

**REPUBLIC OF THE PHILIPPINES, PLAINTIFF AND APPELLEE, VS.  
HEIRS OF CESAR JALANDONI, ET AL., DEFENDANTS AND  
APPELLANTS.***G.R. No. L-18384. September 20, 1965*

Ponente: BAUTISTA ANGELO, J.

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Isabel Ledesma died intestate on June 23, 1948 leaving real properties situated in the provinces of Negros Occidental and Rizal and in the cities of Manila and Baguio, and personal properties consisting of shares of stock in various domestic corporations. She left as heirs her husband Bernardino Jalandoni and three children, namely, Cesar, Angeles and Delfin, all surnamed Jalandoni.

On November 19, 1948, Cesar Jalandoni, one of the heirs, filed an estate and inheritance tax return reporting the following: (1) that the real and personal properties owned by the deceased and her surviving husband had a total market value of P1,324,555.80; (2) that after deducting therefrom the conjugal share of her husband and some expenses the net estate subject to estate tax was P28,148.04; and (3) that the amount subject to inheritance tax was P542,225.83. This return also shows that no testamentary or intestate proceedings were instituted.

On the basis of this return the Bureau of Internal Revenue made an assessment on November 20, 1948 calling for the payment of the amounts of P31,435.95 and P58,863.52 as estate and inheritance taxes, respectively, stating therein that the assessment was "to be considered partial pending investigation of the return." These sums were paid by Cesar Jalandoni.

After a preliminary investigation was made of the properties reported in the abovementioned return,, a second assessment was made on January 27, 1953 by the Bureau of Internal Revenue showing that there was due from the estate the amounts of P5,539.67 and P9,899.37 as deficiency estate and inheritance taxes, respectively, for which reason a demand was made on Bernardino Jalandoni stating therein that the same was still "to be considered partial pending further investigation of the return," which amounts were paid by Bernardino Jalandoni on February 28, 1953.

True to the foregoing reservation, the Bureau of Internal Revenue conducted another investigation and this time it found (1) that the market value of the lands reported in the return filed by Cesar Jalandoni was underdeclared in the amount of P365,149.50; (2) that seven lots which were registered in the Talisay-Silay cadastre of Negros Occidental as belonging to the deceased, including their improvements, were omitted from the return the same having a market value of P110,200.00; and (3) the shares of stock owned by the deceased in the Victorias Milling Company, Hawaiian-Philippine Company and Central Azucarera de la Carlota, though included in the return, were however underdeclared in the amount of P16,355.36, and on the basis of these findings a third assessment was made against the estate on May 9, 1956 wherein the heirs were required to pay the amounts of P29,995.30 and P49,842.05 as deficiency estate and inheritance taxes, respectively, including accrued interests, with the warning that failure on their part to pay the same would subject them to the payment of surcharge, interest, and

penalty for late payment of the tax.

In answer to this third assessment after notice was served on the administrator of the estate, Bernardino Jalandoni, Lorenzo J. Teves, in his capacity as counsel of the heirs of the deceased, wrote a letter to the Collector of Internal Revenue setting up the defense of prescription in the sense that the deficiency in the estate and inheritance taxes payment of which was required therein can no longer be collected since more than five years had already elapsed from the filing of the return invoking in his favor Section 331 of the National Internal Revenue Code. To this defense, the Collector retorted claiming that the stand of counsel cannot be entertained for the reason that, it appearing that the estate and inheritance tax return which was filed by the administrator or by the heirs contained omissions which amount to fraud indicative of an intention to evade payment of the proper tax due the government, the taxes then being collected could still be demanded within ten years from the discovery of the falsity or omission pursuant to Section 332 (a) of said Code, which Period had not yet expired, and as a consequence, the assessment notice was reiterated with the request that the deficiency estate and inheritance taxes therein demanded be settled as soon as possible. And noting that the 30-day Period within which the heirs could appeal the Collector's assessment to the Court of Tax Appeals had already elapsed, while on the other hand they indicated their unwillingness to settle the claim, the Collector of Internal Revenue filed present case before the Court of First Instance of Manila pressing the collection of the deficiency estate and inheritance taxes assessed against the heirs of the deceased Isabel Ledesma Jalandoni.

