

### Title:

ATLAS CONSOLIDATED MINING & DEVELOPMENT CORPORATION vs. COMMISSIONER OF INTERNAL REVENUE

### Facts:

In 1962, the Commissioner of Internal Revenue assessed Atlas Consolidated Mining and Development Corporation, a Philippine-based mining corporation, deficiency income taxes of ₱546,295.16 for 1957 and ₱215,493.96 for 1958. Initially, for 1957, the Commissioner argued that Atlas was not entitled to income tax exemption under Section 4 of Republic Act 909, which was argued to apply only to gold mines. However, the Secretary of Finance clarified that the exemption applied to all new and old mines, leading to the reevaluation and elimination of the 1957 assessment and a reduction of the 1958 assessment to ₱39,646.82. Atlas contested this 1958 assessment before the Court of Tax Appeals (CTA), objecting to the disallowance of specific items claimed as deductible from its gross income. The CTA, in a decision on October 25, 1966, allowed the deductions except for stockholders relation service fee and suit expenses, further adjusting the tax liability to ₱8,526.22.

Both Atlas and the Commissioner filed separate petitions for review from the CTA's decision to the Supreme Court. Atlas contested the disallowance of the public relations expenses, while the Commissioner challenged the allowance of several business expense deductions by the CTA.

### Issues:

1. Whether the expenses paid for services rendered by a public relations firm, classified as stockholders relation service fee, are allowable as business expenses under Section 30(a)(1) of the National Internal Revenue Code.
2. The legality of disallowing specific deductions from gross income by both the CTA and the Supreme Court.

### Court's Decision:

The Supreme Court affirmed the CTA's decision with modifications, specifically disallowing a larger amount for suit expenses based on the correct arithmetic. It held that the expenditure paid to P. K. Macker & Co for public relations was a capital expenditure and not deductible from gross income, siding with the Tax Court's interpretation that these were expenditures for the acquisition of additional capital. On the matter raised by the Commissioner, the Court held him to be precluded from questioning the proof of payment for the first time on appeal. Additionally, expenses for stock listing fees were ruled as

ordinary and necessary business expenses, and the CTA's findings on other issues such as "provisions for contingencies" and the exact amount of disallowed suit expenses were upheld due to lack of substantial error or abuse.

### Doctrine:

To qualify as a deductible business expense under Section 30(a)(1) of the National Internal Revenue Code, the expense must be ordinary and necessary, incurred within the taxable year, and directly related to the carrying on of a trade or business. Capital expenditures for the acquisition of additional capital or for the creation of significant long-term benefits are not deductible as business expenses.

### Class Notes:

- Deductible Business Expenses: Must be "ordinary and necessary," incurred within the taxable year, and in carrying on a trade or business.
- Capital Expenditures: Costs incurred to acquire or improve a business asset that benefits the business for more than one year are not immediately deductible as business expenses.
- Proof of Payment: Must be established when claiming deductions; raising questions about payment for the first time on appeal may be precluded.

### Historical Background:

This case reflects the intricate considerations in tax law regarding what constitutes allowable business expenses versus capital expenditures. It underscores the importance of clarity in tax regulations and the specificity required in claiming deductions. The decision reinforces the principle that expenditures yielding long-term benefits are considered capital in nature and are treated differently from ordinary business expenses for tax purposes.