REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

SECOND DIVISION

ILOILO-1 ELECTRIC COOPERATIVE, INC. (ILECO-1), *Petitioner,*	**CTA CASE NO. 9826**
	Members:
-versus-	**UY,** *Chairperson,* **BACORRO-VILLENA,** *and* **CUI-DAVID,** *JJ.*
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*	Promulgated: JUL 2 2 2022 9:10 a.m.

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JUDGMENT ON COMPROMISE AGREEMENT

CUI-DAVID, J.:

This resolves the Philippine Mediation Center-Court of Tax Appeal's (PMC-CTA) Mediator's Report of Successful Settlement with attached complete Compromise Agreement filed on December 16, 2020.

To recall, on February 26, 2020, the PMC-CTA submitted to the Court the Mediator's Report signed by (Ret.) Justice Antonio L. Villamor, stating that there has been an "Unsuccessful Mediation". Attached to the said Report are the following documents, to wit:

1. Agreement to Mediate and Selection of Mediator dated February 15, 2019 (original copy);

2. Selection of Mediator dated February 15, 2019, whereby the parties selected (Ret.) Justice Antonio L. Villamor to be the Mediator in the instant case (original copy);

3. Special Power of Attorney signed by Marissa O. Cabreros, Deputy Commissioner, Legal Group of the Bureau of Internal Revenue (BIR), appointing Attys. Felix Paul R. Velasco III, Sylvia R. Alma Jose, Rowell B. Vicente, Luigi A. Bacani, and/or any lawyer from the Litigation Division of the BIR to appear for and in behalf of respondent Commissioner of Internal Revenue (CIR) at the

mediation of the instant case, before the National Conciliation and Mediation Board on such dates as may be directed by the Court, with full power to do and perform all acts necessary and proper under the premises (original copy);

4. Excerpts from the Minutes of the Special Meeting of the ILECO-1 Board of Directors held on February 27, 2018 at the Conference Room, ILECO-1 Main Office, Tigbauan, Iloilo, adopting the Resolution No. 2018-086, whereby the petitioner's Board of Directors authorized and empowered OIC-Finance Services Department Jectofer D. Arlos to enter into compromise or settlement, among others, on behalf of the petitioner in connection with the tax assessment for taxable year 2010, subject of the instant case (original copy); and

5. Appearance of Parties in Mediation Conferences dated February 6, 2019, February 15, 2019 and March 8, 2019 (original copy).

In the Resolution dated March 6, 2020, the Court noted the submission of Mediator's Report on February 26, 2020 by the PMC-CTA stating that the mediation was unsuccessful. The case was then set for Pre-Trial Conference.

During the scheduled Pre-Trial Conference on July 29, 2020, petitioner's counsel was given thirty (30) days, or until August 28, 2020, to submit the parties' Joint Stipulation of Facts and Issues, by agreement of the parties. In the same hearing, the Court, upon motion by both parties, set the presentation of the lone witness for the petitioner on a later date, on the ground that they are still working for a possible compromise settlement.

During the hearing on December 7, 2020, the Court cancelled and reset petitioner's presentation of witness in view of manifestation of petitioner's counsel that the parties have entered into an amicable settlement, and that they have executed a Compromise Agreement, as confirmed by respondent's counsel.

On December 16, 2020, the PMC-CTA filed with the Court the Mediator's Report dated Deccmber 11, 2020, signed by (Ret.) Justice Antonio L. Villamor, stating that there has been a "Successful Settlement", with attached original copy of the Compromise Agreement, signed by petitioner's OIC-Finance Services Department Jectofer D. Arlos and respondent Commissioner of Internal Revenue (CIR) Caesar R. Dulay, and attested by (Ret.) Justice Antonio L. Villamor.

On January 19, 2021, noting that there were lacking documents in the Mediator's Reports dated February 26, 2020 and December 11, 2020, the Court directed the parties to submit, within fifteen (15) days from notice thereof, the original or certified true copies of the following:

1. Proof of approval of the Compromise Agreement by the majority of the members of the National Evaluation Board (NEB) as required under Section 204[1] of the National Internal Revenue Code (NIRC) of 1997, as amended, and its implementing rules and regulations, Revenue Regulations (RR) No. 30-2002,[2] as amended by RR No. 9-2013;[3] and

2. Payment Form and/or any supporting documents showing that petitioner paid the compromise settlement.

In the meantime, the resolution of the PMC-CTA's Mediator's Report with attached Compromise Agreement dated December 11, 2020 was held in abeyance.

