Title: Commissioner of Internal Revenue vs. Goodyear Philippines, Inc.: The Case of Tax Refund on Erroneously Withheld Final Withholding Tax

Facts:
Goodyear Philippines, Inc. (respondent), a domestic corporation, increased its authorized capital stock in 2003 and issued preferred shares exclusively to Goodyear Tire and Rubber Company (GTRC), a US-based corporation. In 2008, the respondent redeemed GTRC's preferred shares for P470,653,914.00 and withheld 15% final withholding tax (FWT) on the gain, remitting P14,659,847.10 to the BIR, despite considering the redemption possibly not taxable under the RP-US Tax Treaty.

The respondent filed an administrative claim for refund or tax credit certificate (TCC) for the 15% FWT with the BIR in October 2010 and, shortly thereafter, a judicial claim with the Court of Tax Appeals (CTA) Case No. 8188. The CTA Division and eventually the CTA En Banc ruled in favor of the respondent, ordering a refund or issuance of a TCC for the withheld amount, which was upheld even after the petitioner's motion for reconsideration.

Issues:
1. Whether the respondent prematurely filed its judicial claim thereby failing to exhaust administrative remedies.
2. Whether the CTA En Banc erred in ruling that the gain derived by GTRC was not subject to 15% FWT on dividends.

Court's Decision:
The Supreme Court denied the petition, affirming the CTA En Banc's decision.

1. **Regarding Administrative Remedies:** The Court held that the respondent did not need to await the final decision of its administrative claim before seeking judicial recourse, given the two-year limitation for filing a judicial claim for tax refund. To do otherwise would potentially forfeit the taxpayer's right to reclaim the tax erroneously collected.

2. **On Taxability of Gain Derived by GTRC:** The Court found that the redemption price, particularly the gain, was not subject to 15% FWT under the RP-US Tax Treaty and Philippine tax law definitions of dividends. Since the gain did not emerge from respondent's earnings or profits and given Goodyear Philippines' operational deficit during the relevant years, the amount could not be deemed dividends, precluding the application of 15% FWT.

Doctrine:

The Supreme Court reiterated the principle that treaties have the force and effect of law in the Philippines. It also clarified the application of taxation treaties in determining the tax implications of transactions involving entities from the contracting states, in this case, emphasizing the RP-US Tax Treaty's stipulation on dividends and the treatment of gains derived from the redemption of shares.

Class Notes:
– **Exhaustion of Administrative Remedies:** Taxpayers are not obliged to wait for the conclusion of administrative claims before proceeding with judicial claims for tax refunds, especially when constrained by statutory periods.
– **Definition of Dividends for Tax Purposes:** Under Section 73 (A) of the Tax Code, dividends are distributions made by a corporation from its earnings or profits. This definition is crucial in tax treaty applications and determining tax liabilities on distributions.
– **RP-US Tax Treaty Application:** The determination of tax liabilities involving entities from the contracting states requires the consideration of relevant tax treaties, which may provide for exemptions or preferential tax rates.
– **Implications of Operational Deficit:** The ability of a corporation to distribute dividends is contingent upon the availability of unrestricted retained earnings. A corporation operating at a deficit cannot be presumed to have made dividend distributions.

Historical Background:
This case underscores the nuanced application of tax laws and treaties in the Philippines, highlighting the country's adherence to international agreements and the impact of such treaties on domestic tax regulations. It provides significant jurisprudence on the treatment of foreign corporations and their transactions involving Philippine entities, especially in the context of dividend income and capital gains taxation.