REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

SECOND DIVISION

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HOUSE OF REPRESENTATIVES, REPRESENTED BY ITS SECRETARY-GENERAL MARK LLANDRO L. MENDOZA, Petitioner,	**CTA Case No. 10823** **Members:** **UY,** *Chairperson,* **BACORRO-VILLENA,** *and* **CUI-DAVID,** *JJ.*
- versus -	
COMMISSIONER OF INTERNAL REVENUE, Respondent.	**Promulgated:** MAR 01 2023 4:30 p.m.

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JUDGMENT ON COMPROMISE AGREEMENT

UY, J.:

For resolution is the parties' ***Joint Motion To Render Judgment on Compromise*** filed on February 8, 2023 praying that the Compromise Agreement be approved by the Court.

Records disclose that on January 27, 2023, the Court received the ***Mediator's Report*** (PMC-CTA Form No. 5)[1] signed by (Ret.) Justice Amelia R. Cotangco-Manalastas, indicating that there was a successful settlement between the parties before the Philippine Mediation Center – Court of Tax Appeals (PMC-CTA).

In support of the foregoing, the parties attached the following:

1.) Compromise Agreement executed on November 14, 2022, signed by Secretary General Reginald S. Velasco on behalf of

[1] Docket, p. 269.

petitioner House of Representatives, and respondent Commissioner of Internal Revenue Lilia Catris Guillermo, and attested to by (Ret.) Justice Amelia R. Cotangco-Manalastas;[2]

2.) Authority to Execute Judicial Compromise Agreement in Court of Tax Appeals (CTA) Case No. 10823 dated September 28, 2022 issued by Speaker of the House of Representatives Ferdinand Martin G. Romualdez authorizing Secretary General Reginald S. Velasco as petitioner's authorized representative in the mediation proceedings;[3]

3.) Special Power of Attorney dated June 16, 2022 executed by Regional Director Albino M. Galanza, Bureau of Internal Revenue (BIR), Revenue Region No. 7A, Quezon City, authorizing and appointing Atty. Paulyn Ann A. Umipig-Labucay to appear for and in behalf of the respondent at the mediation proceedings in the PMC-CTA in connection with CTA Case No. 10823;[4]

4.) Certified true copy of the Certificate of Availment (Compromise Settlement) and the signature page showing concurrence of the members of the National Evaluation Board (NEB) in relation to petitioner's application for compromise settlement of its deficiency expanded withholding tax and final withholding tax on value-added tax (VAT) in the amount of ₱7,306,208.36 for taxable year 2008;[5]

5.) Certified true copies of BIR Form No. 0605 and their corresponding landbank deposit slips evidencing total payment in the amount of ₱7,306,208.36.[6]

The Compromise Agreement reads as follows:

"**COMPROMISE AGREEMENT**

Undersigned parties, assisted by their respective counsels, **HOUSE OF REPRESENTATIVES ("TAXPAYER"),** a national government agency existing under Article VI of the 1987 Constitution of the Republic of

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[2] Docket, pp. 275 to 278.
[3] Docket, p. 272.
[4] Docket, p. 273.
[5] Docket, pp. 279 to 280.
[6] Docket, pp. 282 to 284.

the Philippines, with official address at Batasan Pambansa Complex, Constitutional Hills, Quezon City, duly represented by its Secretary General, **MR. REGINALD S. VELASCO**, as shown by the Speaker's Memorandum dated 28 September 2022, a certified true copy of which is hereto attached as *Annex "A"*; and the **COMMISSIONER OF INTERNAL REVENUE HON. LILIA C. GUILLERMO**, representing the **BUREAU OF INTERNAL REVENUE ("BIR")**, with principal office at Bureau of Internal Revenue, National Office Building, Agham Road, Diliman, Quezon City.

AGREE as follows:

WHEREAS, a dispute arose out of the Formal Letter of Demand ("FLD") issued by the BIR on 13 January 2013(sic)[7] for the taxable year 2008, assessing the TAXPAYER alleged deficiency taxes for an aggregate amount of Two Hundred Sixty-Eight Million, Three Hundred Fifty-Two Thousand, Six Hundred Fifty-Three & 14/100 Pesos (Php268,352,653.14), inclusive of interests, penalties, and surcharges;

WHEREAS, the TAXPAYER then filed with the BIR its Protest dated 08 February 2012 disputing the FLD dated 13 January 2012, which was received by the TAXPAYER on 30 January 2012;

WHEREAS, the BIR issued a FINAL DECISION ON DISPUTED ASSESSMENT ("FDDA') dated 16 October 2014, which denied the Protest filed by the TAXPAYER revising the assessment into an aggregate amount of Three Hundred and Forty Million, Six Hundred and Seventeen Thousand, Nine Hundred Twenty-Seven & 74/100 Pesos (Php340,617,927.74)[8] to update for the interest;

WHEREAS, the TAXPAYER instituted an action against the BIR entitled "House of Representatives, represented by its Secretary-General Mark Llandro L. Mendoza v. Commissioner of Internal Revenue" docketed as CTA Case No. 10823, pending before the Honorable Second Division of the Court of Tax Appeals ("CTA"), seeking the reversal of the FDDA, and the cancellation of the FLD;

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[7] The FLD was issued on January 13, 2012.
[8] *Sic.* The correct total amount in the FDDA (marked as Exhibit "P-4") is ₱306,826,732.08, Docket, pp. 97 to 116.

