REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

FIRST DIVISION

WORDTEXT SYSTEMS, INC., Petitioner,	**CTA CASE NO. 10290**
- versus -	Members: **DEL ROSARIO**, *P.J.*, *Chairperson* **MANAHAN**, and **REYES-FAJARDO**, *JJ.*
COMMISSIONER OF INTERNAL REVENUE, Respondent.	Promulgated: MAR 24 2023 10:41 AM

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JUDGMENT BASED ON COMPROMISE AGREEMENT

***DEL ROSARIO, P.J.*:**

On December 19, 2022, the Court issued a Resolution[1] directing respondent Commissioner of Internal Revenue (CIR), the Hon. Romeo D. Lumagui, Jr., to personally manifest within fifteen (15) days from notice whether he adopts or continues to adopt the position taken by his predecessor in relation to the Judicial Compromise Agreement (JCA) executed by the parties, and the filing of the Joint Motion to Render Judgment Based on Compromise Agreement. Likewise, the Court held in abeyance the resolution of petitioner's **Motion for Reconsideration (of the Resolution dated 9 September 2022)**,[2] and respondent's **Motion for Reconsideration (Re: Resolution dated 09 September 2022)**.[3]

Respondent filed a **Motion for Extension of Time to File Manifestation (Re: Resolution dated 19 December 2022)** on January 12, 2023,[4] which the Court granted in its Resolution dated January 24, 2023.[5] Accordingly, respondent was granted an extension

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[1] Docket, Vol. III, pp. 1516-1524.
[2] Docket, Vol. III, pp. 1314-1347.
[3] Docket, Vol. III, pp. 1348-1359.
[4] Docket, Vol. III, pp. 1525-1528.
[5] Docket, Vol. III, p. 1531.

of fifteen (15) days, or until January 30, 2023, within which to comply with the Resolution dated December 19, 2022.

On January 30, 2023, respondent filed a **Motion for Extension of Time to File Manifestation (Re: Resolution dated 24 January 2023)**,[6] seeking another extension of fifteen (15) days, or until February 14, 2023, within which to comply with the Resolution dated December 19, 2022. The Court granted said Motion in its Resolution dated February 9, 2023.[7]

On February 14, 2023, or within the extended period, respondent filed the present **Compliance (Re: Resolution dated 19 December 2022)**,[8] with attached **Manifestation**,[9] stating that "**he does not adopt the position taken by his predecessor, in relation to the Judicial Compromise Agreement executed by his predecessor and the petitioner[,] and the filing of the Joint Motion to Render Judgment Based on Compromise Agreement**."[10] Nevertheless, respondent takes cognizance of the decision made by the previous administration of the BIR and submits the resolution of this matter to the wisdom of the Court.

Section 204(A) of the National Internal Revenue Code (NIRC) of 1997 provides for the authority of the CIR to compromise the payment of internal revenue taxes, to wit:

> "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:

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[6] Docket, Vol. III, pp. 1532-1535.
[7] Docket, Vol. III, p. 1540.
[8] Docket, Vol. III, p. 1541-1543.
[9] Docket, Vol. III, p. 1545.
[10] *Id.*

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**." (*Boldfacing supplied*)

Relatedly, Section 4(2) of Revenue Regulations (RR) No. 30-2002 provides:

"SEC. 4. PRESCRIBED MINIMUM PERCENTAGES OF COMPROMISE SETTLEMENT. – x x x

2. For cases of "doubtful validity" – A minimum compromise rate equivalent to forty percent (40%) of the basic assessed tax.

   The taxpayer may, nevertheless, request for a compromise rate lower than forty percent (40%): Provided, however, that he shall be required to submit his request in writing stating therein the reasons, legal and/or factual, why he should be entitled to such lower rate: Provided, further, that **for applications of compromise settlement based on doubtful validity of the assessment involving an offer lower than the minimum forty percent (40%) compromise rate, the same shall be subject to the prior approval by the NEB**." (*Boldfacing supplied*)

The law allows the compromise of internal revenue taxes if there is reasonable doubt as to the validity of the claim against the taxpayer, and the CIR may accept an offer with lower than the minimum statutory compromise rate of forty percent (40%) provided that such is approved by the National Evaluation Board (NEB).

