REPUBLIC OF THE PHILIPPINES
Court of Tax Appeals
QUEZON CITY

SECOND DIVISION

FIRST LEPANTO-TAISHO INSURANCE CORPORATION, Petitioner,	**C.T.A. CASE NO. 6200**
	Members:
- versus -	**CASTAÑEDA, JR.,** *Chairperson* **UY,** *and* **PALANCA-ENRIQUEZ,** *JJ.*
COMMISSIONER OF INTERNAL REVENUE, Respondent.	**Promulgated:** MAY 2 1 2009 3:12 p.m.

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DECISION

UY, *J.*:

This is an appeal by First Lepanto-Taisho Insurance Corporation, praying that judgment be rendered canceling and withdrawing the following assessment notices:

A. No. ST-INC-97-0220-99 for deficiency income tax of P3,382,341.31, inclusive of twenty percent (20%) interest and compromise penalty;

B. No. ST-WC-97-0221-99 for deficiency withholding tax on compensation of P1,101,270.80, inclusive of 20% interest and compromise penalty;

C. No. ST-EWT-97-0218-99 for deficiency expanded withholding tax of P268,149.00 inclusive of 20% interest and compromise penalty;

D. No. ST-FT-97-0219-99 for deficiency final withholding tax of P452,133.57, inclusive of 20% interest and compromise penalty;

E. No. ST-VAT-97-0222-99 for deficiency value-added tax of P6,617,536.47, inclusive of 20% interest and compromise penalty;

F. No. ST-DST-97-0217-99 for deficiency documentary stamp tax of P6,404,804.05, inclusive of twenty-five percent (25%) surcharge, 20% interest and compromise penalty.

THE FACTS

Petitioner, First Lepanto-Taisho Insurance Corporation, is a non-life insurance corporation duly organized and existing under the laws of the Philippines, with business address at 6/F BA Lepanto Building, 8747 Paseo de Roxas, Makati City.[1] It is considered as a Large Taxpayer under the provisions of Revenue Regulations No. 6-85, as amended by Revenue Regulations No. 12-94, effective in the year 1994.[2]

Respondent, on the other hand, is the duly appointed Commissioner of Internal Revenue, empowered to decide disputed assessments and to implement and enforce the provisions of the National Internal Revenue Code (NIRC) and other tax laws.

Petitioner filed its corporate income tax return for taxable year ending December 31, 1997 on April 15, 1998.[3] Thereafter, on October 30, 1998, petitioner received a Letter of Authority (LOA 1997 000019830) dated October 29, 1998 from respondent, authorizing the examination of petitioner's books of accounts and other accounting records for all internal revenue taxes for the period from 1997 and "unverified prior years".[4]

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[1] Amended Articles of Incorporation, Exhibit "A".
[2] Par. 3, Joint Stipulation of Facts and Issues (JSFI), Docket, p. 95.
[3] BIR Form No. 1702 Annual Income Tax Return of First Lepanto Taisho Insurance Corporation for the year ending December 31, 1997, Exhibit "B".
[4] Letter of Authority, Annex "B" of Petition for Review, Docket, p. 25.

On December 29, 1999, respondent issued internal revenue tax assessments for deficiency income, withholding, expanded withholding, final withholding, value-added, and documentary stamp taxes against petitioner for taxable year 1997, which were received by petitioner on January 28, 2000:[5]

Respondent claims that the aforesaid Assessment Notices came about due to the following reasons:

1. Assessment Notice No. ST-INC-97-0220-99 for deficiency income tax was issued on account of the failure of petitioner to comply with the additional requirement for deductibility under Section 29(j) of the NIRC on its disallowed (a) representation and entertainment expenses of P704,000.00, transportation expenses of P333,000.00, lodging expenses of P1,286,356.00, commissions of P905,428.46, direct loss expense of P1,212,742.93, repair and maintenance expenses of P702,988.59, and traveling expenses of P340,041.45; (b) disallowed profit commission expense of P1,363,133.64 and interest expense of P33,002.54 (total of P1,396,136.18) for being prior year expenses pursuant to Section 76 of Revenue Regulation No. 2; (c) disallowed representation expenses and licenses paid of P36,175.75 which runs counter to BIR Ruling 043-96, and fines and penalties for civil and criminal liabilities which are not allowed as deductions; and (d) overstatement of non-taxable income in the amount of P133,347.00;

2. Assessment Notice No. ST-WC-97-0221-99 arose due to petitioner's failure to withhold tax on (a) Director's Bonus of P500,000.00; (b) Fixed

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[5] Pars. 7 and 7.1, JSFI, Docket, pp. 95-96; Annexes "C", "C-1" to "C-5" of Petition for Review, Docket, pp. 26-31.

Transportation expense of P333,000.00; (c) Lodging expense of P1,286,356.00; and (d) Fixed Representation expense of P704,000.00;[6]

3. Assessment Notice No. ST-EWT-97-0218-99 was issued due to under-withholding on: (a) commissions of P130,615.44 (direct business) and P774,813.02 (profit commission expense); (b) adjuster's fees of P1,212,742.93; (c) occupancy costs of P9,403.81; (d) repairs and maintenance costs of P702,988.59; and (e) purchases of furniture and equipment in the amount of P5,974,477.15;[7]

4. Assessment Notice No. ST-FT-97-0219-99 came about because of petitioner's failure to withhold final withholding tax in the amount of P299,521.84 from "dividends and computerization expenses paid to foreign companies in violation of Section 50 of the NIRC";[8]

5. Assessment Notice No. ST-VAT-97-0222-99, arose from petitioner's error in the computation of the gross receipts and failure to subject the Settling Fee of P2,678,801.00 and the Salvage Recovery of P1,658,617.42 to ten percent (10%) value-added tax (VAT);[9] and

6. Assessment Notice No. ST-DST-97-0217-99 was issued on account of petitioner's failure to adopt the lump sum method of paying documentary stamp tax (DST) to the BIR an amount sufficient to cover their expected DST liabilities for the month, and the consequent late payment of the tax.[10]

[6] Par. 13, JSFI, Docket, p. 98.
[7] Par. 14, JSFI, Docket, p. 98.
[8] Par. 15, JSFI, Docket, p. 99.
[9] Par. 16, JSFI, Docket, p. 99.
[10] Par. 17, JSFI, Docket, p. 99.

