REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

FIRST DIVISION

CTA CASE NO. 10652

QUANTUVIS RESOURCES CORPORATION,
Petitioner,

- versus -

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

NOTICE OF JUDGMENT BASED ON COMPROMISE AGREEMENT

To:

OFFICE OF THE SOLICITOR GENERAL
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SENATE OF THE PHILIPPINES
Thru: Office of the Senate President
GSIS Building, Diokno Boulevard
Pasay City

HOUSE OF THE REPRESENTATIVES
Thru: Office of the House Speaker
IBP Road, Batasan Hills
1126 Quezon City

GREETINGS:

You are hereby notified by these presents that on **January 23, 2025,** a Decision was rendered in the above-entitled case, copy of which is attached hereto.

Quezon City, Philippines, **January 24, 2025.**

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

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QUANTUVIS RESOURCES CORPORATION,
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- versus -

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

CTA CASE NO. **10652**

Members:

DEL ROSARIO, *P.J.*, *Chairperson*,
BACORRO-VILLENA, *and*
CUI-DAVID, *JJ.*

Promulgated:
JAN 23 2025 2:00PM

x - x

JUDGMENT BASED ON COMPROMISE AGREEMENT

BACORRO-VILLENA, J.:

For the Court's resolution are:

(1) The parties' "Joint Motion to Render Judgment Based on Submitted Compromise Agreement [**CA**]"[1] (**Joint Motion**) filed on 16 August 2024, with the following attachments, to wit:

(a) Certified true copy of petitioner Quantuvis Resources Corporation's (**petitioner**'s) "Judicial Compromise Offer"[2] signed by both petitioner's authorized representative and respondent Commissioner of Internal Revenue (**respondent/CIR**) and showing approval of the CA by the National Evaluation Board (**NEB**);

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1 Division Docket, Volume II, pp. 714-717.
2 Id., p. 718.

(b) Certified true copy of petitioner's "Certificate of Availment (Compromise Settlement)"[3];

(c) Duly executed and signed "Judicial Compromise Agreement"[4];

(d) Payment Form[5] (Bureau of Internal Revenue [BIR] Form No. 0605) and BIR Payment Slip[6];

(e) Copy of petitioner's "Application for Compromise Settlement of Internal Revenue Tax Liabilities"[7] (BIR Form No. 2107) for a compromise rate of 20%; and,

(f) Secretary's Certificate[8] executed by petitioner authorizing Mary Ann C. Ongyiu and the law firm of Tan Venturanza Valdez, or any of its lawyers, to sign the CA on petitioner's behalf, among others; and,

(2) The parties' "Joint Compliance and Manifestation (Re: Resolution dated 07 October 2024)"[9] (**Joint Manifestation**) filed on 14 October 2024, with a copy of petitioner's Letter Request for Application of Compromise[10] filed with the Bureau of Internal Revenue (**BIR**) attached as Annex "A".

In the Resolution dated 07 October 2024[11], the Court held in abeyance its resolution on the parties' Joint Motion, pending their compliance with the Court's directive therein.

In the said Resolution, the Court noted that the parties' CA had not entirely followed the prevailing law and rules for its approval. In particular, their CA is silent on the legal and/or factual reasons for the application of the lower compromise rate approved therein, apart from indicating the "doubtful validity of the assessment" as basis for the compromise settlement.

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3 Id., p. 719.
4 Id., pp. 720-725.
5 Id., pp. 728.
6 Id., p. 727.
7 Id., p. 730.
8 Id., pp. 731-732.
9 Id., pp. 740-749.
10 Id., pp. 750-766.
11 Id., pp. 735-739.

Accordingly, the Court ordered the parties to detail the legal and/or factual reasons relied on for invoking the ground of reasonable doubt as to the validity of the assessment, upon which the compromise amount was based.

We resolve.

On 14 October 2024, the parties filed their Joint Manifestation, in compliance with the Court's directive in the Resolution dated 07 October 2024.

We proceed to verify the validity and propriety of the parties' agreement.