The JCA entered into by the parties reads as follows:

"**JUDICIAL COMPROMISE AGREEMENT**

KNOWN ALL MEN BY THESE PRESENTS:

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

WORDTEXT SYSTEMS, INC. ("**TAXPAYER**"), a domestic corporation duly organized and existing under the laws of the Republic of the Philippines, with principal office at WSI Corporate Center 1005 Metropolitan Avenue, Corner Kakarong, Makati, 1205 Metro Manila, Philippines, represented by its **PRESIDENT, JUAN G. CHUA**;

-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. CAESAR R. DULAY** (collectively, the "**PARTIES**");

-Witnesseth That –

WHEREAS, the **BIR** issued to the **TAXPAYER** Final Assessment Notices ("**FAN**") (Assessment No. IT-116-LOA-00000014-10-15-1442, DS-116-LOA-00000014-10-15-1443, VT-116-LOA-00000014-10-15-1444, WE-116-LOA-00000014-10-15-1445, WF-116-LOA-00000014-10-15-1446, WV-116-LOA-00000014-10-15-1447, IAET-116-LOA-00000014-10-15-1448), and a Formal Letter Demand ("**FLD**"), all dated February 10, 2015, for the alleged Deficiency Income Tax, Documentary Stamp Tax, Value-Added Tax, Expanded Withholding Tax, Final Withholding Tax, Final Withholding on VAT and Improperly Accumulated Earnings Tax for **Taxable Year 2010** in the following amounts (PHP):

Tax Type	Basic Deficiency Tax	Interest	Penalties and Surcharge	Total
Income Tax	195,583,503.16	154,859,266.89	50,000.00	350,492,770.05
Documentary Stamp Tax	65,678.00	55,601.38	12,000.00	133,279.38
Value-Added Tax	89,109,875.69	74,461,676.94	50,000.00	163,621,552.63
Expanded Withholding Tax	5,099,703.70	4,289,339.83	50,000.00	9,439,043.53
Final Withholding Tax	9,504,658.47	7,994,329.18	50,000.00	17,548,987.65
Final Withholding on VAT	67,410,092.10	56,698,351.44	50,000.00	124,158,443.54
Improperly Accumulated Earnings Tax	11,667,066.78	9,813,121.92	50,000.00 2,916,766.70	24,446,955.40

WHEREAS, the **TAXPAYER** then filed with the **BIR** its Protest dated March 2, 2015 denying the merit of the FAN dated February 10, 2015;

WHEREAS, the **BIR** issued a FINAL DECISION ON DISPUTED ASSESSMENT ("**FDDA**") (Assessment No. IT-116-LOA-00000014-10-19-023, VT-116-LOA-00000014-10-19-024, WE-116-LOA-00000014-10-19-025, WR-116-LOA-00000014-10-19-026, WV-116-LOA-00000014-10-19-027, DS-116-LOA-00000014-10-19-028, IAET-116-LOA-00000014-10-19-029, MC-116-LOA-00000014-10-19-030) dated February 24, 2020, modifying and demanding the alleged Deficiency Income Tax, Documentary Stamp Tax, Value-Added Tax, Expanded Withholding Tax, Final Withholding Tax, Final Withholding on VAT and Improperly Accumulated Earnings Tax for **Taxable Year 2010** in the following amounts (PHP):

