

Title:

****Manila Banking Corporation vs. Commissioner of Internal Revenue: A Case of Minimum Corporate Income Tax Refund****

Facts:

- ****Incorporation and Closure:**** The Manila Banking Corporation (petitioner) was incorporated in 1961, engaging in commercial banking until 1987. On May 22, 1987, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) issued Resolution No. 505, prohibiting the bank from business due to insolvency. Consequently, the bank ceased operations, and its assets and liabilities were placed under a government-appointed receiver.
- ****Legislation and Tax Reform:**** Republic Act No. 8424, known as the Comprehensive Tax Reform Act of 1997, was enacted, introducing, among other things, the minimum corporate income tax on domestic and resident foreign corporations effective January 1, 1998.
- ****Resumption of Operations:**** After a 12-year hiatus, the BSP, on June 23, 1999, authorized the bank to operate as a thrift bank. Subsequently, the bank filed its annual corporate income tax return for the taxable year 1999 on April 7, 2000, paying P33,816,164.00.
- ****Request for Ruling and BIR Response:**** Before filing the tax return, the bank requested a BIR ruling on whether it was entitled to a four-year grace period from the imposition of the minimum corporate income tax, starting from its 1999 reopening. The BIR issued Ruling No. 007-2001 affirming the bank's eligibility for the four-year grace period based on justice, equity, and the law's intent.
- ****Claim for Refund:**** The bank filed a claim for the refund of the P33,816,164.00 paid, which, due to the BIR's inaction, led to a petition for review filed with the Court of Tax Appeals (CTA).
- ****CTA Decision:**** The CTA denied the petition, stating that the bank is not entitled to the four-year grace period since it is not a new corporation but rather continued its existence, registered with the SEC and the BIR.
- ****Appeal to the Court of Appeals:**** The bank appealed to the Court of Appeals, which affirmed the CTA's decision.
- ****Supreme Court Petition:**** The Manila Banking Corporation then filed a petition for review on certiorari with the Supreme Court.

Issues:

1. Whether the Manila Banking Corporation, having ceased business operations in 1987 and

resuming in 1999, is entitled to a four-year grace period from the imposition of the minimum corporate income tax starting from its reopening in 1999.

Court's Decision:

The Supreme Court granted the petition, reversing the decisions of the lower courts. The Court sided with the petitioner, stating that:

- Revenue Regulations No. 4-95, specific to thrift banks, determined the commencement of operations based on the later date between SEC registration or the issuance of a Certificate of Authority to Operate by the BSP, which for the petitioner was June 23, 1999.
- Therefore, the Manila Banking Corporation was entitled to a four-year grace period from this date and should only start paying the minimum corporate income tax after this period. The Supreme Court directed the Commissioner of Internal Revenue to refund the P33,816,164.00 prematurely paid by the bank.

Doctrine:

This case reaffirms the principle that specific revenue regulations tailored to particular types of financial institutions take precedence over general tax regulations, in determining the applicability of tax grace periods. Particularly, it underscored the distinction between a corporation's continuation of legal existence and its operational resumption for the purposes of tax liabilities.

Class Notes:

- **Grace Period for New Operations:** Corporations resuming operations after a cessation may be eligible for statutory grace periods before certain taxes are applied, depending on specific regulating provisions.
- **Revenue Regulations' Role:** Specific revenue regulations must be closely examined to determine their applicability to unique corporate circumstances, especially in cases involving the resumption of corporate business activities after an extended closure.
- **Legal Statutes Cited:**
 - R.A. No. 8424 (Comprehensive Tax Reform Act of 1997)
 - Section 27(E) of the Tax Code (Minimum Corporate Income Tax)
 - Revenue Regulations Nos. 9-98 and 4-95

Historical Background:

The case sheds light on the complexity of tax legislation and its application to corporations that undergo significant operational changes, such as closure and reopening under a

different regulatory category, reflecting the broader challenges in aligning tax policy with economic realities and corporate transformations.