On February 19, 2021, petitioner filed its *Motion to Admit Attached Compliance/Manifestation*, manifesting that petitioner has offered and paid the amount of ₱6,155,887.48, representing 40% of the basic tax stated in the Final Decision on Disputed Assessment (FDDA), which the respondent accepted.

In the Resolution dated March 3, 2021, the Court granted petitioner's *Motion to Admit Attached Compliance/Manifestation* and noted that the documents submitted were mere photocopies or machine printouts. Petitioner was given a period of five (5) days from notice to submit the originals, original print-

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[1] 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:

... ...

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.

... ...

[2] 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, December 16, 2002.

[3] Amending Certain Provisions of Revenue Regulations No. 30-2002, May 10, 2013. Section 2 of RR 9-2013 reads:
Section 6 of Revenue Regulations No. 30-2002 shall now read as follows:
"SEC. 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 concurrence of the Commissioner.

... ...

The compromise offer shall be paid by the taxpayer upon filing of the application for compromise settlement. No application for compromise settlement shall be processed without the full settlement of the offered amount. In case of disapproval of the application for compromise settlement, the amount paid upon filing of the aforesaid application shall be deducted from the total outstanding tax liabilities.

... ..."

outs, or certified true copies of the payment forms relating to the parties' Compromise Agreement.

In compliance with the Court's March 3, 2021 Resolution, petitioner filed its *Ex-Parte Manifestation* on May 17, 2021, submitting the original print-outs of petitioner's proof of payment with the following details:

Annex A	Transmittal Sheet dated March 22, 2021 printed on ILECO-1 letterhead
Annex B	BIR Payment Form 0605 with amount ₱4,431,160.24
Annex C	eFPS Payment Details with Payment Transaction Number 207521728 and Reference Number 292000038528327 in the amount of ₱4,431,160.24
Annex D	BPI-BIR Payment Details with Reference Number BIR-110920-102819-02131156 in the amount of ₱4,431,160.24
Annex E	BIR eFPS payment confirmation with actual amount paid of ₱4,431,160.24

On May 28, 2021, the Court noted in its Resolution that the above-mentioned documents in the *Ex-Parte Manifestation* were substantially compliant with the *En Banc* Resolution No. 4-2021[4] dated February 24, 2021 and the Court's Resolution dated March 3, 2021. Accordingly, the parties were given an additional 30-day period to submit the original or certified true copy of proof of approval of the Compromise Agreement by the majority of the members of the National Evaluation Board (NEB), pursuant to the January 19, 2021 Resolution.

Finally, on July 4, 2022, after several extensions were granted to the parties, respondent filed his *Compliance*, submitting the certified true copies of the Certificate of Availment (Compromise Settlement) and the proof of the NEB's majority approval of the Compromise Agreement.

The Court shall now act on the PMC-CTA's Mediator's Report of Successful Settlement and the parties' Compromise Agreement.

[4] Pleadings, Motions and Other Court Submissions Filed by Email.

The Compromise Agreement partly reads:

COMPROMISE AGREEMENT

... ...

WHEREAS, on 26 April 2018, a Petition for Review was filed by petitioner ILECO-1 challenging the validity of the Final Decision on Disputed Assessment issued by respondent Commissioner of Internal Revenue in connection with deficiency tax assessments for taxable year 2010. Under the Final Decision on Disputed Assessment, petitioner was required to pay basic tax due in the amount of **Fifteen Million Three Hundred Eighty-Nine Thousand Seven Hundred Eighteen Pesos and Sixty-Nine Centavos** (Php15,389,718.69) representing deficiency taxes.

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.

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 **Six Million One Hundred Fifty-Five Thousand Eight Hundred Eighty-Seven Pesos and Forty-Eight Centavos (Php6,155,887.48)**, representing 40% of the basic tax stated in the FDDA. Out of the Php6,155,887.48, the amount of One Million Seven Hundred Twenty-Four Thousand Seven Hundred Twenty-Seven Pesos and Twenty-Four Centavos (Php1,724,727.24) was already paid as evidenced by the Certification dated 16 July 2019 issued by Revenue District Office No. 74. ... Hence, the amount of **Four Million Four Hundred Thirty-One Thousand One Hundred Sixty Pesos and Twenty-Four Centavos (Php4,431,1160.24)** shall be paid as full settlement of its tax liabilities pursuant to this compromise agreement. (*Emphasis on the original*)

... ...