Tax Type	**Basic Deficiency Tax**	**Interest**	**Penalties and Surcharge**	Total
Income Tax	191,031,877.97	256,301,102.84 46,802,810.10	---	494,135,791.00
Documentary Stamp Tax	65,678.00	91,763.11 16,091.11	---	173,532.22
Value-Added Tax	87,923,333.76	121,920,356.15 21,541,216.77	---	231,384,906.68
Expanded Withholding Tax	5,099,703.70	7,097,087.65 1,249,427.41	---	13,446,218.76
Final Withholding Tax	9,504,658.47	13,227,316.37 2,328,641.33	---	25,060,616.17
Final Withholding on VAT	67,410,092.10	93,812,378.17 16,515,472.56	---	177,737,942.84
Improperly Accumulated Earnings Tax	12,731,516.49	17,718,027.12 3,119,221.54	---	33,568,765.15
Miscellaneous Compromise	---		312,000.00	312,000.00

WHEREAS, the **TAXPAYER** instituted an action against the BIR entitled ***"Wordtext Systems, Inc. vs. Commissioner of Internal Revenue"***, docketed as CTA Case No. 10290, pending before the Honorable First Division of the Court of Tax Appeals ("**CTA**"), seeking the reversal of the **FDDA**, and the cancellation of the **FAN/FLD**;

WHEREAS, the **TAXPAYER** has submitted its proposal to the **BIR** with the intention to enter into a judicial compromise pursuant to the provisions of the Civil Code of the Philippines, jurisprudence, relevant decisions of the Honorable CTA and relevant laws on judicial compromise;

WHEREAS, the Honorable CTA has issued rulings allowing judicial compromise similar to the instant case.

WHEREAS, the **BIR** has evaluated the **TAXPAYER'S** proposal for amicable settlement and believes that a judicial compromise to allow immediate tax collection and also put an end to litigation as provided in the Civil Code of the Philippines, serves the interest of the Government;

WHEREAS, the **PARTIES**, ensure that the terms of the amicable settlement as contained in this **Agreement** do not circumvent the limitations provided in Section 204 of the National Internal Revenue Code on administrative compromise proceedings;

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 **amount equivalent to Ten-Percent (10%)** of the **Basic Tax** assessed in the **FDDA** in the **total compromise amount of THIRTY-SEVEN MILLION THREE HUNDRED AND SEVENTY SIX THOUSAND SIX-HUNDRED AND EIGHTY-SIX PESOS AND SIX CENTAVOS (PHP 37,376,686.06)** ("**Judicial Compromise Amount**").

This amount is broken down as follows:

Tax Type	Basic Deficiency Tax	Compromise Rate	Offer of Compromise (PHP)
Income Tax	191,031,877.97	10%	19,103,187.80
Documentary Stamp Tax	65,678.00	10%	6,567.80
Value-Added Tax	87,923,333.76	10%	8,792,333.38
Expanded Withholding Tax	5,099,703.70	10%	509,970.37
Final Withholding Tax	9,504,658.47	10%	950,465.85
Final Withholding on VAT	67,410,092.10	10%	6,741,009.21
Improperly Accumulated Earnings Tax	12,731,516.49	10%	1,273,151.65
GRAND TOTAL			37,376,686.06

Section 2. Submission to the Honorable CTA. This Agreement fully signed by the **PARTIES** shall be submitted for the approval to the Honorable CTA in CTA Case No. 10290. The **PARTIES** undertake to perform any and all acts, and submit any 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 only take effect and bind the **PARTIES** upon final 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 Taxpayer undertakes to submit to the **BIR** the **Judicial Compromise Amount**. Upon receipt of the **Judicial Compromise Amount**, 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, including but not limited to, the **Authority to Cancel Assessment** withdrawing and cancelling the **FANs and the FLD dated February 10, 2015 and the FDDA dated February 24, 2020;**

Section 5. Authority to Enter Compromise Agreement. The **BIR**, through Commissioner Caesar R. Dulay warrant that he 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** through its President, Juan G. Chua, similarly warrants that he is duly authorized by the Board of Directors of the **TAXPAYER** 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. 10290. Upon performance by the **TAXPAYER of its obligations under Section 4 hereof, the BIR** recognizes the full satisfaction of the supposed tax liability of the **TAXPAYER** in connection with CTA Case No. 10290 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. 10290.