As the parties had set forth in their CA, the instant offer for compromise is grounded upon the **doubtful validity of the assessment**. However, the Court observed that the amount in the compromise offer was only equivalent to 20% of the basic tax deficiency, which is **less than the 40% prescribed minimum percentage** under the pertinent rules. Specifically, Revenue Regulations (**RR**) No. 30-2002[12] as amended by RR No. 08-2004[13] provides:

> ...
>
> SEC. 4. **PRESCRIBED MINIMUM PERCENTAGES OF COMPROMISE SETTLEMENT.** – The compromise settlement of the internal revenue tax liabilities of taxpayers, reckoned on a per tax type assessment basis, shall be subject to the following minimum rates based on the basic assessed tax:
>
> ...
>
> 2. **For cases of "doubtful validity"** – A minimum compromise rate equivalent to forty percent (40%) of the basic assessed tax.
>
>   The taxpayer may, nevertheless, request for a compromise rate lower than forty percent (40%): Provided, however, that he shall be required to submit his request in writing **stating therein the reasons, legal**

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12 Revenue Regulations Implementing Sections 7(c), 204(A) and 290 of the National Internal Revenue Code of 1997 on Compromise Settlement of Internal Revenue Tax Liabilities Superseding Revenue Regulations Nos. 6-2000 and 7-2001.

13 Revenue Regulations Implementing Sections 7(c), 204(A) and 290 of the National Internal Revenue Code of 1997 on Compromise Settlement of Internal Revenue Tax Liabilities Superseding Revenue Regulations Nos. 7-2001 and 30-2002.

> **and/or factual, why he should be entitled to such lower rate**: Provided, further, that for applications of compromise settlement based on doubtful validity of the assessment involving an offer lower than the minimum forty percent (40%) compromise rate, the same shall be subject to the prior approval by the NEB.
>
> The herein prescribed minimum percentages shall likewise apply in compromise settlement of assessments consisting solely of increments, i.e., surcharge, interest, etc., based on the total amount assessed.[14]
>
> ...

As the records bear, the NEB approved petitioner's Judicial Compromise Offer for a lower compromise rate following the provisions of Section 4 of RR No. 30-2002, as amended.[15] After a thorough examination of the same, the Court finds the NEB's approval will be in order.

Notably, as stated, beyond specifying the doubtful validity of the assessment as basis for the compromise settlement, the subject CA is otherwise silent as to the legal and/or factual reasons for the application of the lower compromise rate.

Section 3 of the No. 30-2002, as amended, lays down the specific reasons that, when sufficiently demonstrated, would allow the CIR to compromise the payment of any internal revenue taxes premised on the doubtful validity of an assessment:

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14 Emphasis in the original text and underscoring supplied.

15 Sec. 4. *Prescribed Minimum Percentages of Compromise Settlement.* — ...

...

2. For cases of "doubtful validity" – A minimum compromise rate equivalent to forty percent (40%) of the basic assessed tax.

The taxpayer may, nevertheless, request for a compromise rate lower than forty percent (40%): Provided, however, that he shall be required to submit his request in writing stating therein the reasons, legal and/or factual, why he should be entitled to such lower rate: Provided, further, that for applications of compromise settlement based on doubtful validity of the assessment involving an offer lower than the minimum forty percent (40%) compromise rate, the same shall be subject to the prior approval by the NEB.

The herein prescribed minimum percentages shall likewise apply in compromise settlement of assessments consisting solely of increments, *i.e.*, surcharge, interest, etc., based on the total amount assessed.

...

...

SEC. 3. BASIS FOR ACCEPTANCE OF COMPROMISE SETTLEMENT. — The Commissioner may compromise the payment of any internal revenue tax on the following grounds:

1. **Doubtful validity of the assessment.** — The offer to compromise a delinquent account or disputed assessment under these Regulations on the ground of reasonable doubt as to the validity of the assessment may be accepted when it is shown that:

   (a) The delinquent account or disputed assessment is one resulting from a jeopardy assessment (For this purpose, "*jeopardy assessment*" shall refer to a tax assessment which was assessed without the benefit of complete or partial audit by an authorized revenue officer, who has reason to believe that the assessment and collection of a deficiency tax will be jeopardized by delay because of the taxpayer's failure to comply with the audit and investigation requirements to present his books of accounts and/or pertinent records, or to substantiate all or any of the deductions, exemptions, or credits claimed in his return); or

   (b) The assessment seems to be arbitrary in nature, appearing to be based on presumptions and there is reason to believe that it is lacking in legal and/or factual basis; or

