

****Title:**** San Miguel Corporation vs. Commissioner of Internal Revenue, G.R. No. 257697 & G.R. No. 259446

****Facts:****

In 2011, the Philippine Supreme Court in the case of Commissioner of Internal Revenue v. Filinvest ruled that instructional letters, and cash and journal vouchers can qualify as loan agreements subject to Documentary Stamp Tax (DST). Following this ruling, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular No. 48-2011, which directed internal revenue officials to assess DST on such transactions if appropriate.

On May 14, 2014, San Miguel Corporation (SMC) received a Preliminary Assessment Notice (PAN) from the BIR for deficiency taxes for the taxable year 2009, including DST for advances to related parties amounting to P2,901,493,003.15. SMC argued that these advances should not retroactively be considered loans subject to DST, and contested this assessment.

Despite contesting the assessment, SMC paid P30,424,259.59 on June 24, 2014, and subsequently filed a claim for refund for this amount on April 20, 2016, which was ignored by the BIR. This led SMC to file a Petition for Review before the Court of Tax Appeals (CTA) Division on June 22, 2016.

The CTA Division partially granted SMC's petition on May 3, 2019, ordering a refund of P15,916,794.59 for penalties erroneously paid due to SMC's good faith reliance on the previous interpretation by the BIR. However, the refund claim for DST was denied, referencing the ruling in Filinvest.

Both the CIR and SMC filed separate Motions for Partial Reconsideration, but these were denied. Consequently, both parties elevated the matter before the CTA En Banc, which upheld the Division's decision on September 27, 2021.

The case was brought to the Philippine Supreme Court for resolution.

****Issues:****

1. ****Retroactive Application of Judicial Decisions:**** Whether the Filinvest doctrine on DST can be retroactively applied to transactions that occurred prior to the 2011 decision.
2. ****Good Faith Reliance:**** Whether SMC can claim a refund based on its good faith

reliance on previous BIR rulings and interpretations that did not classify its intercompany advances as loans subject to DST.

3. **Liability for Interest and Compromise Penalty:** Whether SMC is liable for interest and compromise penalty for the alleged DST deficiency.

Court's Decision:

Retroactive Application of Filinvest:

The Court ruled that the retroactive application of Filinvest is not prejudicial to taxpayers. Citing Article 8 of the Civil Code, the Court stated that judicial decisions applying or interpreting the law form part of the legal system of the Philippines and have the force of law. Therefore, the interpretation provided in Filinvest merely established the legislative intent of Section 179 of the NIRC, which existed since December 23, 1993, thereby applying to SMC's case on advances to related parties.

Good Faith Reliance:

The Court found that good faith reliance on prior BIR rulings not specifically addressing SMC's transactions could not be a basis for refund. As SMC did not obtain favorable BIR rulings explicitly exempting its advances from DST, the argument of good faith was insufficient to merit a refund for DST paid.

Liability for Interest and Compromise Penalty:

The Court concluded that SMC was not entitled to a refund of interest because good faith based on rulings not issued in SMC's favor did not exonerate liability. However, the compromise penalty was incorrectly imposed, as compromise requires mutual agreement, and there was no evidence that SMC agreed to such a penalty. The Court ordered a refund of the compromise penalty amounting to P50,000.

Doctrine:

1. The principle of retroactive application of judicial interpretation of statutes (as established in Filinvest) to determine taxpayer obligations under existing tax laws.
2. The requirement of obtaining specific BIR rulings to claim exemptions from tax liabilities, underscoring that generalized good faith reliance on unrelated rulings is insufficient.

****Class Notes:****

- ****Retroactive Application of Judicial Decisions:**** Article 8, Civil Code - Decisions interpreting laws form part of the legal system (*legis interpretatio legis vim obtinet*). Judicial interpretations must reflect the contemporaneous legislative intent.
- ****Documentary Stamp Tax (DST):**** Section 179, NIRC - Debt instruments, including intercompany advances evidenced by vouchers and memos, are subject to DST.
- ****Interest and Penalty:**** Interest liability can still apply despite good faith unless specifically addressed. Compromise penalties require agreement by the taxpayer.

****Historical Background:****

The case stemmed from the 2011 Supreme Court decision in *Filinvest*, which clarified the scope of transactions subject to DST under the NIRC, impacting tax assessments and collection procedures. The ruling reinforced the legal doctrine that judicial decisions customarily interpret pre-existing laws, thereby affecting pending tax disputes across various corporations.