

### ### Title

**\*\*Commissioner of Internal Revenue v. Court of Appeals and Commonwealth Management and Services Corporation\*\***

### ### Facts

Commonwealth Management and Services Corporation (COMASERCO), an affiliate of the Philippine American Life Insurance Co. (Philamlife), was organized to perform services such as collection, consultative, and other technical services, including functioning as an internal auditor for Philamlife and its affiliates. The Bureau of Internal Revenue (BIR) issued an assessment for deficiency value-added tax (VAT) against COMASERCO amounting to P351,851.01 for the taxable year 1988. COMASERCO contested this, asserting that it operated on a “no-profit, reimbursement-of-cost-only” basis, not engaged in the business of providing services, and therefore was not liable for VAT. This led to a series of legal contests: COMASERCO protested the BIR’s finding, leading to a petition for review filed with the Court of Tax Appeals (CTA) which decided in favor of the BIR; this decision was then taken to the Court of Appeals, which reversed the CTA’s decision. The BIR then appealed to the Supreme Court.

### ### Issues

1. Whether COMASERCO was engaged in the sale of services, rendering it liable for VAT.
2. The interpretation of the term “in the course of trade or business” in relation to VAT liability.
3. Whether an entity’s motive for profit impacts its VAT liability on services rendered.

### ### Court’s Decision

The Supreme Court reversed the decision of the Court of Appeals, reinstating the CTA decision in favor of the BIR. The Court clarified that VAT is a tax on transactions rather than profit, and anyone who provides services for a fee, remuneration, or consideration is subject to VAT, regardless of the profit motive or the tax-exempt status of an organization. The Court further elucidated that “in the course of trade or business” covers regular conduct or pursuit of a commercial or economic activity, including non-stock, nonprofit organizations, hence making COMASERCO liable for VAT on its services rendered to Philamlife and its affiliates.

### ### Doctrine

The Supreme Court reinforced the doctrine that VAT is imposed on any provision of services for a fee, remuneration, or consideration, irrespective of the entity’s profit motive or

organizational structure. It stressed that exemptions to tax laws are construed strictly against the grantee and in favor of the government, emphasizing that any transaction not expressly exempt from VAT under the law is subject to VAT.

### ### Class Notes

- VAT liability applies to transactions of goods or services in the course of trade or business.
- “In the course of trade or business” includes activity by any person or entity, irrespective of profit motive.
- VAT is an indirect tax, which can be passed on to the buyer or client.
- Tax exemption claims must be clearly stipulated in the law and are construed strictly against the grantee.
- The opinion of the Commissioner of Internal Revenue, unless evidently incorrect, holds substantial weight in tax matters.

### ### Historical Background

The dispute clarifies the application of VAT on services provided within affiliated companies, drawing a clear line that VAT applies based on transactions rather than the profit motives or structural classification of an entity. This decision is situated within a broader effort to streamline tax interpretation and collection, particularly in defining the bounds of VAT liability, contributing significantly to jurisprudence by underscoring the transactional nature of VAT over considerations of profit motive or organizational purpose.