The aforesaid assessment notices were accompanied by a Formal Letter of Demand signed by Assistant Commissioner for Enforcement Service, Percival T. Salazar dated December 29, 1999, with an attachment labeled as "Details of Discrepancies."[11]

On February 24, 2000, petitioner sent a Letter dated February 22, 2000[12] protesting the assessment notices and alleging the following defenses:

1. Income Tax (Assessment Notice No. ST-INC-97-0220-99) – Petitioner avers that payments for light and water facilities were not included in the items subject to withholding tax as these income payments are not subject to withholding tax; and that prior years expenses amounting to P1,396,136.18 consisted of profit commission expense for 1995 and 1996 in the amount of P1,363,133.64 and interest reserve pertaining to the third and fourth quarters of 1996 in the amount of P33,002.54;

2. Expanded Withholding Tax (Assessment Notice No. ST-EWT-97-0218-99) – Petitioner claims that it had withheld the correct expanded withholding taxes on the income payments for services of casuals and purchases, as evidenced by BIR Form No. 1743-IR, Annual Information Return of Income Tax Withheld on Compensation, Expanded and Final Withholding Taxes, including attachments; and

3. Documentary Stamp Tax (Assessment Notice No. ST-DST-97-0217-99) – According to petitioner, it overpaid its DST liabilities and there was no previous demand for its payment from which any interest should be charged.

[11] Annexes "C-6" and "C-7" of Petition for Review, Docket, pp. 32-37.
[12] Exhibit "D".

On April 24, 2000, petitioner submitted all the relevant documents in support of its protest through a Letter dated April 19, 2000.[13] Respondent had one hundred eighty (180) days from April 24, 2000 or until October 21, 2000 within which to resolve the administrative protest as mandated by Section 228 of the NIRC of 1997, as amended. However, the 180-day prescriptive period lapsed without respondent's resolution of petitioner's protest. And to protect its interest, petitioner elevated the matter, by way of the instant Petition for Review, before this Court on November 20, 2000.

In his Answer dated January 17, 2001, respondent interposes the following Special and Affirmative Defenses, to wit:

"5. He reiterates and repleads the preceding paragraphs of this Answer as part of his Special and Affirmative Defenses.

6. The assessments in question were issued in accordance with law and pertinent regulations.

7. Under Section 29 (j) of the National Internal Revenue Code (NIRC), any amount paid shall be allowed as a deduction only if it is shown that the tax required has been deducted and withheld. Verification disclosed that the following expenses were not subjected to withholding tax:

Representation & Entertainment	P 704,000.00
Traveling (Transportation)	333,000.00
Traveling (Lodging/Subsistence)	1,286,356.00
Commissions	905,428.46
Direct Loss Expense	1,212,742.93
Occupancy Cost	9,403.81
Rep. & Maint/Cont./others	702,988.59
Traveling	340,041.45

8. Under Section 76 of Revenue Regulations No. 2, the expenses, liabilities, or deficit of one year cannot be used to reduce the income of a subsequent year. A taxpayer has the right to deduct all authorized allowances and it follows that if he does not within any year deduct certain expenses, losses, interests, taxes or other charges, he can not deduct them from the income of the next or

[13] Annex "E" of Petition for Review, Docket, pp. 44-46.

any succeeding year. Verification disclosed that the following expenses were prior year's expense, hence, should be disallowed:

Profit Commission Expense	P1,363,133.64
Interest Expense	33,002.54

9. Petitioner claimed as deduction 25% surcharge for late payment of documentary stamp tax amounting to P36,173.75. Under BIR Ruling 043-96, fines and penalties for civil and criminal liabilities are not allowable deductions.

10. According to the investigation, there was an overstatement of non-taxable income of P133,347.00 since there was an erroneous computation of non-taxable income thus, the disallowance of the overclaim of non-taxable income, as follows:

Non-taxable income per ITR	P 35,858,191.00
Non-taxable income per audit	35,724,844.35
Overstated non-taxable income	133,347.00

11. Under Revenue Memorandum Circular No. 16-83, fixed or variable transportation, representation/entertainment and other allowances, which are given to an employee or officer of an employee shall be treated as compensation income subject to withholding. Furthermore, gross compensation income includes but is not limited to the following income items: a) salaries, wages, honoraria; b) bonuses, c) allowances and other income of similar nature. Verification showed that the following taxable compensation income were not included in the computation of the correct compensation tax due from the various officers of the petitioner:

Director's Bonus	P 500,000.00
Fixed Transportation Allowance	333,000.00
Lodging/Subsistence Allowance	1,286,356.00
Fixed Representation Allowance	704,000.00

12. Under Revenue Regulation No. 12-94, there shall be withheld a creditable income tax at the rates herein specified for each class of payee from certain items of income payments to person residing in the Philippines. Reconciliation of the income payments subject to withholding tax per income tax return and withholding tax return showed under withholding on the following accounts:

Commissions-Direct Business	P 130,615.44
Profit Com. Expense	774,813.02
Direct Loss Exp. - Adjusters' Fees	1,212,742.93

Occupancy Costs - Office Premises	9,403.81
Rep. & Maint./Comm./Ads	702,988.59
Increase in Furniture, Fixture & Equip.	5,974,477.15

13. Under Section 50 of the NIRC, a final tax imposed on dividends and expenses paid to foreign corporations shall be withheld by the payor-corporation. Investigation disclosed that the petitioner failed to withheld the final withholding tax on dividends and computerization expense paid to foreign companies.

14. Under Section 100 (a) National Internal Revenue Code, there shall be levied on every sale of goods, a value-added tax equivalent to 10% of the gross selling price of the goods sold. Furthermore, under VAT Ruling No. 217-89, the sales of used transportation equipment, machineries and scrap materials are subject to VAT. Investigation disclosed that an under-statement arose from an erroneous computation of the gross receipts and failure to subject the following income to VAT:

Settling Fee/Salvage Recovery	P 2,678,801.00
Salvage Recovery – Loss Recovery	1,494,384.01
Salvage Recovery – Other income	164,233.41

An allocation of input tax amounting to P18,802.47 derived from personal and accident premiums (life and health insurance) was computed since this income is not subject to VAT.

15. Under Section 248 (d) of the NIRC, in the case of failure to affix the proper documentary stamp to a document, there shall, for every violation, be imposed, in addition to the amount of documentary stamp tax required to be paid, an amount equivalent to 25% of such unpaid amount. Furthermore, under Section 249 (a) of the NIRC, there shall be assessed and collected on any unpaid amount of tax, interest at the rate of 20% per annum. For failure to adopt the lump sum method of paying documentary stamp tax an amount sufficient to cover their expected DST liabilities for the month, surcharges and interest were imposed upon the petitioner.

16. All presumptions are in favor of the correctness of tax assessments."[14]

During trial, petitioner and respondent presented their respective evidence. On February 15, 2008, petitioner filed a Motion for Partial

[14] Docket, pp. 65-68.

