REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

THIRD DIVISION

U-FREIGHT PHILS., INC., *Petitioner,*	**CTA Case No. 10886**
	Members:
- versus -	**MANAHAN**, *Chairperson,* **REYES-FAJARDO**, and **ANGELES**, *JJ.*
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*	Promulgated: APR 08 2025 10:12 a.m.

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JUDGMENT BY COMPROMISE AGREEMENT

REYES-FAJARDO, *J.*:

On April 24, 2024, a Judicial Compromise Agreement (JCA)[1] was executed by and between petitioner and respondent, which is hereby reproduced in *verbatim*:

> **JUDICIAL COMPROMISE AGREEMENT**
>
> This Compromise Agreement (the "Agreement"), is made at Quezon City this 24 April 2024, by and between:
>
> **U-FREIGHT PHILS, INC.,** a corporation duly organized and existing under Philippine laws, with principal office address at the 4/F Cargohaus Building, NAIA Complex, Brgy. Vitalez, Parañaque City, hereinafter referred to as the **"Taxpayer,"** represented by its Attorneys-in-Fact, Napoleon D. Marigomen and Atty. Stephen Joseph M. Ocampo[,] as evidenced by the Secretary's Certificate dated 03 April 2024, attached as **Annex "A;"**

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1 Annex "A," parties' [First] Joint Motion for Approval of Compromise Agreement. Docket, pp. 909-915.

ON

- and -

BUREAU OF INTERNAL REVENUE, hereinafter referred to as **"BIR,"** with official station at the 5th Floor, BIR National Office Building, BIR Road, Diliman, Quezon City, represented by the **Commissioner of Internal Revenue, Hon. Romeo D. Lumagui, Jr.,** hereinafter referred to as the **"CIR;"**

The **Taxpayer** and the **BIR** shall be referred to individually as a **"Party"** and collectively as the **"Parties."**

RECITALS

Whereas, the Taxpayer is a domestic corporation engaged in the business of, among others, in general air freight business and allied undertakings, with Taxpayer Identification No. 000-303-481-000.

Whereas, the BIR issued a Decision on the Motion for Reconsideration dated July 21, 2021 ("Decision"), signed by the Commissioner of Internal Revenue, which assessed the Taxpayer [for] deficiency Income Tax (IT), Value-Added Tax (VAT), Expanded Withholding Tax (EWT)[,] and Documentary Stamp Tax (DST) for the fiscal year ending March 31, 2012, inclusive of interest for the applicable period, as follows:

TAX TYPE	BASIC TAX	INTEREST	SURCHARGE	COMPROMISE PENALTY	TOTAL
Income Tax	₱6,483,372.09	₱5,236,433.13	₱3,241,686.05		**₱14,961,491.26**
Value-Added Tax	₱99,049,813.33	₱84,395,868.34	-		**₱183,445,681.67**
Expanded Withholding [Tax]	₱5,638,232.98	₱4,853,514.53	-		**₱10,491,747.51**
Documentary Stamp Tax	₱201,489.00	₱142,552,73	₱50,372.50		**₱286,832.61**
Compromise Penalty	-	-	-	₱16,000.00	**₱16,000.00**
TOTAL	**₱101,372,907.40**[2]	**₱94,628,368.73**	**₱3,292,058.55**	**₱16,000.00**	**₱209,201,753.05**

Whereas, the Taxpayer filed with the Honorable Court of Tax Appeals ("CTA") a Petition for Review ("Petition"), entitled *U-Freight Phils., Inc. v. Commissioner of Internal Revenue,* docketed as CTA Case No. 10886 (the "Case"), and pending before the Honorable CTA's Third Division, seeking to appeal the Decision of the Commissioner of Internal Revenue dated July 21, 2021 for

2 The correct sum of total basic deficiency taxes is ₱111,372,907.40 (₱6,483,372.09+₱99,049,813.33+₱5,638,232.98+₱201,489.00).

alleged deficiency Income Tax, Value[-]Added Tax, Expanded Withholding Tax[,] and Documentary Stamp Tax in the aggregate amount of Two Hundred Nine Million Two Hundred One Thousand and Seven Hundred Fifty[-]Three Pesos and 5/100 (₱209,201,753.05), inclusive of interest and surcharge, for the fiscal year March 31, 2012.

