

****Title:**** Philex Mining Corporation vs. Commissioner of Internal Revenue

****Facts:****

The case revolves around the tax liabilities of Philex Mining Corporation for the excise taxes due for the 2nd quarter of 1991 to the 2nd quarter of 1992, totaling P123,821,982.52. On August 5, 1992, the BIR requested Philex to settle its tax liabilities, which Philex protested on August 20, 1992, citing its pending claims for VAT input credit/refund amounting to P119,977,037.02 plus interest. The BIR rejected Philex's compensating claim, leading Philex to raise the issue to the Court of Tax Appeals (CTA) on November 6, 1992. During the CTA proceedings, the BIR issued a Tax Credit Certificate to Philex, reducing its liability to P110,677,688.52, which the CTA ordered Philex to pay, along with an additional 20% annual interest. Philex appealed to the Court of Appeals, which upheld the CTA's decision. Afterward, Philex obtained a VAT input credit/refund, which it argued should offset its excise tax liabilities, a claim rejected by the Supreme Court.

****Issues:****

1. Whether taxes can be subject to set-off or compensation.
2. Whether Philex Mining Corporation can refuse the payment of its tax liabilities on the grounds of pending claims for tax credit/refund.
3. Whether the imposition of surcharge and interest on Philex's delayed tax payments was justified.

****Court's Decision:****

1. Taxes cannot be subject to set-off or compensation as the government and taxpayers are not mutual creditors and debtors of each other, and a claim for taxes is not similar to debts or contracts. This principle reiterates the ruling in previous cases such as *Francia v. Intermediate Appellate Court* and *Caltex Philippines, Inc. v. Commission on Audit*.
2. Philex cannot refuse to pay its taxes due simply because it has pending claims for a tax credit/refund against the government. The payment of taxes is a duty of the taxpayer and is mandatory regardless of any pending claims.
3. The imposition of a surcharge and interest for the non-payment within the prescribed period is justified as per the Tax Code to encourage the timely payment of taxes. The contention that Philex had no obligation to pay within the prescribed period due to its pending tax claims was disregarded.

****Doctrine:****

- Taxes cannot be the subject of compensation as the government and the taxpayer are not creditors and debtors of each other.
- The collection of taxes cannot be delayed by pending claims for a tax credit/refund.
- Surcharges and interests are justifiably imposed for late tax payments to ensure compliance with tax laws and regulations.

****Class Notes:****

- ****Taxes vs. Debts:**** Taxes are obligations due in the government's sovereign capacity, while debts are due in its corporate capacity.
- ****No Set-Off in Taxes:**** A taxpayer cannot set off taxes due against claims they may have against the government.
- ****Mandatory Surcharges and Interests:**** The imposition of surcharges and interests are mandatory penalties for late payment of taxes, encouraging compliance with tax deadlines.
- ****Legal Remedies for Tax Claims:**** Taxpayers have legal remedies through the Court of Tax Appeals and can seek damages for willful neglect by BIR employees.

****Historical Background:****

This case is situated within the broader legal and historical context of tax administration in the Philippines, highlighting the strict enforcement of tax laws and the principles guiding the relationship between taxpayers and the government. It emphasizes the importance of timely tax collection and the non-allowance of compensation to protect the government's fiscal interests, ensuring resources are available for public services and projects.