Withdrawal of Petition for Review[15] praying for the partial withdrawal of the petition assailing the following Assessment Notice Nos. ST-INC-97-0220-99; ST-VAT-97-0222-99; and ST-DST-97-0217-00, due to its availment of the Tax Amnesty Program. Finding said motion to be meritorious, the Court granted the partial withdrawal of the aforesaid Assessment Notices and directed the parties to file their simultaneous memoranda on the remaining issue of deficiency withholding taxes in the Resolution dated March 31, 2008.[16]

Petitioner filed its Memorandum on June 2, 2008,[17] raising its defenses against Assessment Notice Nos. ST-WC-97-0221-99, ST-EWT-97-0218-99, and ST-FT-97-0219-99; while respondent, filed its Memorandum on June 3, 2008.[18] Thereafter, this case was deemed submitted for decision in the Resolution dated June 10, 2008.[19]

THE ISSUES

The remaining issues for this Court's resolution are as follows:

1. Whether or not the director's bonus, fixed transportation allowance, lodging and subsistence allowance, and fixed representation expense referred to in Assessment Notice No. ST-WC-97-0221-99 are subject to withholding tax on compensation;

2. Whether or not the commissions, adjuster's fee included as part of the direct loss expense, occupancy cost, repairs and maintenance costs, and purchases of furniture and equipment referred to under Assessment Notice No. ST-EWT-97-0218-99 have been subjected to expanded withholding tax; and

[15] Docket, pp. 618-623.
[16] Docket, pp. 661-662.
[17] Docket, pp. 673-701.
[18] Docket, pp. 708-728.
[19] Docket, p. 732.

3. Whether or not petitioner deducted, withheld, and remitted the correct final withholding tax on dividend payments and computerization expenses paid to foreign companies referred to in Assessment Notice No. ST-FT-97-0219-99 issued against petitioner for deficiency final withholding tax in the amount of P452,133.57, inclusive of the 25% surcharge, 20% interest and compromise penalty for taxable year 1997.

THE COURT'S RULING

The issues shall be discussed in *seriatim*.

FIRST ISSUE: DEFICIENCY WITHHOLDING TAX ON COMPENSATION

Petitioner was assessed of deficiency withholding tax on compensation in the total amount of P1,101,270.80, arising from its alleged failure to withhold tax on directors' bonuses, fixed transportation expenses, subsistence and lodging expenses, and fixed representation expenses, to wit:[20]

Underwithholding

	Shuichi, Mizuroya	Ueda, Naoki	Watada, Matsuo	Diaz, Constancio	Yong, Micky	Gonzales, Voltaire	Bausa, Rodolfo	Felipe Yap	Catalino Makaraig Jr.	Total
Taxable compensation per ALE	P 503,027.01	P 607,000.00	P 962,000.00	P 897,000.00	P 747,500.00					P 3,716,527.01
Representation				504,000.00				P 100,000.00	P 100,000.00	704,000.00
Director's Bonus			100,000.00	100,000.00	100,000.00	P 100,000.00	P 100,000.00			500,000.00
Subsistence & Lodging	442,106.00	330,000.00	514,250.00							1,286,356.00
Transpo Allowance	63,000.00	84,000.00	102,000.00	84,000.00						333,000.00
Taxable compensation per Audit	P1,008,133.01	P 1,021,000.00	P 1,678,250.00	P 1,585,000.00	P 847,500.00	P 100,000.00	P 100,000.00	P 100,000.00	P 100,000.00	P 6,539,883.01
Tax Due per Audit	P 300,022.00	P 304,525.00	P 534,563.00	P 501,925.00	P 243,800.00	P 13,675.00	P 13,675.00	P 13,675.00	P 13,675.00	P 1,939,535.00
Taxes Withheld										
Compensation	(123,234.45)	(159,625.00)	(283,875.00)	(261,125.00)	(208,800.00)					(1,036,659.45)
EWT	-		(35,000.00)	(35,000.00)	(35,000.00)	(35,000.00)	(35,000.00)			(175,000.00)
Basic Deficiency WTC	P 176,787.55	P 144,900.00	P 215,688.00	P 205,800.00	-	-	-	P 13,675.00	P 13,675.00	P 770,525.55
Add:Interest 1/25/98 to 1/31/00										310,745.25
Compromise										20,000.00
TOTAL AMOUNT DUE										P 1,101,270.80

nnb

[20] Exhibit "9", BIR Records, p. 397.

Petitioner avers that it subjected the directors' bonuses in the total amount of P500,000.00 bonuses to expanded withholding tax[21] and not to withholding tax on compensation income, inasmuch as the directors who received the bonuses were not employees of petitioner.[22]

A scrutiny of petitioner's 1997 alphalist of employees that were subjected to withholding tax on compensation[23] shows that the names of Mizuroya Shuichi, Naoki Ueda, Matsuo Watada, Constancio Diaz and Micky Yong were included therein. Clearly, these directors/officers were employees of petitioner. On the other hand, while the names of Voltaire Gonzales, Rodolfo Bausa, Felipe Yap and Catalino Makaraig Jr. do not appear in the said alphalist, such absence does not automatically establish their non-employment by petitioner, as additional supporting evidence should have been presented to clearly prove that they were indeed not employees of petitioner. In view thereof, the directors' bonuses in the amount of P500,000.00 should have been subjected to withholding tax on compensation pursuant to Section 2(2) of Revenue Regulations No. 12-86, instead of the expanded withholding tax. Said Section reads:

> "**SECTION 2.** Section 2 of the Revenue Regulations No. 6-82, as amended, is hereby further amended to read as follows:
>
> > "Sec. 2. *Definition of Terms.* - xxx
> >
> > 2. *Gross compensation income.* – (a) *In general.* – For purposes of withholding tax, the term 'compensation' means all remuneration for services performed by an employee for his employer *unless specifically excepted under Sections 29 and 90 of the National Internal*

[21] Exhibit "T".
[22] Annex "D", Petition for Review, Docket, p. 38.
[23] BIR Records, pp. 200-202.

