

Title: **Filipinas Synthetic Fiber Corporation vs. Court of Appeals, Court of Tax Appeals, and Commissioner of Internal Revenue (G.R. No. 118498)**

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Facts:

Filipinas Synthetic Fiber Corporation (Filsyn), a domestic corporation, received a letter of demand on December 27, 1979, from the Commissioner of Internal Revenue, assessing it for deficiency withholding tax amounting to PHP 829,748.77 for the period from the fourth quarter of 1974 to the fourth quarter of 1975. The assessment primarily comprised interest and compromise penalties for the alleged late payment of withholding taxes on interest loans, royalties, and guarantee fees paid to non-resident corporations.

- **Protest and Commissioner's Denial:**

Filsyn protested through its auditor, SGV and Company. The Commissioner denied the protest on May 14, 1985, based on BIR Rulings No. 71-003, 24-71-003-154-84 and CTA Case No. 3307. The Commissioner stated that the liability to withhold and pay income tax arises at the time of accrual, not upon actual payment.

- **Court of Tax Appeals:**

Filsyn filed a Petition for Review before the Court of Tax Appeals (CTA) on June 28, 1985, docketed as CTA Case No. 3951. On June 15, 1993, the CTA rendered a decision ordering Filsyn to pay PHP 306,165.35 as deficiency withholding tax from the fourth quarter of 1974 to the third quarter of 1975, including surcharges and interest.

- **Court of Appeals:**

Filsyn's appeal to the Court of Appeals (CA) was denied. The CA affirmed in toto the CTA's decision.

- **Supreme Court Petitions:**

- **G.R. No. 118498:** Filsyn contended that its liability to withhold income tax on interest, royalties, and dividends payable to non-residents attached only upon the actual remittance, not at accrual.

- **G.R. No. 124377:** The case pertained to the assessed deficiency withholding tax for the fourth quarter of 1975 to the fourth quarter of 1976 amounting to PHP 379,700.68. The primary issue was whether the withholding tax liability arises upon remittance or accrual of income payments to non-resident foreign corporations.

Issues:

1. Whether the liability to withhold tax on interest, royalties, and guarantee fees paid to non-resident foreign corporations arises upon accrual or actual payment.
2. Whether Filsyn's method of accounting (accrual basis) affects the timing of the withholding tax liability.

Court's Decision:

The Supreme Court ruled affirming the decisions of the Court of Appeals.

1. **Timing of Withholding Tax Liability**:

- The Court held that the liability to withhold and remit income tax arises at the time of accrual. According to Section 54 of the National Internal Revenue Code, the withholding agent is personally liable for the tax when the income becomes due, in accordance with the accrual method of accounting. This means tax liability attaches once the right to receive the amount becomes fixed, unconditional, and enforceable.

2. **Accounting Method and Liability**:

- Under Filsyn's accrual method of accounting, the income is reported when the right to receive it is established, not when actually received. By accruing these amounts in their books and deducting them as expenses, Filsyn had already benefited from the tax deductions. Hence, they cannot claim that liability only arises upon actual payment.

Doctrine:

The Court reiterated the doctrine that for Philippine internal revenue tax purposes, the liability to withhold arises at the time of accrual, not at the time of actual payment or remittance. This ensures that tax collection is timely and prevents delays that might arise from actual remittance.

Class Notes:

- **Key Elements/Concepts**:
- **Withholding Tax**: Tax deducted at source on certain income payments to non-residents.
- **Accrual Accounting**: Income is recognized when the right to receive it is established.
- **Personal Liability of Withholding Agent**: Withholding agents are personally liable for the tax deducted.

- **Relevant Statutes**:
- National Internal Revenue Code, Sections 53 (b) and (c) and Section 54: Outline the

requirements and procedures for withholding taxes and the liabilities of withholding agents.

Historical Background:

During the period covered by the assessments (1974-1976), the Philippines was under the regime of President Ferdinand Marcos, a time characterized by economic challenges and the imposition of martial law. The tax collection measures were aggressive, aimed at ensuring government revenue amidst financial strains. The ruling in this case aligns with the historical context, favoring government tax collection efforts to bolster resources.

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This brief encapsulates the procedural and substantive aspects of the case, delineating its significance in tax law and its implications for withholding agents using the accrual method of accounting.