REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

SECOND DIVISION

ALBERT ARANETA ENTERPRISES, INC.,
Petitioner,

- versus –

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

CTA CASE NO. 10005

Members:

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

Promulgated:

OCT 2 5 2023

8:55 a.m.

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JUDGMENT BASED ON COMPROMISE AGREEMENT

FERRER-FLORES, J.:

For the Court's resolution are the following:

1. the **Mediator's Report**, filed on December 11, 2020;

2. parties' **Joint Motion for Approval of Judicial Compromise Agreement**, filed on December 15, 2020; and,

3. parties' **Joint Motion to Render Judgment on Compromise**, filed on August 4, 2023.

On January 14, 2019, petitioner filed a *Petition for Review (with Motion to Suspend Collection of Tax)*[1], praying for the Court to render a judgment cancelling petitioner's deficiency income tax and value-added tax (VAT)

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[1] Docket, pp. 10 to 34.

assessments in the amount of ₱9,212,234.61 for taxable year ending July 31, 2010, computed as follows:[2]

	Basic Tax Due	Interest up to 11/03/17	Total
I. Income Tax	₱ 2,872,545.33	₱ 4,004,249.49	₱ 6,876,794.82
II. Value-Added Tax	957,577.54	1,377,862.25	2,335,439.79
Total	₱ 3,830,122.87	₱ 5,382,111.74	₱ 9,212,234.61

Thereafter, a hearing was held for the motion to suspend collection of tax on February 13, 2019, wherein petitioner presented its witness, Ms. Consuelo A. Samson, whose testimony was completed.[3]

Considering, however, the manifestation of respondent's counsel that there is no apparent attempt to collect the said deficiency tax, the resolution of petitioner's motion was held in abeyance.[4]

On March 11, 2019, respondent filed his *Answer*.[5] As such, pre-trial conference was scheduled on April 11, 2019.[6]

Respondent's Pre-Trial Brief was filed on April 5, 2019,[7] while petitioner's *Pre-Trial Brief* was filed on April 8, 2019.[8]

During the pre-trial conference held on April 11, 2019,[9] the Court ordered the parties to immediately proceed and to personally appear or through their authorized representative at the Philippine Mediation Center – Court of Tax Appeals (PMC-CTA) on May 30, 2019.

On July 15, 2019, a *Request for Extension*[10] was filed by the PMC-CTA, requesting that the parties be granted a final extension of thirty (30) days from July 18, 2019 or until August 17, 2019, to give the parties additional time to reach an amicable settlement. The Court granted the same in the Resolution dated July 17, 2019.[11]

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[2] As shown in the FDDA dated October 6, 2017, Annex "D", Petition for Review, Docket, pp. 51 to 52.
[3] Minutes of the hearing held on and Order dated February 13, 2019, Docket, p.182 and p. 183, respectively.
[4] *Id.*
[5] Docket, pp. 184 to 189.
[6] Notice of Pre-Trial Conference, *Id.*, pp. 191 to 192.
[7] Docket, pp. 194 to 197.
[8] *Id.*, pp. 198 to 206.
[9] Minutes of the Hearing held on and Order dated April 11, 2019, *Id.*, p. 212 and p. 214, respectively.
[10] Docket, p. 215.
[11] *Id.*, p. 217.

Consequently, upon motion of the parties,[12] the proceedings in this case were suspended and parties were given a period of sixty (60) days within which to reach an amicable settlement.[13]

On November 26, 2019, the parties filed a *Joint Motion to Extend the Suspension of Court Proceedings*[14] to enable respondent to complete his evaluation of petitioner's application for compromise, which the Court granted and the parties were given a period of sixty (60) days within which to reach an amicable settlement.[15]

For failure of the parties to comply with its Resolution dated December 6, 2019,[16] the Court ordered, on June 1, 2020, to proceed with the trial of the case and requested the PMC-CTA to transmit to the Court the Mediator's Report.[17]

