

****Title:**** COMMISSIONER OF INTERNAL REVENUE vs. S.C. JOHNSON AND SON, INC.,
AND COURT OF APPEALS

****Facts:****

S.C. Johnson and Son, Inc. (Philippines), entered into a license agreement with S.C. Johnson and Son, USA, granting the former rights to use trademarks, patents, and technology for manufacturing and distribution in the Philippines. The license was registered with the Technology Transfer Board, and S.C. Johnson Philippines paid royalties to S.C. Johnson USA, subjected to a 25% withholding tax. Arguing for a preferential 10% tax rate under the RP-US Tax Treaty considering similar conditions to other treaties, S.C. Johnson Philippines claimed a refund for overpaid taxes. The Commissioner of Internal Revenue (CIR) did not act on the refund claim, prompting S.C. Johnson to elevate the case to the Court of Tax Appeals (CTA), which favored the refund. The CIR's subsequent appeal to the Court of Appeals was unsuccessful, leading to the current petition for review by the Supreme Court.

****Issues:****

1. Whether the "Most Favored Nation" clause under the RP-US Tax Treaty entitles royalties paid to S.C. Johnson USA to be subjected only to a 10% withholding tax rate.
2. Whether the similar circumstances required for the application of the "Most Favored Nation" clause refer to the payment of royalties or the payment of taxes.

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

The Supreme Court granted the petition, reversing the decisions of both the CTA and the Court of Appeals. The Court ruled that the "Most Favored Nation" clause could not be invoked to apply the concessional 10% tax rate from the RP-Germany Tax Treaty to the RP-US Tax Treaty between the Philippines and the United States, as there were no similar tax relief provisions (such as a "matching credit") between the treaties. Consequently, royalties were subject to the 25% withholding tax rate, and S.C. Johnson was not entitled to a refund for overpaid taxes.

****Doctrine:****

Tax treaties should be interpreted in good faith with consideration to their purpose of eliminating double taxation and encouraging foreign investment. The "most favored nation" clause, promoting equality of treatment among states, is contingent upon the similarity of circumstances related to tax relief provisions among the concerned tax treaties. Tax refunds, effectively serving as exemptions, are subject to strict interpretation against the claimant who bears the burden of proof.

****Class Notes:****

- International taxation principles emphasize the avoidance of double taxation to promote international trade and investment.
- The “Most Favored Nation” clause is aimed at ensuring equal treatment by applying the most liberal provisions from analogous tax treaties, subject to similar circumstances, particularly concerning tax reliefs.
- Entities claiming tax exemptions or refunds must meet a high burden of proof, demonstrating entitlement based on explicit statutory or treaty grants.
- Interpretation of tax treaties should align with their aim to foster economic interaction between countries by mitigating tax burdens on international entities.

****Historical Background:****

The case illustrates the complexities of applying provisions from international tax treaties, especially the “Most Favored Nation” clause, in the context of global economic relations. It reflects the tension between the desire to attract foreign investment through favorable tax treatments and the need to secure national tax revenues. The decision underscores the intricate balance tax authorities and courts must achieve in interpreting and implementing treaty provisions in alignment with both domestic policy objectives and international commitments.