REPUBLIC OF THE PHILIPPINES
Court of Tax Appeals
QUEZON CITY

Second Division

CLASSIC FINANCE, INC., *Petitioner,*	**CTA CASE NO. 10590**
-*versus*-	Members: **RINGPIS-LIBAN,** *Chairperson* **MODESTO-SAN PEDRO,** *and* **FERRER-FLORES,** *JJ.*
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*	Promulgated: JUL 19 2023 10:45 a.m.

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JUDGMENT ON COMPROMISE AGREEMENT

For the Court's resolution are (a) the "Mediator's Report",[1] filed on 29 May 2023 by the Philippine Mediation Center–Court of Tax Appeals; and (b) the parties' "Joint Motion to Render Judgment Based on Compromise Agreement",[2] ("Joint Motion") filed on 29 June 2023.

On 18 June 2021, petitioner received respondent's Final Decision on Disputed Assessment, dated 11 June 2021 ("FDDA").[3] Aggrieved, petitioner filed a Petition for Review[4] before this Court on 16 July 2021. Summons was later issued on 14 February 2022[5] to respondent, who then filed his Comment[6] to the Petition on 5 May 2022. The case was thereafter referred to mediation before the PMC–CTA on 23 May 2022.[7]

After a handful of extensions, the PMC–CTA filed the instant Mediator's Report on 29 May 2023, manifesting the success of the settlement, which resulted in a complete Compromise Agreement. Then, on 29 June 2023, the parties filed their Joint Motion, praying that the Court approve their Compromise Agreement and render judgment based thereon.

The following documents were attached to the Mediator's Report:

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[1] Records.
[2] *Ibid.*
[3] *See* Petition for Review, p. 2, *id.*, p. 8.
[4] *Id.*, pp. 7-25.
[5] *See* Resolution, dated 14 February 2022, *id.*, p. 168.
[6] *Id.*, pp. 223-234.
[7] *See* Resolution, dated 23 May 2022, *id.*, pp. 296-297.

(a) An Agreement to Mediate and Selection of Mediator, and Selection of Mediator, both dated 19 July 2022 and signed by Atty. Timothy J. David ("Atty. David") on behalf of petitioner and by Atty. Monica M. Sarmiento ("Atty. Sarmiento") on behalf of respondent, whereby the parties manifested their agreement to have their case mediated for settlement through compromise agreement with (Ret.) Justice Oswaldo D. Agcaoli ("J. Agcaoili") as the selected mediator, with annexes;

(b) A Special Power of Attorney, dated 6 June 2022, executed by Regional Director Maridur V. Rosario of Revenue Region 8A, Makati City, appointing and authorizing Atty. Sarmiento to represent respondent at any stage of the proceedings in the instant case;

(c) An undated Compromise Agreement signed by Atty. Yasmin A. Andaya-Racadio, counsel for petitioner, on behalf of petitioner, and by respondent Commissioner of Internal Revenue Hon. Romeo D. Lumagui, Jr. ("CIR"), on behalf of the Bureau of Internal Revenue ("BIR"), and attested to by J. Agcaoili;

(d) A certified true copy of the undated Judicial Compromise Offer, showing the concurrence of all members of the National Evaluation Board ("NEB") to accept petitioner's compromise settlement of its tax liabilities for taxable year 2016;

(e) A certified true copy of the Certificate of Availment (Compromise Settlement), dated 25 November 2022, signed by James H. Roldan of the Office of the Assistant Commissioner of Internal Revenue, certifying the approval by the NEB of petitioner's application for compromise settlement of its tax liabilities; and

(f) Printed copies of BIR Form 0605 and their corresponding Direct Payment Details, evidencing petitioner's payment of the compromise amounts for its income tax ("IT"), percentage tax ("PT"), withholding tax on compensation ("WTC"), withholding tax on fringe benefits ("FBT"), and documentary stamp tax ("DST").

The relevant portions of the Compromise Agreement are quoted below:

> "WHEREAS, on July 16, 2021, the TAXPAYER instituted an action against the BIR entitled 'CLASSIC FINANCE, INC. vs. COMMISSIONER OF INTERNAL REVENUE', docketed as CTA Case No. 10590, pending before the Honorable Third Division of the Court of Tax Appeals ('CTA'), seeking the cancellation and nullification of the assessment for the alleged deficiency IT, PT, WC, FBT, DST and MC for taxable year 2016;
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> x x x
>
> WHEREAS, the parties have agreed to enter into an amicable settlement pursuant to the provisions of the Civil Code of the Philippines, jurisprudence, relevant decisions of the Honorable CTA, and pertinent laws

on judicial compromise without contravening laws, morals, public order and public policy;

x x x

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 total payment of Php997,508.90('Judicial Compromise Amount'), broken down as follows:

TAX TYPE	BASIC DEFICIENCY TAX AMOUNT	AMOUNT OFFERED FOR COMPROMISE	PERCENTAGE (%)
Income Tax	Php1,254,774.20	PHP501,909.68	40%
Percentage Tax	Php105,769.27	PHP42,307,71	40%
Withholding Tax on Compensation	Php254,333.01	PHP254,333.01	100%
Fringe Benefits Tax	Php57,396.24	PHP22,958.50	40%
Documentary Stamp Tax	Php440,000.00	PHP176,000.00	40%
TOTAL	**Php2,112,272.72**	**PHP997,508,90**	

x x x"

A review of the documents attached to the Mediator's Report, as identified above, shows that the Compromise Agreement is in order.

Section 204(a) of the National Internal Revenue Code of 1997, as amended, ("*NIRC*") provides for the authority of the CIR to compromise the payment of any revenue tax:

"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.

