

Title: Cagayan Valley Drug Corporation vs. Commissioner of Internal Revenue

Facts:

Cagayan Valley Drug Corporation, a licensed retailer of pharmaceuticals operating under the name “Mercury Drug”, provided a 20% discount on medicine sales to senior citizens in 1995, under Republic Act No. 7432. The company reported these discounts as deductions from gross sales instead of the tax credit provision specified in the law. On December 27, 1996, the company filed a request with the Bureau of Internal Revenue (BIR) for a refund or tax credit of the discounts, amounting to PHP 123,083. Due to inaction by the BIR, Cagayan Valley Drug Corporation filed a petition for review with the Court of Tax Appeals (CTA) on March 18, 1998. The CTA, in a Decision dated April 26, 2000, ruled that the discounts were eligible for tax credit but dismissed the petition due to the company’s net loss in 1995. Upon denial of their Motion for Reconsideration, the company escalated the matter to the Court of Appeals (CA), which dismissed the petition on procedural grounds, as the President of the corporation, Jacinto J. Concepcion, failed to provide evidence of board authorization for signing the verification and certification against forum shopping. This dismissal prompted the present petition before the Supreme Court.

Issues:

1. Whether the signing of verification and certification against forum shopping by the corporation’s president without board authorization is sufficient.
2. Whether the CTA erred in denying the petitioner’s claim for a tax credit due to the company’s net loss in 1995.

Court’s Decision:

1. On the issue of procedural compliance, the Supreme Court found in favor of the petitioner. The Court elaborated that the President of a corporation is, by virtue of their position, authorized to verify the truthfulness of petition contents, as noted in previous case law. The lack of an accompanying board resolution at the time of submission did not invalidate the petition, given the subsequent presentation of such authorization.
2. Regarding the entitlement to a tax credit, the Supreme Court ruled the petitioner was entitled to a tax credit for the full amount of the 20% discounts extended to qualified senior citizens, in line with established jurisprudence, notably the Central Luzon Drug Corporation case. The Court clarified that the net loss position does not negate the entitlement to a tax credit; rather, the credit cannot be utilized until a future tax liability exists.

Doctrine:

The doctrine reiterated here is that corporate officers need proper board authorization to bind the corporation in judicial matters, but presidents can sign verifications due to their position. Additionally, private enterprises are entitled to a tax credit for mandatory 20% discounts to senior citizens, independent of tax liability status during the claim year.

Class Notes:

- Corporate Authority: Board of Directors has plenary power for corporate actions; authority for procedural acts like signing verifications doesn't necessitate board resolution if position (President, Chairperson, etc.) inherently grants such authority.
- Tax Credit Eligibility: Implement RA 7432 allowing tax credits for senior discounts; net loss year does not void credit right.
- Legal Precedent: Central Luzon Drug Corporation case confirms this entitlement.

Historical Background:

This case emerged from the implementation of RA 7432, enhancing senior citizens' welfare, against the backdrop of administrative revenue interpretations that challenged legislative intent. The legal dialogue scrutinizes corporation tax obligations, statutory privileges, and the procedural evidences required for enforcing legal rights.