   (c) The taxpayer failed to file an administrative protest on account of the alleged failure to receive notice of assessment and there is reason to believe that the assessment is lacking in legal and/or factual basis; or

   (d) The taxpayer failed to file a request for reinvestigation/reconsideration within 30 days from receipt of final assessment notice and there is reason to believe that the assessment is lacking in legal and/or factual basis; or

   (e) The taxpayer failed to elevate to the Court of Tax Appeals (CTA) an adverse decision of the Commissioner, or his authorized representative, in some cases, within 30 days from receipt thereof and there is reason to believe that the assessment is lacking in legal and/or factual basis; or

   (f) The assessments were issued on or after January 1, 1998, where the demand notice allegedly failed to comply with the formalities prescribed under Sec. 228 of the National Internal Revenue Code of 1997; or

(g) Assessments made based on the "Best Evidence Obtainable Rule" and there is reason to believe that the same can be disputed by sufficient and competent evidence; or

(h) The assessment was issued within the prescriptive period for assessment as extended by the taxpayer's execution of Waiver of the Statute of Limitations the validity or authenticity of which is being questioned or at issue and there is strong reason to believe and evidence to prove that it is not authentic; or

(i) The assessment is based on an issue where a court of competent jurisdiction made an adverse decision against the Bureau, but for which the Supreme Court has not decided upon with finality.

...

The parties addressed the lapse in essential information through their Joint Manifestation, where they clearly manifested the legal and factual grounds relied upon for invoking the ground of the assessment's doubtful validity. In support thereof, the parties attached to their Joint Manifestation a copy of petitioner's Letter Request for Application of Compromise.[16]

Both petitioner and respodent cite Section 3 (1) (b) from the foregoing enumeration, or the *arbitrary nature of the assessment*. In their Joint Manifestation[17], they thus declared:

> ...
>
> 2. In particular, invoking Sec. 3 (1) (b) of Revenue Regulations ("RR") No. 30-2022, petitioner offered to compromise the subject VAT assessment on the ground of reasonable doubt as to the validity of the assessment as it is of the position that based on the facts, that the assessment was arbitrary in nature, appearing to be based on presumptions and there is reason to believe that it is lacking in legal and/or factual basis. The BIR's issuance of the Final Assessment Notice ("FAN") on 04 April 2016 (a Monday), which was received by petitioner in the morning of the same day, without consideration and evaluation of the arguments in reply to the Preliminary Assessment Notice ("PAN") filed on 29 March 2016 (a Tuesday) violated petitioner's right to due process following the case of *Commissioner of Internal Revenue v. Avon Products Manufacturing, Inc.* ...

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16 Supra at note 10.

17 Supra at note 9; citations omitted, italics in the original text.

4. In fact, it is petitioner's submission that the assessment is not just of doubtful validity but is patently void as it was issued in violation of petitioner's right to due process in the assessment procedure when the FAN did not consider petitioner's arguments contained in its reply to the PAN following the pronouncement of the Supreme Court in the cited case of *Avon*. Hence, petitioner's letter request for a 20% compromise. Accordingly, the assessment was issued in a capricious and arbitrary manner, and there is reason to believe that it is lacking in legal and/or factual basis.

5. Aside from the foregoing argument, petitioner also cited the grounds discussed in the succeeding paragraphs in its letter request for compromise based on doubtful validity of the assessment as well as in its *Petition for Review* filed before the Honorable Court for the cancellation of the assessment, namely that: (1) the assessment is void for being based on unverified third-party information; (2) the assessment has no legal and factual basis; and (3) the right to collect the subject assessment has prescribed.

...

9. Based on the above discussed legal and factual reasons, both the National Evaluation Board and respondent conformed to petitioner's proposal offer of a 20% compromise based on the basic tax assessed.

10. In compliance with the *Resolution* dated 07 October 2024, petitioner and respondent respectfully manifest that the foregoing are the legal and/or factual reasons relied on for invoking the ground of reasonable doubt as to the validity of the assessment, upon which the compromise amount was based. Accordingly, the Parties humbly pray that Honorable Court render a judgment based on the Compromise Agreement.

...

We proceed further.

In the parties' CA, they have agreed to the following:

...

