

Title:

Commissioner of Internal Revenue vs. Procter & Gamble Philippine Manufacturing Corporation & The Court of Tax Appeals

Facts:

Procter & Gamble Philippine Manufacturing Corporation (PMC-Phil.), a subsidiary of the US-based Procter & Gamble (PMC-U.S.A.), engages in business within the Philippines and is wholly owned by its U.S. parent company. For the taxable years ending June 30, 1974, and June 30, 1975, PMC-Phil. declared dividends in favor of PMC-U.S.A., which were taxed at a rate of 35% as per Section 24(b) of the Philippine Tax Code. However, invoking the “tax-sparing credit” provision, PMC-Phil. filed a claim for a refund or tax credit for an alleged overpaid withholding tax, amounting to P4,832,989.00. The claim was based on the difference between the 35% tax withheld and a preferable 15% tax rate applied under the tax-sparing provision.

Upon inaction by the Bureau of Internal Revenue (BIR), PMC-Phil. appealed to the Court of Tax Appeals (CTA) under CTA Case No. 2883. The CTA decision dated January 31, 1984, favored PMC-Phil., ordering a refund or tax credit. The Commissioner of Internal Revenue subsequently petitioned for review on certiorari with the Philippine Supreme Court, challenging the CTA’s decision.

Issues:

1. Whether PMC-Phil. is the proper party to claim the refund or if such claim should have been made by PMC-U.S.A.
2. Whether PMC-U.S.A. is entitled under the U.S. Tax Code to a United States Foreign Tax Credit equivalent to at least the 20 percentage-point portion of the 35% dividend tax deemed paid by the Philippine government.

Court’s Decision:

The Philippine Supreme Court granted the petition, reversing and setting aside the CTA’s decision. It held that:

1. PMC-Phil., acting merely as a withholding agent and not the taxpayer, is not the proper party to claim the refund. The actual party in interest should have been PMC-U.S.A. This issue was raised for the first time in the Supreme Court; however, the State cannot be in estoppel, especially in taxation matters.
2. There was no basis under Section 902 of the U.S. Internal Revenue Code to warrant a

refund of the disputed 15% to PMC-Phil. Additionally, PMC-Phil. failed to satisfy conditions for the preferential 15% tax rate, such as demonstrating the actual amount credited by the U.S. government against PMC-U.S.A.'s income tax on the dividends received or providing authenticated documents showing the U.S. government's credit of the 20% tax deemed paid in the Philippines.

Doctrine:

The case reiterates the principle that issues not raised in lower courts or administrative proceedings cannot generally be raised for the first time on appeal. It also underscores the doctrine that the State cannot be in estoppel, particularly in matters of taxation. Additionally, the decision emphasizes that the real party in interest, particularly in claims for tax refunds or credits, must be the one to file the claim.

Class Notes:

- **Claimant Identification**: Ensure that the appropriate party, typically the taxpayer, is the one making claims for refunds or tax credits.
- **Tax Sparing Credit**: Understand the specific conditions under which tax sparing credits can be applied, including the need for bilateral agreements or specific provisions within tax codes that allow for such benefits.
- **Administrative Proceedings**: Recognize the importance of raising all relevant issues during administrative and lower court proceedings, as failure to do so may prevent those issues from being considered on appeal.
- **State Estoppel**: The State cannot be estopped by the mistakes of its officers in matters of taxation.

Historical Background:

This case illustrates the complexities and nuances of international taxation, particularly the intersection of Philippine tax law with U.S. tax laws regarding dividends paid by a Philippine corporation to its non-resident U.S. parent company. It highlights the challenges multinational corporations face in navigating tax liabilities across borders and the legal principles governing claims for tax refunds or credits in the Philippines.