

Title: Rizal Commercial Banking Corporation v. Commissioner of Internal Revenue

Facts:

Petitioner Rizal Commercial Banking Corporation (RCBC) engaged in general banking operations, filed its annual income tax returns for 1994 and 1995. Upon receipt of a Letter of Authority for a special audit, RCBC executed two Waivers of the Defense of Prescription, extending the period for the Bureau of Internal Revenue (BIR) to assess taxes up to December 31, 2000. The BIR issued a Formal Letter of Demand for deficiency tax assessments for the years 1994 and 1995, which RCBC protested. After a reinvestigation, the BIR significantly reduced the original assessment.

RCBC settled some assessed deficiencies but contested the assessments on deficiency onshore tax and documentary stamp tax. It argued that the waivers were invalid as they were not signed by the Commissioner of Internal Revenue (CIR) and contended that the onshore tax, being a final withholding tax, made the borrower the withholding agent and primarily liable. The Court of Tax Appeals (CTA) partially granted RCBC's petition but upheld the assessment for deficiency final tax on FCDU onshore income and documentary stamp tax for 1994 and 1995. RCBC appealed to the CTA En Banc, which denied the petition for lack of merit, and subsequently to the Supreme Court.

Issues:

1. Is RCBC estopped from questioning the validity of the waivers related to the assessment of deficiency onshore tax after partially paying the assessed taxes?
2. Can RCBC, as a payee-bank, be held liable for the deficiency onshore tax, which law mandates to be collected at source as a final withholding tax?

Court's Decision:

1. The Supreme Court ruled that RCBC was estopped from questioning the validity of the waivers. The Court reasoned that by making partial payments on the revised assessments within the period extended by the waivers, RCBC admitted their validity. Estoppel prevented RCBC from denying acts or representations made to the prejudice of the other party.

2. On the issue of liability for deficiency onshore withholding tax, the Court held that RCBC was liable. It clarified that while the payor-borrower is the withholding agent responsible for remitting the tax, the liability for the tax remains with the taxpayer, which benefitted from the income. The Court held that RCBC, as the entity that earned income from the

transactions, was responsible for the deficiency tax.

Doctrine:

This case reiterates the doctrine of estoppel, which prevents a party from negating its previous actions or representations when such are relied upon by another party to their detriment. It also clarifies that in the context of a final withholding tax system, the taxpayer, and not merely the withholding agent, bears the ultimate liability for ensuring that taxes on income earned are properly paid.

Class Notes:

- **Estoppel:** A doctrine preventing parties from denying or contradicting their own prior statements or acts to the detriment of the party who relied on them.
- **Taxpayer vs. Withholding Agent:** The ultimate tax liability rests with the taxpayer who earns the income, despite the obligation of the withholding agent to withhold and remit the tax to the government. The role of the withholding agent is that of a collector, not the party whom the tax is levied upon.
- **Final Withholding Tax:** Section 24(e)(3) of the National Internal Revenue Code of 1993 specifies the tax obligations for income derived under the Expanded Foreign Currency Deposit System, highlighting the liability of domestic corporations like banks for certain incomes.

Historical Background:

The procedural journey of this case underscores the intricate legal procedures involved in tax assessments, protests, and the importance of timely and proper responses by taxpayers. Through this litigation, the Philippine Supreme Court addressed crucial aspects of tax law, particularly those concerning the responsibilities of taxpayers and withholding agents in the context of final withholding taxes. This case illustrates the balance between the government's authority to collect taxes and the rights of taxpayers to contest assessments they believe to be unjust.