

****Title:**** Evangelista vs. Collector of Internal Revenue: The Taxation of Unregistered Partnerships

****Facts:****

Three sisters, Eufemia, Manuela, and Francisca Evangelista, pooled resources including borrowed funds from their father totaling P59,140 and additional personal monies to purchase several real properties from 1943 to 1944. The properties were then leased to various tenants. They appointed their brother, Simeon Evangelista, to manage these properties with comprehensive authority over leasing, rent collection, and legal actions pertaining to tenancy. Between 1945 and 1948, the properties generated substantial rental income.

On September 24, 1954, the Collector of Internal Revenue demanded payment for income tax, real estate dealer's tax, and residence tax for the years 1945 to 1949, amounting to P6,878.34. The Evangelistas contested this demand before the Court of Tax Appeals (CTA), seeking to reverse the decision of the Collector. The CTA affirmed the Collector's assessment. The Evangelistas then appealed this decision to the Supreme Court of the Philippines.

****Issues:****

1. Whether the Evangelistas, by pooling their resources to purchase and lease properties, constituted a partnership subject to the tax on corporations under section 24 of Commonwealth Act No. 466 (National Internal Revenue Code).
2. Whether the Evangelistas were liable for residence tax for corporations under Commonwealth Act No. 465.
3. Whether they were liable for real estate dealer's fixed tax under the National Internal Revenue Code, given their activities.

****Court's Decision:****

1. ****Tax on Corporations:**** The Court affirmed that the Evangelistas formed an unregistered partnership when they pooled resources for buying properties for income generation. This partnership falls under the definition of "corporations" according to sections 24 and 84(b) of the National Internal Revenue Code, making it subject to corporation taxes. The intent to divide profits among themselves was evidenced by their repeated transactions over the years, management of properties under one individual, and

generation of substantial rental income.

2. **Residence Tax for Corporations:** Since the definition of “corporations” in the context of residence tax under Commonwealth Act No. 465 is analogous to that in the National Internal Revenue Code, the Court held the Evangelistas’ partnership likewise subject to the residence tax for corporations.

3. **Real Estate Dealer’s Fixed Tax:** Given the extent, continuity, and profitability of their real estate activities, which fell under the definition of “real estate dealer” in the National Internal Revenue Code, the Court found the Evangelistas liable for the real estate dealer’s fixed tax.

Doctrine: The case establishes that pooling resources by individuals with the intent of engaging in property transactions for profit constitutes a partnership for tax purposes, subject to the relevant taxes on “corporations,” including income tax, residence tax, and real estate dealer’s tax, regardless of the partnership’s registration status.

Class Notes:

- A partnership subject to corporation taxes need not be formally registered or have a legal personality separate from its members.
- The essential elements of a taxable partnership include an agreement to contribute resources to a common fund and the intent to divide profits among participants.
- Activities demonstrating habituality, management under a single person, and significant income generation from property transactions indicate the formation of a partnership for tax purposes.
- The terms “corporation” and “partnership” in the tax laws encompass various forms of joint ventures, including unregistered partnerships engaged in profit-making activities.

Historical Background: This decision is emblematic of the Philippine Supreme Court’s interpretation of tax laws concerning partnerships and corporations. It clarifies that the substance of the organization’s activities, rather than the form or registration status, determines tax liability. This case is integral to understanding the broad scope of what constitutes a partnership in the eyes of Philippine tax law, highlighting the government’s efforts to tax collective income-generating endeavors equitably.