REPUBLIC OF THE PHILIPPINES
Court of Tax Appeals
QUEZON CITY

Second Division

UNITED INTERNATIONAL PICTURES AKTIEBOLAG, *Petitioner,*	**CTA CASE NO. 10195**
-versus-	Members: **RINGPIS-LIBAN,** *Chairperson,* **MODESTO-SAN PEDRO,** *and* **FERRER-FLORES,** *JJ.*
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*	Promulgated: DEC 12 2024 9:00 a.m.

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JUDGMENT ON COMPROMISE AGREEMENT

MODESTO-SAN PEDRO, J.:

For the Court's resolution is the parties' *Joint Motion to Approve and Render Judgment Based on Judicial Compromise Agreement* ("Motion"), filed on October 9, 2024.

During the Pre-Trial Conference held on August 9, 2022, the Court set this case for mediation proceedings before the Court of Tax Appeals Philippine Mediation Center on September 1, 2022.[1] The Philippine Mediation Center then filed a Request for Extension[2] on October 26, 2022, which would later be granted in a Resolution,[3] dated November 10, 2022. However, the Philippine Mediation Center no longer updated the Court on the mediation proceedings following this grant.

Instead, the parties filed numerous joint motions to defer judicial proceedings in order to fully process their compromise agreement. These were all granted across various Resolutions and Minute Resolutions.

These eventually culminated in the present Motion, the parties having finally completed their compromise agreement.

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[1] Minutes of the Hearing, held on August 9, 2022, *Rollo* Vol. 1, p. 585.
[2] *Id.* at 597.
[3] *Id.* at 621.

Attached to the Motion are the following documents:

(a) An undated Judicial Compromise Agreement signed by Atty. Carina C. Laforteza,[4] petitioner's authorized representative, and Commissioner of Internal Revenue ("CIR") Romeo D. Lumagui, Jr., which states that petitioner offered and respondent accepted a payment of ₱6,507,560.24 in order to settle this case;

(b) A Certificate of Availment (Compromise Settlement), signed by Assistant CIR James H. Roldan, Enforcement and Advocacy Service, certifying that the compromise agreement had been approved by the members of the National Evaluation Board ("NEB") of the Bureau of Internal Revenue ("BIR"); and

(c) A Judicial Compromise Offer signed as "Acceptable" by Deputy CIR ("DCIR") Maridur V. Rosario, Operations Group, DCIR Marissa O. Cabreros, Legal Group, OIC-DCIR Teresita M. Angeles, Resource Management Group, OIC-DCIR Rosario Charo Enriquez-Curiba, Information Systems Group, and CIR Lumagui, who are the members of the NEB.

Furthermore, attached to the earlier-filed Joint Manifestation/ Compliance and Urgent Motion to Defer Proceedings,[5] filed on May 27, 2024, were the following:

(a) A print-out of BIR Form 0605 showing petitioner's payment of ₱6,507,560.24;

(b) A print-out of a webpage showing the filing reference number and other details of the transaction; and

(c) A print-out of a webpage showing that the BIR e-Filing and Payment System received a payment confirmation for the transaction from Union Bank.

A review of the aforementioned documents 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:

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[4] Atty. Laforteza had earlier been authorized by an officer of petitioner to, among other actions related to this case, "consider and agree on… [an] amicable settlement"; *see* Officer's Certificate, *id.* at 139.

[5] *Rollo* Vol. 2, 806-810.

> 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. . . .*
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> (Italics supplied.)

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

(a) 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;

(b) *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

(c) *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.

To review, petitioner assailed the assessment against it for alleged deficiency value-added tax in the basic amount of ₱16,268,900.60 for the taxable period from January 1, 2012, to June 30, 2012,[6] by (1) claiming that respondent violated its right to due process when he alleged issued a Final Assessment Notice before petitioner had even received the Preliminary Assessment Notice, which had allegedly not been served at petitioner's registered address;[7] and (2) arguing that the subject assessment was incorrect.[8]

As the above cast reasonable doubt on the validity of the assessment, the instant Judicial Compromise Agreement complies with the *first* requisite.

Meanwhile, the basic tax assessed against petitioner amounted to ₱16,268,900.60, as stated. 40% of this amount is ₱6,507,560.24, the exact amount paid by petitioner. As such, the instant Compromise Agreement complies with the *second* requisite.

Finally, the signed Judicial Compromise Offer serves as proof of the approval of the judicial compromise by the members of the NEB, in compliance with the *third* requisite.

Having complied with all requisites, then, the instant Judicial Compromise Agreement must be granted.

On the topic of compromise agreements, the Supreme Court explained the purpose of the same in *Far East Banc and Trust Co. v. Trust Union Shipping Corp.*:[9]

> *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.
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> 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. (Italics supplied.)

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6 Petition for Review, p. 1, *Rollo* Vol. 1, p. 6.
7 Petition for Review, pp. 6-10, *id.* at 11-15.
8 Petition for Review, pp. 10-16, *id.* at 15-21.
9 G.R. No. 154716, September 16, 2008.

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 *Viesca v. Gilinsky*:[10]

> 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.
> (Italics supplied.)

ACCORDINGLY, the parties' *Joint Motion to Approve and Render Judgment Based on Judicial Compromise Agreement*, filed on October 9, 2024, is hereby **GRANTED**. Their Judicial 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.

This case is thus now deemed **CLOSED** and **TERMINATED**.

SO ORDERED.

MARIA ROWENA MODESTO-SAN PEDRO
Associate Justice

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[10] G.R. No. 171698, July 4, 2007.

WE CONCUR:

MA. BELEN M. RINGPIS-LIBAN
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