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 insofar 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. 10290 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 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. Signatures 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 agreed to the foregoing stipulations and have hereunto signed these presents at the date and place indicated above.

WORDTEXT SYSTEMS, INC.	**BUREAU OF INTERNAL REVENUE**
By:	By:
(sgd.) **JUAN G. CHUA** President	*(sgd.)* **HON. CAESAR R. DULAY** Commissioner"[11]

In this case, the parties submitted to the Court the original signed copy of the above-quoted JCA, and the certified true copy of the Certificate of Availment (Compromise Settlement) dated June 29, 2022,[12] with attached certified true copy of the approval sheet of the NEB[13] showing that the then-CIR and four (4) Deputy Commissioners signified their assent to the JCA made between and executed by the parties.

[11] Annex "A", Joint Motion to Render Judgment Based on Compromise Agreement, Docket, Vol. III, pp. 1083-1088.
[12] Docket, Vol. III, p. 1265.
[13] Docket, Vol. III, p. 1266.

The approval by the NEB of the compromise agreement with lower compromise rate is sufficient compliance with Section 204(A) of the NIRC of 1997, as amended, and Section 4(2) of RR No. 30-2002. Again, the general rule is that the authority of the CIR to compromise is purely discretionary and the courts cannot interfere with his exercise of discretionary functions, absent grave abuse of discretion.[14]

While the incumbent CIR, Hon. Romeo D. Lumagui, Jr., manifested that he does not adopt the position of his predecessor in relation to the JCA executed by the parties and the filing of the Joint Motion to Render Judgment Based on Compromise Agreement, he nevertheless did not seek to invalidate the JCA nor withdraw its submission with the Court. In view of the foregoing, the Court finds no compelling reason to withhold its approval on the parties' JCA.

In closing, however, the Court notes that there is nothing in the NIRC of 1997, as amended, or its implementing rules, which provide for parameters or clear-cut guidelines on when a compromise rate lower than forty percent (40%) may be allowed or approved by the NEB. ***Sans* such parameters or guidelines in the law that the NEB must adhere to, the unfettered discretion granted to the NEB becomes susceptible to abuse, at the very least, or invites corruption, at its worse, to the prejudice of both the taxpayer and the government**. Illustratively, a ₱100.00 compromise amount involving a ₱1 Billion deficiency taxes would be considered lawful merely because the NEB has approved the same.

The foregoing noted insufficiency in the law is one that must be resolved by legislation, specifically by corresponding amendments to Section 204(A) of the NIRC of 1997, as amended.

WHEREFORE, the Court hereby **RESOLVES** to:

(1) **NOTE** respondent's **Compliance (Re: Resolution dated 19 December 2022)** with attached **Manifestation** filed on February 14, 2023;

(2) **GRANT** petitioner's **Motion for Reconsideration (of the Resolution dated 9 September 2022)** and respondent's **Motion for Reconsideration (Re: Resolution dated 09 September 2022)**; and,

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[14] *Kepco Philippines Corporation vs. Commissioner of Internal Revenue*, G.R. No. 225750-51, July 28, 2020.

(3) **APPROVE** the Judicial Compromise Agreement entered into by the parties. They are enjoined to faithfully comply with all the terms and conditions of the said Agreement. Accordingly, this case is now **CLOSED** and **TERMINATED**.

Let a copy of this Judgment be furnished the Senate of the Philippines and the House of Representatives for their information and consideration, particularly on the propriety of introducing amendments to Section 204(A) of the National Internal Revenue Code of 1997, as amended.

SO ORDERED.

ROMAN G. DEL ROSARIO
Presiding Justice

WE CONCUR:

CATHERINE T. MANAHAN
Associate Justice

MARIAN IVY F. REYES-FAJARDO
Associate Justice

CERTIFICATION

Pursuant to Article VIII, Section 13 of the Constitution, it is hereby certified that the conclusions in the above Judgment Based 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