

****Title:****

Republic of the Philippines vs. Lim Tian Teng Sons & Co., Inc., G.R. No. L-12791, April 29, 1960

****Facts:****

Lim Tian Teng Sons & Co., Inc., a domestic corporation based in Cebu City, was engaged in exporting copra in 1951 and 1952. The company utilized a method where only 95% of the letter of credit amount for each copra shipment (termed “copra outturn”) was collected initially, with the remaining 5% pending final liquidation. Their 1952 income tax return, filed on March 30, 1953, reported a loss of P55,109.98. They included a 1951 copra outturn valued at P95,500 as part of the 1952 beginning inventory.

The Bureau of Internal Revenue (BIR) audited the 1952 return and excluded the P95,500 from the 1952 beginning inventory, treating it instead as accrued income for 1951. This adjustment increased the taxpayer’s 1952 net income and resulted in a deficiency income tax assessment of P10,074, which, with a 50% surcharge, amounted to P15,111.50.

Upon receiving the assessment, Lim Tian Teng Sons & Co., Inc. requested a reinvestigation on January 31, 1957, but the BIR did not respond directly, and the case was forwarded to the Solicitor General for collection action. The Solicitor General demanded payment but, receiving no waiver of the statute of limitations as required, the BIR filed suit for collection in the Court of First Instance of Cebu on September 2, 1958.

The lower court upheld the BIR’s assessment, validating the deficiency income tax claim of P15,111.00, imposing 1% monthly interest from October 8, 1957, but denied the additional 5% surcharge for late payment, citing the already applied 50% surcharge. Both parties appealed.

****Issues:****

1. Whether the lower court had jurisdiction given the pending request for reinvestigation.
2. Whether the tax assessment was final and executory.
3. The correctness of the assessment and imposition of the 50% surcharge.
4. Whether the additional 5% late payment surcharge should be applied.
5. The correct date for computation of delinquency interest.

****Court’s Decision:****

1. **Jurisdiction:** The Supreme Court upheld that the lower court had jurisdiction despite the pending request for reinvestigation, noting that the BIR is authorized to collect taxes even if a request for reinvestigation has not been fully adjudicated. The Tax Code allows the Collector of Internal Revenue to pursue judicial action for tax collection without waiting for the reinvestigation process to conclude.
2. **Final and Executory Assessment:** The assessment was considered final and executory. The Collector's actions indicated a decision against reinvestigation, and the company's failure to appeal within the prescribed period rendered the assessment definitive.
3. **Correctness and 50% Surcharge:** The court found the assessment correct as per the accrual method. The P95,500 should have been included as accrued income for 1951. The imposition of the 50% surcharge was appropriate given the apparent fraudulent intent to misstate taxable income.
4. **5% Late Payment Surcharge:** The court determined that the 5% surcharge for late payment was mandatory and must be applied in addition to the 50% fraud surcharge, according to Section 51(e) of the Tax Code.
5. **Delinquency Interest Computation:** Interest should be computed from February 16, 1957, the day following the due date given in the deficiency tax assessment notice.

Doctrine:

- The Collector of Internal Revenue can initiate collection efforts without waiting for a taxpayer's reinvestigation request to be concluded.
- Tax assessments become final and executory if not appealed within the statutory period.
- The 50% surcharge for fraud and the 5% surcharge for late payment are compulsory under the Tax Code.
- Delinquency interest accrues from the specified payment due date in the tax assessment notice.

Class Notes:

1. **Jurisdiction:** It is not a prerequisite for the Collector of Internal Revenue to resolve a reinvestigation request before pursuing tax collection.
2. **Final and Executory:** Not appealing within 30 days renders tax assessments final.
3. **Surcharges and Interest:** Both the 50% fraud surcharge and the 5% late payment

surcharge are mandatory; delinquency interest starts accruing the day after the due date.

4. **Accrual Accounting Method:** Revenue must be recognized in the period when it is earned, not necessarily when received.

Historical Background:

This case took place during the 1950s when the Philippines was focusing on strengthening its tax collection systems post World War II to fund government operations and recovery efforts. The Tax Code provisions and administrative practices challenged in this case underscore the government's priority on efficient and stringent tax collection to stabilize and support economic development.