

**\*\*Title:\*\*** Commissioner of Internal Revenue vs. British Overseas Airways Corporation (BOAC)

**\*\*Facts:\*\*** This case involves the Commissioner of Internal Revenue (CIR) challenging the Court of Tax Appeals' (CTA) decision that nullified the CIR's assessment of deficiency income taxes on British Overseas Airways Corporation (BOAC) for fiscal years 1959-1967 and 1968-69 to 1970-71. BOAC, a 100% British government-owned company, sold transportation tickets in the Philippines despite not operating flights to or from the country. It maintained a general sales agent (Warner Barnes and Company, Ltd., later Qantas Airways) responsible for ticket sales. The CIR initially assessed BOAC for deficiency income taxes amounting to P2,498,358.56 for 1959-1963, later reduced to P858,307.79 for 1959-1967, which BOAC paid under protest. Additionally, for fiscal years 1968-69 to 1970-71, BOAC was assessed further taxes, interests, and penalties, which BOAC contested. These cases were merged and tried together, leading to the CTA's decision favoring BOAC, based on the reasoning that proceeds from ticket sales in the Philippines did not constitute income from Philippine sources since BOAC did not perform passenger or freight service within the Philippines.

**\*\*Issues:\*\***

1. Whether or not revenue derived from ticket sales in the Philippines for air transportation, while absent landing rights, constitutes income from Philippine sources and is taxable.
2. If BOAC is considered a resident or non-resident foreign corporation doing business in the Philippines.
3. Whether non-resident foreign corporations are liable to a 35% income tax rate on gross income from sources within the Philippines.

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

1. The Supreme Court held that BOAC is considered a resident foreign corporation as it maintained continuous business operations in the Philippines, involving the sale of airline tickets, which constituted the main objective of its business.
2. Income from ticket sales performed by BOAC's general sales agent in the Philippines is considered income from sources within the Philippines because it originated from activities within the territorial jurisdiction that leveraged governmental protection.
3. Therefore, such income derived from sales of transportation tickets in the Philippines is subject to Philippine income tax.

**\*\*Doctrine:\*\***

The place where income is generated determines the taxability of such income by source jurisdiction principles. The performance or consummation of commercial transactions within a state's territory that benefits from its governance and protection establishes a sufficient basis for income taxation by that state.

**\*\*Class Notes:\*\***

- A foreign corporation can be considered as doing business in the Philippines if it participates in continuous commercial dealings that significantly relate to its primary business objectives.
- Income derived from services, including the sale of transportation tickets, is taxed based on the location where the service is rendered or the business activity occurs.
- Philippine income tax applies to the income of resident and non-resident foreign corporations derived from sources within the Philippines.

**\*\*Historical Background:\*\***

This decision elucidates the breadth of what constitutes "doing business" in the Philippines for foreign corporations and clarifies the tax implications of income generated from sources within the Philippines. This clarification is pivotal in the realm of international business operations, ensuring that foreign entities contributing to economic activities within the Philippines bear their fair share of tax obligations, aligning with global standards and practices in taxation.