

Title:

Commissioner of Internal Revenue vs. Procter & Gamble Philippine Manufacturing Corporation: A Case of Tax Refund on Dividends Remittance

Facts:

Procter and Gamble Philippine Manufacturing Corporation (P&G-Phil.) declared dividends payable to its parent company and sole stockholder, Procter and Gamble Co., Inc. (USA) ("P&G-USA"), for the taxable years ending June 1974 and June 1975, deducting a 35% withholding tax at source. Believing the applicable rate should be 15% and not 35% following amendments to the National Internal Revenue Code (NIRC) by Presidential Decree No. 369, P&G-Phil. filed a claim for refund or tax credit with the Commissioner of Internal Revenue in January 1977. No response prompted P&G-Phil. to file a petition for review with the Court of Tax Appeals (CTA), which ruled in its favor. The Commissioner's appeal to the Supreme Court resulted in a reversal, leading to P&G-Phil.'s Motion for Reconsideration.

Issues:

1. Whether P&G-Phil. has the capacity to claim a refund or tax credit as the withholding agent.
2. Whether the US Tax Code provides a "deemed paid" tax credit against the US tax due from P&G-USA that fulfills the requirements of Section 24 (b)(1) of the NIRC for availing of the reduced 15% dividend withholding tax rate.

Court's Decision:

The Supreme Court, En Banc, set aside its previous decision, reinstated the CTA's ruling, and granted P&G-Phil.'s claim for a refund or tax credit. The Court held that:

1. P&G-Phil., being directly and independently liable for the correct amount of tax withheld, qualifies as a "taxpayer" entitled to file the claim for refund.
2. The US Tax Code complies with the requirements for the applicability of the reduced 15% dividend withholding tax rate, as it allows a "deemed paid" tax credit that exceeds the 20% differential waived by the Philippines.

Doctrine:

This case reiterates the doctrine that agents responsible for withholding and remitting taxes, being "personally liable for such tax", qualify as "taxpayers" within the meaning of the NIRC. Furthermore, it elucidates the conditions under which foreign tax credits permitted by foreign jurisdictions fulfill the requirements for a reduced dividend withholding tax rate as specified in the NIRC.

Class Notes:

- **Essential Concepts**:
- **Withholding Agent as Taxpayer**: A party responsible for withholding and remitting tax can be considered a taxpayer entitled to file a claim for tax refund or credit for overpaid taxes.
- **Foreign Tax Credit**: A tax credit that a domestic company can claim for taxes paid or deemed paid to a foreign country, relevant in determining the applicability of reduced withholding tax rates on dividends payable to a non-resident foreign corporation under Philippine law.
- **Deemed Paid Tax Credit**: Recognizes taxes a domestic parent company is considered to have paid through its foreign subsidiary, important in international tax law to prevent double taxation and encourage foreign investment.
- **Relevant Statutes**:
- Philippine **Internal Revenue Code**, particularly Section 24(b)(1) regarding tax on foreign corporations and the conditions under which the reduced 15% dividend withholding tax rate applies.

Historical Background:

The adjustments to the withholding tax rates and the clarification of the “deemed paid” tax credit’s applicability in the Philippine and US tax codes represented an effort to encourage foreign investment in the Philippines by reducing the tax burden on dividends remitted to foreign parent companies, against a backdrop of evolving international trade and investment policies during the 1970s to the 1980s.