> **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.** xxx"
> (Emphasis supplied.)

Based on the foregoing, a compromise settlement is deemed valid provided that the following requirements are present:

1. That the application for compromise should be based on either the **doubtful validity of respondent's assessment** or taxpayer's financial incapacity to pay such assessment;

2. In case the **basis of the compromise offer is doubtful validity, the minimum payment of compromise settlement shall be at the rate equivalent to forty percent (40%) of the basic assessed tax,** while if the ground is financial incapacity, the minimum payment should be at the rate equivalent to ten percent (10%) of the basic assessed tax; and

3. The **approval of the NEB** which is composed of the respondent and his four (4) Deputy Commissioners **if the subject assessment exceeds One Million pesos (₱1,000,000.00)** or **where the settlement offered is less than the prescribed minimum rates.**

Regarding the *first* requisite, ***Sec. 3(1) of Revenue Regulations*** ("***RR***") ***30-22, as amended***, identifies various situations where an assessment's validity is considered doubtful, one of which is when an assessment seems to lack legal and/or factual basis:

> "(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; x x x"

In its Petition for Review, petitioner disputes the propriety of its alleged tax liabilities on legal and factual grounds, as follows:

(a) The BIR based its assessment of petitioner's IT on allegedly under-declared income, unsubstantiated expenses, and various disallowances. However, petitioner claims that it properly declared and substantiated the relevant costs and argues against the disallowances, mostly on legal grounds;[8]

(b) The BIR based its assessment of petitioner's PT on allegedly under-declared taxable receipts, which petitioner reiterates can be explained by costs that it properly substantiated;[9]

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[8] *See* Petition for Review, pp 3-7, *id.*, pp. 3-14.
[9] *See* Petition for Review, pp. 7-8, *id.*, pp. 14-15.

(c) The BIR based its assessment of petitioner's WTC on amounts that, according to petitioner, are not considered as compensation subject to withholding tax;[10]

(d) The BIR based its assessment of petitioner's FBT on amounts that, petitioner argues, are exempt from WR under ***Sec. 33 of the NIRC***;[11] and

(e) The BIR based its assessment of petitioner's DST on amounts that petitioner claims it reclassified but whose pertinent DST it paid on the pertinent due dates.[12]

Considering the above, the validity of the assessment on which the parties' present compromise is, indeed, open to doubt.

Anent the *second* requisite, the compromise amount of Php2,112,272.72 paid by petitioner is above the minimum 40% threshold of the basic assessed tax in the amount of Php2,112,272.72. Petitioner has thus complied with this requisite.

Finally, the attached Judicial Compromise Offer and Certificate of Availment prove that the parties complied with the *third* and final requisite.

Given the above-discussed compliance with the requisites mandated by ***Sec. 204(a) of the NIRC***, the Court deems the approval of the Compromise Agreement proper.

The Supreme Court explained the purpose of a compromise agreement ***Far East Banc and Trust Co. et al. v. Trust Union Shipping Corp. et al.***:[13]

> "**A compromise is a contract whereby the parties, by making reciprocal concessions, avoid litigation or put an end to one already commenced.** It is an accepted and desirable practice in courts of law and administrative tribunals. Settlement of disputes brought before the courts is, in fact, encouraged.
>
> It is settled that contracting parties may establish such stipulations, clauses, terms and conditions as they deem convenient, provided that these are not contrary to law, morals, good customs, public order, or public policy."
> (Emphasis supplied.)

The Court thus reminds the parties that a compromise agreement approved by the courts has the force and effect of a judgment that is subject to execution and attains the effect and authority of *res judicata*, as discussed in ***Maria Sheila Almira T. Viesca v. David Gilinsky***:[14]

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[10] *See* Petition for Review, pp. 8-9, *id.*, pp. 15-16.
[11] *See* Petition for Review, pp. 9-10, *id.*, pp. 16-17.
[12] *See* Petition for Review, pp. 10-11, *id.*, pp. 17-18.
[13] G.R. No. 154716, 16 September 2008.
[14] G.R. No. 171698, 4 July 2007.

> "A compromise agreement has been described as a contract whereby the parties, by making reciprocal concessions, avoid a litigation or put an end to one already commenced. A compromise agreement that is intended to resolve a matter already under litigation is normally called a judicial compromise. **Once it is stamped with judicial imprimatur, it becomes more than a mere contract binding upon the parties. Having the sanction of the court and entered as its determination of the controversy, it has the force and effect of any other judgment. Such agreement has the force of law and is conclusive between the parties. It transcends its identity as a mere contract binding only upon the parties thereto, for it becomes a judgment that is subject to execution in accordance with the Rules. Thus, a compromise agreement that has been made and duly approved by the court attains the effect and authority of res judicata**, although no execution may be issued unless the agreement receives the approval of the court where the litigation is pending and compliance with the terms of the agreement is decreed."
> (Emphasis supplied.)

WHEREFORE, the parties' Joint Motion to Render Judgment Based on Compromise Agreement is hereby **GRANTED**. Their Compromise Agreement is hereby **APPROVED**. This Judgment on Compromise Agreement is rendered in accordance therewith. The parties are hereby **ENJOINED** to faithfully comply with all the terms and conditions of the aforesaid Compromise Agreement.

The Mediator's Report is **NOTED**.

Accordingly, this case is now deemed **CLOSED** and **TERMINATED**.

SO ORDERED.

MA. BELEN M. RINGPIS-LIBAN
Associate Justice

MARIA ROWENA MODESTO-SAN PEDRO
Associate Justice

CORAZON G. FERRER-FLORES
Associate Justice

ATTESTATION

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

MA. BELEN M. RINGPIS-LIBAN
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 Judgment 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