The parties then filed a *Joint Motion for Final Extension of Suspension of Court Proceedings*[18] on July 3, 2020, praying to suspend further the trial for a period of sixty (60) days, which the Court also granted in the Resolution dated July 16, 2020.[19]

Considering that the parties failed to comply with the Resolution dated July 16, 2020,[20] the Court requested again the PMC-CTA to transmit the Mediator's Report and set the instant case for trial.[21]

On December 11, 2020, the PMC-CTA filed with the Court the *Mediator's Report*[22] dated December 3, 2020, signed by (Ret.) Justice Montenegro, stating of a "Successful Settlement" and attached therewith the following supporting documents, *viz*:

(i) Agreement to Mediate and Selection of Mediator dated June 11, 2019 (original copy);

(ii) Selection of Mediator dated June 11, 2019, whereby the parties selected (Ret.) Justice Eduardo G. Montenegro to be the Mediator in the instant case (original copy);

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[12] *Joint Motion for Suspension of Court Proceedings*, Docket, pp. 218 to 219.
[13] Resolution dated August 27, 2019, Docket, p. 221.
[14] Docket, pp. 223 to 225.
[15] Resolution dated December 6, 2019, *Id.*, p. 227.
[16] Records Verification dated March 10, 2020, Docket, p. 228.
[17] Resolution dated June 1, 2020, Docket, pp. 230 to 231.
[18] Docket, pp. 232 to 234.
[19] *Id.*, p. 236.
[20] Records Verification dated October 14, 2020, *Id.*, p. 237.
[21] Resolution dated November 6, 2020, Docket, pp. 239 to 241.
[22] Docket, p. 242.

(iii) Special Power of Attorney dated April 8, 2019, signed by the Bureau of Internal Revenue Regional Director – Revenue Region 7 – Quezon City, Romulo L. Aguila, Jr., whereby he appointed Atty. Liezl G. Bohol of the Legal Division of the BIR to enter into an amicable settlement, to submit to alternative modes of dispute resolution, to enter into stipulations or admissions of facts and of documents and perform all or any acts as may be necessary in the conduct of the said Pre-Trial Conference in the instant case (original copy);

(iv) Secretary's Certificate dated December 10, 2020, signed by petitioner's Corporate Secretary, Carmen A. Afable, whereby the petitioner's Board of Directors authorized Mr. Jose A. Albert to enter into compromise agreement on behalf of the Corporation in connection with its income tax and value-added tax assessments for taxable year ending July 31, 2010, subject of the instant case, and to sign any and all documents in connection with the foregoing authority (original copy);

(v) Special Power of Attorney dated April 11, 2019, signed by petitioner's Chairman Consuelo Samson, whereby he appointed the law firm of Legal Access or any of its attorneys, including but not limited to Attorneys Ver Angelo N. Sumabat and Ramon Enrique B. Ramirez, as the petitioner's true and lawful attorneys-in-fact to do the following acts, deeds and things, for and on behalf, and in the name of the corporation among others, to appear on behalf of the Corporation at the pre-trial conference and to consider and agree to the following in connection with the Claim, in accordance with the Corporation's instructions: the possibility of an amicable settlement, compromise agreement or a submission to arbitration or alternatives modes of dispute resolution; xxx; (original copy);

(vi) Appearance of Parties in June 18, 2019 Mediation Conferences (original copy); and

(vii) Judicial Compromise Agreement, signed by petitioner's President, Mr. Jose A. Albert, and Commissioner of Internal Revenue Caesar R. Dulay, and attested by (Ret.) Justice Eduardo G. Montenegro, and notarized on November 17, 2020 (BIR) and on July 30, 2020 (taxpayer) (original copies).