Whereas, the Taxpayer has submitted to the BIR an application for compromise of the tax assessment subject of the Case in accordance with the applicable rules and regulations;

Whereas, the BIR has evaluated the Taxpayer's application for compromise and believes that a judicial compromise to allow immediate tax collection[,] and also put an end to litigation as provided in Article 2028 of the Civil Code of the Philippines ("Civil Code"), serves the interest of the Government;

Whereas, the parties have agreed to enter into an amicable settlement pursuant to the provisions of the Civil Code, the Tax Code, jurisprudence, relevant decisions of the Honorable CTA and the Supreme Court, and relevant rules and regulations;

Whereas, Section 204(A) of the Tax Code gives the CIR power to compromise the payment of taxes when there is "[a] reasonable doubt as to the validity of the claim against the taxpayer exists," and the Honorable CTA has issued rulings allowing judicial compromise similar to the instant case;

Whereas, the Parties, for the purposes of avoiding and putting an end to a protracted, expensive, and mutually prejudicial litigation, have agreed to amicable settle the abovementioned Case, upon terms and conditions hereinafter set forth;

NOW, THEREFORE, for and in consideration of the foregoing premises, the Parties agree as follows:

1. *Compromise Amount* – In order to settle the abovementioned Case, the taxpayer has offered[,] and the BIR has accepted the total payment of Sixteen Million Two Hundred Eleven Thousand and Seven Hundred Pesos and 5/100 (₱16,211,700.42), equivalent to 100% of the basic assessed EWT and 10% of the basic assessed IT,VAT[,], and DST stated in the Decision of the Commissioner of Internal Revenue dated July 21, 2021.

2. *Submission to the Honorable CTA* – This Agreement, duly signed by the Parties, shall be submitted for the approval of the Honorable CTA in CTA Case No. 10886, *U-Freight Phils., Inc. v. Commissioner of Internal Revenue.* 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 on Compromise Agreement in the said Case.

3. *Effectivity of the Agreement* - This Agreement shall take effect and bind the Parties upon 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.

4. *Deliverables of the Parties upon Approval of the Agreement by the Honorable CTA* - Upon approval by the Honorable CTA of this Agreement, 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. The BIR shall withdraw and cancel the Decision of the Commissioner of Internal Revenue dated July 21, 2021, and all other documents issued in relation or pursuant to the said documents.

5. *Authority to Enter into Compromise* - The BIR warrants that CIR Romeo D. Lumagui, Jr. has the necessary authority and capacity under the law to enter into, sign, and execute this Agreement, and to comply with the covenants and undertakings therein on behalf of the BIR upon approval by the Honorable CTA.

The Taxpayer warrants that Mr. Napoleon D. Marigomen and Atty. Stephen Joseph M. Ocampo [are] duly authorized by the Board of Directors of the Taxpayer and have the full legal capacity to enter into, sign, and execute this Agreement, and to comply with the covenants and undertakings therein on behalf of the Taxpayer upon approval by the Honorable CTA.

6. *Full and Final Settlement* - This Agreement is executed by the Parties for the purpose of amicably settling and ending the Case. Upon approval by the Honorable CTA, the BIR recognizes the full satisfaction of the supposed tax liabilities of the Taxpayer in connection with the Case and acknowledges that the Taxpayer no longer has any tax liability whatsoever based upon, arising from, or in connection with the particular subject of the Case.

7. *Disapproval of the 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 period, the Parties mutually agree to perform any and all acts necessary to rectify or correct the deficiency, defect, or imperfection that caused the disapproval of this Agreement, 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 if the Agreement is still not approved by the Honorable CTA after it has been rectified or corrected by the Parties:

1. The amount already paid by the Taxpayer to the BIR shall be deemed a tax credit that 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 the Case shall continue and the discussions pursuant to the disapproved Agreement cannot be used by the Parties in the said proceedings without the consent of the other Party.

8. *Non-admission of Liability* - The Parties agree that the execution of this Agreement shall not in any way be construed as an admission of liability with respect to the matters raised in the Case.

9. *Entire Agreement* – This Agreement constitutes the entire agreement between the Parties. It shall not be amended or superseded unless in writing duly signed by both Parties.

10. *Good Faith Undertaking* – The Parties undertake to perform all obligations and undertakings in good faith, and shall not willfully take or omit to take any action that would frustrate the spirit and intent underlying this Agreement.

11. *Non-performance* – The Parties agree that 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 the Honorable CTA for the immediate implementation and execution of the terms and conditions of this Agreement or the Judgment of the Honorable CTA approving the same.

12. *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, this Agreement shall have no effect and no Party shall have any right or obligation hereunder.

IN WITNESS WHEREOF, the Parties have hereunto set their hands at the date and place first above mentioned.

