REPUBLIC OF THE PHILIPPINES
Court of Tax Appeals
QUEZON CITY

SECOND DIVISION

UPS DELBROS INTERNATIONAL EXPRESS LTD., *Petitioner,*	**CTA CASE NO. 10364**
-versus-	Members: **RINGPIS-LIBAN,** *Chairperson* **MODESTO-SAN PEDRO,** *and* **FERRER-FLORES,** *JJ*
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*	Promulgated: MAY 2 8 2024 3:23 p.m.

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JUDGMENT ON COMPROMISE AGREEMENT

MODESTO-SAN PEDRO, J.:

Before this Court is the *Joint Motion for Approval of Compromise Agreement ("Joint Motion"),* filed on March 29, 2023, together with *Compliance [Re: Resolution dated January 12, 2024],* filed by UPS Delbros International Express Ltd., Inc. ("UDE" or "petitioner") on January 22, 2024.

On March 20, 2023, petitioner filed the *Submission in Compliance with Resolution dated January 6, 2023,* with attached Compromise Agreement. A subsequent *Submission*, with attached Certificate of Availment, was thereafter filed on April 14, 2023.

Upon review of the above submissions and pursuant to the instant Joint Motion, the Court noted the parties' filing of the following documents:

1. Compromise Agreement, dated January 26, 2023, signed by Russell R. Reed ("Reed") on behalf of petitioner, and respondent Romeo D. Lumagui, Jr. ("CIR" or "respondent");
2. Original Secretary's Certificate dated December 14, 2022 authorizing the petitioner's president, Reed, to execute the Compromise Agreement with the Bureau of Internal Revenue ("BIR");
3. Original Letter-Offer for Compromise dated October 6, 2022;

4. Print-out of Payment Form (BIR Form No. 0605) and proof of payment of the compromise amount;
5. Certified True Copy of Certificate of Availment dated March 17, 2023; and
6. Signed Judicial Compromise Offer (not certified as true copy).

Due to the initial failure to submit a certified true copy of the Judicial Compromise Offer signed by the members of the National Evaluation Board ("NEB"), the Court issued a Resolution, dated January 12, 2024, ordering the parties to submit the same.

Thus, on January 22, 2024, petitioner filed its Compliance to the said Resolution, with the attached certified true copy of the Judicial Compromise Offer.

Meanwhile, a perusal of the Compromise Agreement reveals that the parties agreed to settle the case for a total compromise amount of ₱250,000,000.00. The relevant portion thus provides:

> **WHEREAS**, the **BIR** issued a Final Decision on Disputed Assessment dated March 20, 2015 ("FDDA") denying UDE's protest to the Final Assessment Notice dated July 8, 2014 ("FAN") and assessing UDE for alleged basic deficiency income tax, value-added tax ("VAT"), expanded withholding tax ("EWT"), withholding tax on compensation ("WTC"), final withholding tax ("FWT"), and final withholding VAT ("FWV") in the amount of P2,921,250,421.53.
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> . . . .
>
> **WHEREAS, UDE** filed a Petition for Review with the Honorable Court of Tax Appeals ("CTA"), docketed as CTA Case No. 10364, seeking the cancellation of the FAN and FDDA for lack of factual and legal basis;
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> . . . .
>
> **WHEREAS**, for the purposes of avoiding and putting an end to a protracted, expensive and mutually prejudicial litigation, the **PARTIES** have agreed to amicably settle the above-mentioned case, upon terms and conditions hereinafter set forth;
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> **NOW THEREFORE**, for in consideration of the foregoing premises, the **PARTIES** hereto have agreed as follows:
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> **Section 1. Compromise Amount.** In order to settle the above-mentioned case, UDE has offered and the BIR has accepted a total compromise amount of Two Hundred Fifty Million Pesos (P250,000,000.00) ("Compromise Amount").
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> . . . .
>
> **Section 6. Full and Final Settlement.** This Agreement is executed by the **PARTIES** for the purpose of amicably settling and ending CTA Case

> No. 10364. Upon approval by the Honorable Court, the BIR recognizes the full satisfaction of the supposed tax liability of UDE in connection with CTA Case No. 10364 and acknowledges that UDE no longer has any tax liability whatsoever based upon, arising from or in connection with the particular subject of CTA Case no. 10364.

After a review of the foregoing agreement as well as the abovementioned documents attached thereto, We find that the same are in order.

Pursuant to *Section 204(A) of the National Internal Revenue Code, as amended, ("Tax Code")*, the CIR is granted the authority to compromise the payment of any revenue tax, to wit:

> 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:
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> *(1) A **reasonable doubt as to the validity of the claim** against the taxpayer exists*; or
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> (2) The financial position of the taxpayer demonstrates a clear inability to pay the assessed tax.
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> The compromise settlement of any tax liability shall be subject to the following minimum amounts:
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> 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. . . .*
> (Emphasis and italics supplied)

In relation thereto, *Sections 4 and 6 of Revenue Regulations (RR) No. 30-2002,*[1] *as amended*, provide that:

> SECTION 4. PRESCRIBED MINIMUM PERCENTAGES OF COMPROMISE SETTLEMENT. – The compromise settlement of the internal revenue tax liabilities of taxpayers, reckoned on a per tax type

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[1] 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, dated December 16, 2002.

