CTA Form No. 8

23-000581-0088

REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

FIRST DIVISION

CTA CASE NO. 11343

THE REAL AMERICAN DOUGHNUT COMPANY, INC.,
Petitioner,

- versus -

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

NOTICE OF JUDGEMENT ON COMPROMISE AGREEMENT

To:

OFFICE OF THE SOLICITOR GENERAL
134 Amorsolo Street, Legaspi Village
Makati City

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Diliman, Quezon City

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7th Floor, Electra House Builing
115-117 Esteban Street, Legaspi Village
Makati City

GREETINGS:

You are hereby notified by these presents that on **May 21, 2026,** a Judgement on Compromise Agreement was rendered in the above-entitled case, copy of which is attached hereto.

Quezon City, Philippines, **May 28, 2026.**

Atty. Maria Johoanna F. Chan-Te
Executive Clerk of Court III

REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

First Division

THE REAL AMERICAN DOUGHNUT COMPANY, INC., *Petitioner,*	**CTA CASE NO. 11343**
- versus -	**Members:** **RINGPIS-LIBAN, *P.J.*, REYES-FAJARDO,** *and* **ANGELES, *JJ*.**
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*	Promulgated: MAY 21 2026; 3:20PM

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JUDGMENT ON COMPROMISE AGREEMENT

RINGPIS-LIBAN, J.:

For the Court's resolution is the parties' **Joint Motion to Render Judgment Based on Compromise Agreement**[1] with the attached Judicial Compromise Agreement (Agreement)[2] filed on March 30, 2026.

On December 17, 2025, the parties entered into the Agreement for the purpose of amicably settling and ending the instant case. A copy of the original Agreement, notarized and signed by both parties, was attached to the Joint Motion as Annex "A" thereof.

Petitioner had already paid the Judicial Compromise Amount in accordance with the Agreement. Copies of BIR Forms 0605 and BIR Deposit Slips were attached to the Joint Motion as Annexes "B" to "B-4" thereof.

A copy of the Certificate of Availment issued to petitioner, evidencing that the compromise was duly evaluated and accepted by the National Evaluation Board (NEB), was attached to the Joint Motion as Annex "C" thereof.

[1] Docket – Vol. II, unpaginated.
[2] *Id.*

THE COURT'S RULING

In *Republic of the Philippines v. Heirs of Cruz, et al.,*[3] the Supreme Court emphatically held that before approving a compromise, courts are bound to strictly scrutinize the same to ensure that the compromise and its execution are compliant with the law and consistent with procedural rules.

In obedience to the foregoing, this Court shall now scrutinize the Agreement dated December 17, 2025 and the documents submitted by the parties in support thereof.

The Agreement, in part, reads as follows:

JUDICIAL COMPROMISE AGREEMENT

This **JUDICIAL COMPROMISE AGREEMENT ("Agreement")**, made and executed, by and between:

> **THE REAL AMERICAN DOUGHNUT COMPANY, INC. ("TAXPAYER")**, a domestic corporation duly organized and existing under the laws of the Republic of the Philippines, with principal office at 3rd Floor, KDC Plaza Building, Don Chino Roces Avenue, Pio Del Pilar, Makati City, represented by its **Deputy Chief Financial Officer, DIANE L. YANZON**;
>
> \- and –
>
> The **BUREAU OF INTERNAL REVENUE ("BIR")**, with principal office at Bureau of Internal Revenue, National Office Building, Agham Road, Diliman, Quezon City, represented by the **Commissioner, HON. CHARLITO MARTIN R. MENDOZA** (collectively, the **"PARTIES"**);

\- Witnesseth That –

WHEREAS, the **BIR** issued to the **TAXPAYER** a Final Decision on Disputed Assessment (**"FDDA"**) dated 19 October 2023 for taxable year 2018 assessing the **TAXPAYER** basic deficiency taxes in the aggregate amount of **Php52,768,566.94**;

[3] G.R. No. 208956, October 17, 2018.

WHEREAS, the **TAXPAYER** instituted an action against the **BIR** entitled ***"The Real American Doughnut Company, Inc. vs. Commissioner of Internal Revenue"***, docketed as CTA Case No. 11343, pending before the Honorable First Division of the Court of Tax Appeals (**"CTA"**), seeking for the revocation and cancellation of the FDDA of the BIR for the alleged tax deficiency for the year 2018;

WHEREAS, the **TAXPAYER** has submitted to the BIR a **Proposal for Amicable Settlement** dated 17 June 2024, for the alleged deficiency tax assessment contained in the **FDDA**;

x x x x x x x x x

WHEREAS, the **PARTIES**, for the purpose of avoiding and putting an end to a protracted, expensive and mutually prejudicial litigation, have agreed to amicably settle the above-mentioned case, upon terms and conditions hereinafter set forth;

NOW, THEREFORE, for and in consideration of the foregoing premises, the **PARTIES** hereto have agreed as follows:

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 **TWENTY-ONE MILLION SEVEN HUNDRED FORTY-NINE THOUSAND SEVEN HUNDRED SEVENTY-ONE AND 31/100 PESOS (Php21,749,771.31) ("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. 11343**. 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.

x x x x x x x x x

Section 6. Full and Final Settlement. This Agreement is executed by the **PARTIES** for the purpose of amicably settling and ending CTA Case No. 11343. Upon approval by the court, the BIR recognizes the full satisfaction of the supposed tax liability of the **TAXPAYER** in connection with CTA Case No. 11343 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. 11343.

x x x x x x x x x

Section 204(A) of the National Internal Revenue Code of 1997, as amended (**1997 NIRC**), provides:

> **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 (P1,000,000) 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 supplied)*

Based on the above-cited provision, the requisites for a valid compromise agreement are the following:

(1) The application for compromise is based on either the doubtful validity of the tax assessment or the 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, and, 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 approval of the NEB, which is composed of the Commissioner and his four (4) Deputy Commissioners, if the subject assessment exceeds One Million Pesos (Php1,000,000.00) or where the settlement offered is less than the prescribed minimum rates.

