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REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

MEISHIN SHIPPING CO. LTD.,
TOKYO SHIPPING CO., YS NEARSEAS
CO. LTD., KYOSEI STEAMSHIP CO.
LTD., and SUNRITZY SHIPPING CO.
LTD., represented by SORIAMONT
STEAMSHIP AGENCIES, INC.,
Petitioners,

- versus -

C.T.A. CASE NO. 3531

COMMISSIONER OF INTERNAL
REVENUE,

Respondent.

X - - - - - X

6/29/87

D E C I S I O N

This is a judicial claim for tax credit of alleged excess payment of income tax in the total amount of ₱54,589.38 for the year 1980 by herein petitioners, all Japanese foreign shipping corporations, and represented in the Philippines by Soriamont Steamship Agencies, Inc. based upon the provisions of the RP-Japan Tax Convention, which fixed a preferential rate of 1½% income tax due on gross earnings of these shipping companies from the carriage of goods or cargo from the Philippines.

During the hearing before Us and upon his turn to present his case, respondent did not present

any countervailing evidence against petitioners, instead his counsel had firstly manifested that they were awaiting the comment of the International Tax Division of his office with respect to this claim for tax credit until finally he submitted his case for decision, without the comment which was not forthcoming.

This Court is now constrained to decide this case based solely on the evidence of petitioners presented to Us by petitioner Soriamont Steamship Corporation in behalf of petitioners, said Japanese shipping corporations.

It appears that petitioners were engaged in the business of international shipping. All these petitioners are Japanese shipping enterprises, represented here as aforesaid by the Soriamont Steamship Agencies, Inc. (hereinafter referred to as SORIAMONT for brevity), which is a domestic corporation. (Exhs. H, H-1 to H-4b; TSN, June 16, 1983, pp. 4, 5, 50-53; ibid., Nov. 22, 1983, p. 3.)

During the period from January, 1981 to June, 1981, petitioners' vessels, all foreign registries, loaded at, and transported sugar, fertilizer, copra and copper concentrate from, Philippine ports to

foreign destination. (Exhs. K, K-1 to K-7, I, I-1 to I-4, J, J-1 to J-4; T.S.N., June 16, 1983, pp. 4, 10, 11, 53, 60.) These petitioners or principals were the Meishin Shipping Co. Ltd., Tokyo Shipping Co., YS Narseas Co. Ltd., Kyosei Steamship Co. Ltd., and Sunritz Shipping Co. (T.S.N., June 16, 1983, pp. 13-48; ibid., Nov. 22, 1983, pp. 3, 4.) They have appointed SORIAMONT to represent them with respect to the loading of cargo in the Philippines. This agency relation is embodied in various agency agreements, letters and telexes. (T.S.N., June 16, 1983, pp. 49-60; Exhs. H, H-1 to H-4b.)

Before any of petitioners' foreign vessels arrived in the Philippines to load cargo, petitioners-principals notifies SORIAMONT by telex particulars of the date of the vessel's arrival, the kind and volume of cargo to be loaded, the port of loading, the destination and many others. (T.S.N., June 16, 1983, p. 9.) On the basis of this information, SORIAMONT goes to various government agencies and offices such as the Bureau of Customs, Immigration and to secure the needed clearances therefrom. (T.S.N., June 16, 1983, pp. 9, 10.) SORIAMONT also filed, tentatively, the declaration of income and paid the

estimated income tax due before the arrival of each of the vessel. (T.S.N., June 16, 1983, pp. 9, 10.) On the basis of the receipts evidencing payment of the 2½% income tax on the gross receipt to the Bureau of Internal Revenue, the various offices then granted the clearances or permits requested by SORIAMONT.

After loading the vessels of petitioners, the exact quantity of volume of the cargo and once the freightage of the vessels became known, the income tax due thereon were computed and correspondingly paid. If the initial and tentative tax payments made were however short, additional amounts of income tax due were later paid.

In the case of petitioner Meishin Shipping Co. Ltd., its vessel, the MS Princess Judy V3, which is an international carrier, actually arrived in the Philippines on March 26, 1981 (Exh. B) and loaded cargo for which it had paid previously, or tentatively on December 27, 1980, or before the vessel's arrival, a 2½% of income tax on their gross Philippine billings under Section 24(b) (2) of the Tax Code, in the sum of ₱14,790.75 (Exh. C, C-2 & C-3), and thereafter had paid an additional tax of ₱299.81 on April, 1981. (Exh. C-1, C-4 & C-5.)

