

Title: Commissioner of Internal Revenue v. Solidbank Corporation

Facts:

Solidbank Corporation, for the calendar year 1994, filed its Quarterly Percentage Tax Returns showing gross receipts totaling P1,474,691,693.44, attributing to this amount gross receipts taxes paid of P73,734,584.60. Included in the reported gross receipts was the amount of P350,807,875.15, representing passive income already subjected to a 20% final withholding tax (FWT). On January 30, 1996, the Court of Tax Appeals (CTA) decided in favor of Asian Bank Corporation in a similar case, ruling that the 20% FWT should not be included in the taxable gross receipts for purposes of computing the gross receipts tax (GRT). Consequently, Solidbank, on June 19, 1997, filed a request for refund or issuance of a tax credit certificate amounting to P3,508,078.75 for what it deemed overpaid GRT in 1995. Without awaiting the Commissioner of Internal Revenue's (CIR) resolution, Solidbank filed a petition for review with the CTA to toll the running of the prescriptive period. After trial on the merits, the CTA, on August 6, 1999, ordered the Commissioner to refund Solidbank the reduced amount of P1,555,749.65 as overpaid GRT for the year 1995. The CTA decision was affirmed by the Court of Appeals (CA), leading to the Commissioner's appeal to the Supreme Court.

Issues:

1. Whether the 20% FWT on a bank's interest income constitutes part of the taxable gross receipts for computing the 5% GRT.
2. Whether the Court of Tax Appeals and the Court of Appeals erred in excluding the 20% FWT from the computation of the gross receipts subject to GRT.

Court's Decision:

The Supreme Court reversed the decisions of the CA and the CTA, thereby granting the petition of the Commissioner. It ruled that the 20% FWT, although not actually received by the bank due to direct remittance to the government, constituted constructively received income and therefore should form part of the gross receipts in computing the 5% GRT. The Court rationalized that under the Tax Code, the earnings from passive income, subject to the 20% FWT and consequently forming part of the bank's earnings, should be included in the gross receipts subject to the 5% GRT. The imposition of both the FWT and the GRT on the same income did not amount to double taxation as they are levied on two distinct tax bases and purposes.

Doctrine:

This case established that income subject to final withholding tax (FWT) is to be considered as part of the gross receipts of banks for the purpose of computing the Gross Receipts Tax (GRT), underscoring the principle of constructive receipt.

Class Notes:

1. Taxable Gross Receipts for GRT: Includes income that is constructively received, meaning income that has been subject to final withholding tax (FWT) but is not physically received because it is paid directly to the government.
2. Constructive Receipt: Even if the taxpayer does not physically receive the income, it is considered constructively received if it benefits the taxpayer or is subject to their control.
3. Distinct Taxes: The 5% GRT and the 20% FWT are distinct taxes; the former is based on the gross receipts of banks from their lending activities, while the latter is imposed on passive income.
4. No Double Taxation: Imposing both the GRT and the FWT on the same income does not constitute double taxation as long as taxes are levied on different bases and for different purposes.

Historical Background:

This case reflects the intricacies of tax laws related to the banking sector in the Philippines, particularly the treatment of passive income and the related taxes. It underscores the broader principle of constructive receipt in tax law, which posits that income is taxable not just when actually received, but also when it is available to the taxpayer in a way that they can control or derive benefit from it.