CTA Form No. 8 (For DCC)

22-000346-0067

**REPUBLIC OF THE PHILIPPINES**
**COURT OF TAX APPEALS**
**QUEZON CITY**

**SPECIAL FIRST DIVISION**

**CTA CASE NO. 10922**

**AVALOQ PHILIPPINES OPERATING HEADQUARTERS,**
Petitioner,

- versus -

**NOTICE OF RESOLUTION**

**COMMISSIONER OF INTERNAL REVENUE,**
Respondent.

**To:**

**OFFICE OF THE SOLICITOR GENERAL**
134 Amorsolo Street, Legazpi Village
Makati City

**ATTY. FELIX PAUL R. VELASCO III**
**ATTY. SYLVIA R. ALMA JOSE**
**ATTY. AYESHA HANIA GUILING-MATANOG**
**ATTY. CLARISSA J. VIRTUDES-BABARAN**
Bureau of Internal Revenue
Room 703, Litigation Division, BIR National Office Building
Sen. Miriam P. Defensor-Santiago Avenue
Diliman, Quezon City

**CABRERA & COMPANY**
28th Floor, AIA Tower (formerly Philamlife Tower)
8767 Paseo de Roxas
1226 Makati City

***GREETINGS:***

You are hereby notified by these presents that on **February 4, 2026,** a Resolution was rendered in the above-entitled case, copy of which is attached hereto.

Quezon City, Philippines, **February 5, 2026.**

**Atty. Maria Johoanna F. Chan-Te**
Executive Clerk of Court III

**REPUBLIC OF THE PHILIPPINES**
**COURT OF TAX APPEALS**
**QUEZON CITY**

## SPECIAL FIRST DIVISION

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| **AVALOQ PHILIPPINES OPERATING HEADQUARTERS**, *Petitioner*, | **CTA CASE NO. 10922** |
| | *Members*: |
| | **BACORRO-VILLENA**, *Acting Chairperson, and* **CUI-DAVID**, *JJ.* |
| - versus - | |
| **COMMISSIONER OF INTERNAL REVENUE**, *Respondent.* | Promulgated: FEB 04 2026; 11:00AM |

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# RESOLUTION

***CUI-DAVID, J.:***

For resolution is petitioner's ***Motion for Reconsideration (Re: Decision promulgated on 29 August 2025)***[1] [***Motion for Reconsideration***], filed on September 25, 2025, together with respondent's ***Opposition (Re: Motion for Reconsideration of the Decision dated 29 August 2025***),[2] belatedly filed on November 5, 2025.

Petitioner seeks the reconsideration and reversal of the *Decision* dated August 29, 2025 (**assailed *Decision***),[3] which denied petitioner's *Petition for Review*. The dispositive portion of the assailed *Decision* reads:

> **WHEREFORE,** in light of the foregoing considerations, the present *Petition for Review* filed on July 12, 2022, is **DENIED** for lack of merit.

The Court denied petitioner's claim for value-added tax (**VAT**) refund for failure to prove compliance with the *fourth* and *fifth* requisites for the grant of a refund or tax credit of input

1 Docket – Vol. IV, pp. 1891–1911.
2 *Id.*, unpaged.
3 *Id.* at 1853–1884.

VAT under Section 112(A) of the National Internal Revenue Code of 1997, as amended. Specifically, petitioner failed to establish that it was engaged in zero-rated or effectively zero-rated sales, as it failed to prove that the services rendered to Avaloq Group AG's affiliates, who are non-resident foreign corporations, were paid for in acceptable foreign currency.

In its *Motion for Reconsideration*, petitioner argues that: (1) it sufficiently established the existence of a valid offsetting arrangement; (2) as a regional operating headquarter, it does not have a separate and distinct legal personality from its mother company, Avaloq Group AG; and (3) the doctrine of *strictissimi juris* must conform to substantial justice, equity, and fair play.

In asserting that a valid offsetting arrangement exists, petitioner contends that the Short-Term Credit Facility Agreement (**STCFA**)[4] already outlines the short-term credit facility and offsetting arrangement between Avaloq Group AG and its affiliates, demonstrating that the parties agreed on the mechanism for alternative payments, even without a separate agreement. It further contends that the provisions of the STCFA must be read in conjunction with the General Framework Services Agreement (**GSFA**)[5]. By doing so, it would become clear that the reference to the set-off of balance "on any accounts" in paragraph 12[6] of the STCFA pertains to the centralized clearing/netting system, or group current accounts, as may be agreed upon by the affiliates pursuant to paragraph 7.3[7] of the GSFA.