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 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.***

SECTION 6. Approval of Offer of Compromise. — Except for offers of compromise where the approval is delegated to the REB pursuant to the succeeding paragraph, all compromise settlements within the jurisdiction of the National Office (NO) shall be *approved by* ***a majority of all the members of the NEB*** *composed of the Commissioner and the four (4) Deputy Commissioners.* All decisions of the NEB, granting the request of the taxpayer or favorable to the taxpayer, shall have the consequence of the Commissioner.

. . . .

(Emphasis and italics supplied.)

Gleaning from the foregoing, a compromise settlement is deemed valid when 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. Where the settlement offered is ***less than the prescribed minimum rates:*** (i) the taxpayer should ***submit written request*** for a compromise rate below 40% stating therein the legal and/or factual reasons why he should be entitled to such lower rate; and (ii) the same settlement offer must be ***approved by the NEB*** which is composed of the respondent and his four Deputy Commissioners

As regards the *first* requisite, the subject Certificate of Availment, dated March 17, 2023, states that the compromise settlement is based on *Section*

3.1. of RR No. 30-2002. Such provision refers to the ***doubtful validity of assessment*** as a basis for acceptance of compromise settlement.

The Court notes, however, that petitioner paid a compromise amount lower than the 40% rate prescribed above, based on Our review of the Compromise Agreement, Certificate of Availment, the Final Decision on Disputed Assessment, and the corresponding proofs of payment submitted by the parties, summarized in the table below:

Tax Type	**Basic Tax Assessed**	**Amount Paid**	**Rate of Compromise Offer**
Income Tax	₱ 1,593,256,201.54	₱ 239,037,248.02	15.00%
Value-Added Tax	563,001,227.47	9,298,917.00	1.65%
Expanded Withholding Tax	564,452.20	564,452.20	100.00%
Withholding Tax on Compensation	1,099,382.78	1,099,382.78	100.00%
Final Withholding Tax	568,510,970.51		0
Final Withholding VAT	194,918,047.03		0
TOTAL	**₱ 2,921,350,281.53**	**₱ 250,000,000.00**	**8.56%**

In compliance with the requirements of the *Tax Code* and *RR 30-2002,* as amended, cited above, petitioner submitted to the BIR a Letter-Offer for Compromise, dated October 6, 2022, stating the factual and legal bases for its claim that the alleged deficiency tax assessment is highly arbitrary and of doubtful validity. Specifically, petitioner averred therein that:

(i) The Final Assessment Notice ("FAN") is null and void due to the absence of a valid Letter of Authority;
(ii) Assuming that the FAN is valid, the right of the BIR to assess deficiency taxes for taxable year 2007 is already barred by the statute of limitations;
(iii) Assuming that the right of the BIR to assess has not yet prescribed, the FAN issued against petitioner is void for lack of categorical demand for payment of the supposed deficiency taxes; and
(iv) The assessment for alleged deficiency taxes has no factual and legal basis and is patently unfair, unjust inequitable and excessively arbitrary.

Lastly, the parties were able to prove that the NEB's approval on the compromise settlement was sought, as reflected in the Judicial Compromise Agreement duly signed by all members of the board.

Accordingly, the *third* requirement, in relation to the *second* requisite, was duly complied with.

Thus, in view of faithful observance by the parties of all the requisites under *Section 204(A) of the Tax Code,* the Court hereby approves the parties' Compromise Agreement.

In the case of *Commissioner of Internal Revenue vs. Oriental Assurance Corporation,*[2] the Supreme Court explains the purpose of compromise agreement, to wit:

> *A compromise is a contract whereby the parties, by making reciprocal concessions, avoid a litigation or put an end to one already commenced.* Settlement of disputes by way of compromise whereby the parties, by making reciprocal concessions, avoid a litigation or put an end to one already commenced, is an accepted, nay desirable and encouraged practice in courts of law and administrative tribunals.
> (Italics supplied; citations omitted.)

At this juncture, the parties are reminded that a compromise agreement, once approved by the courts, becomes more than a mere contract. It has the force and effect of a judgment that is subject to execution and attains the effect and authority of *res judicata*, as clearly explained by the Supreme Court in the case of *California Manufacturing Company, Inc. vs. The City of Las Piñas*,[3] citing *Viesca vs. Gilinsky*,[4] thus:

> A compromise agreement intended to resolve a matter already under litigation is a judicial compromise. Having judicial mandate and entered as its determination of the controversy, ***it has the force and effect of a judgment.*** It transcends its identity as a mere contract between the parties as it becomes a judgment that is subject to execution in accordance with the Rules of Court. 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 and italics supplied.)

ACCORDINGLY, the **Compromise Agreement** entered into by the parties is hereby **APPROVED**. This **Judgment on Compromise Agreement** is hereby rendered in accordance therewith. The parties are

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[2] G.R. No. 251677, July 28, 2021.
[3] G.R. No. 178461, June 22, 2009.
[4] G.R. No. 171698, July 4, 2007.

hereby enjoined to faithfully comply with all the terms and conditions of the aforesaid Compromise Agreement.

Petitioner's Compliance [Re: Resolution dated January 12, 2024] is **NOTED**.

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

SO ORDERED.

MARIA ROWENA MODESTO-SAN PEDRO
Associate Justice

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