

****Title:****

****Petron Corporation vs. Commissioner of Internal Revenue****

****Facts:****

Petron Corporation, a Board of Investment (BOI) registered enterprise engaged in petroleum production, acquired Tax Credit Certificates (TCCs) from BOI-registered entities. These TCCs were used by Petron to pay its excise tax liabilities for the years 1993 to 1997, with the necessary documents and approvals from various governmental agencies, including the Department of Finance (DOF) One-Stop Shop Inter-Agency Tax Credit and Duty Drawback Center (the Center) and the Bureau of Internal Revenue (BIR).

In April 1998, the BIR sent a collection letter to Petron, demanding payment of unpaid taxes, surcharges, and interests totaling over PHP 1 billion for the years 1993 to 1997. Petron's appeal to the Court of Tax Appeals (CTA) led to a decision in its favor, canceling the BIR's collection for lack of legal grounds.

While the BIR's appeal was pending, the Center conducted a post-audit, canceling TCCs worth PHP 284 million due to alleged fraudulent procurement and assigned transfer, prompting the BIR to issue another assessment for deficiency excise taxes, surcharges, and interest amounting to approximately PHP 650 million for the years 1995 to 1997.

Petron filed another petition with the CTA, disputing the assessment. The CTA Second Division ruled against Petron, prompting an appeal to the CTA En Banc, which upheld the Second Division's decision. Petron then filed a petition for review on certiorari to the Supreme Court.

****Issues:****

1. Whether the post-audit of TCCs constituted a suspensive condition affecting their validity and effectiveness.
2. Whether the TCCs were fraudulently transferred to Petron.
3. Whether Petron, as a purchaser in good faith, could be prejudiced by alleged fraud in the original issuance and transfer of TCCs.
4. Whether the Center had the authority to cancel the TCCs.
5. Whether Petron was liable to pay the 25% surcharge and 20% interest.

****Court's Decision:****

****1. Post-Audit as a Suspensive Condition:****

The Supreme Court ruled that the post-audit of TCCs does not constitute a suspensive

condition affecting their validity. The TCCs' validity commences from issuance, not contingent upon subsequent audits, as argued by Petron and supported by jurisprudence (Pilipinas Shell Petroleum Corporation vs. Commissioner of Internal Revenue). The post-audit only addresses computational discrepancies.

****2. Fraudulent Transfer of TCCs:****

The Court found that the evidence presented by the Commissioner of Internal Revenue (CIR) failed to establish clear and convincing proof of fraud. The affidavits used to support the cancellation of TCCs were deemed hearsay as the individuals were not presented for cross-examination. The Court highlighted the principle that fraud must be proven by clear and convincing evidence.

****3. Purchaser in Good Faith:****

As a purchaser in good faith, Petron could not be held accountable for the original grantees' alleged fraud unless proven otherwise. The Court reaffirmed that Petron followed the necessary legal procedures and regulations for the assignment and utilization of TCCs.

****4. Authority to Cancel TCCs:****

While acknowledging the Center's concurrent authority to cancel fraudulently issued and transferred TCCs, the Court noted that such authority could only be exercised before a TCC's full utilization. In Petron's case, the transactions were completed, and the taxes were paid using the TCCs after securing necessary approvals, thus deeming the subsequent cancellations legally ineffective against Petron.

****5. Liability for Surcharge and Interest:****

Given the absence of proven fraud and the invalidation of the underlying assessment, Petron was not liable for the imposed surcharge (25%) and interest (20%).

****Doctrine:****

1. ****Validity and Effectiveness of TCCs:**** TCCs are valid and effective from issuance, irrespective of subsequent post-audit processes.
2. ****Fraud Proof Requirement:**** Fraud must be proven by clear and convincing evidence, and a transferee in good faith and for value is protected from subsequent adverse findings on TCC transactions.
3. ****Government Estoppel:**** Although government errors generally do not estop tax collection, this doctrine does not apply when the taxpayer is a good faith transferee.
4. ****Limitations on Cancellation Authority:**** Government agencies must exercise

cancellation authority prior to the full utilization of TCCs.

****Class Notes:****

1. ****Substantive Law on TCCs:****

- ****Tax Credit Certificates (TCCs):**** Legal allowances against tax liabilities, immediately valid upon issuance.
- ****Requirements for Valid Transfers:**** Compliance with governing laws and regulations without a need for post-audit suspension.

2. ****Fraudulent Acts and Evidentiary Standards:****

- ****Proof of Fraud:**** Clear, convincing evidence required.
- ****Hearsay Rule:**** Importance of cross-examination to validate evidence.

3. ****Good Faith Purchasing:****

- ****Purchaser in Good Faith:**** Legal protection from the assignor's fraudulent acts when lawful procedures are followed.

4. ****Judicial Procedures and Authority:****

- ****Court's Role:**** Ensuring procedural fairness and correct application of legal principles.
- ****Agency Authority:**** Jurisdictional boundaries in assessing and canceling TCCs.

****Historical Background:****

The case reflects legal complexities around TCC utilization and governance, amidst aggressive tax collection strategies by authorities to address tax evasion. The decision underscores judicial checks on administrative powers and affirms protections for compliant taxpayers against retroactive administrative reversals based on unproven fraud claims.