WHEREFORE, the Petition is **DENIED.** The November 21, 2005 Decision of the Court of Appeals in CA-G.R CV No. 76313 is **AFFIRMED**. Petitioner National Power Corporation is **ORDERED** to pay respondents Spouses Margarito and Tarcinia Asoque the amount of ₱3,481,600.00 as just compensation for the 4,352-square-meter property, with legal interest at 6% per annum from November 1995 until fully paid. Upon petitioner's payment of the full amount, respondents are **ORDERED** to execute a Deed of Conveyance of the 4,352-square-meter property in favor of petitioner.

SO ORDERED.

Carpio (Chairperson), Brion, del Castillo, and *Mendoza, JJ.,* concur.

THIRD DIVISION

[G.R. No. 175651. September 14, 2016]

PILMICO-MAURI FOODS CORP., *petitioner, vs.* **COMMISSIONER OF INTERNAL REVENUE,** *respondent.*

SYLLABUS

1. POLITICAL LAW; CONSTITUTIONAL LAW; BILL OF RIGHTS; DUE PROCESS; NOT VIOLATED WHEN A PARTY HAS PARTICIPATED IN THE PROCEEDINGS AND HAS BEEN AFFORDED ALL THE OPPORTUNITIES TO VENTILATE ITS CLAIMS.— The first and second issues presented by PMFC are procedural in nature. They both pertain to the alleged omission of due process of law by the CTA since in its rulings, it invoked Section 238 of the 1977 NIRC, while in the proceedings below, the CIR's tax deficiency assessments issued against PMFC were instead anchored on Section 34 of

the 1997 NIRC. x x x In the case at bar, the CIR issued assessment notices against PMFC for deficiency income, VAT and withholding tax for the year 1996. PMFC assailed the assessments before the Bureau of Internal Revenue and later, before the CTA. In the Joint Stipulation of Facts, dated March 7, 2001, filed before the CTA First Division, the CIR and PMFC both agreed that among the issues for resolution was "*whether or not the ₱5,895,694.66 purchases of raw materials are unsupported*." Estoppel, thus, operates against PMFC anent its argument that the issue of lack or inadequacy of documents to justify the costs of purchase of raw materials as deductions from the gross income had not been presented in the proceedings below, hence, barred for being belatedly raised only on appeal. Further, in issuing the assessments, the CIR had stated the material facts and the law upon which they were based. In the petition for review filed by PMFC before the CTA, it was the former's burden to properly invoke the applicable legal provisions in pursuit of its goal to reduce its tax liabilities. The CTA, on the other hand, is not bound to rule solely on the basis of the laws cited by the CIR. x x x PMFC was at the outset aware that the lack or inadequacy of supporting documents to justify the deductions claimed from the gross income was among the issues raised for resolution before the CTA. With PMFC's acquiescence to the Joint Stipulation of Facts filed before the CTA and thenceforth, the former's participation in the proceedings with all opportunities it was afforded to ventilate its claims, the alleged deprivation of due process is bereft of basis.

2. **TAXATION; 1977 NATIONAL INTERNAL REVENUE CODE; DEDUCTIONS FROM GROSS INCOME; OFFICIAL RECEIPTS CAN PROVE DEDUCTIBLE EXPENSES, AND IF PRESENTED, SHALL BE SUBJECTED TO EXAMINATION; THE CTA RULING DISALLOWING THE DEDUCTIONS CLAIMED IS PROPER UNDER SECTION 238 OF THE CODE SINCE PMFC FAILED TO EXPLAIN DISCREPANCIES IN THE OFFICIAL RECEIPTS; CASE AT BAR.—** The law x x x intends for Sections 29 and 238 of the 1977 NIRC to be read together, and not for one provision to be accorded preference over the other. It is undisputed that among the evidence adduced by PMFC on its behalf are the official receipts of alleged purchases of raw materials. Thus, the CTA cannot be faulted for making references

to the same, and for applying Section 238 of the 1977 NIRC in rendering its judgment. Required or not, the official receipts were submitted by PMFC as evidence. Inevitably, the said receipts were subjected to scrutiny, and the CTA exhaustively explained why it had found them wanting. x x x PMFC was, however, unable to persuasively explain and prove through other documents the discrepancies in the said receipts.

3. **REMEDIAL LAW; CIVIL PROCEDURE; APPEALS; AS THE COURT OF TAX APPEALS HAS DEVELOPED EXPERTISE ON THE CONSIDERATION OF TAX PROBLEMS, ITS CONCLUSIONS WILL NOT BE DISTURBED ON APPEAL UNLESS THERE HAS BEEN AN ABUSE OR IMPROVIDENT EXERCISE OF AUTHORITY.—** The Court recognizes that the CTA, which by the very nature of its function is dedicated exclusively to the consideration of tax problems, has necessarily developed an expertise on the subject, and its conclusions will not be overturned unless there has been an abuse or improvident exercise of authority. Such findings can only be disturbed on appeal if they are not supported by substantial evidence or there is a showing of gross error or abuse on the part of the tax court. In the absence of any clear and convincing proof to the contrary, the Court must presume that the CTA rendered a decision which is valid in every respect.

