Title:
Commissioner of Internal Revenue vs. Interpublic Group of Companies, Inc. (2016)

Facts:
Interpublic Group of Companies, Inc. (IGC), a non-resident foreign corporation domiciled in Delaware, USA, held 30% of McCann Worldgroup Philippines, Inc. (McCann), a domestic corporation. In 2006, McCann declared cash dividends totaling P205,648,685.02, with IGC's share amounting to P61,694,605.51. McCann withheld and remitted 35% final withholding tax (FWT) of P21,593,111.93 on the dividends to the Commissioner of Internal Revenue (CIR).

IGC established a Regional Headquarters (RHQ) in the Philippines which later became a Regional Operating Headquarters (ROHQ). IGC filed an administrative claim for a refund or tax credit certificate (TCC) for P12,338,921.00, representing overpaid FWT, citing its entitlement to a preferential FWT rate of 15% under the Tax Code due to a tax treaty between the Philippines and the United States.

The CIR failed to act on IGC's claim, compelling IGC to file a petition for review with the Court of Tax Appeals (CTA) on June 16, 2008. The CTA Third Division favored IGC, and this decision was upheld by the CTA En Banc. The CIR's subsequent Motion for Reconsideration was denied.

The CIR filed a Petition for Review with the Supreme Court questioning IGC's entitlement to a tax refund, capacity to sue in the Philippines, compliance with Revenue Memorandum Order (RMO) No. 1-2000, and other procedural matters.

Issues:
1. Whether IGC has the capacity to sue in Philippine courts as a non-resident foreign corporation not licensed to do business in the country.
2. Whether IGC is entitled to the preferential FWT rate of 15% under the Tax Code in relation to the Philippines-US Tax Treaty.
3. Whether compliance with RMO No. 1-2000 is a condition precedent for the application of the preferential tax rate under the tax treaty.
4. Whether IGC satisfied all requisites for a tax refund claim, including the fact of overpayment and timeliness of the claim.

Court's Decision:
1. The Supreme Court agreed with the CTA that IGC has the capacity to sue in the

Philippines, since its activities of subscribing to shares and earning dividends do not constitute "doing business" that would require a license.
2. IGC is entitled to the 15% preferential FWT rate as it applies the Philippines-US Tax Treaty, which provides for such reduction.
3. The Supreme Court upheld that the obligation to comply with the tax treaty takes precedence over RMO No. 1-2000. The directive for prior application for tax treaty relief cannot override the tax treaty benefits to which a taxpayer is entitled.
4. IGC complied with all legal requisites for a tax refund claim. The fact of payment was substantiated by evidence, and both administrative and judicial claims for the refund were filed within the stipulated two-year period.

Doctrine:
Tax refunds are construed as tax exemptions and are subject to strict interpretation against the claimant, who bears the burden of proof. International treaties have the force and effect of law in the Philippines, and obligations under tax treaties override domestic administrative issuances like RMO No. 1-2000 when they conflict. Non-resident foreign corporations not doing business in the Philippines can maintain legal action without a license.

Class Notes:
1. For foreign corporations: not engaging in business in the Philippines does not require a business license to maintain legal action. Section 133, Corporation Code.
2. A preferential FWT rate of 15% may apply to foreign corporations under a tax treaty. Section 28(B)(5)(b), Tax Code.
3. Preconditions for tax treaty benefits in administrative issuances must conform with the treaty's provisions. Non-compliance with internal revenue orders like RMO No. 1-2000 cannot invalidate treaty entitlements.
4. Tax refunds must be claimed within two years; the burden of proof rests on the claimant. Section 204(C) and Section 229, NIRC.

Historical Background:
This case exemplifies the Philippines' adherence to international treaty obligations, particularly in the realm of taxation, and the balance between domestic tax law administration and the commitment to honor bilateral tax agreements that prevent double taxation and encourage foreign investment. The decision underscores the Philippines' legal tradition of honoring its international commitments, with the Supreme Court providing clarity on the treatment of tax treaty benefits against domestic regulations.