> *Revenue Code (now Sections 32 and 78 of the NIRC of 1997, as amended).*
>
> The name by which the remuneration for services is designated is immaterial. Thus, salaries, wages, emoluments and honoraria, bonuses, allowances (such as transportation, representation, entertainment and the like), fringe benefits (monetary and non-monetary), fees, including directors fees, taxable pensions and retirement pay, and other income of a similar nature constitute compensation income." *(Italics Ours)*

The abovementioned exceptions provided under the applicable provisions of Sections 29 and 90 of the NIRC of 1977, as amended, are quoted hereunder for ready reference, as follows:

> **"SEC. 29. *Taxable net income.*** – *xxx*
>
> **(b)** ***'Gross income' defined.*** – 'Gross income' includes gains, profits, and income derived from professions, vocations, trades, business, commerce, sales, or from dealings in property, whether real or personal, or growing out of the ownership or use of property or any interest therein; and from interest, rents, dividends, securities, or the transactions of any business carried on for gain or profit, or gains, profits and income of whatever kind and in whatever form derived from any source: *Provided, however,* That gross compensation income and items of gross income subject to the final income tax under this Title shall not be included in "gross income."
>
> **(c)** ***Exclusions from gross income.*** – The following items shall not be included in gross income and shall be exempt from taxation under this Title:
>
> (1) *Life Insurance.* – xxx
> (2) *Amount received by insured as return of premium.* – xxx
> (3) *Gift, bequests, and devises.* – xxx
> (4) *Interest on Government securities.* – xxx
> (5) *Compensation for injuries or sickness.* – xxx
> (6) *Income exempt under treaty.* – xxx
> (7) *Retirement benefits, pensions, gratuities, etc.* – xxx
> (8) *Miscellaneous items.* – xxx"

> "**SEC. 90. *Definitions*.** – As used in this Chapter. –
>
> **(a) *Wages.*** – The term 'wages' means all remuneration (other than fees paid to public official) for services performed by an employee for his employer, including the cash value of all remuneration paid in any medium other than cash; except that such term shall not include remuneration paid –
>
> (1) For agricultural labor paid entirely in products of the farm where the labor is performed, or
> (2) For domestic service in a private home, or
> (3) For casual labor not in the course of the employer's trade or business, or
> (4) For services by a citizen or resident of the Philippines for a foreign government or an international organization."

Additionally, a further examination of the monthly expanded withholding tax return indicates that petitioner was able to withhold on its bonuses the total amount of P134,000.00[24] as compared to the findings of respondent in the amount of P175,000.00. This can be traced from the withholding tax deducted from Voltaire Gonzales (P19,000.00 instead of P35,000.00) and Rodolfo Bauza (P10,000.00 instead of P35,000.00). Hence, the amount of taxes withheld shall be adjusted accordingly.

As regards the alleged under-withholding of tax on fixed transportation allowance in the amount of P333,000.00 and the subsistence and lodging allowances of P1,286,356.00, petitioner argues that these were allowances subject to liquidation by the recipients and in fact, were fully liquidated by the recipients thereof. Similarly, representation allowances of P704,000.00 are allegedly reasonable and necessary expenses which have been duly liquidated and borne by the needs, special circumstances, nature, and character of petitioner's business.

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[24] Exhibit "T[11]-2".

Pursuant to Revenue Memorandum Circular No. 16-83, fixed or variable transportation, representation/entertainment, and other allowances, which are given to public officer or employee, or officer or employee of a private entity, shall be treated as compensation income, subject to withholding as prescribed in Section 2(c) of Revenue Regulations No. 6-82, as amended by Revenue Regulations No. 12-86.

Likewise, Revenue Audit Memorandum Order No. 1-87 states that transportation, representation, and other allowances which are received by an employee in addition to the regular compensation fixed for his position or office is compensation subject to withholding tax. However, reimbursement for the aforementioned allowances shall not constitute taxable compensation if: (a) it is for necessary traveling and representation or entertainment expenses paid or incurred by the employee in the pursuit of the trade or business of the employer; and (b) the employee is required to, and does, make an accounting/liquidation for such expense in accordance with the specific requirements of substantiation for each category or expense. Advances in excess of actual expenses, if not returned to the employer constitutes taxable compensation.

Accordingly, in order that said expenses may not be subjected to withholding tax, it must first be established that they are reimbursement for actual expenses. In the instant case, there was no showing that the transportation, representation, and lodging and subsistence expenses allegedly incurred by its General Manager and expatriates, were actually reimbursements of valid company expenses. What was merely presented as evidence was the Schedule of Transportation Expenses[25], without the pertinent source documents. This Schedule does not at all prove that the amounts indicated therein are actually reimbursements for the aforementioned expenses. What should have been presented at the very least, were the reimbursement forms/vouchers with attached sales invoices/official receipts, with appropriate tracing to a specific general ledger entry to prove actual reimbursements for said expenses. Failing in this regard, these allowances are hereby treated as employee's compensation income subject to withholding tax.

In sum, respondent's assessment for the under-declaration of withholding tax on compensation is upheld, but in the revised amount of P1,279,978.03 computed as follows:

Under withholding										
	Shuichi, Mizuroya	Ueda, Naoki	Watada, Matsuo	Diaz, Constancio	Yong, Micky	Gonzales, Voltaire	Bausa, Rodolfo	Felipe Yap	Catalino Makaraig Jr.	Total
Taxable comp per ALE	P 503,027.01	P 607,000.00	P 962,000.00	P 897,000.00	P 747,500.00					P 3,716,527.01
Representation				504,000.00				100,000.00	100,000.00	704,000.00
Director's Bonus			100,000.00	100,000.00	100,000.00	100,000.00	100,000.00			500,000.00
Subsistence & Lodging	442,106.00	330,000.00	514,250.00							1,286,356.00
Transpo Allowance	63,000.00	84,000.00	102,000.00	84,000.00						333,000.00
Taxable comp per Audit	P 1,008,133.01	P1,021,000.00	P 1,678,250.00	P ,585,000.00	P 847,500.00	P 100,000.00	P 100,000.00	P 100,000.00	P 100,000.00	P 6,539,883.01
Tax Due per Audit	300,022.00	304,525.00	534,563.00	501,925.00	243,800.00	13,675.00	13,675.00	13,675.00	13,675.00	1,939,535.00
Taxes Withheld										
Comp	(123,234.45)	(159,625.00)	(283,875.00)	(261,125.00)	(208,800.00)					
EWT	-		(35,000.00)	(35,000.00)	(35,000.00)	(19,000.00)	(10,000.00)			
Basic Deficiency WTC	P 176,787.55	P 44,900.00	P 215,688.00	P 205,800.00	-	-	P 3,675.00	13,675.00	13,675.00	774,200 55
Add: Surcharge										193,550.14
Interest 1/25/98 to 1/31/00 0.40329										312,227.34
TOTAL AMOUNT DUE										P 1,279,978.03

No compromise penalty shall be imposed, since no compromise agreement was reached between the parties. Its imposition, when made

[25] Exhibit "O".

without the conformity of the taxpayer, is illegal and unauthorized.[26] This holds true for all assessments of respondent in this case.