NOW, THEREFORE, for and in consideration of the foregoing premises, the **PARTIES** hereto have agreed as follows:

Section 1. Judicial Compromise Amount. In order to settle the above-mentioned case, the **TAXPAYER** has offered and the **BIR** has accepted the amount equivalent to 20% of the basic deficiency tax for value added tax in the total amount of ₱1,483,030.40;

This amount is broken down as follows:

TAX TYPE	BASIC TAX	OFFER	RATE
VAT	₱7,415,151.98	₱1,483,030.40	20%

The Judicial Compromise Amount was paid by the **TAXPAYER** on 07 December 2021. As proof of payment of the above-mentioned offer, attached herein as **Annexes "A" and "B"** are Payment Form (BIR Form 0605) and BIR Payment Slip – Landbank, respectively.

Section 2. Submission to the Honorable CTA. This Agreement fully signed by the PARTIES shall be submitted for the approval of the Honorable Court of Tax Appeals in CTA Case No. 10652. The **PARTIES** undertake to perform any and all acts, and submit any and all documents required by the Honorable CTA for it to render a **judgment based on this compromise agreement.**

Section 3. Effectivity of the Agreement. This **Agreement** shall take effect and bind the **PARTIES** upon approval by the Honorable CTA This **Agreement** shall thereafter remain in force and effect until completion and fulfillment of the covenants end undertakings of the **PARTIES** hereto.

Section 4. Deliverables of the PARTIES upon approval of this Agreement by the Honorable CTA. Upon final approval by the Honorable CTA of this **Agreement**, the **BIR** undertakes to execute and deliver to the **TAXPAYER** any and all documents as may be required to effectively and fully implement the provisions of this **Agreement**, withdrawing and cancelling the FDDA dated September 9, 2016 and Warrant of Distraint and/or Levy and Warrant of Garnishment, such as the Authority to Cancel Assessment.

Section 5. Authority to Enter Compromise Agreement. The BIR, through Commissioner Romeo D. Lumagui, Jr. warrants that he has the necessary authority and capacity under the law to enter, sign, and execute this **Agreement**, and to deliver its implementing documents upon its approval by the Honorable CTA.

On the other hand, **Ms. Mary Ann C. Ongyiu (Treasurer)** is duly authorized by the Board of Directors of the **TAXPAYER** and has full legal capacity to enter, sign, and execute this **Agreement**, and to deliver payment of the above-agreed amount as evidenced by Secretary's Certificate dated 06 May 2024, attached herein as **Annex "C"**.

Section 6. Full and Final Settlement. This **Agreement** is executed by the **PARTIES** for the purpose of amicably settling and terminating CTA Case No. 10652. Upon approval of the Honorable CTA, the **BIR** recognizes the full satisfaction of the supposed tax liability of the **TAXPAYER** in connection with CTA Case No. 10652 and acknowledges that the **TAXPAYER** no longer has any tax liability whatsoever based upon, arising from, or in connection with the particular subject of CTA Case No. 10652.

Section 7. Disapproval of this Agreement by the Honorable CTA. In the event that this **Agreement** is disapproved by the Honorable CTA, the **PARTIES** agree to a curing period of sixty (60) days from receipt of the Order/Resolution disapproving this **Agreement**. During such curing period, the **PARTIES** mutually agree to perform any and all acts necessary to rectify or correct the deficiency, defect or imperfection which caused its disapproval, and re-submit the rectified or corrected Agreement for approval of the Honorable CTA. However, in case the deficiency, defect or imperfection is not or cannot be rectified or corrected within the said curing period, or still not approved by the Honorable CTA after it is rectified or corrected by the parties:

1) The amount already paid by the **TAXPAYER** to the **BIR** shall be deemed a tax credit which may be applied against the internal revenue taxes that the **TAXPAYER** may be directly liable, as allowed under existing rules and regulations; and

2) The proceedings of CTA Case No. 10652 shall continue and the discussions pursuant to the disapproved Agreement cannot be used by the **PARTIES** in said proceeding unless consent of the other party be obtained.

Section 8. No Admission of Liability. The execution of this **Agreement** shall not constitute or be interpreted in any way as an admission or acknowledgment of error or liability by the **PARTIES**.

Section 9. Non-Performance. The **PARTIES** agree that the failure of any **PARTY** to comply with any of the terms and conditions of this Agreement shall entitle the aggrieved **PARTY** to file an appropriate motion with the Honorable CTA for the immediate implementation and execution of the terms and conditions of this Agreement or the judgment or order of the Honorable CTA approving the same.