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Anent petitioner Tokyo Shipping Co., it paid on the gross billings of its carrier in March, 1981 a 2½% income tax in the sum of ₱6,937.50. (Exhs. D, D-1 to D-6a.)

With respect to petitioner Y.S. Nearseas Co., Ltd., its international carrier, the M.S. Pine Valley V79, arrived in the Philippines on January 3, 1981 (Exh. B) to load cargo, and it paid 2½% income tax on its gross Philippine billings tentatively, prior to its vessel's arrival, on December 20, 1980, the sum of ₱5,392.75 (Exhs. E, E-1, E-2), and in March and May, 1981, it paid an additional income tax of ₱109.31 (Exhs. E-3, E-4, E-4a) and ₱25,821.00 (Exhs. E-6 to E-10), respectively.

Coming now to the petitioner Kyosei Steamship Co., Ltd., it paid on the gross Philippine billings of its carrier, in February, 1981 a 2½% income tax in the amounts of ₱18,453.75 (Exhs. F, F-2 to F-5) and ₱374.06; in May, 1981, the 2½% income tax in the sum of ₱13,306.88 (Exhs. F-6 to F-8); in April, 1981 the 2½% income tax in the amount of ₱10,400.00 (Exhs. F-11 to F-11a) and in June, 1981, the 2½% income tax in the amount of ₱27,180.00. (Exh. F-12 to F-14b)

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Finally, with respect to petitioner Sunritz Shipping Co., Ltd., it paid on the gross Philippine billings of its carrier on June 11, 1981, the 2½% income tax in the amount of P13,269.13. (Exhs. G, G-1 to G-2b.)

As aforesaid, all the payments made above were computed by the accountant and who paid the taxes to the BIR on the basis of 2½% of gross freight earnings under Sec. 24(b)(2) of the Tax Code. (Exh. B; T.S.N., June 16, 1983, pp. 5-7, 10-11; T.S.N., Nov. 22, 1983, p. 4.)

On January 1, 1981, the RP-Japan tax convention became effective (Exh. L). On the basis of said convention's Section 8 (Exh. L), which provides for the payment of a preferential rate of 1½% on its gross Philippine billings of P5,459,027.50, and not 2½%, there was, therefore, overpayment of income tax of P54,589.39, and, consequently, petitioner SORIAMONT filed its claim dated July 29, 1981, for tax credit of said excess payments. (Exh. A; T.S.N., June 16, 1983, pp. 6 & 7; T.S.N., Nov. 22, 1983, p. 8) in the amount of P54,589.38, distributed to petitioners as follows:

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Meishin Shipping Co.	P 6,036.22
Tokyo Shipping Co.	2,831.25
YS Nearses Co., Ltd.	12,529.22
Kyosei Steamship Co.	27,885.04
Sunritz Shipping Co.	<u>5,307.65</u>
	<u>P54,589.38</u>

There being no action of respondent Commissioner of Internal Revenue on the claim for refund, petitioners brought this judicial claim to this Court.

In the special and affirmative defenses of his answer to the Petition for Review (Judicial claim for refund), respondent Commissioner of Internal Revenue admitted that the total amount of P54,589.38, as alleged overpaid income tax sought for tax credit in petitioner SORIAMONT's letter dated July 29, 1981 was paid by petitioner, but asserted, as its only substantial defense against the claim, that since the RP-Japan Tax Treaty took effect only on January 1, 1981, it cannot be a basis for petitioners' claim for tax credit of the taxes that were accrued and paid before January 1, 1981. In his defense, respondent

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was perhaps referring to the prepayment of 2 1/2% income tax made by petitioner Nishin Shipping Co. in the amount of P14,790.75 (Exhs. C, C-2, C-3), and the Y.S. Nearsses Co. Ltd. the amount of P5,392.75 (Exhs. B, B-1 & B-2) both on December 23, 1980, which were, therefore, paid prior to January 1, 1981, when the aforesaid RP-Japan Income Tax Treaty took effect.

The only pertinent issue presented for determination in this case is whether or not petitioners are entitled to the claim for tax credit in the total sum of P54,589.38.

Petitioners contend that under Section 8 of the RP-Japan Tax Convention, effective on January 1, 1981, which provides as follows:

Article 8

(1) The profits of an enterprise of a Contracting State derived in the other Contracting State from the operation of ships or aircraft in international traffic may be taxed in that other Contracting State, but the tax so charged shall be 60 per cent of the tax which is chargeable under the laws of that other Contracting State in force on the date of signature of this Convention.

