

Title: Commissioner of Internal Revenue v. Euro-Philippines Airline Services, Inc.

Facts:

Euro-Philippines Airline Services, Inc. (Euro-Phil), an exclusive passenger sales agent of British Airways PLC in the Philippines, received a Formal Assessment Notice (FAN) from the Commissioner of Internal Revenue (CIR) on September 14, 2010, for an assessed deficiency in Value Added Tax (VAT) for the taxable year ending March 31, 2007, amounting to P4,271,228.20. Euro-Phil filed a final protest on September 29, 2010. Following the lapse of a 180-day period for resolving the protest, Euro-Phil filed a petition for review with the Court of Tax Appeals Special First Division (CTA-First Division), contesting the FAN and asserting that the services they rendered should be zero-rated under Section 108 of the National Internal Revenue Code (NIRC) of 1997.

The CTA-First Division ruled in favor of Euro-Phil, canceling and withdrawing the deficiency VAT assessments. The CIR filed a Motion for Partial Reconsideration, which was denied. Consequently, the CIR appealed to the CTA En Banc, arguing that Euro-Phil's services are subject to 12% VAT. The CTA En Banc affirmed the First Division's decision. The CIR then filed a motion for reconsideration, adopting Justice Del Rosario's dissenting opinion regarding the compliance with invoicing requirements for zero-rating, which was denied. The case was elevated to the Supreme Court on these grounds.

Issues:

1. Whether or not the issue of non-compliance of the invoicing requirements by Euro-Phil must be recognized despite being raised only on appeal.
2. Whether or not the Court of Tax Appeals En Banc erred in finding that the transaction sale made by respondent is entitled to the benefit of zero-rated VAT despite its failure to comply with invoicing requirements as mandated by law.

Court's Decision:

The Supreme Court denied the petition, affirming the decisions of the CTA En Banc. The Court ruled that issues cannot be raised for the first time on appeal and further agreed with the CTA En Banc that Euro-Phil's services were indeed zero-rated under Section 108 of the NIRC of 1997. The Court clarified that the failure to imprint the word "zero-rated" on official receipts did not automatically subject the transaction to a 12% VAT. The invoices' requirements did not create a presumption by law that non-compliance would result in the imposition of 12% VAT.

Doctrine:

The case reaffirmed the principle that issues not raised at the administrative level cannot be raised for the first time on appeal. It also clarified the application of zero-rated VAT on services rendered to entities engaged in international air transport operations, as specified under Section 108 of the NIRC of 1997.

Class Notes:

1. Principles Involved: VAT Zero-rating, compliance with invoicing requirements, and administrative principle concerning raising issues on appeal.
2. Key Statutory Provisions:
 - Section 108 of the NIRC of 1997 - Zero-rated VAT on services to entities in international air transport.
 - Section 113 of the NIRC of 1997 - Invoicing requirements for VAT-registered persons.
3. Application: The failure to imprint “zero-rated” on receipts does not automatically subject transactions to 12% VAT if it is clearly established that the services are to entities engaged in international air transport operations.

Historical Background:

The legal dispute highlights the nuances in VAT administration, particularly on the zero-rating of services rendered to international air transport operators. The case serves as a precedent for interpreting VAT-related provisions in the NIRC of 1997, especially in the context of invoicing requirements and the introduction of issues on appeal.