REPUBLIC OF THE PHILIPPINES
Court of Tax Appeals
QUEZON CITY

SECOND DIVISION

HONDA CARS KALOOKAN INC.,
Petitioner,

-versus-

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

CTA CASE NO. 10433

Members:
RINGPIS-LIBAN, *Chairperson*
MODESTO-SAN PEDRO, *and*
FERRER-FLORES, *JJ*

Promulgated:
AUG 15 2023
10:15 a.m.

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JUDGMENT ON COMPROMISE AGREEMENT

MODESTO-SAN PEDRO, J.:

Before the Court is (a) the ***Philippine Mediation Center-Court of Tax Appeals' (PMC-CTA) Mediator's Report,*** with attached ***Compromise Agreement*** and other documents,[1] filed on 22 November 2022, (b) respondent's additional submission, on 24 March 2023, in ***Compliance*** with the Court's earlier Resolution,[2] dated 3 March 2023; and (c) the parties' ***Joint Compliance and Submission of the National Evaluation Board Approval*** ("***Joint Compliance***"), filed on 18 July 2023.[3]

In the subject Mediator's Report, dated 21 November 2022 and signed by (Ret.) Justice Cotangco-Manalastas, the PMC-CTA informed the Court that there had been a "Successful Settlement (Complete Compromise Agreement)" between the parties herein.

Moreover, as enumerated by the Court in the 3 March 2023 Resolution, the following were attached to the Mediator's Report:

1. Compromise Agreement, dated 17 October 2022, signed by Benedict Tugonon on behalf of petitioner, and respondent Lilia

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[1] Docker Vol. II, p. 991-1023
[2] *Id.*, pp. 1025-1028.
[3] *Id.*

Catris Guillermo, and attested by (Ret.) Justice Cotangco-Manalastas;

2. Agreement to Mediate and Selection of Mediator, and Selection of Mediator, both dated 15 June 2022, signed by Atty. John Albert M. Bonifacio on behalf of the petitioner, and by Atty. Lara Nicole T. Gonzales on behalf of the respondent, whereby the parties manifested their agreement to have the case mediated through compromise settlement, and the selection of (Ret.) Justice Contangco-Manalastas as mediator;

3. Special Power of Attorney, dated 28 December 2020, executed by petitioner's president, Mr. Lorenzo V. Tan, appointing the law firm of Quiazon Makalintal Barot Torres Ibarra Sison and Damaso, or any of its lawyers, to be its Attorney-in-Fact to appear for and on behalf of the petitioner to do and perform various acts, including submitting the case to compromise settlement, or to alternative modes of dispute resolution;

4. Special Power of Attorney, dated 30 June 2022, signed by Mr. James H. Roldan (Roldan), Assistant Commissioner of the Enforcement and Advocacy Service Legal Group of the BIR, appointing and authorizing Atty. Felix Paul R. Velasco III, Atty. Sylvia R. Alma Jose, Atty. Ayesha Hania G. Guiling-Matanog, Atty. Lara Nicole T. Gonzales, and/or any lawyer from the Litigation Division of the BIR to appear for and on behalf of the respondent at the mediation of CTA Case No. 10433;

5. Certified true copy of the Certificate of Availment (Compromise Settlement), dated 10 November 2022, signed by Roldan, showing the petitioner's availment of compromise settlement for the total amount of Php13,383,618.69; and

6. Printed copies of eFPS filed BIR From 0605, Filing Reference No., and payment confirmation as proof of settlement of the amounts based on the compromise agreement.

Based on the above list, the Court noted that there was nothing in the records which indicates the approval of the majority of the members of the National Evaluation Board (NEB), as required under ***Section 204 of the National Internal Revenue Code of 1997 (NIRC), as amended*** and its implementing rules and regulations, ***Revenue Regulations (RR) No. 30-2002,***[4] ***as amended by RR No. 09-2013.***[5]

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[4] 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, 16 December 2002.

[5] Revenue Regulations Amending Certain Provisions of Revenue Regulations No. 30-2002, 10 May 2013.

Hence, the parties were required to submit, within fifteen (15) days from notice, the original or certified true copy (CTC) of the proof of approval of the Compromise Agreement by the majority of the members of NEB.