4. **TAXATION; REVENUE LAWS; TAXES ARE THE LIFEBLOOD OF THE GOVERNMENT AND LAWS RELATIVE THERETO MUST BE FAITHFULLY AND STRICTLY IMPLEMENTED.—** [R]evenue laws are not intended to be liberally construed. Taxes are the lifeblood of the government and in Holmes' memorable metaphor, the price we pay for civilization; hence, laws relative thereto must be faithfully and strictly implemented. While the 1977 NIRC required substantiation requirements for claimed deductions to be allowed, PMFC insists on leniency, which is not warranted under the circumstances.

APPEARANCES OF COUNSEL

Balmeo & Go for petitioner.
Joselito Biason for respondent.

R E S O L U T I O N

REYES, *J.*:

Before the Court is a petition for review on *certiorari*[1] under Rule 45 of the Rules of Court pursuant to Republic Act (R.A.) No. 1125,[2] Section 19,[3] as amended by R.A. No. 9282,[4] Section 12.[5] The petition filed by Pilmico-Mauri Foods Corp. (PMFC) against the Commissioner of Internal Revenue (CIR) assails the Decision[6] and Resolution[7] of the Court of Tax Appeals (CTA) *en banc*, dated August 29, 2006 and December 4, 2006, respectively, in C.T.A. EB No. 97.

---

[1] *Rollo*, pp. 37-69.

[2] AN ACT CREATING THE COURT OF TAX APPEALS. Approved on June 16, 1954.

[3] **Sec. 19. *Review by certiorari*.**– Any ruling, order or decision of the Court of Tax Appeals may likewise be reviewed by the Supreme Court upon a writ of *certiorari* in proper cases. Proceedings in the Supreme Court upon a writ of *certiorari* or a petition for review, as the case may be, shall be in accordance with the provisions of the Rules of Court or such rules as the Supreme Court may prescribe.

[4] AN ACT EXPANDING THE JURISDICTION OF THE COURT OF TAX APPEALS (CTA), ELEVATING ITS RANK TO THE LEVEL OF A COLLEGIATE COURT WITH SPECIAL JURISDICTION AND ENLARGING ITS MEMBERSHIP, AMENDING FOR THE PURPOSE CERTAIN SECTIONS OF REPUBLIC ACT NO. 1125, AS AMENDED, OTHERWISE KNOWN AS THE LAW CREATING THE COURT OF TAX APPEALS, AND FOR OTHER PURPOSES. Approved on March 30, 2004.

[5] Sec. 12. Section 19 of the same Act is hereby amended as follows:

Sec. 19. Review by *Certiorari*. – A party adversely affected by a decision or ruling of the CTA *en banc* may file with the Supreme Court a verified petition for review on *certiorari* pursuant to Rule 45 of the 1997 Rules of Civil Procedure.

[6] Penned by Associate Justice Juanito C. Castañeda, Jr., with Presiding Justice Ernesto D. Acosta and Associate Justices Erlinda P. Uy, Caesar A. Casanova and Olga Palanca-Enriquez concurring, and Associate Justice Lovell R. Bautista dissenting; *rollo,* pp. 108-127.

[7] *Id*. at 71-79.

Antecedents

The CTA aptly summed up the facts of the case as follows:

[PMFC] is a corporation, organized and existing under the laws of the Philippines, with principal place of business at Aboitiz Corporate Center, Banilad, Cebu City.

The books of accounts of [PMFC] pertaining to 1996 were examined by the [CIR] thru Revenue Officer Eugenio D. Maestrado of Revenue District No. 81 (Cebu City North District) for deficiency income, value-added [tax] (VAT) and withholding tax liabilities.

As a result of the investigation, the following assessment notices were issued against [PMFC]:

(a) Assessment Notice No. 81-WT-13-96-98-11-126, dated November 26, 1998, demanding payment for deficiency withholding taxes for the year 1996 in the sum of ₱384,925.05 (inclusive of interest and other penalties);

(b) Assessment Notice No. 81-VAT-13-96-98-11-127, dated November 26, 1998, demanding payment of deficiency value-added tax in the sum of ₱5,017,778.01 (inclusive of interest and other penalties); [and]

(c) Assessment Notice No. 81-IT-13-96[-]98-11-128, dated November 26, 1998, demanding payment of deficiency income tax for the year 1996 in the sum of ₱4,359,046.96 (inclusive of interest and other penalties).

The foregoing Assessment Notices were all received by [PMFC] on December 1, 1998. On December 29, 1998, [PMFC] filed a protest letter against the aforementioned deficiency tax assessments through the Regional Director, Revenue Region No. 13, Cebu City.

