REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

SPECIAL THIRD DIVISION

CPW PHILIPPINES, INC.,
Petitioner,

- versus -

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

CTA Case No. 10665

Members:
REYES-FAJARDO, *Chairperson,*
and **ANGELES,** *JJ.*

Promulgated:
JUL 1 0 2026
11:30 a.m.

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RESOLUTION

REYES-FAJARDO, *J.*:

We resolve respondent's Motion for Reconsideration (Re: Decision promulgated 13 February 2026)[1] filed on March 4, 2026. It seeks the reversal of the Decision[2] promulgated on February 13, 2026, which cancelled and set aside deficiency tax assessments issued against petitioner for calendar year 2016, and enjoined respondent from collecting the same. The dispositive portion of the assailed Decision reads:[3]

> **WHEREFORE**, the Petition for Review filed on November 3, 2021 by CPW Philippines, Inc., is **GRANTED**. Accordingly:
>
> 1. The Formal Letter of Demand and Assessment Notices dated March 10, 2021 issued against petitioner for deficiency income tax, value-added tax, expanded withholding tax, and final withholding tax, in the total amount of ₱680,363,406.72,

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1 *Rollo*, pp. 1287 – 1308.
2 *Id.*, pp. 1266 -1285.
3 *Id.*, p. 1284.

inclusive of interests and miscellaneous charges, for calendar year 2016, are **CANCELLED** and **SET ASIDE**;

2. The Final Decision on Disputed Assessment dated September 28, 2021 issued against petitioner for deficiency income tax, value-added tax, expanded withholding tax, and final withholding tax, in the total amount of ₱666,575,540.12, inclusive of interests and miscellaneous charges, for the same calendar year 2016, are **WITHDRAWN** and **SET ASIDE**; and

3. Consequently, the Warrant of Distraint and/or Levy No. 116-2021-134 dated November 10, 2021 issued against petitioner in relation to its alleged deficiency tax assessments for calendar year 2016 are likewise **CANCELLED** and **SET ASIDE**.

Respondent, his representatives, agents, or other persons acting in his behalf are **ENJOINED** from implementing the collection of deficiency income tax, value-added tax, expanded withholding tax, and final withholding tax, in the total amount of ₱680,363,406.72, inclusive of interests and miscellaneous charges, for calendar year 2016.

SO ORDERED.

The Court cancelled petitioner's deficiency income tax (IT), value-added tax (VAT), and expanded withholding tax (EWT) assessments due to violation of petitioner's right to due process. It found that respondent failed to meaningfully consider petitioner's Reply to the Preliminary Assessment Notice (PAN) before issuing the Formal Letter of Demand and Final Assessment Notices (FLD/FAN). It also ruled that the administrative services and distribution fees paid by petitioner to Nestle Philippines, Inc. (NPI) were not royalties or passive income subject to final withholding tax (FWT).

Respondent filed his Motion for Reconsideration, to which petitioner filed its Comment/Opposition [To Respondent's Motion for Reconsideration dated 4 March 2026 (Re: Decision promulgated on 13 February 2026)].[4]

After due consideration of respondent's arguments, We find no cogent reason to disturb the assailed Decision.

4 *Rollo*, pp. 1313 -1329.

The cancellation of the deficiency IT, VAT, and EWT assessments for violation of petitioner's right to due process is proper.

In his Motion for Reconsideration, respondent argues that petitioner was not deprived of the opportunity to be heard. For him, petitioner was properly informed at every stage of the administrative proceedings, as shown by the fact that it was able to submit a Reply Letter with supporting documents to refute the assessment. He insists that it was not bound to accept petitioner's explanations, especially when unsupported by new or sufficient evidence.

Respondent's argument is unavailing.

In *Commissioner of Internal Revenue v. Avon Products Manufacturing, Inc. (Avon)*[5], the Supreme Court made clear that while the CIR "is not obliged to accept the taxpayer's explanations," due process requires that "when he or she rejects these explanations, he or she must give some reason for doing so." Otherwise, "the right to be heard... is meaningless if the Commissioner can simply ignore the evidence without reason."