SECOND ISSUE : DEFICIENCY EXPANDED WITHHOLDING TAX

Respondent assessed petitioner for deficiency expanded withholding taxes in the amount of P268,149.00, inclusive of 20% interest and compromise penalty computed as follows[27]:

Underwithholding		Deduction Claimed Return	Per W/tax Return	Not subjected to W/tax	Tax Rate	Deficiency W/tax
Commissions						
	Direct Business	P 22,897,481.36	P 3,369,176.41	P 130,615.44	10%	P 13,061.54
	Profit Commission Expense	1,363,133.64	19,986,010.33	774,813.02	5%	38,740.65
		P 24,260,615.00	P 23,355,186.74	P 905,428.46		P 51,802.19
Direct Loss Expense (Adjuster's Fee)		3,939,891.73	2,727,148.80	1,212,742.93	5%	60,637.14
Occupancy Cost		3,139,006.17	3,129,602.36	9,403.81	5%	470.19
Appraisal Exp. (Misc. U/W Exp)		52,754.00				
Prof Fees (Misc.)		193,163.95				
Less:	Audit Fees - SGV	77,316.85				
Balance		168,601.10	684,769.82	-		
Contractors						
	Occupancy - R&M (Low)	83,913.56				
	Printing & Office Supplies	1,316,240.51				
	Communication (Mes)	260,133.90				
	Repairs & Maintenance	182,157.00				
	Misc. U/W Exp (Jan)	290,080.49				
	Ad & Promo	158,082.07				
		2,290,607.53	1,587,618.94	702,988.59	1%	7,029.88
Purchases - Increase in FFE		5,974,477.15		5,974,477.15	1%	59,744.77
Total Deficiency EWT						**P 179,684.17**
Add:	Interest 1/25/98 to 1/31/2000					72,464.83
	Compromise Penalty					16,000.00
TOTAL AMOUNT DUE						**P 268,149.00**

[26] *Commissioner of Internal Revenue vs. Lianga Bay Logging Co., Inc., et al.* G.R. No. 35266, January 31, 1991; *Atlas Consolidated Mining and Development Corporation (doing Business under the name Atlas-Itochu Consortium) vs. Commissioner of Internal Revenue*, CTA Case No. 5671, August 29, 2002.
[27] Exhibit "10", BIR Records, p. 396.

a) Commissions

Petitioner contends that the commission expenses of P905,428.36 (P130,615.44 plus P744,813.02) for the year 1997 are not subject to withholding taxes because said amount was paid by petitioner to various insurance companies which are not agents or brokers. The recipients of this commission are not among those mentioned under Revenue Regulations No. 6-85; thus, it did not withhold the five percent (5%) tax thereon.

We disagree.

Petitioner failed to submit documentary evidence such as, but not limited to, reinsurance agreements/contracts to buttress its claim that the amount of P905,428.36 arose from reinsurance activities that gave rise to reinsurance commissions not subject to withholding tax. In the absence of clear and convincing proof that the recipients of these commissions are insurance agencies which are not agents or brokers, the Court cannot give credence to petitioner's claim that such commission expenses are not to be subjected to expanded withholding tax. Consequently, the deficiency withholding tax on commission in the amount of P51,802.19 is hereby sustained.

b) Direct Loss Expense

Respondent assessed petitioner for deficiency expanded withholding tax (EWT) on the direct loss expense in the amount of P1,212,742.93, because corresponding taxes have not been withheld when petitioner made payments to various adjusters. The amount of P1,212,742.93 is computed below:

Per ITR	P 3,939,891.73
Per W/tax Return	2,727,148.80
Difference not subjected to w/tax	P 1,212,742.93

Petitioner maintains that payments to adjusters are of two components, namely: (1) professional fees which were subjected to withholding taxes; and (2) out-of-pocket expenses which were not subjected to withholding taxes. Under petitioner's agreement with these various adjusters, out-of-pocket expenses were allegedly for petitioner's account. These expenses, being in the nature of reimbursement of expenses, are supposedly not income payments subject to withholding taxes.

After careful examination of the Schedule of Direct Loss Expense[28], as well as its pertinent supporting documents[29], We find that the out-of-pocket expenses and fees exempt from tax, duly supported with pertinent documents in the amount of P864,655.12,[30] should not have been subjected to withholding tax, while the remaining direct loss expense of P3,075,236.61 should be subject to withholding tax. And considering that petitioner was able to withhold only the amount of P2,727,148.80 relating to professional fees, petitioner is still liable to deficiency withholding tax of P17,404.39, computed as follows:

Deduction claimed per Return	P	3,939,891.73
Out-of-pocket expenses and Fees exempt from tax		864,655.12
Direct Loss Expenses Subject to W/tax	P	3,075,236.61
Per W/tax Return		2,727,148.80
Difference not subjected to w/tax	P	348,087.81
x W/tax Rate		5%
Deficiency Withholding Tax	**P**	**17,404.39**

[28] Exhibits "I-13" to "I-13-3".
[29] Exhibits "L-13" to "O-19-2".
[30] See Annex "A" hereof.

c) Occupancy Cost

Occupancy Cost of P3,403,355.00[31] consists mainly of rental cost of office premises, light and water, repairs and maintenance of leasehold, and rental of facilities.[32] Records show that petitioner's occupancy cost subject to withholding tax has an aggregate amount of P3,139,006.17 which is composed of rental of office premises (P3,040,950.00) and rental of facilities (P98,056.17). However, petitioner was able to withhold and remit taxes only the amount of P156,480.11, corresponding to the occupancy cost of P3,129,602.36[33]. Clearly, the occupancy cost was under-withheld in the amount of P470.19, computed as follows:

Deduction claimed per Return	P 3,139,006.17
Per Withholding Tax Returns	3,129,602.36
Not Subjected to Withholding Tax	P 9,403.81
x Rate	5%
Deficiency Withholding Tax on Occupancy Cost	**P 470.19**

d) Service/Contractors

Petitioner asserts that it did not withhold taxes on cost of repairs and maintenance because these were just minor repairs paid in cash to laborers; thus, cannot be subject to withholding tax. However, petitioner failed to prove such allegation. Likewise, petitioner failed to contest the correctness of the assessment on occupancy, printing and office supplies, communication, miscellaneous as well as, ads and promotions expenses. Since the law creates a presumption that "official duty has been regularly performed",[34]

[31] Schedule 1 of Exhibit "B".
[32] BIR Records, p. 89.
[33] BIR Records, pp. 152 to 190; Exhibits "S" to "DD".
[34] Section 3 (m), Rule 131, Rules of Court.

petitioner's failure to overcome this presumption leaves this Court with no other option but to uphold respondent's assessments in the total amount of P7,029.88.

e) Purchases

It is an admitted fact that petitioner is considered a Large Taxpayer under the provisions of Revenue Regulations No. 6-85, as amended by Revenue Regulations No. 12-94. As such, its income payments made to its local supplier of goods are subject to one percent (1%) withholding tax. The term "goods" only pertains to tangible personal property; it does not include intangible personal property or real property. And the term "local supplier of goods" does not include casual purchase of goods, *i.e.*, not from regular suppliers and oftentimes involving single purchases only, unless the amount of purchase, at any one time, involves P100,000.00 or more, in which case, such purchase of goods shall be subject to withholding tax.[35] Under these definitions, petitioner's purchases of furniture and fixture are subject to 1% withholding tax.