In a final decision of the [CIR] on the disputed assessments dated July 3, 2000, the deficiency tax liabilities of [PMFC] were reduced from ₱9,761,750.02 to ₱3,020,259.30, broken down as follows:

a) Deficiency withholding tax from ₱384,925.05 to ₱197,780.67;
b) Deficiency value-added tax from ₱5,017,778.01 to ₱1,642,145.79; and
c) Deficiency Income Tax from ₱4,359,046.96 to ₱1,180,332.84.

x x x x x x x x x

On the basis of the foregoing facts[, PMFC] filed its Petition for Review on August 9, 2000. In the "Joint Stipulation of Facts" filed on March 7, 2001, the parties have agreed that the following are the issues to be resolved:

I. Whether or not [PMFC] is liable for the payment of deficiency income, value-added, expanded withholding, final withholding and withholding tax (on compensation).

II. On the ₱1,180,382.84 deficiency income tax

   A. Whether or not the ₱5,895,694.66 purchases of raw materials are unsupported[;]
   B. Whether or not the cancelled invoices and expenses for taxes, repairs and freight are unsupported[;]
   C. Whether or not commission, storage and trucking charges claimed are deductible[; and]
   D. Whether or not the alleged deficiency income tax for the year 1996 was correctly computed.

x x x x x x x x x

V. Whether or not [CIR's] decision on the 1996 internal revenue tax liabilities of [PMFC] is contrary to law and the facts.

After trial on the merits, the [CTA] in Division rendered the assailed Decision affirming the assessments but in the reduced amount of ₱2,804,920.36 (inclusive of surcharge and deficiency interest) representing [PMFC's] Income, VAT and Withholding Tax deficiencies for the taxable year 1996 plus 20% delinquency interest per annum until fully paid. The [CTA] in Division ruled as follows:

> "However, [PMFC's] contention that the NIRC of 1977 did not impose substantiation requirements on deductions from gross income is bereft of merit. Section 238 of the 1977 Tax Code [now Section 237 of the National Internal Revenue Code of 1997] provides:
>
> **SEC. 238.** ***Issuance of receipts or sales or commercial invoices***. – All persons, subject to an internal revenue tax shall for each sale or transfer of merchandise or for services rendered valued at ₱25.00 or more, issue receipts or sales or commercial invoices, prepared at least in duplicate, showing the date of transaction, quantity, unit cost and description of merchandise or nature of service:

> Provided, That in the case of sales, receipts or transfers in the amount of ₱100.00 or more, or, regardless of amount, where the sale or transfer is made by persons subject to value-added tax to other persons also subject to value-added tax; or, where the receipt is issued to cover payment made as rentals, commissions, compensations or fees, receipts or invoices shall be issued which shall show the name, business style, if any, and address of the purchaser, customer, or client. **The original of each receipt or invoice shall be issued to the purchaser, customer or client at the time the transaction is effected, who, if engaged in business or in the exercise of profession, shall keep and preserve the same in his place of business for a period of three (3) years from the close of the taxable year in which such invoice or receipt was issued**, while the duplicate shall be kept and preserved by the issuer, also in his place of business for a like period. x x x

From the foregoing provision of law, a person who is subject to an internal revenue tax shall issue receipts, sales or commercial invoices, prepared at least in duplicate. *The provision likewise imposed a responsibility upon the purchaser to keep and preserve the original copy of the invoice or receipt for a period of three years from the close of the taxable year in which such invoice or receipt was issued*. The rationale behind the latter requirement is the duty of the taxpayer to keep adequate records of each and every transaction entered into in the conduct of its business. So that when their books of accounts are subjected to a tax audit examination, all entries therein, could be shown as adequately supported and proven as legitimate business transactions. Hence, [PMFC's] claim that the NIRC of 1977 did not require substantiation requirements is erroneous.

In fact, in its effort to prove the above-mentioned purchases of raw materials, [PMFC] presented the following sales invoices:

Exhibit Number	Invoice No.	Date	Gross Amount	10% VAT	Net Amount
B-3	2072	04/18/96	₱2,312,670.00	₱210,242.73	₱2,102,427.27
B-7,					
B-11	2026	Undated	2,762,099.10	251,099.92	2,510,999.18
			₱5,074,769.10	₱461,342.65	₱4,613,426.45
			==========	==========	=========

The mere fact that *[PMFC] submitted the foregoing sales invoices belies [its] claim that the NIRC of 1977 did not require that deductions must be substantiated by adequate records*.

From the total purchases of ₱5,893,694.64 which have been disallowed, it seems that a portion thereof amounting to ₱1,280,268.19 (729,663.64 + 550,604.55) has *no supporting sales invoices* because of [PMFC's] failure to present said invoices.

A scrutiny of the invoices supporting the remaining balance of ₱4,613,426.45 (₱5,893,694.64 less ₱1,280,268.19) revealed the following:

a) In Sales Invoice No. 2072 marked as Exhibit B-3, *the name Pilmico Foods Corporation was erased and on top of it the name [PMFC] was inserted but with a countersignature therein*;

b) For *undated Sales Invoice No. 2026*, [PMFC] presented two exhibits marked as Exhibits B-7 and B-11. Exhibit B-11 is the original sales invoice whereas Exhibit B-7 is a photocopy thereof. *Both exhibits contained the word Mauri which was inserted on top and between the words Pilmico and Foods. The only difference is that in the original copy* (Exhibit B-11), *there was a countersignature although the ink used was different from that used in the rest of the writings in the said invoice*; while in the photocopied invoice (Exhibit B-7), *no such countersignature appeared*. [PMFC] did not explain why the said countersignature did not appear in the photocopied invoice considering it was just a mere reproduction of the original copy.