U-FREIGHT PHILS., INC.
By:

(Sgd.)
NAPOLEON D. MARIGOMEN
Attorney-in-Fact

(Sgd.)
ATTY. STEPHEN JOSEPH M. OCAMPO
Attorney-in-Fact

BUREAU OF INTERNAL REVENUE

By:

(Sgd.)
ROMEO D. LUMAGUI, JR.
Commissioner

Assisted by:

(Sgd.)
JARED MITCHELL V. ACUÑA
BIR Revenue Region No 8B - South NCR
Counsel for Respondent

(Sgd.)
ATTY. RICHELLE MARI M. MARDERS
General Counsel and Head of Regulatory and Compliance, U-Freight Phils., Inc.

Witnesses:

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On May 14, 2024, the parties filed their [First] Joint Motion for Approval of Compromise Agreement.[3]

In the Resolution dated September 18, 2024,[4] petitioner's [First] Joint Motion for Approval of Compromise Agreement was resolved as follows:

> **WHEREFORE**, we **RESOLVE** to:
>
> a. **DENY** the parties' Joint Motion for Approval of Compromise Agreement, filed on May 14, 2024, without prejudice to the filing of another motion of similar nature, should the noted deficiency be obtained by them;
>
> b. **DIRECT** the parties to submit to the Court, proof of the National Evaluation Board's approval of their Judicial Compromise Agreement dated April 24, 2024 within 60 days from notice; and

3 Docket, pp. 904-908.
4 *Id.* at pp. 933-937.

c. **HOLD IN ABEYANCE** the resolution of respondent's Formal Offer of Evidence filed on March 13, 2024, until the lapse of the 60-day curing period.

SO ORDERED.

On November 7, 2024, the parties filed their Second Joint Motion for Approval of Compromise Agreement,[5] enclosing proof[6] of the National Evaluation Board (NEB)'s Approval of the parties' compromise settlement for deficiency IT, VAT, EWT, and DST covering FY ending March 31, 2012. They again pray for the approval of the JCA dated April 24, 2024, and for the Court to issue a Decision based thereon.

RULING

The Second Joint Motion is impressed with merit.

Republic of the Philippines v. Heirs of Cruz, et al.[7] decreed that "[b]efore 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 this regard, Section 204(A) of the 1997 National Internal Revenue Code (NIRC), as amended, reads:

> **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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5 *Id.* at pp. 939-945.
6 Certificate of Availment (Compromise Settlement) dated May 14, 2024. *Id.* at p. 946.
7 G.R. No. 208956, October 17, 2018.

> 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.

To secure approval of said JCA, the following requisites must be present: *one,* the authority of the parties' themselves, or their representatives to enter into compromise agreement;[8] *two,* the compromise must be based on doubtful validity of the government's claim against the taxpayer (doubtful validity); or financial incapacity of the latter (financial incapacity); *three,* the subject matter being compromised is *not* prohibited by law, or by its implementing rules and regulations;[9] *four,* payment of the compromise amount, *i.e.,* at least 40% of the basic tax/es for doubtful validity; or at least 10% of the basic tax/es for financial incapacity; and *five,* approval[10] of the National Evaluation Board (NEB), if: (a) the compromise amount is less than the prescribed minimum rates; or (b) basic tax/es assessed exceeds ₱1,000,000.00. These requisites were met. Consider:

First. The persons who executed said JCA were properly clothed with authority to do so. Specifically, the Secretary's Certificate dated April 4, 2024[11] attested Napoleon D. Marigomen's and Atty. Stephen Joseph M. Ocampo's authority to enter into a compromise agreement on behalf of petitioner. So too is respondent authorized to compromise internal revenue taxes under Section 204(A) of the NIRC, as amended.

Second and Third. Record shows that on March 26, 2015,[12] petitioner received the BIR's Preliminary Assessment Notice (PAN) dated March 23, 2015. Counting 15 days from March 26, 2015,

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8 Article 1317 of Republic Act No. 386, or the Civil Code, states that no one may contract in the name of another without being authorized by the latter.

9 Article 1409 of the Civil Code provides that contracts contrary to law are void.

10 See Section 6, RR No. 30-2002.

11 Annex "B," parties' [First] Joint Motion for Approval of Compromise Agreement. Docket, p. 916.

12 Par. 47, Petition for Review, *id.* at p. 19. See also PAN appended to the Judicial Affidavit of petitioner's witness, *id.* at pp. 180-183.

petitioner had until April 10, 2015 to file a reply or response on the PAN, as guaranteed by Section 228 of the 1997 National Internal Revenue Code, as amended, in relation to Section 3 of Revenue Regulations (RR) No. 18-2013. Petitioner filed its reply on the PAN on April 10, 2015.[13]

