

SECOND DIVISION

[G.R. NO. 150812, August 22, 2006]

**COMMISSIONER OF INTERNAL REVENUE, PETITIONER, VS.
CITYTRUST BANKING CORPORATION, RESPONDENT.**

D E C I S I O N

CORONA, J.

The Commissioner of Internal Revenue (CIR) assails the decision^[1] of the Court of Appeals (CA) and its resolution^[2] upholding the decision of the Court of Tax Appeals (CTA) in CTA Case No. 4099 which ordered the refund of P13,314,506.14 to respondent Citytrust Banking Corporation (Citytrust)^[3] as its alleged overpaid income taxes for the years 1984 and 1985.

On May 28, 1991, the CTA ordered the CIR to grant Citytrust a refund in the amount of P13,314,506.14 representing Citytrust's overpaid income taxes for 1984 and 1985. The CIR filed a motion for reconsideration (MR) on the ground that the Certificate of Tax Withheld was inconclusive evidence of payment and remittance of tax to the Bureau of Internal Revenue. In its supplemental MR, the CIR alleged an additional ground: that Citytrust had outstanding deficiency income and business tax liabilities of P4,509,293.71^[4] for 1984, thus, the claim for refund was not in order. The tax court denied both motions.

The case was elevated to the CA^[5] in CA-G.R. SP No. 26839 but the appellate court affirmed the CTA's ruling. On petition for review on certiorari to this Court, however, we ruled that there was an apparent contradiction between the claim for refund and the deficiency assessments against Citytrust, and that the government could not be held in estoppel due to the negligence of its officials or employees, specially in cases involving taxes. For that reason, the case was remanded to the CTA for further reception of evidence.^[6]

The tax court thereafter conducted the necessary proceedings. One of the exhibits presented and offered in the hearings was a letter dated February 28, 1995, signed by the CIR, stating the withdrawal and cancellation of the following assessments:^[7]

<u>Kind of Tax</u>	<u>Year Involved</u>	<u>Amount</u>
1. [Deficiency] Fixed Tax	1984	P 44,132.88
2. [Deficiency] Withholding Tax on deposit substitutes (1-1-84 to 10-15-84)	1984	22,363,791.31
3. [Deficiency] Withholding Tax on deposit substitutes (1984	11,292,140.50

10-15-84 to 12-31-84)

4. [Deficiency] Documentary 1984 17,825,342.30
Stamp Tax on deposit
substitutes

In the same letter, the CIR demanded the following sums from Citytrust for 1984: (1) as deficiency income tax " P3,301,578.19; (2) as deficiency gross receipts tax " P1,193,090.52 and (3) as fixed tax as real estate dealer – P14,625. Citytrust paid these deficiency tax liabilities.^[8]

From the exhibits presented to it, the CTA determined that: (1) the deficiency and gross receipts taxes had been fully paid and (2) the deficiency income tax was only partially settled.^[9]

Except for a pending issue in another CTA proceeding,^[10] Citytrust considered all its deficiency tax liabilities for 1984 fully settled, hence, it prayed that it be granted a refund. The CIR interposed his objection, however, alleging that Citytrust still had unpaid deficiency income, business and withholding taxes for the year 1985.^[11] Due to these deficiency assessments, the CIR insisted that Citytrust was not entitled to any tax refund.

On October 16, 1997, the CTA set aside the CIR's objections and granted the refund.^[12]

On May 21, 2001, the CA denied the CIR's petition for review^[13] for lack of merit and affirmed the CTA decision.^[14]

Before us in this petition for review on certiorari, the CIR contends that respondent is not entitled to the refund of P13,314,506.14 as alleged overpaid income taxes for 1984 and 1985. The CIR claims that the CA erred in not holding that payment by Citytrust of its deficiency income tax was an admission of its tax liability and, therefore, a bar to its entitlement to a refund of income tax for the same taxable year.

In resolving this case, the CTA did not allow a set-off or legal compensation of the taxes involved.^[15] The CTA reasoned:

Again, the CIR interposed objection to the grant of such refund. **It alleged that there are still deficiency income, business and withholding taxes proposed against petitioner for 1985.** These assessments are contained in a **Delinquency Verification Slip, dated June 5, 1990,** which was marked as Exh. "5" for respondent. Due to these deficiency assessments, respondent insisted that petitioner is not entitled to any tax refund.

[The CTA] sets aside respondent's objection and grants to petitioner the refund of the amount of P13,314,506.14 on several grounds.

First, [respondent's position] violates the order of the Supreme Court in directing [the CTA] to conduct further proceedings for the reception of petitioner's evidence, and the disposition of the present case. Although

the Supreme Court did not specifically mention what kind of petitioner's evidence should be entertained, [the CTA] is of the opinion that the **evidence should pertain only to the 1984 assessments which were the only assessments raised as a defense on appeal to the Court of Appeals and the Supreme Court.** The assessments embodied in Exhibit "5" of respondent were never raised on appeal to the higher [c]ourts. Hence, evidence related to said assessments should not be allowed as this will lead to endless litigation.

Second, **[the CTA] has no jurisdiction to try an assessment case which was never appealed to it.** With due respect to the Supreme Court's decision, it is [the CTA's] firm stand that in hearing a refund case, the CTA cannot hear in the same case an assessment dispute even if the parties involved are the same parties.^[16] xxx xxx xxx. (Citations omitted and emphasis supplied)

We uphold the findings and conclusion of the CTA and the CA.

Records show that this Court made no previous direct ruling on Citytrust's alleged failure to substantiate its claim for refund. Instead, the order of this Court addressed the apparent failure of the Bureau of Internal Revenue, by reason of the mistake or negligence of its officials and employees, to present the appropriate evidence to oppose respondent's claim.^[17] In the earlier case, we directed the joint resolution of the issues of tax deficiency assessment and refund due to its particular circumstances.^[18]

The CTA complied with the Court's order to conduct further proceedings for the reception of the CIR's evidence in CTA Case No. 4099. In the course thereof, Citytrust paid the assessed deficiencies to remove all administrative impediments to its claim for refund. But the CIR considered this payment as an admission of a tax liability which was inconsistent with Citytrust's claim for refund.

There is indeed a contradiction between a claim for refund and the assessment of deficiency tax. The CA pointed out that the case was remanded to the CTA for the reception of additional evidence precisely to resolve the apparent contradiction.

Because of the CTA's recognized expertise in taxation, its findings are not ordinarily subject to review specially where there is no showing of grave error or abuse on its part.^[19]

This Court will not set aside lightly the conclusion reached by the Court of Tax Appeals which, by the very nature of its function, is dedicated exclusively to the consideration of tax problems and has necessarily developed an expertise on the subject, unless there has been an abuse or improvident exercise of authority.^[20]

WHEREFORE, the petition is hereby **DENIED**. The May 21, 2001 decision of the Court of Appeals in CA-G.R. SP No. 46793 is **AFFIRMED**.

SO ORDERED.

Puno, (Chairperson), Sandoval-Gutierrez and Garcia, JJ., concur.