

COLLECTOR OF INTERNAL REVENUE, PETITIONER, VS. WILLIAM LI YAO, RESPONDENT.*G.R. No. L-11861. December 27, 1963*

Ponente: LABRADOR, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/595e9407c2f4/>**LABRADOR, J.:**

This is an appeal of the Collector of Internal Revenue from the decision of the Court of Tax Appeals in C.T.A. Case No. 30 for collection of deficiency income taxes. The points raised as errors committed by the Court of Tax Appeals shall be taken up one by one separately.

The first and the most important issue raised is against the finding of the Court of Tax Appeals that the opening net worth of respondent William Li Yao as of January 1945 is around P159,910.89. The Court of Tax Appeals accepted the testimony of Li Yao to the effect that at the end of the last world war he had the said amount which was held for him in trust by his father, this amount having been excavated from its burying or hiding place and thereafter released to Li Yao by his father gradually. Reasons for the conclusion of the court below that the said amount of P159,910.89, was in existence and had been kept for Li Yao by his father are the following: That Li Yao operated a business of his own separate and distinct from the business of his father, and by his statement or declaration in his application for naturalization, Exhibit 22, that he had been in business as far back as 1940. To corroborate this alleged existence of the amount at the beginning of the tax period is Exhibit A, signed by BIR, Examiner Epifanio Paragas, certifying to the fact that in the years 1936, 1937, 1938 and 1940, one Li Chay Too, Jr. had a total income of P159,910.89.

A close study of the evidence which the court below considered as corroborating Li Yao's testimony about the existence of a big sum representing his opening net worth in 1945, discloses that said evidence is not only not competent but clearly not trustworthy. Li Yao's application for naturalization, Exh. 22, which shows he was in business since 1940 is self-serving. But aside from being self-serving it contradicts Li Yao's claim of income for the years before 1940 namely: 1936, 1937 and 1938. If, as claimed by him in his application for naturalization, he started business in 1940 only, then the only income he would have had is the sum of P27,435.10, the income in 1940 and he could not have earned the following incomes claimed: 1936—P105,349.49; 1937—P10,073.69; and 1948—P17,052.70.

Similarly, the certificate, Exhibit A, of BIR Examiner Epifanio Paragas that Li Chay Too, Jr.'s income in 1936, 1937, 1938 and 1940 is a total of P159,910.89 is both incompetent and unworthy of credit. The certificate is based on the supposed working papers of said examiner, but these working papers were not produced. The working papers, to be credible, must accompany the original documents on which the figures were taken, but neither were the original documents themselves nor the working papers introduced in evidence. The certificate is therefore, clearly inadmissible, not being the best evidence. But even assuming that the alleged total income of one Li Chay Too, Jr. in 1936, 1937, 1938 and 1940 is truly P159,910.89, said income cannot possibly be the income of William Li Yao himself, because the photostatic copy of the income tax return of Li Chay Too, Li Yao's father, Exh. 126, shows that said income of P27,435.10 did not pertain to Li Chay Too, Jr. but to Li Chay Too himself, Li

Yao's father.

Even the finding of the court below does not support its conclusions. If the court believed Li Yao's statement in his application for naturalization that he started business in 1940, in which year he supposedly made an income of P27,436.10, it did not explain how Li Yao filed no income-tax return that year. Neither did it show any tax receipt showing the business Li Yao was engaged in, nor any receipt showing payment of taxes or any kind of tax on business for any of the years 1936, 1937, 1938 and 1940. And to say that he had earnings of around P159,910.89 in 1936, 1937, 1938 and 1940 is surely unbelievable and untrue. In 1936, the year when the income of P105,349.49 was made, Li Yao was only a minor 15 years old. How could have he earned such an enormous income?

Our conclusion is that the earnings attributed to Li Yao, alias Li Chay Too, Jr., in 1936, 1937, 1938 and 1940, amounting to P159,910.89—if they were earned at all—were earnings of his father, Li Chay Too, not earnings of Li Yao, the son.

Similarly, if such amounts were received from Li Yao's father from year to year, in small amounts, why is it that the receipts of the amounts are not shown to have been entered in the books of Li Yao? If they were received little by little, as claimed by Li Yao, then the total amount of P159,910.89 can not be considered as net worth of Li Yao in 1945, as he claimed and the court below found.

In whatever way or manner We look at the claim of the supposed initial net worth, We can not make ourselves agree that the evidence of the claim is competent, or that it proves what it purports to prove, or in any way justifies the fixing of the initial net worth of P159,910.89 allowed to Li Yao as his capital in 1945. The first error claimed to have been made by the court below is therefore sustained and the finding of the court below of an initial net worth of P159,910.89 is hereby set aside.

The second issue refers to the approval by the court below of a deduction of P5,470.98 representing payments of deficiency income taxes made by Li Yao in the year 1948 corresponding to the years 1945 to 1947. There is no question that this amount represents tax on income earned in the years 1945-1947. The court held that these amounts should be deducted from the final amount of tax deficiency due. The Solicitor General contends that the act of the court below violates the rule on equitable recoupment. We find no merit in this contention. The said amount was paid during the course of investigation of Li Yao's income tax deficiencies. The payment was not an independent single act of voluntary payment of a tax believed to be due and collectible and accepted by the Government and which had, therefore, become part of the State moneys subject to expenditure, and perhaps already spent or appropriated. The amounts credited as above explained are not taxes erroneously or illegally collected; they are part of the taxes due and unpaid, hence the provision of Section 306 of the National Internal Revenue Code does not apply.

The last issues refer to the allowance of various items supposed to have been loaned or contributed to Li Yao's business. The findings made by the court were based mostly on testimonial evidence, a correct appraisal of the value of which can not be made by Us as We have not seen how the witnesses testified. We find no reason for disturbing the finding's of the court thereon.

WHEREFORE, the finding of the Court of Tax Appeals that respondent Li Yao had in the beginning of the year 1945 a net worth of P159,910.89 is hereby reversed and set aside. The decision appealed, from is, therefore, modified accordingly. Let a new assessment be made on the basis of the decision of the Court of Tax Appeals, eliminating therefrom the aforesaid amount of P159,910.89 as net worth of Li Yao in 1945. Without costs.

SO ORDERED.

Bengzon, C.J., Padilla, Bautista Angelo, Concepcion, Reyes, J.B.L., Barrera, Paredes, Dizon, Regala and Makalintal, JJ., concur.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.