This notwithstanding, the BIR proceeded to issue the Formal Letter of Demand and Final Assessment Notices with Details of Discrepancy (FLD/FAN)[14] also on April 10, 2015. Conspicuously, the basic IT, VAT, EWT, and DST written in the BIR's PAN[15] and FLD/FAN[16] are the same, *sans* a modicum of elucidation in the FLD/FAN, why petitioner's defenses on its reply on the PAN are wanting in merit. *Ergo,* it would seem that the BIR violated petitioner's right to due process, thereby engendering doubt on the government's claim against the taxpayer. *Commissioner of Internal Revenue v. Avon Products Manufacturing, Inc.*[17] decreed:

> It is true that the Commissioner is not obliged to accept the taxpayer's explanations, as explained by the Court of Tax Appeals. However, when he or she rejects these explanations, he or she must give some reason for doing so. He or she must give the particular facts upon which his or her conclusions are based, and those facts must appear in the record.
>
> Indeed, the Commissioner's inaction and omission to give due consideration to the arguments and evidence submitted before her by [the taxpayer] are deplorable transgressions of [the taxpayer]'s right to due process. The right to be heard, which includes the right to present evidence, is meaningless if the Commissioner can simply ignore the evidence without reason.

Said observation, too, would fall under one of the instances where compromise may be accepted. Section 3(1)(f) of RR No. 30-2002 validated:

> SEC. 3. Basis For Acceptance of Compromise Settlement. - ...
>
> 1. Doubtful validity of the assessment. – The offer to compromise a delinquent account or disputed assessment under

13 *Ibid.*
14 *Id.* at pp. 202-212.
15 *Supra* note 12.
16 *Supra* note 14.
17 G.R. Nos. 201398-99, October 3, 2018.

these Regulations on the ground of reasonable doubt as to the validity of the assessment may be accepted when it is shown that:

...

(f) The assessments were issued on or after January 1, 1998, where the demand notice allegedly failed to comply with the formalities prescribed under Sec. 228 of the National Internal Revenue Code of 1997 ...

Fourth and Fifth. Condensed in the following presentation are: (1) the amounts of basic IT, VAT, EWT, and DST for FY ending March 31, 2012, per respondent's Decision dated July 21, 2021; and (2) the amounts, and percentage thereof, paid by petitioner as compromise amount:

Tax Type	Amount of Basic Tax per Decision dated July 21, 2021[18]	Compromise Amount paid by petitioner	Percentage of Basic Tax
IT	₱6,483,372.09	₱648,337.21[19]	10%
VAT	99,049,813.33	9,904,981.33[20]	10%
EWT	5,638,232.98	5,638,232.98[21]	100%
DST	281,489.00	20,148.90[22]	10%

Considering that the total basic assessed taxes involved exceeds ₱1,000,000.00, and that the compromise amount paid by petitioner on deficiency IT, VAT, and DST is less than the prescribed minimum rate in case of doubtful validity, *i.e.*, at least 40% of the assessed basic tax, approval of the NEB is indispensable. The Certificate of Availment (Compromise Settlement) dated May 14, 2024[23] evinced the NEB's approval and agreement for the amicable settlement of the deficiency IT, VAT, EWT, and DST covering FY 2012 contained in said Decision.

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18 Docket, pp. 59-72. See also 2nd whereas clause, Recitals, JCA dated April 24, 2024.

19 Annex "C," parties' [First] Joint Motion for Approval of Compromise Agreement. *Id.* at pp. 917-919.

20 Annex "C-1," parties' [First] Joint Motion for Approval of Compromise Agreement. *Id.* at pp. 920-922.

21 Annex "C-2," parties' [First] Joint Motion for Approval of Compromise Agreement. *Id.* at pp. 923-925.

22 Annex "C-3," parties' [First] Joint Motion for Approval of Compromise Agreement. *Id.* at pp. 926-928.

23 Annex "D," parties' Second Joint Motion for Approval of Compromise Agreement. *Id.* at p. 946.

Therefore, we give our imprimatur on the parties' JCA dated April 24, 2024.

WHEREFORE, the parties' Second Joint Motion for Approval of Compromise Agreement filed on November 7, 2024 is **GRANTED**. The Judicial Compromise Agreement executed by and between petitioner and respondent on April 24, 2024, is **APPROVED**. CTA Case No. 10886 is **DECLARED CLOSED** and **TERMINATED**.

With the closure and termination of CTA Case No. 10886, all pending incidents thereon are rendered **MOOT**.

SO ORDERED.

Marian Ivy F. Reyes-Fajardo

MARIAN IVY F. REYES-FAJARDO
Associate Justice

WE CONCUR:

Catherine T. Manahan

CATHERINE T. MANAHAN
Associate Justice

HENRY S. ANGELES
Associate Justice

ATTESTATION

I attest that the conclusions in the above Judgment by Compromise Agreement were reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

CATHERINE T. MANAHAN
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 Judgment by Compromise Agreement 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