Petitioner contends that it deducted the required withholding tax on said purchases. A scrutiny of the Monthly Remittance Returns[36] and its Annual Information Return on Expanded Withholding Tax[37], as well as the alphalist[38] of income recipients however shows that petitioner was not able to withhold the corresponding taxes on its purchases. Petitioner also was not able to provide any schedule of Furniture, Fixtures and Office Equipment

[35] Revenue Memorandum Circular No. 28-94.
[36] Exhibits "S" to "DD".
[37] Exhibit "Q".
[38] Exhibit "Q-2".

acquired during the year, so as to trace from whom and for what amount such purchases were made. However, We find that the correct increase in furniture and fixture account amounts only to P5,601,737.00 , contrary to the respondent's findings in the amount of P5,974,477.15. Thus, the deficiency withholding tax on purchases is reduced to the amount of P56,017.37, computed as follows:

Furniture, Fixtures and Office Equipment, end.[39]	P11,553,117.00
Furniture, Fixtures and Office Equipment, beg.	5,951,380.00
Increase in Furniture, Fixtures and Office Equipment	P 5,601,737.00
x Withholding tax Rate	1%
Deficiency EWT	P 56,017.37

In sum, petitioner is liable to pay deficiency expanded withholding tax in the amount of P219,431.30, detailed below:

Underwithholding		Deduction Claimed Return	Per W/tax Return	Not subjected to W/tax	Tax Rate	Deficiency W/tax
Commissions						
	Direct Business	P 22,897,481.36	P 3,369,176.41	P 130,615.44	10%	P 13,061.54
	Profit Commission Expense	1,363,133.64	19,986,010.33	774,813.02	5%	38,740.65
		P 24,260,615.00	P23,355,186.74	P 905,428.46		P 51,802.19
Direct Loss Expense (Adjuster's Fee)		3,075,236.61	2,727,148.80	348,087.81	5%	17,404.39
Occupancy Cost		3,139,006.17	3,129,602.36	9,403.81	5%	470.19
Contractors						
	Occupancy - R&M (Low)	83,913.56				
	Printing & Office Supplies	1,316,240.51				
	Communication (Mes)	260,133.90				
	Repairs & Maintenance	182,157.00				
	Misc. U/W Exp (Jan)	290,080.49				
	Ad & Promo	158,082.07				
		2,290,607.53	1,587,618.94	702,988.59	1%	7,029.88
Purchases - Increase in FFE		5,601,737.00		5,601,737.00	1%	56,017.37
Total Deficiency EWT						**P 132,724.02**
Add:	Surcharge					33,181.01

mut

[39] BIR Records, p. 250.

	Interest 1/25/98 to 1/31/2000					53,526.27
TOTAL AMOUNT DUE						**P 219,431.30**

THIRD ISSUE : FINAL WITHHOLDING TAX

Respondent computed the 1997 assessment for deficiency final withholding tax in the amount of P452,133.57[40] as follows:

Final Withholding Tax on Dividends declared		P 180,377.40
FWT on computerization exp. – Malaysia		119,014.44
Total Final Withholding Tax Due		**P 299,391.84**
Add:	Interest 20% per annum from 1/25/98 to 1/31/2000	120,741.73
	Compromise Penalty	32,000.00
TOTAL AMOUNT DUE		**P 452,133.57**

According to respondent, since thirty percent (30%) of the equity of petitioner is held by a corporation of Japanese nationality, its foreign stockholder is entitled to receive P1,803,774.00 from the total dividends declared in November 1997. At the treaty rate of 10%, petitioner should have paid P180,377.40 as final tax on dividends payable to a non-resident foreign corporation, pursuant to Section 25 of the NIRC.

Upon review of petitioner's traveling expenses (subsidiary ledger code 5930), respondent found an amount of P340,041.25 recorded as payable to a Malaysian national. It appears that petitioner failed to withhold the corresponding thirty-five percent (35%) final tax pursuant to Section 25(b)(1) of the NIRC of 1977, as amended, on the income payment to non-resident foreign corporation.

In this regard, petitioner did not refute respondent's findings and imposition of final tax on the declared dividends, and on the computerization

[40] Exhibit "14", BIR Records, p. 414.

expense paid to the Malaysian national. It also failed to substantiate its claim that it declared all incomes pertaining to the present assessment, and subjected the same to the corresponding final withholding taxes. A scrutiny of the records reveals that no proof of remittance was submitted. Consequently, due to petitioner's failure to adduce evidence to prove remittance of the corresponding final withholding taxes, the present assessment is likewise upheld, except for the imposition of compromise penalty amounting to P32,000.00, with the additional amount of P74,847.96 as surcharge pursuant to Section 248(b) of the NIRC of 1997, as amended.

WHEREFORE, in the view of the foregoing considerations, the instant Petition for Review is hereby **PARTIALLY GRANTED**. Accordingly, petitioner is hereby **ORDERED TO PAY** deficiency withholding tax on compensation, expanded withholding tax, and final tax in the reduced amount of P1,994,390.86, computed as follows:

	Basic Tax	Surcharges	Interest	Total
Deficiency Withholding Tax on Compensation ST-WC-97-0221-99	P 774,200.55	P 193,550.14	P 312,227.34	**P 1,279,978.03**
Deficiency Expanded Withholding Tax ST-EWT-97-0218-99	132,724.02	33,181.01	53,526.27	**219,431.30**
Deficiency Final Withholding Tax ST-FT-97-0219-99	299,391.84	74,847.96	120,741.73	**494,981.53**
TOTALS	**P 1,206,316.41**	**P 301,579.11**	**P 486,495.34**	**P 1,994,390.86**

In addition, petitioner is hereby **ORDERED TO PAY** twenty percent (20%) delinquency interest on the amount of P1,994,390.86, computed from

February 1, 2000 until full payment thereof, pursuant to Section 249(c) of the NIRC of 1997, as amended.

SO ORDERED.

ERLINDA P. UY
Associate Justice

WE CONCUR:

JUANITO C. CASTAÑEDA, JR.
Associate Justice

OLGA PALANCA-ENRIQUEZ
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision were reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

JUANITO C. CASTAÑEDA, JR.
Associate Justice
Chairperson

CERTIFICATION

Pursuant to Article VIII, Section 13 of the Constitution, and the Division Chairperson's Attestation, it is hereby certified that the conclusions in the above Decision were reached in consultation before the case was assigned to the writer of the opinion of the Court.

