

Title: ****Wise & Co., Inc. et al. vs. Bibiano L. Meer, Collector of Internal Revenue****

Facts:

The core of this case centers around the recovery of certain amounts paid under protest by Wise & Co., Inc., and its co-plaintiffs following deficiency income tax assessments by the defendant, Bibiano L. Meer, who served as the Collector of Internal Revenue for the fiscal year 1937. These assessments were levied due to dividends received from the Manila Wine Merchants, Ltd., a Hong Kong corporation undergoing liquidation, and subsequently sold to a newly formed Philippine entity, the Manila Wine Merchants, Inc.

The procedural journey to the Supreme Court began with the plaintiffs' challenge to these assessments in the Court of First Instance of Manila (Civil Case No. 56200), where the court absolved the Collector of Internal Revenue, hence prompting the appeal.

Through the progression of this case, appellants focused on disputing the nature of the dividends (arguing they were ordinary versus liquidating dividends), the applicable tax provisions, including submission to tax by non-resident individuals and corporations, and the effectiveness of the Internal Revenue Code and its regulations concerning such liquidation distributions.

Issues:

1. Whether the dividends received by the plaintiffs from the Manila Wine Merchants, Ltd. were ordinary or liquidating dividends for the purpose of income taxation.
2. Whether the distributions made during the liquidation process are subject to normal tax and surtax.
3. The applicability of income tax laws on income received by one corporation from another under Section 10 of the Income Tax Law then in effect.
4. The liability for income tax under Philippine laws for non-resident individual stockholders concerning distributions received from a foreign corporation undergoing liquidation outside the Philippines.
5. The effectiveness of Section 199 of the Income Tax Regulations concerning the distribution by a corporation in complete liquidation of its assets.

Court's Decision:

The Supreme Court, through a comprehensive analysis, upheld the lower court's decision, determining that:

- The distributions in question were indeed liquidating dividends as they were a result of

complete liquidation following the sale of Manila Wine Merchants, Ltd. business to the Manila Wine Merchants, Inc.

- Such liquidating dividends, as distinguished from ordinary dividends, were subject to both normal tax and surtax under the then-effective Income Tax Law given they represented gains from the liquidation process.
- The provisions of the Income Tax Law that exempt certain dividends from taxation were not applicable to distributions made in the course of complete liquidation.
- Non-resident individual stockholders were also subject to the relevant Philippine income taxes on these distributions, contradicting the appellants' assertions of non-taxability due to foreign status or the transactions' nature being considered as sales outside the Philippines.
- The regulation (Section 199 of the Income Tax Regulations) was ineffective to the extent that it conflicted with clear statutory provisions dictating the taxability of liquidating distributions.

Doctrine:

This case solidified the principle that liquidating dividends (distributions made by a corporation in complete liquidation of its assets) are distinct from ordinary dividends and are taxable as income to the shareholders to the extent of the gain realized from the liquidation, irrespective of the shareholders' residency status.

Class Notes:

- **Liquidating Dividends vs. Ordinary Dividends**: Liquidating dividends are treated as payments in exchange for stock, taxable to the extent of the gain realized, while ordinary dividends are recurring returns on stock not associated with a reduction in ownership interest.
- **Income Tax Applicability in Liquidation**: When a corporation distributes its assets in complete liquidation, such distribution is considered taxable income or deductible loss for the stockholder, based on the gain or loss sustained.
- **Tax Liability of Non-Resident Individuals**: Even non-resident shareholders are subject to Philippine income tax on distributions received from the liquidation of a corporation conducting business within the Philippines.
- **Regulatory vs. Statutory Provisions on Taxation**: In cases of conflict between regulatory guidelines and statutory laws concerning taxability, statutory provisions prevail.

Historical Background:

The resolution of *Wise & Co., Inc. et al. vs. Bibiano L. Meer* traverses significant aspects of tax implications arising from corporate liquidations involving a foreign corporation with

business activities in the Philippines during the pre-war era. This context highlights the intricacies of domestic tax laws applied to international business transactions and corporate dissolutions, amid evolving economic landscapes. Such cases underscore the Philippine judiciary's role in clarifying income tax liabilities linked to cross-border corporate activities.