The sales invoices contain alterations particularly in the name of the purchaser giving rise to serious doubts regarding their authenticity and if they were really issued to [PMFC]. Exhibit B-11 does not even have any date indicated therein, which is a *clear violation of Section 238 of the NIRC of 1977 which required that the official receipts must show the date of the transaction*.

Furthermore, *[PMFC] should have presented documentary evidence establishing that Pilmico Foods Corporation did not claim the subject purchases as deduction from its gross income*.

> After all, the records revealed that both [PMFC] and its parent company, Pilmico Foods Corporation, have the same AVP Comptroller in the person of Mr. Eugenio Gozon, who is in-charge of the financial records of both entities x x x.
>
> Similarly, the *official receipts presented by [PMFC]* x x x, *cannot be considered as valid proof of [PMFC's] claimed deduction for raw materials purchases. The said receipts did not conform to the requirements provided for under Section 238 of the NIRC of 1977*, as amended. First*, the official receipts were not in the name of [PMFC] but in the name of Golden Restaurant*. And second, *these receipts were issued by PFC and not the alleged seller, JTE.*
>
> Likewise, [PMFC's] allegations regarding the offsetting of accounts between [PMFC], PFC and JTE is untenable. The following circumstances contradict [PMFC's] proposition: 1) *the Credit Agreement itself does not provide for the offsetting arrangement*; 2*) [PMFC] was not even a party to the credit agreement*; and 3) *the official receipts in question pertained to the year 1996 whereas the Credit Agreement (Exhibit M) and the Real Estate Mortgage Agreement (Exhibit N) submitted by [PMFC] to prove the fact of the offsetting of accounts, were both executed only in 1997.*
>
> Besides, in order to support its claim, [PMFC] should have presented the following vital documents, namely, 1) Written Offsetting Agreement; 2) proof of payment by [PMFC] to Pilmico Foods Corporation; and 3) Financial Statements for the year 1996 of Pilmico Foods Corporation to establish the fact that Pilmico Foods Corporation did not deduct the amount of raw materials being claimed by [PMFC].
>
> *Considering that the official receipts and sales invoices presented by [PMFC] failed to comply with the requirements of Section 238 of the NIRC of 1977, the disallowance by the [CIR] of the claimed deduction for raw materials is proper*.

[PMFC] filed a Motion for Partial Consideration on January 21, 2005 x x x but x x x [PMFC's] Motion for Reconsideration was denied in a Resolution dated May 19, 2005 for lack of merit. x x x.[8] (Citation omitted, italics ours and emphasis in the original)

---

[8] *Id*. at 109-114.

Unperturbed, PMFC then filed a petition for review before the CTA *en banc*, which adopted the CTA First Division's ruling and ratiocinations. Additionally, the CTA *en banc* declared that:

> The language of [Section 238] of the 1977 NIRC, as amended, is clear. It requires that for each sale valued at ₱100.00 or more, the name, business style and address of the purchaser, customer or client shall be indicated and that the purchaser is required to keep and preserve the same in his place of business. The purpose of the law in requiring the preservation by the purchaser of the official receipts or sales invoices for a period of three years is two-fold: 1) ***to enable said purchaser to substantiate his claimed deductions from the gross income,*** and 2*) to enable the Bureau of Internal Revenue to verify the accuracy of the gross income of the seller from external sources such as the customers of said seller.* Hence, [PMFC's] argument that there was no substantiation requirement under the 1977 NIRC is without basis.
>
> Moreover, the Supreme Court had ruled that in claiming deductions for business expenses[,] it is not enough to prove the business test but a claimant must substantially prove by evidence or records the deductions claimed under the law, thus:
>
> > The principle is recognized that when a taxpayer claims a deduction, *he must point to some specific provision of the statute in which that deduction is authorized* and must be able to prove that he is entitled to the deduction which the law allows. As previously adverted to, the law allowing expenses as deduction from gross income for purposes of the income tax is Section 30 (a) (1) of the National Internal Revenue which allows a deduction of "all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business.["] An item of expenditure, in order to be deductible under this section of the statute must fall squarely within its language.
> >
> > We come, then, to the statutory test of deductibility where it is axiomatic that to be deductible as a business expense, *three conditions* are imposed, namely: (1) the expense must be *ordinary and necessary*; (2) it must be *paid or incurred within the taxable year*, and (3) it must be *paid or incurred in carrying on a trade or business*. ***In addition, not only must the taxpayer meet the business test, he must substantially prove by evidence or records the deductions claimed under the law, otherwise, the same***

> ***will be disallowed***. The mere allegation of the taxpayer that an item of expense is ordinary and necessary does not justify its deduction. x x x

And in proving claimed deductions from gross income, the Supreme Court held that *invoices and official receipts are the best evidence to substantiate deductible business expenses*. x x x

x x x x x x x x x

The irregularities found on the official receipts and sales invoices submitted in evidence by [PMFC], i.e. not having been issued in the name of [PMFC] as the purchaser and the fact that the same were not issued by the alleged seller himself directly to the purchaser, rendered the same of no probative value.