ERNESTO D. ACOSTA
Presiding Justice

FIRST LEPANTO TAISHO INSURANCE CORP.
SCHEDULE OF DIRECT LOSS EXPENSE
FOR THE YEAR 1997
(CTA CASE NO. 6200)

Payee	Exhibit No.	Out-of-Pocket Expense	Fees Exempt from Tax	Total
Macamay & Astorga Law Office	N-13-1		15,817.55	15,817.55
Manila Adjusters & Surveyors Company	O-13-2	1,050.49		1,050.49
Automotive Management Center, Inc.	P-13-40	5,220.00		5,220.00
Manila Adjusters & Surveyors Company	Q-13-2	314.50		314.50
BA Adjusters' & Marine Services, Inc.	R-13-3	694.55		694.55
Manila Adjusters & Surveyors Company	S-13-3	366.80		366.80
Manila Adjusters & Surveyors Company	T-13-3	407.35		407.35
Manila Adjusters & Surveyors Company	U-13-3	430.15		430.15
Universal Adjusters-Appraisers Co., Inc.	V-13-3	230.00		230.00
Linsangan Law Offices	X-13-3		26,447.68	26,447.68
Cunningham Toplis Phils., Inc.	Y-13-3	4,005.00		4,005.00
BA Adjusters' & Marine Services, Inc.	Z-13-3	842.00		842.00
BA Adjusters' & Marine Services, Inc.	A-14-3	809.45		809.45
Universal Adjusters-Appraisers Co., Inc.	B-14-3	225.00		225.00
Esteban Adjusters and Valuers	C-14-3	150.00		150.00
Esteban Adjusters and Valuers	D-14-3	80.00		80.00
Automotive Management Center, Inc.	E-14-52	6,845.00		6,845.00
Cunningham Toplis Phils., Inc.	F-14-3	516.52		516.52
Automotive Management Center, Inc.	H-14-8	1,110.00		1,110.00
Universal Adjusters-Appraisers Co., Inc.	I-14-3	427.50		427.50
Manila Adjusters & Surveyors Company	J-14-2	533.50		533.50
Universal Adjusters-Appraisers Co., Inc.	K-14-3	130.00		130.00
Automotive Management Center, Inc.	L-14-7	810.00		810.00
BA Adjusters' & Marine Services, Inc.	M-14-2	334.50		334.50
Universal Adjusters-Appraisers Co., Inc.	N-14-3	300.00		300.00
Manila Adjusters & Surveyors Company	Q-14-4	1,026.17		1,026.17
Henry Hunter Bayne Co., Inc.	R-14-4	467.75		467.75
Henry Hunter Bayne Co., Inc.	S-14-3	759.10		759.10
Cunningham Toplis Phils., Inc.	T-14-2	323.60		323.60
Universal Adjusters-Appraisers Co., Inc.	U-14-2	595.00		595.00
Universal Adjusters-Appraisers Co., Inc.	V-14-3	160.00		160.00
BA Adjusters' & Marine Services, Inc.	W-14-3	559.00		559.00
Henry Hunter Bayne Co., Inc.	X-14-3	325.00		325.00
Automotive Management Center, Inc.	Z-14-2	670.00		670.00
BA Adjusters' & Marine Services, Inc.	A-15-2	475.60		475.60
BA Adjusters' & Marine Services, Inc.	B-15-3	395.80		395.80
BA Adjusters' & Marine Services, Inc.	C-15-2	1,123.45		1,123.45
Office de Ajustage Et Expertise	D-15-3	626.50		626.50
BA Adjusters' & Marine Services, Inc.	E-15-4	280.50		280.50
Cunningham Toplis Phils., Inc.	F-15-2	333.43		333.43

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Payee	Exhibit No.	Out-of-Pocket Expense	Fees Exempt from Tax	Total
BA Adjusters' & Marine Services, Inc.	H-15-5	779.40		779.40
Automotive Management Center, Inc.	I-15-6	520.00		520.00
Automotive Management Center, Inc.	J-15-9	1,350.00		1,350.00
Universal Adjusters-Appraisers Co., Inc.	K-15-3	155.00		155.00
Universal Adjusters-Appraisers Co., Inc.	L-15-3	235.00		235.00
Universal Adjusters-Appraisers Co., Inc.	M-15-3	2,478.55		2,478.55
Automotive Management Center, Inc.	N-15-4	320.00		320.00
Automotive Management Center, Inc.	O-15-4	250.00		250.00
Universal Adjusters-Appraisers Co., Inc.	P-15-3	546.75		546.75
Universal Adjusters-Appraisers Co., Inc.	Q-15-3	159.00		159.00
Henry Hunter Bayne Co., Inc.	R-15-3	777.00		777.00
Automotive Management Center, Inc.	S-15-57	7,380.00		7,380.00
Manila Adjusters & Surveyors Company	T-15-3	1,492.80		1,492.80
Manila Adjusters & Surveyors Company	U-15-7	1,385.50		1,385.50
Henry Hunter Bayne Co., Inc.	V-15-3	904.10		904.10
Universal Adjusters-Appraisers Co., Inc.	W-15-3	934.00		934.00
Automotive Management Center, Inc.	X-15-4	414.67		414.67
Automotive Management Center, Inc.	Y-15-6	375.00		375.00
Manila Adjusters & Surveyors Company	Z-15-3	419.80		419.80
Automotive Management Center, Inc.	A-16-4	190.00		190.00
Automotive Management Center, Inc.	B-16-4	145.00		145.00
BA Adjusters' & Marine Services, Inc.	C-16-4	168.00		168.00
Universal Adjusters-Appraisers Co., Inc.	D-16-3	483.75		483.75
BA Adjusters' & Marine Services, Inc.	E-16-3	96.68		96.68
Automotive Management Center, Inc.	F-16-4	280.00		280.00
Automotive Management Center, Inc.	G-16-6	460.00		460.00
Automotive Management Center, Inc.	H-16-52	7,040.00		7,040.00
Henry Hunter Bayne Co., Inc.	I-16-3	956.50		956.50
Universal Adjusters-Appraisers Co., Inc.	J-16-3	492.00		492.00
Universal Adjusters-Appraisers Co., Inc.	K-16-8	1,449.50		1,449.50
Bay Adjusters' & Marine Services, Inc.	L-16-3	422.00		422.00
Manila Adjusters & Surveyors Company	M-16-4	357.25		357.25
Manila Adjusters & Surveyors Company	N-16-2	349.00		349.00
Universal Adjusters-Appraisers Co., Inc.	O-16-3	510.00		510.00
Universal Adjusters-Appraisers Co., Inc.	P-16-3	1,015.00		1,015.00
Claimsmen Adjustment Corp.	Q-16-3	715.90		715.90
BA Adjusters' & Marine Services, Inc.	R-16-2	8,052.30		8,052.30
Atty. Petronilo A. dela Cruz	S-16-3	640.76		640.76
BA Adjusters' & Marine Services, Inc.	T-16-3	766.27		766.27
Automotive Management Center, Inc.	U-16-3	200.00		200.00