Notwithstanding the foregoing, the Court further directed the parties to submit the original or certified true copy of the proof of approval of the Compromise Agreement by the majority of the members of the National Evaluation Board (NEB) and the payment form and/or any supporting documents showing that petitioner paid the compromise settlement.[23] Likewise, the resolution of the *Mediator's Report* was held in abeyance.[24]

[23] Resolution dated January 13, 2021, Docket, pp. 282 to 285.
[24] *Id.*

Subsequently, the parties filed on December 15, 2020 a *Joint Motion for Approval of Judicial Compromise Agreement.*[25]

On February 1, 2021, the Court reiterated its directive that the parties must submit the original or certified true copy of the (1) proof of approval of the Compromise Agreement by the majority members of the NEB; and (2) the payment form and/or any supporting documents showing that petitioner paid the compromise settlement.[26] Hence, the resolution of the *Mediator's Report* and the parties' *Joint Motion for Approval of Judicial Compromise Agreement* was held in abeyance.

On May 20, 2021, petitioner filed a *Partial Compliance/ Submission,*[27] submitting the Revenue Official Receipt No. 02338448 (BIR Form No. 2524) and Payment Form (BIR Form No. 0605) which were both notarized.

Hence, the Court noted petitioner's Partial Compliance/Submission and still held in abeyance the resolution of the *Mediator's Report* and the parties' *Joint Motion for Approval of Judicial Compromise Agreement.*[28]

As the parties failed to submit the proof of approval of the Compromise Agreement by the majority members of the NEB,[29] the Court, in the Resolution dated February 14, 2022,[30] gave the parties a period of fifteen (15) days within which to submit a joint report on the status of their compromise agreement and/or the original or certified true copy of the Certificate of Availment showing the approval of the majority of the NEB.

On March 7, 2022, the parties filed a *Joint Manifestation on the Status of Issuance of Certificate of Availment on Compromise Offer of Petitioner,*[31] which the Court noted and gave the parties another period of fifteen (15) days to submit a joint report on the status of the compromise agreement and/or the original or certified true copy of the Certificate of Availment showing the approval of the majority of the NEB.[32]

Pursuant to CTA Administrative Circular No. 01-2022 dated June 21, 2022, the case was transferred from the Second Division to the Third Division of the Court.[33]

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[25] Docket, pp. 262 to 266.
[26] Resolution dated February 1, 2021, *Id.*, pp. 287 to 288.
[27] Docket, pp. 311 to 312.
[28] Resolution dated June 17, 2021, *Id.*, pp. 316 to 317.
[29] Records Verification dated November 3, 2021, Docket, p. 318.
[30] Docket, pp. 320 to 321.
[31] *Id.*, pp. 322 to 324.
[32] Resolution dated April 5, 2022, *Id.*, pp. 326 to 328.
[33] Order dated June 29, 2022, Docket, p. 336.

Subsequently, the Court both granted[34] the parties' *Joint Reports on Status of Compromise Agreement* filed on September 27, 2022[35] and on April 28, 2023.[36]

On August 4, 2023, the parties filed a *Joint Motion to Render Judgment on Compromise,*[37] submitting the certified true copies of the Certificate of Availment and NEB Approval.

Now, proceeding to the PMC-CTA's Mediator's Report of Successful Settlement and the parties' joint motions, the pertinent portions of the subject Judicial Compromise Agreement are quoted as follows:

"JUDICIAL COMPROMISE AGREEMENT

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

ALBERT ARANETA ENTERPRISES, INC. (**'TAXPAYER'**), is a domestic corporation engaged in the business of importing, exporting, buying and selling, both wholesale and retail of lumber, agricultural products and other merchandise with principal place business at 355 Katipunan Avenue, Loyola Heights, Quezon City, Metro Manila, Pasig City, represented by its President, **MR. JOSE A. ALBERT**;

- 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 Decision on Disputed Assessment ('**FDDA'**) dated 06 October 2017 for the 2010 fiscal year ending 31 July 2010 assessing the **Taxpayer** deficiency for an aggregate amount of P9,212,234.61 inclusive of interests and surcharges;

xxx xxx xxx

WHEREAS, the **PARTIES** have agreed to enter into an amicable settlement pursuant to the provisions of the Civil Code of the Philippines, jurisprudence, relevant decisions of the Honorable CTA, and relevant laws

