

Title: Paseo Realty & Development Corporation vs. Court of Appeals, Court of Tax Appeals and Commissioner of Internal Revenue

Facts: Paseo Realty and Development Corporation (petitioner) is a domestic corporation engaged in leasing land in Makati City. The petitioner filed its Income Tax Return for the year 1989, claiming a gross income of P1,855,000.00 and net income of P79,009.00. It declared tax due of P27,653.00, a prior year's excess credit of P146,026.00, and creditable taxes withheld of P54,104.00, thus asserting a total tax credit of P200,130.00 and a credit balance of P172,477.00.

Subsequently, the petitioner sought a refund of excess creditable withholding and income taxes for the years 1989 and 1990 amounting to P147,036.15. Faced with the impending expiration of the claim for the 1989 refund, the petitioner filed a petition for review on December 27, 1991, before the Court of Tax Appeals (CTA), specifically claiming a refund of P54,104.00 for creditable taxes withheld in 1989.

The CTA initially granted the refund; however, upon motion for reconsideration by the Commissioner of Internal Revenue (respondent), the CTA reversed its decision. It highlighted that the petitioner already applied the amount of P54,104.00 as tax credit for the succeeding taxable year 1990, as indicated in the petitioner's 1989 tax return.

The petitioner contested this resolution in the Court of Appeals (CA), arguing that it did not apply the amount to its 1990 tax liability and cited a decision of the Sixteenth Division of the CA in their favor. Nevertheless, the CA affirmed the CTA's denial of the refund, prompting the petitioner to raise the matter before the Supreme Court.

Issues:

The primary legal issue resolved by the Supreme Court was whether the petitioner is entitled to a refund of creditable taxes withheld in 1989, or if the said amount had been applied to the income tax liability for the succeeding taxable year, as indicated in the tax return.

Court's Decision:

The Supreme Court denied the petition for a refund and affirmed the CA's decision. It held that the petitioner's 1989 tax return showed a clear intention to apply the total tax credit, which included the amount in question (P54,104.00), against the petitioner's income tax liability for the taxable year 1990. The Court also emphasized that the petitioner had the burden of proof to establish a factual basis for its claim, but it failed to provide necessary

evidence, such as the tax return for 1990, to support their assertion of non-application of the tax credit. Consequently, the failure to present this vital document was fatal to its claim for a refund.

Doctrine:

The Court reiterates the doctrines that tax refunds are construed strictly against the taxpayer, and claims for refund or tax exemptions must be clearly established based on clear statutory language. Furthermore, the Court held that the option to carry over and apply excess quarterly income tax against income tax due for the taxable quarters of the succeeding taxable year is irrevocable once exercised.

Class Notes:

- The claimant has the burden of proof in establishing eligibility for a tax credit or refund.
- Tax returns are essential in refund claims as they validate the taxpayer's disclosures.
- The choice of a taxpayer regarding the application of excess tax credits (refund or carry forward) is not absolute and requires the Commissioner's approval.
- The carry forward of excess tax credits is statutorily limited.
- Sections 69 and 76 of the National Internal Revenue Code (NIRC) govern the carry-forward of overpaid taxes, with amendments emphasizing the irrevocability of the choice to apply overpayments as credit against future liabilities.

Historical Background:

The case reflects the complexity emanating from changes in tax laws, particularly in the adjustment from annual to quarterly reporting and payment schedules of corporate income taxes. The scenario underscores the importance of clear elections in tax returns, as well as strict adherence to principles of proof and procedural requirements. The decision manifests the principle of strict interpretation of tax refund claims and the legal necessity for taxpayers to meticulously manage tax credits and liabilities, particularly when statutory amendments like the Tax Reform Act of 1997 introduce new requisites like the irrevocability of certain taxpayer choices.