(2) The provisions of the preceding paragraph shall also apply to profits from the participation in a pool, a joint business or an international operating agency.

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Japanese international carriers shall be entitled to a preferential tax treatment of paying 60% of the tax chargeable under our Philippine laws, which is normally 2 1/2% income tax on the gross Philippine billings on cargoes lifted from Philippine ports, or which is equal only to 1 1/2% on such gross Philippine billings of these Japanese international carriers. To their contention of applying 1 1/2% income tax on their gross Philippine billings, respondent does not interpose his disagreement with petitioners Japanese international carriers, except only to say, in effect, that these 2 1/2% income tax paid by two (2) petitioners, the Meishin Shipping Co., Ltd. and the Y.M. Nipponen Co., Ltd. in the amounts of P14,798.75 and P5,392.75, respectively, cannot be refunded because these were payments made prior to January 1, 1981, when the aforesaid treaty became effective.

We are in full agreement with petitioners that they are all entitled to the claim for tax credit of the total sum of P54,589.38, representing erroneously overpaid income taxes. The payments made by petitioners Meishin Shipping Co. and the Y.M. Nipponen Co., both on December 23, 1980, were tentatively made on those dates, which liabilities for income

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taxes accrued actually at the dates their vessels
MS Princess Judy V3 and MS Pine Valley V79 arrived
in the Philippines for loading on March 26, 1961
and January 3, 1961, respectively. (Exh. 5.) Since
the payments of the income tax by Heirich Shipping
Co., Ltd. and Y.S. Yearwood Co., Ltd. occurred on the
said dates of arrival of said vessels to load cargo
and, hence, earned income therefrom and thereafter
departed to other foreign destinations, which arrival
and loading were dates already after the effectivity
of the RP-Japan Tax Treaty on January 1, 1961, their
income tax payments made are subject to a reduced tax
of 15% or 60% of the tax which is chargeable under
the law of the Philippines) and, consequently, en-
titled to tax credit on strength of the provisions
of Section 8(1) of the said treaty.

Consequently, inasmuch as the total gross
Philippine billings or gross earnings on the loading
of cargo from Philippine port by petitioners for the
year 1961 in question is P5,439,027.50, and the normal
tax of 2½% under Section 24(b) (2) of the Tax Code
was paid thereon in the total sum of P 36,474.82,
which amount respondent did not dispute, but had
in fact impliedly admitted by the lack of his defense

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thereby, applying such Sec. Section 6 of the new Japan Tax Treaty, the Japanese International Convention, petitioners herein, are only subject to the payment of a preferential rate of 14% of the gross billings on the cargo loaded (or 60% of the 24% tax chargeable on the gross billings under Philippine law) resulting in the actual and legal 14.14% income tax in the sum of ₱81,885.41. There is, therefore, an overpayment of income tax of ₱51,817.38 on their gross Philippine billings which petitioners are entitled to the credit, computed as follows:

24% income tax paid	-	₱136,472.82
Less: 14% income tax due	-	<u>₱84,655.44</u>
Creditable overpaid income tax		<u>₱51,817.38</u>

WHEREFORE, respondent Commissioner of Internal Revenue is hereby ordered to grant to petitioners a tax credit in the total amount of ₱54,529.68, through and in the name of their legal relative, the Soriano Steamship Agency, Inc., and is hereby equally ordered to distribute the same tax credit in favor of petitioners as follows: ₱3,036.12 to Nishin Shipping Co., Ltd.; ₱2,631.25 to Tokyo Shipping Co.; ₱12,529.22 to Y.M. Katohara Co., Ltd.;

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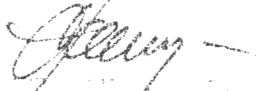
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\$27,895.04 to Kyosei Steamship Co., Ltd.; and
15,307.65 to Sunritz Shipring Co., Ltd.

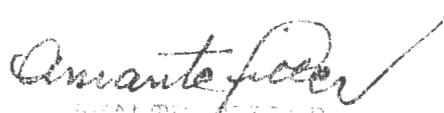
No pronouncement as to costs.

SO ORDERED.

Quezon City, Metro Manila, June 21, 1967.


CARLOS M. LINA
Associate Justice

WE CONCUR:


AMANTE MILLER
Presiding Judge


ALEX. S. REYES
Associate Judge