The records of this case show that the application for compromise settlement was grounded on the doubtful validity of respondent's tax assessment, as confirmed by the Certificate of Availment which expressly states that petitioner availed of the provisions of "Sec. 3.1 of RR 30-2002 (Judicial)."

In its Petition for Review, petitioner raised the following grounds to challenge the validity of the deficiency tax assessments for taxable year 2018: first, that respondent's reliance on third-party information data without confirmation or verification from the third-party sources — including the matching of petitioner's Summary List of Purchases against third-party Summary Lists of Sales — constitutes a naked assessment bereft of factual and legal basis, tantamount to a denial of due process; second, that petitioner suffered foreign exchange losses and losses from property and equipment disposal which were unjustifiably disregarded by respondent; third, that the deficiency assessments for VAT, Expanded Withholding Tax (EWT), and Withholding Tax on Compensation (WTC) have already prescribed pursuant to Section 203 of the 1997 NIRC, given that the Formal Letter of Demand dated March 9, 2023 was received on the same date; and fourth, that the Compromise Penalty was improperly imposed without petitioner's conformity, in violation of settled doctrine.

In its Answer, respondent denied petitioner's material allegations and maintained the following special and affirmative defenses: that petitioner is liable for the deficiency taxes as assessed; that the assessments are presumed correct; that respondent's right to assess has not prescribed, given that petitioner executed two Waivers of the Defense of Prescription — the first dated February 4, 2021 extending the period to assess VAT liabilities until June 30, 2022, and the second dated September 5, 2022 extending the period for all internal revenue tax liabilities for taxable year 2018 until April 15, 2023 — both executed prior to the issuance of the Formal Letter of Demand dated March 9, 2023; and that petitioner, as a withholding agent, is imprescriptibly liable for its failure to withhold and remit the correct expanded withholding taxes and withholding taxes on compensation.

The opposing positions of the parties plainly show that the validity of the deficiency assessments was genuinely and legitimately put in issue. Accordingly, the first requisite under Section 204(A) of the 1997 NIRC pertaining to the ground of doubtful validity of the assessment is met.

As to the second requisite pertaining to the amount of compromise payment, the copy of the FDDA shows that respondent assessed petitioner for basic deficiency taxes for taxable year 2018 in the following amounts:

Type of Tax	Amount of Basic Deficiency Tax Assessed (Excluding Interest and Penalties)	Compromise Amount Paid
Income Tax (IT)	₱44,353,942.04	₱17,741,576.82
Value-Added Tax (VAT)	₱7,344,050.67	₱2,937,620.27
Minimum Corporate Income Tax (MC)	₱164,000.00	₱164,000.00
Withholding Tax on Compensation (WC)	₱36,431.48	₱36,431.48
Expanded Withholding Tax (WE)	₱870,142.75	₱870,142.75

Based on the submitted Agreement, petitioner paid a total of **₱21,749,771.31** as the Judicial Compromise Amount, which represents approximately 41.22% of the total basic deficiency taxes assessed in the amount of ₱52,768,566.94. This rate exceeds the prescribed minimum compromise rate of forty percent (40%) of the basic assessed tax for cases grounded on doubtful validity under Section 204(A) of the 1997 NIRC. The amounts paid were duly supported by BIR Forms 0605 (Payment Forms), eFPS Filing Reference Numbers, and BIR Payment Details via BPI BizLink, all dated December 29, 2025 (Annexes "B" to "B-4"). The computation and payment of the amount of compromise settlement as shown above is thus in accordance with law and is deemed compliant with the second requisite.

As to the third requisite, the Court notes that there is sufficient compliance with the law by the submission of the certified true copy of the Certificate of Availment (Compromise Settlement) dated April 21, 2026 (Annex "C"), which states that petitioner's application for the compromise settlement of deficiency IT, VAT, WE, WC, and MC taxes amounting to ₱52,768,566.94 under FDDA dated October 19, 2023 has been approved by the National Evaluation Board (NEB). The Certificate was signed by James H. Roldan, Assistant Commissioner, Enforcement and Advocacy Service, as Authorized Signatory of the Commissioner of Internal Revenue.

The Court further notes that petitioner's Formal Offer of Evidence filed on August 20, 2025 and emailed on August 21, 2025, as well as respondent's Comment (Re: Formal Offer of Evidence dated 19 August 2025) emailed on October 16, 2025, need no longer be resolved. With the approval of the Agreement and the rendition of this Judgment, the same are rendered moot and academic, the case being now closed and terminated.

With the faithful observance by the parties of all the requisites under Section 204(A) of the 1997 NIRC, the Court approves the Agreement.

WHEREFORE, the parties' Joint Motion to Render Judgment Based on Compromise Agreement is hereby **GRANTED**.

Accordingly, the Judicial Compromise Agreement executed by the parties is hereby **APPROVED**. The parties are strictly enjoined to faithfully comply with all the terms and conditions of the Agreement.

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

SO ORDERED.

Ma. Belen
MA. BELEN M. RINGPIS-LIBAN
Presiding Justice

WE CONCUR:

Marian Ivy F. Reyes - Fajardo
MARIAN IVY F. REYES-FAJARDO
Associate Justice

HENRY S. ANGELES
Associate Justice

CERTIFICATION

Pursuant to Article VIII, Section 13 of the Constitution, 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.

MA. BELEN M. RINGPIS-LIBAN
Presiding Justice