

Title:

Mariano P. Pascual and Renato P. Dragon vs. The Commissioner of Internal Revenue and Court of Tax Appeals

Facts:

Mariano P. Pascual and Renato P. Dragon (petitioners) bought two parcels of land in 1965 and another three in 1966. They sold the first two to Marenir Development Corporation in 1968 and the remaining three to Erlinda Reyes and Maria Samson in 1970. From these sales, they realized net profits of P165,224.70 and P60,000.00, respectively. They paid the capital gains taxes for these transactions through tax amnesties in 1973 and 1974.

In a 1979 assessment, the Acting Commissioner of Internal Revenue, Efren I. Plana, assessed them for deficiency corporate income taxes totaling P107,101.07 for 1968 and 1970. They contested the assessment, maintaining their tax liabilities were settled with the amnesties. The Commissioner argued that the petitioners formed an unregistered partnership taxable as a corporation, and the tax amnesty did not cover the partnership's tax liabilities.

Petitioners filed a petition for review with the Court of Tax Appeals (CTA Case No. 3045). The CTA affirmed the Commissioner's decision. Petitioners appealed to the Supreme Court, claiming the CTA erred in its ruling.

Issues:

1. Did the petitioners form an unregistered partnership subject to corporate income tax?
2. Was the burden of offering evidence to oppose the tax assessment appropriately placed on the petitioners?
3. Were the sales transactions enough to conclude the existence of a partnership?
4. Does the case bear similarity to the Evangelista case, and should it be decided similarly?
5. Did the tax amnesty relieve petitioners from payment of other taxes for the period covered?

Court's Decision:

The Supreme Court found merit in the petition, reversing the CTA's decision and relieving the petitioners of the corporate income tax liability.

1. There was no agreement to contribute to a common fund with the intent to divide profits amongst themselves, which are essential elements for a partnership.
2. The isolated transactions did not exhibit the habitual nature characteristic of a business

established for the purpose of gain.

3. The petitioners' co-ownership did not constitute a partnership as their transactions were limited and lacked the intent to form a partnership.

4. Assuming arguendo that a partnership was formed, the individual partners (petitioners) availed of tax amnesty as individual taxpayers, thus relieving them from further tax liability.

Doctrine:

The Supreme Court reiterated the doctrine distinguishing co-ownership from an unregistered partnership or joint venture for income tax purposes. The essential elements of a partnership include an agreement to contribute money, property, or industry to a common fund, and an intention to divide the profits among the contracting parties. Isolated transactions, without more, do not automatically establish a partnership.

Class Notes:

- Co-ownership vs. Partnership: Co-ownership does not automatically create a partnership, even if the co-owners share profits made from the use of common property (Civil Code, Art. 1769).
- Intent and Habituality: A partnership implies intent to form such an association and engage in habitually business activities for gain, unlike isolated transactions that do not show a pattern suggestive of business activity.
- Evangelista Ruling: Evangelista v. Collector case highlights that joint activities must show an unmistakable intent to engage in business and share profits to constitute a partnership.
- Tax Amnesty: Individual taxpayers' liabilities for taxes can be extinguished by availing of a tax amnesty, provided they comply with its requisites.

Historical Background:

This case reflects the tax principles and legal distinctions between collective investments and partnership ventures in the Philippines, as influenced by the jurisprudence set forth in Evangelista and subsequent tax laws involving capital gains and corporate income tax. The case emphasizes the importance of clear intent and business activity patterns in determining tax liabilities in contexts of co-ownership and unregistered partnerships.