenue and The Court of Tax Appeals

Facts: Petitioner Emilio Y. Hilado filed his income tax return in 1951, claiming P12,837.65 as a deductible item from his gross income based on General Circular No. V-123 by the Collector of Internal Revenue (CIR). This deduction was a portion of his war damage claim approved by the Philippine War Damage Commission under the Philippine Rehabilitation Act of 1946, which was unpaid as the US Congress had not made further appropriation. Consequently, the CIR, following General Circular No. V-139 which superseded V-123, disallowed the deduction and assessed Hilado for a deficiency income tax of P3,546 for 1951. Hilado's petition for reconsideration was denied, prompting him to file a review with the Court of Tax Appeals, which affirmed the CIR's assessment. Hilado appealed the decision.

Issues:

1. Whether the amount of P12,837.65 represents a "business asset" deductible as a loss in Hilado's 1951 tax return.
2. Whether General Circular No. V-123 granted Hilado a vested right that cannot be revoked or repealed by the issuance of General Circular No. V-139.
3. Whether the proper year for claiming deduction of war damages was 1951 or the year these were actually sustained.
4. Whether the Secretary of Finance has the authority to revoke a circular issued by a predecessor in office.

Court's Decision: The Supreme Court affirmed the decision of the Court of Tax Appeals, holding that the amount of P12,837.65 does not constitute a "business asset" deductible as a loss for the year 1951, as it was not an enforceable right but dependent on US Congress appropriations. Furthermore, the Court ruled that General Circular No. V-123 did not bestow a vested right upon Hilado and could be revoked or amended by the successor of the official who issued it. The losses from war damages were only deductible in the year they were actually sustained, and the change of sovereignty during the war did not nullify existing internal revenue laws. Therefore, Hilado was not entitled to the deduction he claimed, and the deficiency tax assessment was correct.

Doctrine: A taxpayer cannot derive a vested right from an erroneous interpretation of law by administrative authorities. The interpretation of a statute by those administering it is not binding on their successors if they believe a different interpretation should be given. Thus, administrative issuances, like circulars, can be revoked or amended when they are found to

be based on an incorrect interpretation of the law.

Class Notes:

- Deductible business losses must be based on enforceable rights.
- Administrative circulars are not laws and do not create vested rights, especially when based on an erroneous interpretation of the law.
- The authority to interpret tax laws lies with the Secretary of Finance and is subject to revocation or modification by successors.
- Tax laws continue in effect unless changed by legislative authority, irrespective of the sovereignty in power, and tax obligations generally remain during periods of enemy occupation.
- Section 30(d) of the National Internal Revenue Code only allows deductions for losses within the corresponding taxable year they were sustained.
- Relevant legal statute: Article 2254 of the New Civil Code which states no vested or acquired right can arise from acts or omissions against the law or that infringe the rights of others, and the principle where law once established continues until changed by competent legislative authority.

Historical Background: This case takes place in the aftermath of World War II, addressing the tax treatment of war damages under the Philippine Rehabilitation Act of 1946. It also highlights the administrative adjustments to tax regulations as per the evolving interpretation by the Department of Finance during the post-war reconstruction era, reflecting the challenges of reconciling wartime losses with peacetime tax obligations. The case reaffirms that administrative circulars serve as interpretative guides and are subservient to legislative statutes and judicial interpretation.