

### Title:

**\*\*Commissioner of Internal Revenue vs. Juliane Baier-Nickel: A Case on the Taxability of Income Derived by Non-Resident Aliens from Services Rendered Abroad\*\***

### Facts:

This case concerns Juliane Baier-Nickel, a non-resident German citizen and president of JUBANITEX, Inc., a domestic corporation in the Philippines. Baier-Nickel engaged in selling embroidered textile products overseas and earned commission income of PHP 1,707,772.64 in 1995, from which a 10% withholding tax (PHP 170,777.26) was deducted and remitted to the Bureau of Internal Revenue (BIR) by JUBANITEX. She contested this withholding tax, arguing her income, generated from sales commissions for services rendered in Germany, should not be taxable in the Philippines.

After the BIR did not act on her claim for a refund filed on April 14, 1998, Baier-Nickel appealed to the Court of Tax Appeals (CTA) the next day. The CTA denied her claim in a decision dated June 28, 2000, suggesting her commission was remuneration for duties as president, not as a sales agent, and thus taxable. Baier-Nickel then took her case to the Court of Appeals, which reversed the CTA's ruling, resulting in a directive for a tax refund.

The Commissioner of Internal Revenue, disagreeing with the decision, escalated the matter to the Supreme Court, insisting that the commission income was taxable in the Philippines since the source, JUBANITEX, was a domestic entity.

### Issues:

1. Is the commission income of Juliane Baier-Nickel taxable in the Philippines even though the services were rendered outside the country?
2. How should "source of income" be interpreted in the context of income from services rendered by non-resident aliens?

### Court's Decision:

The Supreme Court analyzed the legal and factual aspects of where the services were rendered and their taxability. It highlighted the principle that the taxability of income for non-resident aliens hinges on the "source" of the income which is determined by the location of the activity generating the income. Considering U.S. and Philippine tax law principles, the Court emphasized that for services, the place where the services are performed determines the source of income.

Upon examining the evidence, the Court found that Baier-Nickel failed to satisfactorily

prove that her commission income was for services performed outside the Philippines. The documents she provided did not adequately show that the sales, for which she earned commissions, were concluded and collected through efforts exclusively in Germany. Consequently, the Court ruled that Baier-Nickel was not entitled to a tax refund, as she did not demonstrate that her income was earned from sources outside the Philippines.

### Doctrine:

The source of income from labor or personal services is determined by the place where the services were performed. Income derived by non-resident aliens from sources within the Philippines is subject to Philippine income taxation. The burden of proving that income is not sourced within the Philippines rests on the taxpayer claiming a tax exemption or refund.

### Class Notes:

- The taxability of non-resident alien income in the Philippines depends on whether the income is sourced within the country.
- “Source of income” for services refers to the location where the services are rendered.
- Non-resident aliens must prove that their income is generated from activities outside the Philippines to claim exemption from Philippine income tax.
- Tax refunds are construed strictly against the taxpayer, necessitating clear proof of entitlement.

### Historical Background:

This case delves into the interpretation of tax law concerning non-resident aliens and highlights the application of established doctrines on the source of income. It reaffirms principles regarding the territorial basis of taxation and the obligations of non-resident individuals under the National Internal Revenue Code (NIRC). The decision aligns with international and comparative law perspectives on income sourcing and cross-border tax obligations, reflecting the complex interplay between domestic tax policies and global economic activities.