

COLLECTOR OF INTERNAL REVENUE, PETITIONER, VS. JAMES E. NORTON, ET AL., RESPONDENTS.

G.R. No. L-10432. May 28, 1958

Ponente: PARAS, C.J.

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PARAS, C.J.:

On or about April 13, 1952, Lionel D. Hargis, an American citizen, died in the City of Oakland, County of Alameda, California, U.S.A. He left real and personal properties in the United States appraised at P430,952.14 and personal properties in the Philippines consisting mostly of shares of stock and equities finally appraised at P927,835.07. The respondents are the heirs of the deceased except Thomas M. Jordan who is merely a legatee and the ancillary executor in the Philippines of his Testate Estate. In view of the reappraisal of the estate, an amended assessment notice was issued on May 21, 1954, demanding the payment of (1) an estate tax in the amount of P87,397.54, instead of the original P88,270.46 which had been paid and (2) a total deficiency inheritance tax, surcharge, interest and penalty from the heirs and legatee in the amount of P147,192.19, after crediting the estate with a previous partial payment of P25,715.53. The respondents contested the assessment of the deficiency inheritance tax in the sum of P147,192.19 and requested the refund of the sum of P25,715.53. Upon refusal of the petitioner, the case was brought before the Court of Tax Appeals which rendered a decision in favor of the respondents. The petitioner has appealed.

In claiming exemption from the inheritance tax on the transmission of intangible personal properties of the deceased in the Philippines, the respondents rely on the reciprocity provision contained in section 122 of the Tax Code which reads as follows;

"xxx And provided, further, That no tax shall be collected under this Title in respect of intangible personal property (a) if the decedent at the time of his death was a resident of a foreign country which at the time of his death did not impose a transfer tax or death tax of any character in respect of Intangible personal property of citizens of the Philippines not residing in that country, or (b) if the laws of the foreign country of which the decedent was a resident at the time of his death allow a similar exemption from transfer taxes or death taxes of every character in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country,"

The foregoing reciprocity provision, according to the respondents, finds its complement in Section 13351 of the Revenue and Taxation Code of California (of which the deceased was a citizen and resident) which provides as follows;

"Intangible personal property is exempt from the tax imposed by this part if the decedent at the time of his death was a resident of territory or another State of the United States or of a foreign state or country which then imposed a legacy, succession, or death tax in respect to intangible personal property of its own residents but either: (a) Did not impose a legacy, succession, or death tax of any character in respect to intangible personal property of residents of this State; or (b) Had in its laws a reciprocal provision under which intangible personal property of a nonresident was exempt from legacy, succession, or death taxes of every character if the

Territory or other State of United States or foreign state or country in which the nonresident reside allowed a similar exemption in respect to intangible personal property of residents of the Territory or State of the United States or foreign state or country of residence of the decedent."

Section 122 of the Tax Code imposes the following conditions for exemption from estate and inheritance taxes:

Under provision (a)-

(1)

That the decedent was a resident of a foreign country at the time of his death;

(2)

That said foreign country did not impose a transfer or death tax of any character; and

(3)

That intangible personal property of nonresident Filipinos situated in that foreign country is exempt from transfer or death taxes of any character

Under provision (b)

(1)

That the laws of the foreign country of a nonresident decedent allow a similar exemption from transfer taxes or death taxes of every character; and

(2)

that the intangible personal property of nonresident Filipino situated in that foreign country is exempt from transfer taxes or death taxes of every character.

Section 122 (b), mainly relied upon by the respondents requires that "the laws of the foreign country x x x allow a similar exemption." Contrary to petitioner's theory, foreign country as thus used may refer either to the Federal Government or to the individual States of the Union like California; for each State of the United States is supreme and independent, and has its own government with full powers of taxation and appropriation of the revenue derived therefrom.[1]

Section 13851 very clearly employs words allowing a similar exemption from transfer taxes or death taxes in respect to intangible personal property of residents of the "Territory or State of the United States or foreign state or country. By express phraseology, it accurately contemplates, aside from territory or other state of the United States, foreign state or country. Petitioner's contention, therefore, that the exemption in said section was intended only for states or territories of the United States is untenable. Reciprocity exists also with any "foreign state or country."

The petitioner further invoices the grammatical interpretation of the conjunction "or" in arguing that for reciprocity to exist, the exemption in one laws concerned must be on both inheritance and estate taxes. This is erroneous because section 122(b) plainly uses "or" in its ordinary meaning, to convey alternative relations. At any rate, the state of California does not impose "estate tax"; it is the Federal Government that imposes and collects the same under Section 860 (53 Stat. 129; see also Federal Code Annotated, Vol. 6, 1063) of the U. S. Federal Estate Tax Law. Under this promise, only exemption from the inheritance tax can be granted by the State of California. Moreover, as pointed out by the respondents, at the time of adoption of the National Internal Revenue Code in 1939, the Philippines was a dependency of the United States and there were many non-resident Filipinos owning intangible personal properties in several states of the United States, and on the other hand there were numerous American non-residents who owned similar properties here. The reciprocity involved was undoubtedly conceived for their benefit.

Wherefore, the decision appealed from is hereby, affirmed, without costs. So ordered.

Bengzon, Montemayor, Reyes, A., Bautista Angelo, Labrador, Concepcion, Reyes, J.B.L., Endencia, and Felix, JJ., concur.

[1]"Under State's sovereign power to tax, it may lawfully tax all properties within the state." (Teche Linos v. Board of Sup'rs of Forest County, 142, So, 24, 165, Miss.)

"When dealing with their proper domestic concerns, and not trenching upon the prerogatives of the national government or violating the guaranties of the Federal Constitution, the states have the attributes of sovereign powers in devising their fiscal system to insure revenue and foster their local interests. (Ohio Oil Co. vs. Conway. 281 U. S. 146, 74 L. Ed, 782.)

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