

### ### Title

**\*\*Taxation and Capital Gains in the Sale of Properties During Japanese Occupation: The Case of Zamora vs. Collector of Internal Revenue\*\***

### ### Facts

Mariano Zamora, an entrepreneur owning Bay View Hotel and Farmacia Zamora in Manila, filed his income tax returns for 1951 and 1952. The Collector of Internal Revenue identified deficiencies stemming from capital gains from property sales not declared and claimed unallowable deductions. This led to a directive for Zamora to pay deficiency taxes for the years in question. Zamora's appeals and subsequent rulings by the Court of Tax Appeals (CTA) resulted in reduced tax liabilities but failed to fully address the disputes on promotion expenses, rate of property depreciation, declared purchase prices, and the applicability of the Ballantyne scale in assessing property costs. The legal disputes extended to properties bought during the Japanese occupation, with issues surrounding the payment methods in mixed currencies and the subsequent sale of these properties, leading to challenges on computed capital gains.

### #### Procedural Posture

These legal contests moved through the Philippine legal system, with Mariano Zamora and the estate of Felicidad Zamora appealing CTA's decisions through several petitions to the Supreme Court, bundled due to their similarities. The complexity was heightened by the CTA's reliance on the Ballantyne scale for currency valuation and disagreements over the adequacy of evidence for deductible expenses.

### ### Issues

1. Whether promotion expenses claimed by Zamora were fully deductible.
2. The appropriate depreciation rate for Bay View Hotel.
3. Applicability of the Ballantyne scale for evaluating property acquisition costs.
4. Determination of capital gains from property sales involving mixed currency transactions during the Japanese occupation.

### ### Court's Decision

1. **\*\*Promotion Expenses\*\***: The Court upheld the CTA's decision to allow only 50% of claimed promotion expenses, emphasizing the need for substantiation of business-related expenses.
2. **\*\*Depreciation Rate\*\***: The Court agreed with the CTA's 2.5% depreciation rate for Bay

View Hotel, rejecting Zamora's claim for a 3.5% rate by considering broader factors and standards.

3. **Ballantyne Scale**: The Court affirmed the CTA's use of the Ballantyne scale for currency conversion, underscoring its scientific basis and international acknowledgment for assessing real property acquisition costs during the Japanese occupation.

4. **Capital Gains**: The Court validated the CTA's computation of capital gains, agreeing with its methodology, particularly the mixed currency payment assessment for properties bought during the occupation, leading to specific capital gains taxation.

### ### Doctrine

The case reiterates the principle that tax deductions, including promotion and depreciation expenses, must be substantiated and meet legal requirements for deductibility. It also confirmed the validity of using historical currency valuation methods, like the Ballantyne scale, for tax purposes in evaluating capital gains from property transactions.

### ### Class Notes

- **Deductibility of Expenses**: To qualify as deductible, expenses must be ordinary, necessary, and directly connected to the business, supported by substantial evidence.
- **Depreciation of Property**: The depreciation rate must reflect the property's expected useful life, taking into account factors like location, architectural quality, and maintenance.
- **Capital Gains Taxation**: Capital gains from property sales require accurate assessment of the property's acquisition and sale prices. Disputes in valuation, especially with historical currencies, must rely on accepted scales or studies like the Ballantyne scale.

### ### Historical Background

This case captures a unique period in Philippine history, where transactions during the Japanese occupation involved mixed currencies (Philippine currency and Japanese war notes), posing challenges in tax assessments and legal interpretations post-occupation. It underlines the judiciary's role in mediating between historical contexts and contemporary legal standards.