Under Article 1306 of the Civil Code of the Philippines, contracting parties may establish such stipulations, clauses, terms, and conditions, as they may deem convenient, provided that they are not contrary to law, morals, good customs, public order, or public policy. A compromise agreement is a contract whereby the parties make reciprocal concessions, avoid litigation, or put an end to one already commenced. It is an accepted, even desirable and encouraged, practice in courts of law and administrative tribunals.[5]

A compromise agreement is a contract whereby the parties make reciprocal concessions in order to resolve their differences and, thus, avoid or put an end to a lawsuit. They adjust their difficulties in the manner they have agreed upon, disregarding the possible gain in litigation and keeping in mind that such gain is balanced by the danger of losing. It must not be contrary to law, morals, good customs and public policy, and must have been freely and intelligently executed by and between the parties. A compromise agreement may be executed in and out of court. Once a compromise agreement is given judicial approval, however, it becomes more than a contract binding upon the parties. Having been sanctioned by the court, it is entered as a determination of a controversy and has the force and effect of a judgment.[6]

In this regard, Section 204(A)[7] of the National Internal Revenue Code (NIRC) of 1997, as amended, provides that for cases other than financial incapacity, the minimum compromise rate is forty percent (40%) of the basic tax assessed. And in case the basic tax exceeds ₱1,000,000.00 or where the settlement offered is less than the said prescribed minimum rates, the compromise must be approved by the Evaluation Board, which is composed of respondent and the four (4) Deputy Commissioners of the Bureau of Internal Revenue (BIR).

Relative thereto, Section 6 of Revenue Regulations (RR) No. 30-2002, as amended by RR No. 9-2003, provides:

> SEC. 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**

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[5] California Manufacturing Company, Inc. v. The City of Las Piñas, et al., G.R. No. 178461, June 22, 2009.

[6] David vs. Paragas, Jr., G.R. No. 176973, February 25, 2015.

[7] 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.

> **(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 concurrence of the Commissioner.**
>
> ... ...
>
> The compromise offer shall be paid by the taxpayer upon filing of the application for compromise settlement. **No application for compromise settlement shall be processed without the full settlement of the offered amount**. In case of disapproval of the application for compromise settlement, the amount paid upon filing of the aforesaid application shall be deducted from the total outstanding tax liabilities. (*Emphasis supplied*)

Based on the foregoing, for a compromise settlement falling within the jurisdiction of the NEB to be valid, it must be shown that the same is approved by a majority of all the members of the NEB, and that there is a full settlement of the offered amount.

In this case, upon careful scrutiny of the supporting documents attached to the Mediator's Reports and compliance with submission submitted by the parties, the Court finds that petitioner had fully settled the legally required minimum amounts for compromise settlement, as shown in the BIR Payment Forms and eFPS payment confirmation, representing payment of the compromise amount.

Further, the Court earlier noted the submission of the Certificate of Availment (Compromise Settlement) dated June 27, 2022 together with the certified true copy of the signature page evidencing approval by the NEB of the Compromise Settlement and the total paid amount of the judicial compromise.[8]

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[8] Judicial Compromise Offered Amount: ₱6,155,887.48
Judicial Compromise Paid Amount:

Taxable Year	Tax Type	REF. No.	Date of Pym't	Amount Paid	Remarks
2010	IT	A-59869-8	11 09 2020	4,431,160.24	Verified thru ITS
		A-53541-6	04/15/11	489,812.70	Paid thru OTC as certified by the Chief, Collection Section, RDO 74
		A-51600-1	02/15/11	46,688.00	
		A-53687-1	05/26/10	12,669.40	
				1,217,209.00	
TOTAL				**6,197,539.34**	

In light of the foregoing considerations, the Court finds the parties' Compromise Agreement to be in order, as the same has been validly executed by the parties, and the terms and conditions specified therein are not contrary to law, morals, good customs, public order, and public policy.

WHEREFORE, premises considered, the PMC-CTA's Mediator'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 rendered in accordance therewith. The parties are 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.

LANEE S. CUI-DAVID
Associate Justice

WE CONCUR:

ERLINDA P. UY
Associate Justice

JEAN MARIE A. BACORRO-VILLENA
Associate Justice

ATTESTATION

I attest 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.

ERLINDA P. UY
Associate Justice
Chairperson

CERTIFICATION

Pursuant to Section 13, Article VIII 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.

ROMAN G. DEL ROSARIO
Presiding Justice