

Title: Commissioner of Internal Revenue v. Wyeth Suaco Laboratories, Inc., 279 Phil. 132 (1991)

Facts:

Wyeth Suaco Laboratories, Inc., a domestic corporation engaged in the manufacture and sale of pharmaceutical products, was subject to an investigation by the Bureau of Internal Revenue (BIR). Following an examination of its books, the BIR issued two notices of tax deficiencies:

1. **Withholding Tax at Source**: Wyeth Suaco allegedly failed to remit withholding tax for the 4th quarter of 1973 on accrued royalties, remuneration for technical services, and cash dividends, amounting to P3,178,994.15.
2. **Sales Tax**: Deficiencies were identified in the periods from November 1, 1972, to October 31, 1973, including short payment for imported materials, totaling P61,155.21.

Wyeth Suaco, through its consultant SGV & Co., protested the assessments in letters dated January 17, 1975, and February 8, 1975, arguing among other points, that they had not remitted the withholding taxes because of restrictions by the Central Bank.

On December 10, 1979, BIR reduced the withholding tax deficiency to P1,973,112.86 but maintained the same sales tax deficiency.

Wyeth Suaco filed a petition for review in the Court of Tax Appeals (CTA) on January 18, 1980, pleading that the assessments were time-barred and lacked factual and legal basis. The CTA enjoined BIR from enforcing the tax deficiencies.

BIR issued warrants of distraint and levy on February 7, 1980, which the CTA temporarily blocked.

The CTA ultimately ruled on August 29, 1986, that BIR's right to collect the taxes had prescribed as they were not collected within the five-year statutory period after the assessments, under Section 319(c) of the Tax Code of 1977.

BIR appealed to the Supreme Court (SC), arguing that the prescriptive period was interrupted by Wyeth Suaco's protests and should restart from the date of the final assessment notice on January 2, 1980.

Issues:

1. Whether the five-year prescription period for BIR to collect the assessed taxes was

interrupted by Wyeth Suaco's protests, thereby allowing BIR to collect the deficiency taxes.

2. Whether Wyeth Suaco is substantively liable for the assessed deficient withholding tax at source and sales tax.

Court's Decision:

1. **Prescription Period for Collection**:

- **Interruption Doctrine**: The Supreme Court found that the filing of protest letters by Wyeth Suaco effectively requested reconsideration or reinvestigation of the tax assessments. This action interrupted the five-year prescriptive period.

- **Resuming Prescription**: The period began running again upon receipt of the final assessment on January 2, 1980. The service of the warrants of distraint and levy on March 12, 1980, was therefore within the allowable period.

- **Conclusion on Prescription**: The Supreme Court concluded that BIR's collection efforts were within the prescriptive period, overturning the CTA's decision on this matter.

2. **Substantive Tax Liabilities:

- **Withholding Tax**: Given Wyeth Suaco used an accrual accounting method, it was obligated to remit withholding taxes on all recorded payable royalties and dividends, irrespective of actual remittance. The Supreme Court upheld the deficiency assessment.

- **Sales Tax**: The assessment was deemed accurate as Wyeth Suaco failed to provide contrary evidence. The Court upheld the sales tax deficiency.

Result:

- The petition was **granted**. Wyeth Suaco was ordered to pay:

- P1,973,112.86 for deficiency withholding tax, plus appropriate interest and surcharges.

- P60,855.21 for deficiency sales tax, plus appropriate interest and surcharges.

Doctrine:

- **Interruption of Prescriptive Period**: The period for collecting assessed taxes can be interrupted by a taxpayer's request for reconsideration or reinvestigation. The period resumes when such a request is resolved.

- **Accrual of Tax Liability**: In the accrual method of accounting, liability, including withholding tax, arises when income is booked, not when cash is exchanged.

Class Notes:

- **Prescription Interruption**: Taxpayer's protest letters = Request for reconsideration -> suspension of prescriptive period.

- **Accrual Principle**: Taxes due upon recording in books, not actual payment.
- **BIR Presumptions**: Tax assessments presumed correct; burden of proof lies on taxpayer to dispute.
- **Applicable Sections**:
 - **Sec. 318** and **319(c)**, National Internal Revenue Code 1977 (now Sec. 203 and 224, NIRC 1986)
 - **Sec. 54(a)**, Tax Code: BIR's authority to mandate periodic tax remittance from withholding agents.

Historical Background:

This case arose during a period when the Philippine government was tightening enforcement of tax collection to prevent losses and ensure compliance. The legal principles established helped clarify the interpretation of tax prescription rules, especially on how taxpayer protests influence the statutory limitations for tax collections. These rulings emphasized the importance of compliance by leveraging administrative processes to balance the government's need for revenue with taxpayer rights.