Title: Marubeni Corporation vs. Commissioner of Internal Revenue and Court of Tax Appeals

Facts:
Marubeni Corporation, a Japanese firm authorized to operate in the Philippines, invested in Atlantic Gulf and Pacific Co. of Manila (AG&P) and received dividends in 1981. Taxes withheld included a 10% final dividend tax and a 15% branch profit remittance tax. Marubeni sought a ruling from the BIR on whether these dividends were subject to the 15% profit remittance tax. The BIR responded that they were not, leading Marubeni to seek a refund or tax credit for the 15% tax paid, totaling P229,424.40. The Commissioner of Internal Revenue denied this claim, asserting that while the dividends weren't subject to the 15% tax, due to a tax treaty between the Philippines and Japan, the total 25% withheld (10% dividend tax + 15% profit remittance tax) was appropriate. Marubeni then appealed to the Court of Tax Appeals, which affirmed the Commissioner's decision, leading to this petition for review.

Issues:
1. Whether the dividends received and remitted by Marubeni Corporation from AG&P are subject to the 15% profit remittance tax.
2. Whether the dividends are taxable to Marubeni Corporation under Philippine tax law and the Philippines-Japan Tax Treaty of 1980.
3. Whether Marubeni is entitled to a tax refund amounting to P144,452.40 for overpayment of taxes on dividends received.

Court's Decision:
The Supreme Court reversed the decision of the Court of Tax Appeals and ordered the Commissioner of Internal Revenue to refund or grant a tax credit favoring Marubeni the amount of P144,452.40. The Court clarifies that Marubeni, being a non-resident foreign corporation with respect to these dividend transactions, should be taxed 15% on dividends received from a domestic corporation, as provided under Section 24(b)(1)(iii) of the Tax Code in conjunction with the Philippine-Japan Tax Treaty of 1980. The Court explained that the erroneously combined 10% final dividend tax and 15% profit remittance tax resulted in an overpayment, which warrants a refund. Additionally, the Court addressed and dismissed procedural concerns raised by the Commissioner regarding the timeliness of the appeal based on the Judiciary Reorganization Act of 1980, clarifying that the Court of Tax Appeals is governed by Republic Act No. 1125, which allows for a different appeal period.

Doctrine:
This case reaffirms the principle that foreign corporations are taxed differently on income from Philippine sources. Additionally, it highlights the interpretation of tax treaties in determining tax liabilities and entitlements to refunds. The decision elucidates that the tax basis for each type of tax (dividend tax vs. profit remittance tax) must be considered separately and that treaty provisions on maximum tax rates allow for the imposition of lower rates under domestic laws if applicable.

Class Notes:
– Non-resident foreign corporations are taxed on income from Philippine sources.
– The Philippine-Japan Tax Treaty of 1980 limits the tax rates applicable to dividends paid to non-resident corporations, imposing a maximum rate of 25% unless domestic laws prescribe a lower rate.
– The Supreme Court clarifies the interpretation of tax treaties and the calculation of tax liabilities and refunds.

Historical Background:
This case took place within the context of bilateral tax treaties aimed at avoiding double taxation and fostering international investment. The Philippines-Japan Tax Treaty of 1980 set forth guidelines to prevent fiscal evasion and outlined how income earned by entities from one country operating in another should be taxed, emphasizing the importance of these treaties in international finance and taxation law.