Parenthetically, *the "Cohan Rule" which according to [PMFC] was adopted by the Supreme Court in the case of Visayan Cebu Terminal v. Collector, x x x, is not applicable because in both of these cases[,] there were natural calamities that prevented the taxpayers therein to fully substantiate their claimed deductions*. In the *Visayan Cebu Terminal* case, there was a fire that destroyed some of the supporting documents for the claimed expenses. There is no such circumstance in [PMFC's] case, hence, the ruling therein is not applicable. It is noteworthy that notwithstanding the destruction of some of the supporting documents in the aforementioned *Visayan Cebu Terminal* case, the Supreme Court[,] in denying the appeal[,] issued the following *caveat* noting the violation of the provision of the Tax Code committed by [PMFC] therein:

> "It may not be amiss to note that the explanation to the effect that the supporting paper of some of those expenses had been destroyed when the house of the treasurer was burned, **can hardly be regarded as satisfactory, for appellant's records are supposed to be kept in its offices,** not in the residence of one of its officers." x x x

From the above-quoted portion of the Supreme Court's Decision, *it is clear that compliance with the mandatory record-keeping requirements of the National Internal Revenue Code should not be taken lightly*. Raw materials are indeed deductible provided they are duly supported by official receipts or sales invoices prepared and issued in accordance with the invoicing requirements of the National Internal Revenue Code. x x x [PMFC] failed to show compliance with the requirements of Section 238 of the 1977 NIRC

as shown by the fact that the sales invoices presented by [it] were not in its name but in the name of Pilmico Foods Corporation.

x x x x x x x x x

In the Joint Stipulation of Facts filed on March 7, 2001, the parties have agreed that with respect to the deficiency income tax assessment, the following are the issues to be resolved:

a. Whether or not the ₱5,895,694.66 purchases of raw materials are unsupported;

x x x x x x x x x

Clearly, *the issue of proper substantiation of the deduction from gross income pertaining to the purchases of raw materials was properly raised even before [PMFC] began presenting its evidence. [PMFC] was aware that the [CIR] issued the assessment from the standpoint of lack of supporting documents for the claimed deduction and the fact that the assessments were not based on the deductibility of the cost of raw materials.* There is no difference in the basis of the assessment and the issue presented to the [CTA] in Division for resolution since both pertain to the issue of proper supporting documents for ordinary and necessary business expenses.[9] (Citation omitted, italics ours and emphasis in the original)

PMFC moved for reconsideration. Pending its resolution, the CIR issued Revenue Regulation (RR) No. 15-2006,[10] the abatement program of which was availed by PMFC on October 27, 2006. Out of the total amount of ₱2,804,920.36 assessed as income, value-added tax (VAT) and withholding tax deficiencies, plus surcharges and deficiency interests, PMFC paid the CIR ₱1,101,539.63 as basic deficiency tax. The PMFC, thus, awaits the CIR's approval of the abatement, which can render moot the resolution of the instant petition.[11]

---

[9] *Id*. at 122-126.

[10] Prescribes the guidelines on the implementation of one-time administrative abatement of all penalties/surcharges and interest on delinquent accounts and assessments (preliminary or final, disputed or not) as of June 30, 2006, published on September 28, 2006.

[11] *Rollo*, pp. 3-4.

Meanwhile, the CTA *en banc* denied the motion for reconsideration[12] of PMFC, in its Resolution[13] dated December 4, 2006.

Issues

In the instant petition, what is essentially being assailed is the CTA *en banc*'s concurrence with the CTA First Division's ruling, which affirmed but reduced the CIR's income deficiency tax assessment against PMFC. More specifically, the following errors are ascribed to the CTA:

I

The Honorable CTA First Division deprived PMFC of due process of law and the CTA assumed an executive function when it substituted a legal basis other than that stated in the assessment and pleading of the CIR, contrary to law.

II

The decision of the Honorable CTA First Division must conform to the pleadings and the theory of the action under which the case was tried. A judgment going outside the issues and purporting to adjudicate something on which the parties were not heard is invalid. Since the legal basis cited by the CTA supporting the validity of the assessment was never raised by the CIR, PMFC was deprived of its constitutional right to be apprised of the legal basis of the assessment.

III

The nature of evidence required to prove an ordinary expense like raw materials is governed by Section 29[14] of

---

[12] *Id*. at 84-106.

[13] *Id*. at 71-79.