> **Section 10. Signatures and Counterparts.** This Agreement may be signed in counterparts, each of which when executed and delivered, shall constitute a duplicate original, but all of which shall be taken together as a single instrument. Until and unless each party has received counterpart hereof signed by the other party hereto, the Agreement shall have no effect and no party shall have any right or obligation hereunder.[18]
>
> ...

Upon a careful review of the parties' CA and the documents submitted in support thereof, the Court finds the CA compliant with the provisions of the National Internal Revenue Code (**NIRC**) of 1997, as amended. The Court further finds that the grounds stated for the application of a lower compromise rate are **compliant** with the requirements of RR No. 30-2002, as amended.

In closing, however, the Court sees it necessary to state that Section 204(A) of the NIRC of 1997, as amended, provides for the authority of the CIR to compromise the payment of internal revenue taxes, which provides:

> ...
>
> SEC. 204. *Authority of the Commissioner to Compromise, Abate and Refund or Credit Taxes.* – The Commissioner may –
>
> (A) Compromise the payment of any internal revenue tax, when:
>
> (1) A reasonable doubt as to the validity of the claim against the taxpayer exists; or
>
> (2) The financial position of the taxpayer demonstrates a clear inability to pay the assessed tax.
>
> The compromise settlement of any tax liability shall be subject to the following minimum amounts:
>
> For cases of financial incapacity, a minimum compromise rate equivalent to ten percent (10%) of the basic assessed tax; and
>
> For other cases, a minimum compromise rate equivalent to forty percent (40%) of the basic assessed tax.

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[18] Emphasis in the original text.

> Where the basic tax involved exceeds One million pesos (₱1,000,000) or **where the settlement offered is less than the prescribed minimum rates, the compromise shall be subject to the approval of the Evaluation Board which shall be composed of the Commissioner and the four (4) Deputy Commissioners.**[19]
>
> ...

The law allows the compromise of internal revenue taxes if there is reasonable doubt as to the validity of the claim against the taxpayer, and the Commissioner of Internal Revenue (CIR) may accept an **offer with lower than the minimum statutory compromise rate of forty percent** (40%) provided that the NEB approves.

The Court notes that there is nothing in the NIRC of 1997, as amended, or its implementing rules, which provide for parameters or clear-cut guidelines on when a compromise rate lower than forty percent (40%) may be allowed or approved by the NEB. *Sans* clear parameters or guidelines in the law that the NEB must adhere to, the unfettered discretion granted to the NEB may become susceptible to abuse (or allow corruption) to the prejudice of both the taxpayer and the government. Illustratively, a ₱100.00 compromise amount involving a ₱1 Billion deficiency taxes would be considered lawful merely because the NEB has approved the same.

The foregoing noted insufficiency in the law is one that must be resolved by legislation, specifically by corresponding amendments to Section 204(A) of the NIRC of 1997, as amended.

WHEREFORE, the Court hereby **RESOLVES** to:

(1) **GRANT** the parties' "Joint Motion to Render Judgment Based on Submitted Compromise Agreement" filed on 16 August 2024;

(2) **APPROVE** the Compromise Agreement entered into by the parties and **ADOPT** the same as the Court's judgment in herein case;

(3) **ENJOIN** the parties to faithfully comply with all the terms and conditions of the said Compromise Agreement;

19 Emphasis supplied.

(4) **DECLARE** the proceedings as **CLOSED** and **TERMINATED**; and,

(5) **FURNISH** a copy of this Judgment to the Senate of the Philippines and the House of Representatives for their information and consideration, particularly on the propriety of introducing amendments to Section 204(A) of the National Internal Revenue Code of 1997, as amended.

SO ORDERED.

JEAN MARIE A. BACORRO-VILLENA
Associate Justice

WE CONCUR:

ROMAN G. DEL ROSARIO
Presiding Justice

LANEE S. CUI-DAVID
Associate Justice

CERTIFICATION

Pursuant to Article VIII, Section 13 of the Constitution, it is hereby certified that the conclusions in the above Judgment Based on Compromise Agreement were reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

ROMAN G. DEL ROSARIO
Presiding Justice