

Title:

Marcelo Steel Corporation v. Collector of Internal Revenue

Facts:

Marcelo Steel Corporation (petitioner), a Philippine corporation engaged in manufacturing various steel products, benefited from tax exemptions for some of its industrial activities under Republic Act No. 35 during 1952 and 1953. The petitioner filed income tax returns for these years, reporting net income from its non-exempt business but later submitted amended returns indicating significant losses when consolidating all business activities. The petitioner requested a refund of income taxes paid amounting to P12,750.00. After inaction from the Collector of Internal Revenue (respondent), the petitioner sought review from the Court of Tax Appeals, which upheld the respondent's assessment. The case was then taken to the Supreme Court under section 18 of Republic Act No. 1125.

Issues:

1. Whether or not the petitioner can deduct losses from tax-exempt industries against profits from taxable industries for income tax purposes.
2. Whether the action for refund concerning payments made in 1953 has prescribed under Section 306 of the Tax Code.

Court's Decision:

1. ****Deduction of Losses****: The Supreme Court ruled that the petitioner cannot deduct losses sustained in its tax-exempt business activities from the profits of its taxable businesses. According to Republic Act No. 35 and subsequent regulations, taxable and tax-exempt industries are to be treated as distinct entities for taxation purposes. The tax exemptions aimed to support the growth of new and necessary industries, not to provide additional benefits to established, profitable businesses by offsetting their taxable income with losses from exempt activities.
2. ****Prescription for Refund****: The Supreme Court did not offer a detailed resolution of this issue in the provided information, primarily focusing on the first matter regarding the deduction of losses. The case primarily concentrated on the interpretation of the tax exemption provisions and their applications.

Doctrine:

The decision reinforced the doctrine that for the purpose of taxation, taxable and tax-exempt industries operated by the same entity are to be treated distinctly. Tax exemptions granted

under laws like Republic Act No. 35 are confined to new and necessary industries to support their development and are not intended to benefit other taxable activities of the entity through deduction combination.

Class Notes:

- **Taxable vs. Tax-Exempt Income**: Income from different sources within the same company must be considered separately based on their taxability under current laws.
- **Section 18, Republic Act No. 1125**: Provides the process for the review of Court of Tax Appeals decisions by the Supreme Court.
- **Republic Act No. 35**: Offers tax exemptions to new and necessary industries to promote economic growth, establishing the basis for the separate treatment of taxable and exempt income.
- **Prescription for Tax Refund Claims**: Under the Tax Code, claims for tax refunds must be filed within specific periods to be considered valid.

Historical Background:

The case takes place during a period of economic rebuilding and expansion following World War II, with the Philippine government enacting legislation aimed at encouraging the development of new industries critical for national growth. Republic Act No. 35 exemplifies such policies, offering tax incentives to stimulate investment into uncharted business territories deemed essential for the country's economic progress.