Here, the FLD/FAN substantially reproduced the PAN, save for updated interest and a discussion on FWT. Such perfunctory action did not apprise petitioner of the reasons for the rejection of its defenses. Respondent cannot rely on the supposed absence of new supporting documents. If respondent finds petitioner's submissions insufficient, he must say the reasons for sustaining the assessment notwithstanding petitioner's defenses.

The burden to inform rests on respondent, not on petitioner to infer why its defenses were rejected. The fact that petitioner was able to refute the assessments does not, by itself, satisfy due process.

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5 G.R. Nos. 201398-99, October 3, 2018.

The FWT assessment was correctly cancelled.

Respondent maintains that the administrative services and distribution fees paid by petitioner to NPI were not payments for actual services but royalties, for the use of scientific, technical, industrial, or commercial knowledge or information under Section 42(A)(4)(f)[6] of the NIRC, as amended, which is subject to final withholding tax pursuant to Section 27(D)(1)[7] of the NIRC, as amended.

Respondent's argument fails to persuade.

For FWT on royalties under Section 27(D)(1) of the NIRC, as amended to apply, three (3) requisites must concur: *first*, the income must be passive; *second*, the income payment must partake of the nature of royalties; and *third*, the income must be derived from sources within the Philippines.

Here, respondent assails only the *second* requisite, *i.e.*, the characterization of the payments as royalties, but does not address the Court's finding that the payments were not passive income. Respondent failed to show that the administrative services and distribution fees paid by petitioner to NPI were earned outside the active pursuit of NPI's business. As the *first* requisite is absent, such payments cannot be subjected to FWT under Section 27(D)(1) of the NIRC, as amended, regardless of their alleged characterization as royalties.

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6 (4) *Rentals and Royalties*. - Rentals and royalties from property located in the Philippines or from any interest in such property, including rentals or royalties for – ...

(f)Technical advice, assistance or services rendered in connection with technical management or administration of any scientific, industrial or commercial undertaking, venture, project or scheme: and...

7 Section 27. Rates of Income Tax on Domestic Corporations.

...

(D) Rates of Tax on Certain **Passive Incomes**. –

(1) Interest from Deposits and Yield or any other Monetary Benefit from Deposit Substitutes and from Trust Funds and Similar Arrangements, and **Royalties**. – A final tax at the rate of twenty percent (20%) is hereby imposed upon the amount of interest on currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements received by domestic corporations, and royalties, derived from sources within the Philippines: Provided, however, That interest income derived by a domestic corporation from a depository bank under the expanded foreign currency deposit system shall be subject to a final income tax at the rate of seven and one-half percent (7 1/2%) of such interest income...

The collection of assessed deficiency taxes was properly enjoined.

Respondent finally argues that the Court erred in enjoining the collection of the assessed deficiency taxes as petitioner failed to show existence of a clear and unmistakable right or extreme urgency necessitating the issuance of the suspension order.

This contention is misplaced.

Commissioner of Internal Revenue v. Robinson's Convenience Stores, Inc. (RCSI)[8] decreed that "... the CTA may also suspend tax collection and waive the bond requirement *as part of its* ***main decision*** *on the merits, as a necessary consequence of cancelling an assessment*. The order of suspension forms part of the CTA's complete adjudication of the disputed assessment, not merely an interlocutory matter therein."

Here, the Decision cancelled petitioner's deficiency IT, VAT, EWT, and FWT assessments. To allow respondent to collect the same would render the Decision inutile and would defeat the Court's jurisdiction to afford complete relief.

WHEREFORE, respondent's Motion for Reconsideration (Re: Decision promulgated 13 February 2026) filed on March 4, 2026 is **DENIED**. The Decision promulgated on February 13, 2026 is **AFFIRMED.**

SO ORDERED.

Marian Ivy F. Reyes-Fajardo
MARIAN IVY F. REYES-FAJARDO
Associate Justice

HENRY S. ANGELES
Associate Justice

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[8] G.R. No. 259968, August 27, 2025. Emphases in the original.