While this case was pending hearing on the merits, the lower court set a date for pre-trial in an effort to have the parties agree on a stipulation of facts, and this having failed, upon request of defendants, the lower court ordered the Collector of Internal Revenue to verify the allegation that the seven lots in Negros Occidental which were claimed not to have been included in the return filed by Cesar Jalandoni were in fact included therein, and to this effect the Collector designated Examiner Genaro Butas to conduct the examination. In his report Examiner Butas stated that of the seven lots that were previously reported not included in the return, two were actually declared therein, though he reaffirmed his previous finding as regards the other five lots and the market value of the sugar lands and rice lands left by the deceased and the value of the shares of stock owned by her in several domestic corporations.

There being no additional evidence, oral or documentary, submitted by the parties, and passing solely on the allegations appearing in the pleadings which appear to be undisputed, the trial court rendered its decision on February 16, 1960 ordering defendants, jointly and severally, to pay plaintiff the sum of P79,837.35 as estate and inheritance taxes, plus the interest that had accrued thereon as a result of their delinquency. Defendants interposed the present appeal.

It is claimed that the lower court erred in finding that the return submitted by Cesar Jalandoni in behalf of the heirs concerning the estate of the deceased for the purpose of the payment of the required estate and inheritance taxes is false and fraudulent there being no evidence on record showing that said return was filed in bad faith for which reason fraud cannot be imputed to appellants. As against this claim appellee advances the theory that since fraudulent intent is a state of mind which cannot be proven by direct evidence, the same may be inferred from facts and circumstances that appear to be undisputed as was done by the court a quo as follows:

"The difference between the amounts appearing in the returns filed and the undeclared properties of the estate of the deceased is a substantial understatement of the true value of the estate in question. The court is of the opinion, and so holds that the tax returns filed were false. A substantial understatement of stocks and the omission of seven (7) parcels of land belonging to the estate of the deceased, makes it impossible for the Court to believe that the omission or understatements were due to inadvertence, negligence, or honest statement of error. Circumstances such as this are competent to base a finding of willful intent."

And to bolster up this finding appellee submits the following facts which, it contends, appear in the record: (1) among the real properties belonging to the deceased five lots in Negros Occidental, including improvements thereon, with a market value of P58,570.00 were not included in the return filed by a representative of appellants; (2) the value of the sugar and rice lands that were reported in the return were underdeclared in the amount of P365,149.50; and (3) the market value of the shares of stock owned by the deceased in the Victorias Milling Company, Hawaiian-Philippine Company and the Central Azucarera de la Carlota was underdeclared in the amount of P16,355.36. In other words, it is claimed that a total amount of P440,074.86 which constitutes real asset of the estate has been deliberately omitted from the return thereby evincing an intention to evade the payment of the correct amount of tax to the government.

We are of the opinion that this finding is neither fair nor reasonable. To begin with, it should be here noted that when this case was pending hearing on the merits before the lower court, the latter, upon request of appellants, ordered the Collector of Internal Revenue to verify the allegation that there were seven lots in Negros Occidental which were claimed not to have been included in the return filed by Cesar Jalandoni, and to this effect the Collector designated Examiner Genaro Butas to conduct the examination. Examiner Butas, after conducting the examination, submitted his report the pertinent portion of which reads:

