

Title:

Commissioner of Internal Revenue vs. Union Shipping Corporation, G.R. No. L-64499, January 29, 1986

Facts:

STEP BY STEP EVENTS:

1. **Assessment:**

- On December 27, 1974, the Commissioner of Internal Revenue (CIR) assessed Yee Fong Hong Ltd. and/or Union Shipping Corporation for P583,155.22 as deficiency income taxes for 1971 and 1972. The letter was received on January 4, 1975.

2. **Protest:**

- On January 10, 1975, Union Shipping Corporation protested the assessment in a letter received by the CIR on January 13, 1975.

3. **Warrant Issuance:**

- Without ruling on the protest, the CIR issued a Warrant of Distrainment and Levy on November 25, 1976, served on the counsel of Union Shipping Corporation.

4. **Reinvestigation Request:**

- On November 27, 1976, Union Shipping Corporation requested reinvestigation and reconsideration of the assessment and the Warrant of Distrainment and Levy.

5. **Collection Suit:**

- Without responding to this request, the CIR filed a collection suit before the Court of First Instance of Manila on December 28, 1978.

6. **Appeal:**

- On January 10, 1979, Union Shipping Corporation filed a Petition for Review with the Court of Tax Appeals (CTA), arguing they were not liable for the income tax associated with the foreign shipowner Yee Fong Hong Ltd.

7. **CTA Decision:**

- On December 9, 1983, the CTA ruled in favor of Union Shipping Corporation, reversing the CIR's assessment. The CIR petitioned for review of this decision.

Procedural Posture:

- The CIR assessed deficiency taxes, Union Shipping protested, a distrainment and levy was

issued, Union Shipping reiterated their request for reinvestigation, and finally, the CIR filed a collection suit. Union Shipping then appealed to the CTA, which ruled in their favor, leading to the CIR's petition to the Supreme Court.

Issues:

1. **Jurisdiction:**

- Whether the CTA had jurisdiction over the case when Union Shipping Corporation filed the appeal on January 10, 1979.

2. **Tax Liability:**

- Whether Union Shipping Corporation, acting as a husbanding (handling) agent for Yee Fong Hong Ltd., is liable for the income taxes based on the gross receipts or earnings of the latter.

Court's Decision:

1. **Jurisdiction:**

- The Court resolved that the CIR did not clearly signify his final action on the disputed assessment, which meant the period to appeal to the CTA had not commenced immediately after the issuance of the Warrant of Distrainment and Levy. The appeal period began only upon the filing of the collection suit, making Union Shipping Corporation's appeal timely.

2. **Tax Liability:**

- The Court found that Union Shipping Corporation acted merely as a husbanding agent for Yee Fong Hong Ltd., had no control over the funds, did not collect freight income, and payments were done directly by shippers to Yee Fong Hong Ltd. Hence, Union Shipping was neither liable for the income tax of Yee Fong Hong Ltd. nor for withholding tax, as they were not in possession of the funds.

Doctrine:

- **Finality of Assessment:**

- The CIR should clearly indicate the finality of an assessment for the taxpayer to understand when their right to appeal to the CTA accrues.

- **Tax Liability of Agents:**

- Agents who do not possess control or custody over funds are not liable for the principal's tax obligations.

Class Notes:

- **Finality Indication by CIR:** Importance of clear communication by CIR in tax assessments to avoid confusion over appeal periods (*Surigao Electric Co., Inc. v. C.T.A.*).
- **Agency Role in Taxation:** An agent without control over the principal's funds and not involved in collecting incomes on behalf of the principal is not liable for the principal's taxes.
- **Appeal Timeliness:** Appeals to the CTA must be timely; the appeal period is triggered by the final action on an assessment.
- **Withholding Tax:** Responsibility lies with those in custody or control of funds subject to withholding.

Historical Background:

- This case arose during a period of rigorous tax collection efforts in the Philippines, reflecting the government's broader push to ensure tax compliance. The decision underscores the need for clarity in administrative actions and fair treatment of taxpayers, especially in the context of appeals and tax liability, highlighting issues pertinent during that era in Philippine fiscal administration.