

Title:

Garrison vs. Court of Appeals, G.R. Nos. 70116-19, May 17, 1976

Facts:

The petitioners, John L. Garrison, James W. Robertson, Frank W. Robertson, Robert H. Cathey, Felicitas de Guzman, and Edward McGurk, were American citizens residing in the Philippines and employed at the United States Naval Base in Olongapo City. They earned various income amounts during the year 1969 from their employment at the base. All the petitioners were admitted to the Philippines under Section 9 (a) of the Philippine Immigration Act.

The petitioners did not file their income tax returns for the fiscal year 1969, receiving notices from the District Revenue Officer in Olongapo City regarding their failure and directing them to file within ten days. Petitioners refused, asserting that they were not “resident aliens” and claiming exemption under Article XII, paragraph 2 of the RP-US Military Bases Agreement, which purportedly shielded them from paying Philippine income taxes on their base earnings.

Their contention was that their physical presence in the Philippines was a temporary consequence of their employment, and thus, they were neither residents nor liable to file returns. The Court of First Instance of Zambales and later the Court of Appeals convicted and fined them under Section 45 (a) (1) (b) of the National Internal Revenue Code and sentenced them to pay P2,000.00 each with subsidiary imprisonment for insolvency.

Issues:

1. Whether the petitioners qualify as “resident aliens” under Philippine tax laws despite their claim of being mere temporary visitors.
2. Whether the RP-US Military Bases Agreement exempts the petitioners from filing income tax returns, not just paying income tax, for their employment with the U.S. Naval Base.

Court’s Decision:

The Philippine Supreme Court denied the petition and affirmed the decision of the Court of Appeals, imposing that the failure to file income tax returns by the petitioners was unlawful under Philippine tax law.

****Issue 1: Resident Alien Status****

The Court concurred that under the National Internal Revenue Code and Revenue Regulations No. 2, an alien’s residency status is determined by actual physical presence and

the nature and length of stay in the Philippines. Despite their intent to return to the US post-employment, the petitioners' continuous and extended stay in the Philippines rendered them resident aliens required to file income tax returns.

****Issue 2: Tax Exemption Under RP-US Military Bases Agreement****

The petitioners argued that the exemption from income tax also implicitly excused them from filing returns. However, the Court clarified that the Bases Agreement only provided an exemption from paying income tax derived exclusively from U.S. sources. It explicitly did not exempt them from filing returns. Petitioners must demonstrate their income sole derivation from U.S. sources, leaving the filing duty still mandatory to verify if any other sources of income existed that might be taxable.

Doctrine:

The important doctrines reiterated by the Supreme Court in this case are:

1. ****Resident Alien Definition:**** "An alien actually present in the Philippines who is not a mere transient or sojourner is a resident of the Philippines for purposes of income tax." Intention to return does not negate residency if physical presence implies residence.
2. ****Distinction Between Filing and Paying Taxes:**** Exemption from income tax payment does not translate to an exemption from the requirement to file income tax returns.

Class Notes:

****Key Concepts:****

1. ****Resident Alien:**** The duration and purpose of stay determine residency status, not merely intent to return home.
2. ****Duty to File Returns:**** All income earners, exempt or not, must file returns to declare income sources and verify tax obligations.
3. ****Tax Exemption Provisions:**** RP-US Military Bases Agreement exempts U.S. nationals residing in the Philippines from paying income tax unless derived from Philippine or non-U.S. sources.

****Statutory Provisions:****

- ****Section 45 (a) (1) (b), National Internal Revenue Code:**** Requires resident aliens to file income tax returns.
- ****Section 73, National Internal Revenue Code:**** Establishes the penalty for the failure to file returns or pay taxes.

Historical Background:

The case occurred during a period when the Philippines had several U.S. military bases, underscoring the RP-US relations and agreements made post-World War II. These agreements included tax provisions aimed at regulating the fiscal obligations of U.S. nationals working on U.S. bases. The Supreme Court's decision highlights the importance of compliance with Philippine tax laws despite existing bilateral agreements or the employment context of foreign nationals.