WHEREAS, the Honorable CTA referred the parties to undergo court-annexed mediation proceeding;

WHEREAS, the parties have agreed to accept mediation to avoid prolonged litigation, as authorized by A.M. No. 11-1-05-SC-PHILJA;

WHEREAS, the TAXPAYER has submitted to the BIR a Formal Offer of Compromise Settlement and Supplemental Formal Offer of Compromise Settlement, both dated 28 September 2022 for the alleged deficiency tax assessment contained in the FLD and FDDA;

WHEREAS, the BIR issued a Memorandum dated 17 October 2022 stating that the TAXPAYER's settlement offer has been accepted by the National Evaluation Board and directing the parties to prepare and sign the Compromise Agreement;

WHEREAS, the assistance of the assigned mediator resulted in making the parties realize the advantage of ending their dispute by agreeing upon a compromise;

NOW, THEREFORE, the parties have agreed to the following terms and conditions:

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 **Seven Million Three Hundred and Six Thousand Two Hundred Eight & 36/100 Pesos ["Judicial Compromise Amount"].**

Section 2. Submission to the Honorable CTA. This Agreement fully signed by the parties shall be submitted for the approval of the Honorable CTA in CTA Case No. 10823. The parties undertake to perform any and all acts, and submit any and all documents required by the Honorable CTA to be able to render a Judgment by Compromise Agreement in the said case.

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 and undertaking 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 Final Assessment Notice ("FAN") dated 13 January 2012 and FDDA dated 16 October 2014.

Section 5. Authority to Enter Compromise Agreement. The BIR, through Commissioner Lilia C. Guillermo warrants that she 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 of the Honorable CTA.

The TAXPAYER warrants that its Secretary General, Mr. Reginald S. Velasco is duly authorized by the Speaker of the TAXPAYER pursuant to the Rules of the House of Representatives and has full legal capacity to enter, sign, and execute this Agreement, and to deliver payment of the above-agreed additional amount.

Section 6. Full and Final Settlement. This Agreement is executed by the PARTIES for the purpose of amicably settling and ending CTA Case No.10823. Upon approval by the Honorable CTA, the BIR recognizes the full satisfaction of the supposed tax liability of the TAXPAYER in connection with CTA Case No. 10823 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. 10823.

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 internal revenue taxes for which the TAXPAYER may be directly liable, as allowed under existing rules and regulations; and

2) The proceedings of CTA Case No. 10823 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. Signature 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 a counterpart hereof signed by the other party hereto, the Agreement shall have no effect and no party shall have any right or obligation hereunder.

IN WITNESS WHEREOF, the parties hereto have mutually and voluntarily accept the above stipulations, and sign this Agreement, at Quezon City on this 14th day of November 2022 for the consideration and approval of the Honorable Court.

HOUSE OF REPRESENTATIVES	**COMMISSIONER OF INTERNAL REVENUE**
Petitioner	Respondent
By:	By:
(Signed)	(Signed)
REGINALD S. VELASCO	**LILIA CATRIS GUILLERMO**
Secretary General	*Commissioner of Internal Revenue*

ATTESTED:

(Signed)
(RET.) Justice Amelia R. Cotangco-Manalastas
Mediator"

A scrutiny of the subject Compromise Agreement, as well as the documents submitted by the parties in support thereof, shows that the same is in order.

To be specific, petitioner paid a total of ₱7,306,208.36[9] as full and final settlement of the basic assessed tax of expanded withholding tax and final withholding on value-added tax (VAT) for taxable year 2008 as stated in the Final Decision on Disputed Assessment (FDDA).

At this juncture, the Court notes that the parties entered into a Judicial Compromise Agreement on the basis of "*doubtful validity*" and petitioner paid less than the prescribed minimum compromise rate of forty percent (40%) under Section 204 (A) of the National Internal Revenue Code (NIRC) of 1997, as amended.

Section 204 (A) of the NIRC of 1997, as amended,[10] provides that in cases of compromise agreements based on doubtful validity, the prescribed minimum payment of compromise settlement shall be forty percent (40%) of the basic assessed tax. Moreover, the approval of the National Evaluation Board (NEB) is necessary if the subject assessment exceeds ₱1,000,000.00 or where the settlement offered is less than the prescribed rates.

[9] ₱5,283,509.74 plus ₱2,022,698.62

[10] Section 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 (P1,000,000.00) 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 supplied*)

In this case, the settlement offered in the subject *Compromise Agreement* is less than the prescribed minimum rates. However, the same bears the approval of the NRB, which is composed of the Commissioner and the four (4) Deputy Commissioners,[11] in accordance with the last paragraph of Section 204 (A) of the NIRC of 1997,[12] as amended. In view of the unanimous approval of the NEB, this Court finds that the settlement amount of ₱7,306,208.36, or less than the prescribed minimum payment of compromise settlement, is sufficient in this case. Thus, the Court finds the same in order and approves the same.

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.[13]

WHEREFORE, in light of the foregoing considerations, the parties' *Joint Motion to Render Judgment on Compromise* is **GRANTED**. The *Compromise Agreement* dated November 14, 2022, entered into by the parties is hereby **APPROVED** and this **Judgment on Compromise Agreement** is hereby rendered in accordance therewith. The parties are hereby enjoined to faithfully comply with all the terms and conditions of the aforesaid *Compromise Agreement*.

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

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[11] Docket, p. 280.

[12] **Section 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

xxx xxx xxx

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**.

[13] *Id.*, citing *Viesca vs. Gilinsky,* G.R. No. 171698, July 4, 2007.

SO ORDERED.

ERLINDA P. UY
Associate Justice

WE CONCUR:

JEAN MARIE A. BACORRO-VILLENA
Associate Justice

LANEE S. CUI-DAVID
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

ERLINDA P. UY
Associate Justice
Chairperson, 2nd Division

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 on Compromise Agreement were reached in consultation before the case was assigned to the writer of the opinion of the Court.

ROMAN G. DEL ROSARIO
Presiding Justice