[14] **Sec. 29.** ***Deductions from gross income***.— In computing taxable income subject to tax under Sections 21 (a), 24 (a), (b) and (c); and 25 (a) (1), there shall be allowed as deductions the items specified in paragraphs (a) to (i) of this section; *Provided, however*, That in computing taxable income subject

the 1977 National Internal Revenue Code (NIRC) and not by Section 238 as found by the CTA.[15]

In support of the instant petition, PMFC claims that the deficiency income tax assessment issued against it was anchored on Section 34(A)(1)(b)[16] of the 1997 NIRC. In disallowing the

---

to tax under Section 21 (f) in the case of individuals engaged in business or practice of profession, only the following direct costs shall be allowed as deductions:

(a) Raw materials, supplies and direct labor;

x x x x x x x x x

For individuals whose cost of goods sold and direct costs are difficult to determine, a maximum of forty per cent (40%) of their gross receipts shall be allowed as deductions to answer for business or professional expenses as the case may be. (As amended by Republic Act No. 7496, May 18, 1992)

x x x x x x x x x

(a) Expenses. — (1) Business expenses. — (A) In general. — All ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered; travelling expenses while away from home in the pursuit of a trade profession or business, rentals or other payments required to be made as a condition to the continued use or possession, for the purpose of the trade, profession or business, of property to which the taxpayer has not taken or is not taking title or in which he has no equity.

x x x x x x x x x

(Underscoring ours)

[15] *Rollo*, p. 44.

[16] **SEC. 34.** ***Deductions from Gross Income***. — Except for taxpayers earning compensation income arising from personal services rendered under an employer-employee relationship where no deductions shall be allowed under this Section other than under subsection (M) hereof, in computing taxable income subject to income tax under Sections 24 (A); 25 (A); 26; 27 (A), (B) and (C); and 28 (A) (1), there shall be allowed the following deductions from gross income;

(A) ***Expenses*****. -**

(1) ***Ordinary and Necessary Trade, Business or Professional Expenses***. —

(b) *Substantiation Requirements*. — No deduction from gross income shall be allowed under Subsection (A) hereof unless the taxpayer shall substantiate with sufficient evidence, such as official receipts

deduction of the purchase of raw materials from PMFC's gross income, the CIR never made any reference to Section 238 of the 1977 NIRC relative to the mandatory requirement of keeping records of official receipts, upon which the CTA had misplaced reliance. Had substantiation requirements under Section 238 of the 1977 NIRC been made an issue during the trial, PMFC could have presented official receipts or invoices, or could have compelled its suppliers to issue the same.[17]

PMFC further argues that in determining the deductibility of the purchase of raw materials from gross income, Section 29 of the 1977 NIRC is the applicable provision. According to the said section, for the deduction to be allowed, the expenses must be (a) both ordinary and necessary; (b) incurred in carrying on a trade or business; and (c) paid or incurred within the taxable year. PMFC, thus, claims that prior to the promulgation of the 1997 NIRC, the law does not require the production of official receipts to prove an expense.[18]

In its Comment,[19] the Office of the Solicitor General (OSG) counters that the arguments advanced by PMFC are mere reiterations of those raised in the proceedings below. Further, PMFC was fully apprised of the assailed tax assessments and had all the opportunities to prove its claims.[20]

The OSG also avers that in the Joint Stipulation of Facts filed before the CTA First Division on March 7, 2001, it was stated that one of the issues for resolution was "*whether or not the Php5,895,694.66 purchases of raw materials are unsupported*." Hence, PMFC was aware that the CIR issued the assessments due to lack of supporting documents for the

---

or other adequate records: (i) the amount of the expense being deducted, and (ii) the direct connection or relation of the expense being deducted to the development, management, operation and/or conduct of the trade, business or profession of the taxpayer. (Underscoring ours)

[17] *Rollo*, pp. 46-49.

[18] *Id*. at 56-57.

[19] *Id*. at 193-207.

[20] *Id*. at 205.

deductions claimed. Essentially then, even in the proceedings before the CIR, the primary issue has always been the lack or inadequacy of supporting documents for ordinary and necessary business expenses.[21]

The OSG likewise points out that PMFC failed to satisfactorily discharge the burden of proving the propriety of the tax deductions claimed. Further, there were discrepancies in the names of the sellers and purchasers indicated in the receipts casting doubts on their authenticity.[22]

Ruling of the Court

The Court affirms but modifies the herein assailed decision and resolution.

Preliminary matters

On December 19, 2006, PMFC filed before the Court a motion for extension of time to file a petition for review.[23] In the said motion, PMFC informed the Court that it had availed of the CIR's tax abatement program, the details of which were provided for in RR No. 15-2006. PMFC paid the CIR the amount of ₱1,101,539.63 as basic deficiency tax. PMFC manifested that if the abatement application would be approved by the CIR, the instant petition filed before the Court may be rendered superfluous.

According to Section 4 of RR No. 15-2006, after the taxpayer's payment of the assessed basic deficiency tax, the docket of the case shall be forwarded to the CIR, thru the Deputy Commissioner for Operations Group, for issuance of a termination letter. However, as of this Resolution's writing, none of the parties have presented the said termination letter. Hence, the Court cannot outrightly dismiss the instant petition on the ground of mootness.

---

[21] *Id*. at 200-201.

[22] *Id*. at 201, 205.

[23] *Id*. at 3-6.

On the procedural issues raised by PMFC

The first and second issues presented by PMFC are procedural in nature. They both pertain to the alleged omission of due process of law by the CTA since in its rulings, it invoked Section 238 of the 1977 NIRC, while in the proceedings below, the CIR's tax deficiency assessments issued against PMFC were instead anchored on Section 34 of the 1997 NIRC.