[34] Resolutions dated October 12, 2022 and June 23, 2023, *Id.*, pp. 342 to 343 and 350 to 352, respectively.
[35] Docket, pp. 338 to 340.
[36] *Id.*, pp. 344 to 347.
[37] Docket.

on judicial compromise without contravening law, morals, public order and public policy;

xxx xxx xxx

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 **Php1,532,049.15 ('Judicial Compromise Amount')** (40% of the basic deficiency income and value added tax **Php9,212,234.61**).

xxx xxx xxx

Section 6. Full and Final Settlement. This Agreement is executed by the **PARTIES** for the purpose of amicably settling and ending CTA Case No. 10005. 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. 10005 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. 10005.

xxx xxx xxx"

Article 1306 of the Civil Code of the Philippines provides that 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.[38]

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

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[38] *California Manufacturing Company, Inc. vs. City of Las Piñas*, G.R. No. 178461, June 22, 2009.

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.[39]

In this regard, Section 204(A) of the National Internal Revenue Code of 1997, as amended, provides that for cases other than financial incapacity, the minimum compromise rate is forty percent (40%) of the basic assessed tax. 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 BIR.

Relative thereto, Section 6 of Revenue Regulations (RR) No. 30-2002,[40] as last amended by RR No. 9-2013,[41] 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 (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.
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> xxx xxx xxx
>
> *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.*"

Based on the foregoing, a compromise settlement falling within the jurisdiction of the NEB is valid if there was a full settlement of the offered amount and the same was approved by a majority of all the members of the NEB.

Considering the Judicial Compromise Agreement[42] submitted by the parties, the Certificate of Availment (Compromise Settlement)[43] certifying

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[39] *David vs. Paragas, Jr.*, G.R. No. 176973, February 25, 2015.
[40] SUBJECT: 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.
[41] SUBJECT: Amending Certain Provisions of Revenue Regulations No. 30-2002.
[42] Attached to the *Mediator's Report*, Docket, pp. 252 to 258.
[43] Attached to the parties' *Joint Motion to Render Judgment on Compromise* as Annex "E", Docket.

that petitioner's application for compromise settlement of deficiency income tax and VAT amounting to a total of Php1,532,049.14 under FDDA dated October 6, 2017, covering taxable year of 2010 ending July 31, 2010, has been approved by the NEB, the signature page,[44] showing the approval signatures of four (4) Deputy Commissioners and of the respondent CIR, as well as the payment forms showing proof of complete payment of the compromise amount,[45] and the Secretary's Certificate showing the authority of the person who signed the compromise agreement for petitioner,[46] the Court finds the same in order and in compliance with the established laws, rules and regulations. Hence, the Court approves the same.

WHEREFORE, premises considered, the **Mediator's Report**, and the parties' **Joint Motion for Approval of Judicial Compromise Agreement** and **Joint Motion to Render Judgment on Compromise** are **GRANTED.**

Accordingly, the **Judicial Compromise Agreement** entered into by the parties is **APPROVED** and judgment is hereby rendered in accordance therewith. The parties are thus enjoined to faithfully comply with all the terms and conditions of the aforesaid Compromise Agreement.

Hence, this case is now deemed **CLOSED AND TERMINATED.**

SO ORDERED.

CORAZON G. FERRER-FLORES
Associate Justice

WE CONCUR:

MA. BELEN M. RINGPIS-LIBAN
Associate Justice

MARIA ROWENA MODESTO-SAN PEDRO
Associate Justice

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44 Attached to the parties' *Joint Motion to Render Judgment on Compromise* as Annex "F", Docket.
45 Attached to the petitioner's *Partial Compliance/Submission*, Docket, pp. 313 to 314.
46 Attached to the *Mediator's Report*, Docket, p. 246.

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.

MA. BELEN M. RINGPIS-LIBAN
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