

****Title:**** Wells Fargo Bank & Union Trust Company vs. The Collector of Internal Revenue

****Facts:**** This case began when Birdie Lillian Eye died on September 16, 1932, in Los Angeles, California, where she was allegedly domiciled. Among her estate was her half share in 70,000 shares of stock in the Benguet Consolidated Mining Company, a Philippines-based entity. Her will was probated, and the estate, including the shares, was settled in California, with Wells Fargo Bank & Union Trust Company appointed as the trustees. The estate paid the requisite Federal and State of California inheritance taxes. However, when the Philippine Collector of Internal Revenue sought to impose a Philippine inheritance tax on the shares, Wells Fargo objected and filed for a declaratory judgment. The Court of First Instance of Manila ruled that the shares were subject to Philippine inheritance tax, leading Wells Fargo to appeal.

****Issues:****

1. Is the Philippine inheritance tax applicable to the transmission of shares in a domestic corporation owned by a non-resident decedent?
2. Does the imposition of the Philippine inheritance tax on shares owned by a non-resident decedent violate principles of due process or the jurisdictional bounds recognized in international relations?

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

The Supreme Court affirmed the lower court's decision, holding that the transmission of shares is subject to the Philippine inheritance tax. It dismissed Wells Fargo's contention that only the state of the decedent's domicile can impose such a tax on intangibles, citing differences in the structural and jurisdictional foundations of the Philippines compared to U.S. states. The Court referenced provisions of the Philippine Administrative Code and analogous U.S. cases to support its ruling that the Philippine government has the jurisdiction to tax the shares in question. The decision emphasized the principle that a state can tax persons, properties, and rights within its jurisdiction, and it pointed out that the shares, being intangible property of a company domiciled in the Philippines, can be subjected to Philippine tax laws.

****Doctrine:****

The case established or reiterated the doctrine that the Philippine government has the power to tax the transmission by inheritance of shares issued by corporations organized in the Philippines, even if the decedent is a foreign resident. This principle is based on the jurisdiction over and the legal situs of the property within the Philippines, recognizing the

authority of the Philippine government to tax entities and properties enjoying the protection and benefits of its laws.

****Class Notes:****

- Legal Situs of Intangible Property: The situs of intangible property for tax purposes can be within the jurisdiction where the issuing entity is domiciled, and not necessarily where the owner is domiciled, especially if the property enjoys legal and other protections provided by the laws of the jurisdiction.
- Inheritance Tax on Non-Residents: A non-resident decedent's shares in a domestic corporation can be subject to the inheritance tax of the country where the corporation is domiciled, based on the principle of jurisdiction over property within its borders.
- Doctrine of Due Process in Taxation: The application of due process in taxation does not prevent a government from exercising its rightful jurisdiction to tax, provided the law is not arbitrary, oppressive, or discriminatory.

****Historical Background:****

The case underscores the complexities of taxation in a global context, especially concerning intangible properties like corporate shares. It highlights the transition from traditional principles that tied the taxation of intangibles strictly to the domicile of the owner, to a more nuanced understanding that considers the actual activities and legal relationships established within a jurisdiction's borders. This shift acknowledges the reality of modern economic activities and the rights of states to tax properties and transactions that derive protection and benefit from their laws, irrespective of the global mobility of the property owners.