FIRST LEPANTO TAISHO INSURANCE CORP.
SCHEDULE OF DIRECT LOSS EXPENSE
FOR THE YEAR 1997
(CTA CASE NO. 6200)

Payee	Exhibit No.	Out-of-Pocket Expense	Fees Exempt from Tax	Total
Office de Ajustage Et Expertise	W-16-2	1,075.40		1,075.40
Claimsmen Adjustment Corp.	X-16-3	615.50		615.50
Automotive Management Center, Inc.	Y-16-3	165.00		165.00
Henry Hunter Bayne Co., Inc.	Z-16-6	1,554.00		1,554.00
Fajardo Law Offices	A-17-2		69,919.92	69,919.92
Manila Adjusters & Surveyors Company	B-17-11	4,637.58		4,637.58
Manila Adjusters & Surveyors Company	C-17-3	56,715.05		56,715.05
Automotive Management Center, Inc.	D-17-25	2,905.00		2,905.00
Automotive Management Center, Inc.	E-17-33	3,730.00		3,730.00
Automotive Management Center, Inc.	F-17-44	5,745.00		5,745.00
BA Adjusters' & Marine Services, Inc.	G-17-13	8,973.36		8,973.36
Mariners' Adjustment Corp.	H-17-1	96.00		96.00
Elite Adjusters & Surveyors, Inc.	J-17-2	560.00		560.00
Universal Adjusters-Appraisers Co., Inc.	K-17-25	11,304.77		11,304.77
Automotive Management Center, Inc.	L-17-51	7,185.00		7,185.00
BA Adjusters' & Marine Services, Inc.	M-17-3	8,052.30		8,052.30
Fajardo Law Offices	N-17-1		34,733.90	34,733.90
Henry Hunter Bayne Co., Inc.	O-17-5	1,141.50		1,141.50
Fajardo Law Offices	P-17-2		88,335.38	88,335.38
BA Adjusters' & Marine Services, Inc.	Q-17-3	327.70		327.70
Claimsmen Adjustment Corp.	R-17-17	5,004.90		5,004.90
Manila Adjusters & Surveyors Company	S-17-15	15,545.80		15,545.80
Reloj Law Office	T-17-1	33,249.40	200,000.00	233,249.40
Claimsmen Adjustment Corp.	U-17-2	125.00		125.00
Universal Adjusters-Appraisers Co., Inc.	V-17-21	4,900.13		4,900.13
Universal Adjusters-Appraisers Co., Inc.	W-17-12	1,894.74		1,894.74
Universal Adjusters-Appraisers Co., Inc.	X-17-3	130.00		130.00
Automotive Management Center, Inc.	Y-17-39	5,620.00		5,620.00
BA Adjusters' & Marine Services, Inc.	Z-17-3	794.00		794.00
Claimsmen Adjustment Corp.	A-18-3	266.00		266.00
Manila Adjusters & Surveyors Company	B-18-3	305.47		305.47
Fajardo Law Offices	C-18-1		17,341.16	17,341.16
BA Adjusters' & Marine Services, Inc.	E-18-2	759.50		759.50
Claimsmen Adjustment Corp.	F-18-3	255.00		255.00
Universal Adjusters-Appraisers Co., Inc.	G-18-2	3,290.25		3,290.25
Manila Adjusters & Surveyors Company	H-18-2	348.76		348.76
Universal Adjusters-Appraisers Co., Inc.	I-18-2	1,855.00		1,855.00
Universal Adjusters-Appraisers Co., Inc.	J-18-2	1,900.00		1,900.00
Claimsmen Adjustment Corp.	K-18-2	1,857.90		1,857.90
Universal Adjusters-Appraisers Co., Inc.	L-18-3	3,054.00		3,054.00

FIRST LEPANTO TAISHO INSURANCE CORP.
SCHEDULE OF DIRECT LOSS EXPENSE
FOR THE YEAR 1997
(CTA CASE NO. 6200)

Payee	Exhibit No.	Out-of-Pocket Expense	Fees Exempt from Tax	Total
Coil-Tech Manila	M-18-1		4,260.00	4,260.00
Coil-Tech Manila	N-18-1		4,260.00	4,260.00
Automotive Management Center, Inc.	O-18-33	3,890.00		3,890.00
Automotive Management Center, Inc.	P-18-44	5,580.00		5,580.00
Manila Adjusters & Surveyors Company	Q-18-3	345.00		345.00
Cunningham Toplis Phils., Inc.	R-18-2	503.85		503.85
Henry Hunter Bayne Co., Inc.	T-18-3	225.00		225.00
BA Adjusters' & Marine Services, Inc.	U-18-3	378.50		378.50
Manila Adjusters & Surveyors Company	V-18-3	2,214.20		2,214.20
Manila Adjusters & Surveyors Company	W-18-3	686.50		686.50
Universal Adjusters-Appraisers Co., Inc.	X-18-3	305.00		305.00
Universal Adjusters-Appraisers Co., Inc.	Y-18-3	982.48		982.48
Fajardo Law Offices	Z-18-1		10,973.54	10,973.54
Henry Hunter Bayne Co., Inc.	B-19-3	527.50		527.50
Henry Hunter Bayne Co., Inc.	C-19-3	2,200.10		2,200.10
Henry Hunter Bayne Co., Inc.	D-19-2	1,113.87		1,113.87
Universal Adjusters-Appraisers Co., Inc.	E-19-3	811.88		811.88
Manila Adjusters & Surveyors Company	F-19-2	2,412.33		2,412.33
BA Adjusters' & Marine Services, Inc.	G-19-2	971.10		971.10
Universal Adjusters-Appraisers Co., Inc.	H-19-2	8,053.78		8,053.78
Universal Adjusters-Appraisers Co., Inc.	I-19-2	1,547.50		1,547.50
FGU Insurance Corp.	J-19-1		82,188.00	82,188.00
Cunningham Toplis Phils., Inc.	K-19-3	819.41		819.41
Cunningham Toplis Phils., Inc.	M-19-2	322.62		322.62
Cunningham Toplis Phils., Inc.	N-19-3	230.50		230.50
Crawford-THG Phils., Inc.	O-19-2	698.17		698.17
TOTAL		**310,377.99**	**554,277.13**	**864,655.12**