REPUBLIC OF THE PHILIPPINES
Court of Tax Appeals
QUEZON CITY

Second Division

PIONEER ADHESIVES, INC., *Petitioner,*	**CTA CASE NO. 10567**
-versus-	Members: **RINGPIS-LIBAN,** *Chairperson,* **MODESTO-SAN PEDRO,** *and* **FERRER-FLORES,** *JJ.*
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*	Promulgated: MAY 14 2024 2:56 p.m.

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JUDGMENT ON COMPROMISE AGREEMENT

MODESTO-SAN PEDRO, J.:

For the Court's resolution are (a) respondent's "Compliance," filed on April 1, 2024; (b) petitioner's "Motion to Resolve," filed on August 23, 2023; and (c) the parties' "Join Motion to Render Judgment on Compromise" ("Joint Motion") filed on February 8, 2024.

Acting first on the Compliance, the same is hereby **NOTED**. The parties' compliance with this Court's February 23, 2024 Resolution is thus hereby **NOTED**.

Given said compliance, the Motion to Resolve is now hereby **GRANTED**. The Court shall now proceed to resolve the Joint Motion.

Attached to the Joint Motion are the following documents:

(a) A Compromise Agreement, executed some time in November 2022 and signed by Edwin T. Avilon, petitioner's Executive Vice-President and Chief Operating Officer, and then-Commissioner of Internal Revenue ("CIR") Lilia Catris Guillermo; and

(b) Printed copies of BIR Form 0605 and their corresponding details, evidencing petitioner's payment of the following:

Type	**Amount**	**Date**
Income Tax ("IT")	₱27,626,361.63	June 30, 2021
Value-Added Tax ("VAT")	₱15,781,843.65	June 30, 2021
Expanded Withholding Tax ("EWT")	₱8,790,934.21	June 30, 2021
Fringe Benefits Tax ("FBT")	₱8,383,707.68	June 30, 2021
Final Withholding Tax ("FWT")	₱1,189,349.42	June 30, 2021
IT	₱6,906,590.41	October 27, 2022
VT	₱3,945,460.91	October 27, 2022
Total Amount	₱72,624,247.91	-

Furthermore, attached to the earlier-filed "Mediator's Report" were the following:

(a) An Agreement to Mediate and Selection of Mediator, signed by Atty. Ferdinand Hidalgo (petitioner's counsel), Atty. Felix R. Velasco III [Head Revenue Executive Assistant of the Enforcement and Advocacy Service, Bureau of Internal Revenue ("BIR")], and Atty. Sylvia R. Alma Jose (respondent's counsel);
(b) A Selection of Mediator, signed by Atty. Hidalgo, Atty. Velasco, and Atty. Jose;
(c) A Special Power of Attorney, executed by Atty. Velasco, authorizing Atty. Jose to act in behalf of respondent in the case at bar;
(d) A Secretary's Certificate, signed by Erlinda A. Lucero (petitioner's Corporate Secretary), certifying that petitioner's Board of Director's resolved to authorize petitioner to apply for a compromise of the subject tax liabilities;
(e) Another copy of the Compromise Agreement;
(f) A Certificate of Availment, signed by James H. Roldan, ACIR, Enforcement and Advocacy Service; and
(g) Copies of the proofs of payment identified above.

Finally, attached to respondent's Compliance is a Judicial Compromise Offer signed by the five members of the National Evaluation Board ("NEB") proof of the approval of the judicial compromise offer by all members of the NEB.

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:

> 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. . . .*
>
> (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's grounds, in its Petition for Review, for assailing the assessment are as follows:

(a) The BIR allegedly failed to investigate the relevant facts before issuing the assailed Preliminary Assessment Notice ("PAN") and Formal Letter of Demand ("FLD"), in violation of petitioner's right to due process;[1]
(b) The FLD was issued before the lapse of the 15-dday period within which petitioner should be allowed to respond to the PAN;[2]
(c) The FLD does not comply with all the requisites for its validity;[3]
(d) Respondent's right to assess the subject tax liabilities had already prescribed;[4] and
(e) The assessments lack legal and factual basis.[5]

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

Meanwhile, the basic tax assessed against petitioner amounted to ₱126,884,504.51.[6] 40% of this amount is ₱50,753,801.80, whereas petitioner paid ₱72,624,247.91, which is above the 40% threshold. As such, the instant Compromise Agreement complies with the *second* requisite.

Finally, the 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 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.*:[7] y

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1 *See* Petition for Review, pp. 7-19, *Rollo* Vol. 1, pp. 13-25.
2 *See* Petition for Review, pp. 19-22, *id.* at 25-28.
3 *See* Petition for Review, pp. 22-28, *id.* at 28-34.
4 *See* Petition for Review, pp. 28-31, *id.* at 34-37.
5 *See* Petition for Review, pp. 32-41, *id.* at 38-47.
6 *See* Formal Letter of Demand, *id.* at 126; *see also* Warrant of Distraint and/or Levy, *id.* at 53.
7 G.R. No. 154716, September 16, 2008.

> *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.
>
> 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)

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*:[8]

> 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)

FOR THESE REASONS, the parties' Joint Motion to Render Judgment Based on Compromise Agreement is hereby **GRANTED**. Their 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.

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

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

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