

Title: Rhombus Energy, Inc. vs. Commissioner of Internal Revenue

Facts:

- **Background and Procedural Posture**:

- Rhombus Energy, Inc. (Rhombus) filed its Annual Income Tax Return (ITR) for the year 2005, claiming an excess creditable withholding tax (CWT) of P1,500,653.00 as “To be refunded”.

- In its Quarterly Income Tax Returns for the first three quarters of 2006, Rhombus reported previous year’s excess credits.

- Rhombus filed an administrative claim for a refund of its 2005 excess/unutilized CWT on December 29, 2006, and its Annual ITR for 2006 showed previous year’s excess credits of P0.00.

- Before the prescribed period for appeal expired, Rhombus filed a Petition for Review with the Court of Tax Appeals (CTA) First Division after not receiving action on their administrative claim from the Commissioner of Internal Revenue (CIR).

- The CTA First Division granted Rhombus’ claim for refund. The CTA En Banc, however, reversed this decision, citing the irrevocability rule, leading Rhombus to appeal the decision to the Supreme Court of the Philippines.

Issues:

1. Whether the taxpayer, Rhombus, is barred by the irrevocability rule from claiming a refund of its excess and/or unutilized creditable withholding tax.

2. Whether Rhombus had complied with the requirements for a valid claim for refund.

Court’s Decision:

- **Resolution of Issues**:

1. **Irrevocability Rule**: The Supreme Court held that Rhombus had already exercised the option to be refunded when it filed its annual ITR for the taxable year ending December 31, 2005, marking the box “To be refunded.” This action constituted its exercise of the option, hence the irrevocability rule took effect upon this exercise. The Supreme Court determined that the prior year’s excess credits reported in the 2006 quarterly ITRs did not reverse the exercised option for a refund in the 2005 annual ITR.

2. **Compliance with Requirements for a Refund**: The Court found that Rhombus had complied with all requisites for a valid claim for refund as stipulated in the National Internal Revenue Code (NIRC) and relevant jurisprudence. This includes filing the claim within the two-year prescriptive period, including the income payment received as part of the taxpayer’s gross income, and establishing the fact of withholding through appropriate

documentation.

Doctrine:

- The irrevocability rule under Section 76 of the National Internal Revenue Code (NIRC) stipulates that once a taxpayer exercises the option to either carry over or be refunded for its excess creditable withholding tax, such option becomes irrevocable. This case clarifies that the irrevocability rule takes effect upon the exercise of this option, and subsequent actions cannot alter the option initially chosen.

Class Notes:

- ****Key Elements for Tax Refund Claims**:**

1. ****Filing Within the Prescriptive Period**:** Must file the claim within two years from the filing of the Annual Income Tax Return.
2. ****Inclusion of Income Payment in Gross Income**:** The income against which withholding tax was credited must be declared as part of the taxpayer's gross income.
3. ****Documentation of Withholding**:** The taxpayer must provide a copy of the withholding tax statement issued by the payor, indicating the amount paid and the income tax withheld.

Historical Background:

- This case underscores the intricacies of tax law, particularly the nuances of the irrevocability rule, and its implications for corporate taxpayers in the Philippines. It highlights the judiciary's role in clarifying tax regulations, ensuring that taxpayers' rights are protected while upholding the intentions of the legislative framework of the NIRC.