Due process was not violated.

In *CIR v. Puregold Duty Free, Inc.*,[24] the Court is emphatic that:

> It is well settled that matters that were neither alleged in the pleadings nor raised during the proceedings below cannot be ventilated for the first time on appeal and are barred by estoppel. To allow the contrary would constitute a violation of the other party's right to due process, and is contrary to the principle of fair play. x x x
>
> > x x x Points of law, theories, issues, and arguments not brought to the attention of the trial court ought not to be considered by a reviewing court, as these cannot be raised for the first time on appeal. To consider the alleged facts and arguments belatedly raised would amount to trampling on the basic principles of fair play, justice, and due process.[25] (Citations omitted)

In the case at bar, the CIR issued assessment notices against PMFC for deficiency income, VAT and withholding tax for the year 1996. PMFC assailed the assessments before the Bureau of Internal Revenue and later, before the CTA.

In the Joint Stipulation of Facts, dated March 7, 2001, filed before the CTA First Division, the CIR and PMFC both agreed that among the issues for resolution was "*whether or not the ₱5,895,694.66 purchases of raw materials are unsupported*."[26] Estoppel, thus, operates against PMFC anent its argument that

---

[24] G.R. No. 202789, June 22, 2015.

[25] *Id*.

[26] *Rollo*, p. 110.

the issue of lack or inadequacy of documents to justify the costs of purchase of raw materials as deductions from the gross income had not been presented in the proceedings below, hence, barred for being belatedly raised only on appeal.

Further, in issuing the assessments, the CIR had stated the material facts and the law upon which they were based. In the petition for review filed by PMFC before the CTA, it was the former's burden to properly invoke the applicable legal provisions in pursuit of its goal to reduce its tax liabilities. The CTA, on the other hand, is not bound to rule solely on the basis of the laws cited by the CIR. Were it otherwise, the tax court's appellate power of review shall be rendered useless. An absurd situation would arise leaving the CTA with only two options, to wit: (a) affirming the CIR's legal findings; or (b) altogether absolving the taxpayer from liability if the CIR relied on misplaced legal provisions. The foregoing is not what the law intends.

To reiterate, PMFC was at the outset aware that the lack or inadequacy of supporting documents to justify the deductions claimed from the gross income was among the issues raised for resolution before the CTA. With PMFC's acquiescence to the Joint Stipulation of Facts filed before the CTA and thenceforth, the former's participation in the proceedings with all opportunities it was afforded to ventilate its claims, the alleged deprivation of due process is bereft of basis.

On the applicability of Section 29 of the 1977 NIRC

The third issue raised by PMFC is substantive in nature. At its core is the alleged application of Section 29 of the 1977 NIRC as regards the deductibility from the gross income of the cost of raw materials purchased by PMFC.

It bears noting that while the CIR issued the assessments on the basis of Section 34 of the 1997 NIRC, the CTA and PMFC are in agreement that the 1977 NIRC finds application.

However, while the CTA ruled on the basis of Section 238 of the 1977 NIRC, PMFC now insists that Section 29 of the same code should be applied instead. Citing *Atlas Consolidated*

Mining and Development Corporation v. CIR,[27] PMFC argues that Section 29 imposes less stringent requirements and the presentation of official receipts as evidence of the claimed deductions is dispensable. PMFC further posits that the mandatory nature of the submission of official receipts as proof is a mere innovation in the 1997 NIRC, which cannot be applied retroactively.[28]

PMFC's argument fails.

The Court finds that the alleged differences between the requirements of Section 29 of the 1977 NIRC invoked by PMFC, on one hand, and Section 238 relied upon by the CTA, on the other, are more imagined than real.

In *CIR v. Pilipinas Shell Petroleum Corporation*,[29] the Court enunciated that:

> It is a rule in statutory construction that every part of the statute must be interpreted with reference to the context, *i.e.*, that every part of the statute must be considered together with the other parts, and kept subservient to the general intent of the whole enactment. The law must not be read in truncated parts, its provisions must be read in relation to the whole law. The particular words, clauses and phrases should not be studied as detached and isolated expression, but the whole and every part of the statute must be considered in fixing the meaning of any of its parts and in order to produce a harmonious whole.[30] (Citations omitted)

The law, thus, intends for Sections 29 and 238 of the 1977 NIRC to be read together, and not for one provision to be accorded preference over the other.

It is undisputed that among the evidence adduced by PMFC on its behalf are the official receipts of alleged purchases of raw materials. Thus, the CTA cannot be faulted for making

---

[27] 190 Phil. 195 (1981).

[28] *Rollo*, pp. 56-58.

[29] G.R. No. 192398, September 29, 2014, 736 SCRA 623.

[30] *Id.* at 637.

references to the same, and for applying Section 238 of the 1977 NIRC in rendering its judgment. Required or not, the official receipts were submitted by PMFC as evidence. Inevitably, the said receipts were subjected to scrutiny, and the CTA exhaustively explained why it had found them wanting.