In addition, petitioner raises that the testimony of its witness, Ms. Viena Joy S. Mangaring, sufficiently detailed the actual offsetting arrangement, and that the other documents it submitted to the ICPA constitute acceptable documentary requirements for establishing the offsetting arrangements enunciated under Revenue Memorandum Circular (**RMC**) No. 42-2003.

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4 Docket, Vol. IV, pp. 1694–1705, Exhibit "P-23".
5 *Id.* at 1641–1659, Exhibit "P-20".
6 Par. 12, Set-Off Balances of the STCFA provides:

> Both parties authorize each other to set-off any credit balance in any currency to which it is entitled on any account in satisfaction of any sum due and payable under this Agreement but unpaid. For this purpose, both parties are authorized to purchase with the monies standing to the credit of any such account such other currencies as may be necessary to effect such application.

7 Par. 7.3 Invoice and Payment Terms of the GSFA provides:

> The Contracting entity and each Service Provider may agree on alternative methods for the payment of the Service Fees due to the Service Provider, including by way of centralized clearing/netting system or group current accounts.

Respondent, however, quoting the assailed *Decision,* maintains that petitioner failed to sufficiently establish all the requisites for the grant of a tax refund. He further reiterates that claims for refund are strictly construed against the claimant, as they partake of the nature of tax exemption and, as such, are looked upon with disfavor.

The instant *Motion for Reconsideration* must fail.

After taking a second hard look at the arguments raised by both parties, the Court finds no compelling reason to reverse or modify the assailed *Decision.* The issues and arguments raised by petitioner have already been thoroughly and exhaustively addressed in the assailed *Decision.*

Petitioner argues that the phrase "on any account" in paragraph 12 of the STCFA should be interpreted as referring to the group's current accounts used in the intercompany offsetting arrangement with Avaloq Group AG's affiliates. It submits that the parties did not intend to confine the mode of payment solely to the respective accounts within the STCFA. However, the Court, in the assailed *Decision,* held that petitioner failed to prove that the advances it received from Avaloq Group AG could validly be set off against the receivables arising from its sales of services to other affiliates.

The wording of paragraph 12 of the STCFA is unequivocal. The parties authorized to set off any credit balance, in any currency and on any account, are Avaloq Group AG as the lender and its affiliates, including petitioner, collectively or individually referred to as the borrower. Clearly, this provision neither contemplates nor authorizes the set-off of credits between one affiliate and another. Thus, petitioner failed to establish any authority to effect a set-off between itself and another affiliate of Avaloq Group AG.

The basis of any offsetting arrangement must be substantiated in accordance with RMC No. 42-2003, which explicitly requires documents or correspondence regarding such arrangements, as well as contracts with the foreign or affiliated company that give rise to the liabilities offset against receivables from export sales, among others. Petitioner failed to present the requisite proof.

In fine, the instant *Motion for Reconsideration* merely urges the Court to reassess and reevaluate the evidence according to petitioner's own perspective of things, which is insufficient to convince the Court to grant the reconsideration sought.

Time and again, it must be emphasized that tax refunds partake the nature of tax exemptions, and thus, the statutes of which must be construed *strictissimi juris* against the taxpayer and liberally in favor of the taxing authority.[8] An entitlement to a tax refund is for the taxpayer to prove and not for the government to disprove.[9] The pieces of evidence presented entitling a taxpayer to an exemption are also *strictissimi* scrutinized and must be duly proven.[10]

**WHEREFORE**, premises considered, petitioner's *Motion for Reconsideration (Re: Decision promulgated on 29 August 2025)* is hereby **DENIED** for lack of merit.

**SO ORDERED.**

**LANEE S. CUI-DAVID**
Associate Justice

*I CONCUR:*

**JEAN MARIE A. BACORRO-VILLENA**
Associate Justice

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8 *Philippine Phosphate Fertilizer Corporation v. Commissioner of Internal Revenue*, G.R. No. 141973, June 28, 2005 [Per J. Austria-Martinez, Second Division] citing *Commissioner of Internal Revenue v. Seagate Technology*, G.R. No. 153866, February 11, 2005 [Per J. Panganiban, Third Division].

9 *Commissioner of Internal Revenue v. Far East Bank & Trust Company (Now Bank of the Philippine Islands)*, G.R. No. 173854, March 15, 2010 [Per J. Del Castillo, Second Division].

10 *Pilipinas Shell Petroleum Corporation v. Commissioner of Internal Revenue*, G.R. No. 211779, November 3, 2020 [Notice, First Division]; *Kepco Philippines Corporation v. Commissioner of Internal Revenue*, G.R. No. 179961, January 31, 2011 [Per J. Mendoza, Second Division] citing *Atlas Consolidated Mining and Development Corporation v. Commissioner of Internal Revenue*, G.R. No. 159490, February 18, 2008 [Per J. Velasco, Jr., Second Division].