Respondent then filed, on 24 March 2023, a "Compliance" submitting a CTC of the NEB approval of petitioner's Judicial Compromise Offer.

However, due to an error and miscommunication arising from the transfer of the instant case from the Third to the Second Division, the Court did not act on respondent's "Compliance", instead promulgating a Resolution,[6] dated 23 June 2023, identical to the Court's previous 3 March 2023 Resolution. This prompted the parties' subsequent filing of their "Joint Compliance" on 18 July 2023, to which was once again attached a CTC of the NEB approval of petitioner's Judicial Compromise Offer.

A perusal of the Compromise Agreement reveals that the parties agreed to settle the case for an amount equivalent to 50% of the basic tax stated in the Final Decision on Disputed Assessment ("FDDA"). The relevant portion thus provides:

> "WHEREAS, on December 28, 2020, a Petition for Review was filed by petitioner Honda Cars Kalookan Inc. challenging the validity of the Final Decision on Disputed Assessment (FDDA) dated October 2, 2020 issued by respondent Commissioner of Internal Revenue in connection with deficiency tax assessment for taxable year 2013. Under the FDDA, petitioner was required to pay basic tax due in the amount of Php25,531,422.55 representing deficiency income tax, Value-Added Tax, Expanded Withholding Tax and Documentary Stamp Tax.
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> WHEREAS, during mediation proceedings before the Philippine Mediation Center – Court of Tax Appeals, the parties successfully reached compromise agreement to avoid prolonged litigation, as authorized by A.M. No. 11-1-05-SC-PHILJA;
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> NOW THEREFORE, in view of the limitation in Section 204 of the 1997 National Internal Revenue Code, petitioner has offered and respondent has accepted the amount of Php13,383,618.69, representing 50% of the basic tax stated in the FDDA dated October 2, 2020."

Upon review of the foregoing agreement together with the abovementioned documents submitted by the parties and the PMC-CTA, the Court hereby finds that the same are in order.

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

[6] Docket Vol. II.

"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.)

Also, ***Section 6 of RR No. 30-2002, as amended***, provides that:

"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 <u>majority of all the members of the NEB</u> 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.

x x x"
(Emphasis and underscoring supplied.)

From the foregoing, a compromise settlement is deemed valid provided that the following requirements are met:

1. 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 compromise settlement must have 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.

As regards the *first* requisite, a review of the Certificate of Availment, dated 10 November 2022, shows that the ground relied upon in the subject compromise settlement is the doubtful validity of the respondent's assessment, pursuant to ***Section 3.1 of RR No. 30-2022, as amended by RR No. 08-04.***[7]

Meanwhile, the Compromise Agreement, Certificate of Availment, and the corresponding proofs of payment show that petitioner paid a total amount of Php13,383,618.69, representing 52% of the basic tax amounting to Php25,531,422.55 assessed per FDDA issued by the respondent. Thus, the *second* requisite was duly complied with.

Lastly, the parties were able to prove that the NEB's approval was sought in compliance with the *third* requisite above, as reflected in the Judicial Compromise Offer, submitted on 24 March 2023, duly signed by all members of the board.

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

In the case of ***Commissioner of Internal Revenue vs. Oriental Assurance Corporation,***[8] the Supreme Court explained the purpose of compromise agreements, 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.
> (Emphasis supplied; citations omitted.)

On this point, 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*. This principle has been laid down by the

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[7] 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. 7-2001 and 30-2002, 19 May 2004.
[8] G.R. No. 251677, 28 July 2021.

Supreme Court in the case of ***California Manufacturing Company, Inc. vs. The City of Las Piñas***,[9] citing ***Viesca vs. Gilinsky***,[10] to wit:

> "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 supplied.)

WHEREFORE, premises considered, the PMC-CTA's Meditator's Report of Successful Settlement is **NOTED**.

The **Compromise Agreement** 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.**

SO ORDERED.

MARIA ROWENA MODESTO-SAN PEDRO
Associate Justice

WE CONCUR:

MA. BELEN M. RINGPIS-LIBAN
Associate Justice

CORAZON G. FERRER-FLORES
Associate Justice

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9 G.R. No. 178461, 22 June 2009.
10 G.R. No. 171698, 4 July 2007.

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