PMFC cites *Atlas*[31] to contend that the *statutory test*, as provided in Section 29 of the 1977 NIRC, is sufficient to allow the deductibility of a business expense from the gross income. As long as the expense is: (a) both ordinary and necessary; (b) incurred in carrying a business or trade; and (c) paid or incurred within the taxable year, then, it shall be allowed as a deduction from the gross income.[32]

Let it, however, be noted that in *Atlas*, the Court likewise declared that:

> In addition, not only must the taxpayer meet the business test, *he must substantially prove by evidence or records the deductions claimed under the law, otherwise, the same will be disallowed*. The mere allegation of the taxpayer that an item of expense is ordinary and necessary does not justify its deduction.[33] (Citation omitted and italics ours)

It is, thus, clear that Section 29 of the 1977 NIRC does not exempt the taxpayer from substantiating claims for deductions. While official receipts are not the only pieces of evidence which can prove deductible expenses, if presented, they shall be subjected to examination. PMFC submitted official receipts as among its evidence, and the CTA doubted their veracity. PMFC was, however, unable to persuasively explain and prove through other documents the discrepancies in the said receipts. Consequently, the CTA disallowed the deductions claimed, and in its ruling, invoked Section 238 of the 1977 NIRC considering that official receipts are matters provided for in the said section.

---

[31] *Supra* note 27.

[32] *Rollo*, p. 56.

[33] *Atlas Consolidated Mining and Development Corporation v. CIR*, *supra* note 27, at 204.

Conclusion

The Court recognizes that the CTA, which by the very nature of its function is dedicated exclusively to the consideration of tax problems, has necessarily developed an expertise on the subject, and its conclusions will not be overturned unless there has been an abuse or improvident exercise of authority. Such findings can only be disturbed on appeal if they are not supported by substantial evidence or there is a showing of gross error or abuse on the part of the tax court. In the absence of any clear and convincing proof to the contrary, the Court must presume that the CTA rendered a decision which is valid in every respect.[34]

Further, revenue laws are not intended to be liberally construed. Taxes are the lifeblood of the government and in Holmes' memorable metaphor, the price we pay for civilization; hence, laws relative thereto must be faithfully and strictly implemented.[35] While the 1977 NIRC required substantiation requirements for claimed deductions to be allowed, PMFC insists on leniency, which is not warranted under the circumstances.

Lastly, the Court notes too that PMFC's tax liabilities have been more than substantially reduced to 2,804,920.36 from the CIR's initial assessment of ₱9,761,750.02.[36]

In précis, the affirmation of the herein assailed decision and resolution is in order.

However, the Court finds it proper to modify the herein assailed decision and resolution to conform to the interest rates prescribed in *Nacar v. Gallery Frames, et al.*[37] The total amount of ₱2,804,920.36 to be paid by PMFC to the CIR shall be subject to an interest of six percent (6%) *per annum* to be computed from the finality of this Resolution until full payment.

---

[34] *CIR v. Puregold Duty Free, Inc.*, *supra* note 24, citing *Toshiba Information Equipment (Phils.), Inc. v. CIR*, 628 Phil. 430, 468 (2010).

[35] *CIR v. Acosta*, 556 Phil. 31, 39-40 (2007).

[36] *Rollo*, pp. 110-111.

[37] 716 Phil. 267 (2013).

WHEREFORE, the instant petition is **DENIED**. The Decision dated August 29, 2006 and Resolution dated December 4, 2006 of the Court of Tax Appeals *en banc* in C.T.A. EB No. 97 are **AFFIRMED**. However, as **MODIFICATION** thereof, the legal interest of six percent (6%) *per annum*, reckoned from the finality of this Resolution until full satisfaction, is hereby imposed upon the amount of ₱2,804,920.36 to be paid by Pilmico-Mauri Foods Corporation to the Commissioner of Internal Revenue.

SO ORDERED.

Velasco, Jr. (Chairperson), Peralta, Perez, and *Jardeleza, JJ.,* concur.

FIRST DIVISION

[G.R. Nos. 190015 & 190019. September 14, 2016]

GERALDINE MICHELLE B. FALLARME and ANDREA MARTINEZ-GACOS, *petitioners, vs.* **SAN JUAN DE DIOS EDUCATIONAL FOUNDATION, INC., CHONA M. HERNANDEZ, VALERIANO ALEJANDRO III, SISTER CONCEPCION GABATINO, D.C., and SISTER JOSEFINA QUIACHON, D.C.,** *respondents*.

SYLLABUS

1. REMEDIAL LAW; CIVIL PROCEDURE; APPEALS; PETITION FOR REVIEW ON *CERTIORARI*; LIMITED TO QUESTIONS OF LAW, EXCEPT WHEN THE FINDINGS OF THE COURT OF APPEALS CONFLICT WITH THOSE OF THE LABOR AUTHORITIES, IN WHICH CASE THE COURT WILL NOT HESITATE TO REVIEW THE EVIDENCE ON RECORD.— [W]e note the general rule that a petition for review on *certiorari* under Rule 45 is limited to questions of law. However, an exception to