493 Sugarland P15,140.00 P21,630.00

710 390.00 550.00

521 21,000.00 30,000.00

954 820.00 1,230.00

939 1,210.00 1,720.00

229 Lot 6,080.00 6,080.00

House 12,000.00 12,000.00

228 Commercial 6,400.00 6,400.00

Concrete House 10,000.00 10,000.00

Camarin 500.00 500.00

Total - -

P73,550.00 P90,110.00

In other words, from the report of Examiner Butas, the following may be gleaned: that of the seven lots alleged to have been excluded from the return, three were actually included, with the particularity that they were the most valuable, to wit: Lot 493 with a market value of P21,630.00; Lot 521 with a market value of P30,000.00; and Lot 229 with a market value of P12,000.00, while another lot was not also included because it belonged to Delfin Jalandoni, or Lot 228 which, including improvements, has a market value of P16,900.00. Hence, from the foregoing we find that the aggregate value of the aforesaid-four lots is P86,610.00, which, if deducted from the total value of the seven lots amounting to P90,110.00, gives a balance of P3,500.00 as the value of the three remaining lots. These three lots being conjugal property, one-half thereof belonging to the deceased's spouse should still be deducted, thus leaving a small balance of P1,750.00. If to this we add that, as the record shows, these three lots were already declared in the return submitted by Bernardino Jalandoni as part of his property and

his wife for purposes of income tax, there is reason to believe that their omission from the return submitted by Cesar Jalandoni was merely due to an honest mistake or inadvertence as properly explained by appellants. We can hardly dispute this conclusion as it would be stretching too much the imagination if we would find that, because of such inadvertence, which appears to be inconsequential, the heirs of the deceased deliberately omitted from the return the three lots with the only purpose of defrauding the government after declaring therein as asset of the estate property worth P1,324,555.80.

The same thing may be said with regard to the alleged undervaluation of certain sugar and rice lands reported by Cesar Jalandoni which appellee fixes at P365,149.50, for the same can at most be considered as the result of an honest difference of opinion and not necessarily an intention to commit fraud. It should be stated that in the estate and inheritance tax returns submitted by Cesar Jalandoni on November 19, 1948 he reported said lands as belonging to the deceased with a statement of what in his opinion represent their reasonable actual value but which happened not to tally with the valuation made by the Collector of Internal Revenue. Certainly, if there is any mistake in the valuation made by Jalandoni the same can only be considered as honest mistake, or one based on excusable 5 inadvertence, he being not an expert in appraising real estate. The deficiency assessment, moreover, was made by the Collector of Internal Revenue more than five years from the filing of the return, and experience shows that such an intervening period is sufficiently long to warrant an increase in value of real estate which is precisely what was found by the Collector of Internal Revenue with regard to the lands in question. It is certainly an error to impute fraud based on an honest difference of opinion.

Finally, we find unreasonable to impute fraud with regard to the appraisal made by appellants of the shares of stock of the deceased in Victorias Milling-Company, Hawaiian-Philippine Company and Central Azucarera de la Carlota, simply because Cesar Jalandoni placed in his return an aggregate market value of P95,480.00, instead of mentioning the book value declared by said corporations in the returns filed by them with the Bureau of Internal Revenue. The fact that the value given in the returns did not tally with the book value appearing in the corporate books is not in itself indicative of fraud especially when we take into consideration the circumstance that said book value only became known several months after the death of the deceased. Moreover, it is a known fact that stock securities frequently fluctuate in value and a mere difference of opinion in relation thereto cannot serve as proper basis for assessing an intention to defraud the government.

Having reached the conclusion that the heirs of the deceased have not committed any act indicative of an intention to evade the payment of the inheritance or estate taxes due the government, as evidenced by their willingness in the past to pay all the taxes properly assessed against them, it is evident that the instant claim of appellee has already prescribed under Section 331 of the National Internal Revenue Code. And with this conclusion, a discussion of the other errors assigned by appellants would seem to be unnecessary.

Wherefore, the decision appealed from is reversed and the complaint of appellee is dismissed. No pronouncement as to costs.

Bengzon, C. J., Concepcion, Dizon, Makalintal, Bengzon, J. P., and Zaldivar, JJ., concur.

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