REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
Quezon City

Second Division

SPECIAL STEEL PRODUCTS CO., INC.,	**CTA CASE NO. 10333**
Petitioner,	**Members:** **RINGPIS-LIBAN,** *Chairperson,* **MODESTO-SAN PEDRO,** *and*
- versus -	**FERRER-FLORES,** *JJ.*
	Promulgated:
COMMISSIONER OF INTERNAL REVENUE,	AUG 22 2023
Respondent.	1:20 p.m.

x -- x

JUDGMENT ON COMPROMISE AGREEMENT

RINGPIS-LIBAN, J.:

On August 26, 2020, petitioner filed a "Petition for Review"[1] praying that the assessments made by respondent against petitioner for taxable year 2014, as set forth in the (a) Final Decision on Disputed Assessment (FDDA) dated July 20, 2020, (2) the Final Assessment Notice (FAN) dated December 15, 2017, (3) and the Preliminary Assessment Notice (PAN) dated November 8, 2017 issued by respondent, be cancelled and declared void by the Court.

On September 11, 2020, the Court issued Summons[2] to respondent.

On November 16, 2020, respondent filed his Answer[3] by registered mail.

On December 7, 2020, the Court issued a Resolution[4] referring the case to mediation in the Philippine Mediation Center-Court of Tax Appeals (PMC-CTA).

---

[1] Docket, CTA Case No. 10333, pp. 7-46.
[2] Ibid., p. 108.
[3] Ibid., pp. 115-131.
[4] Ibid., pp. 140-141.

On March 10, 2021, the Court received a "Request for Extension"[5] filed by the PMC-CTA, stating that the parties have signified their willingness to extend the mediation period, there being a good possibility that an amicable settlement will be reached.

On March 22, 2021, the Court issued a Resolution[6] granting the "Request for Extension."

On August 5, 2022, the Court issued a Resolution[7] ordering the parties to inform the Court the status of the amicable settlement, within ten (10) days from notice.

On September 8, 2022, the Court received the parties "Joint Compliance and Manifestation on the Compromise Agreement Between Parties Awaiting Approval of the National Executive Board."[8]

On September 19, 2022, the Court issued a Resolution noting the "Joint Compliance and Manifestation on the Compromise Agreement Between Parties Awaiting Approval of the National Executive Board."[9]

On February 27, 2023, the Court received the parties "Joint Manifestation and Motion for Extension of Time to Submit a Report on the National Executive Board's Action on the Compromise Agreement Between Parties."[10]

On March 21, 2023, the Court issued a Resolution noting the "Joint Manifestation and Motion for Extension of Time to Submit a Report on the National Executive Board's Action on the Compromise Agreement Between Parties"[11] and ordering the parties to inform the Court the status of their amicable settlement within fifteen (15) days from notice.

On April 13, 2023, the Court received the Mediator's Report[12] signed by (Ret.) Judge Leticia E. Sablan, Appellate Mediator, with the following attachments: 1) PMC-CTA Form 2 (Agreement to Mediate), 2) PMC-CTA Form 2-A (Selection of Mediator), 3) Special Power of Attorney, 4) Secretary's Certificate, 5) Appearance of Parties, 6) original copy of the Compromise Agreement, 7) Payment Forms, 8) Certified True Copy of the Certificate of Availment (Compromise Settlement), 9) Certified True Copy of the Signature Page of the National Evaluation Board.

---

[5] Ibid., p. 147.
[6] Ibid., pp. 149-150.
[7] Ibid., pp. 153-164.
[8] Ibid., p. 155.
[9] Ibid., p. 179.
[10] Ibid., pp. 180-182.
[11] Ibid., pp. 184-185.
[12] Ibid., p. 186.

On April 25, 2023, the Court received the parties' "Joint Motion to Approve and Render Judgment Based on Compromise Agreement,"[13] praying that the Court render judgment based on their Compromise Agreement, and enjoin the parties to faithfully comply with their respective obligations as stipulated therein. Attached to the said motion are the photocopy of the Compromise Agreement and the computer printouts of the payment forms.

On May 26, 2023, a Minute Resolution[14] was issued submitting for Resolution the parties' "Joint Motion to Approve and Render Judgment Based on Compromise Agreement."

The "Compromise Agreement"[15] states as follows:

"Petitioner **SPECIAL STEEL PRODUCTS CO., INC.** ("Taxpayer" for brevity), a domestic corporation organized and existing under Philippine laws, with principal office at Unit 1907 Cityland Pasong Tamo Tower, 2210 Pasong Tamo, Makati City, represented herein by its President Jospeh Anthony B. Pardo and respondent **COMMISSIONER OF INTERNAL REVENUE**, in his capacity as the head of the Bureau of Internal Revenue (BIR), with principal address at the BIR National Office Building, Agham Road, Diliman, Quezon City, assisted by their respective counsels,

AGREE as follows:

WHEREAS, a dispute arose between parties regarding the assessments made by respondent Commissioner of Internal Revenue against petitioner Special Steel Products Co., Inc. for the taxable year 2014, as set forth in: (1) the Final Decision on Disputed Assessment (FDDA) dated July 20, 2020; (2) the Final Assessment Notice (FAN) dated December 15, 2017; (3) and the Preliminary Assessment Notice (PAN) dated November 8, 2017 issued by respondent Commissioner of Internal Revenue;

WHEREAS, the BIR issued a Final Decision on Disputed Assessment (FDDA) dated July 20, 2020, denying the Letter of Protest dated January 17, 2018 filed by the Taxpayer. The assessment appearing in the FDDA are as follows:

TAX TYPE	Basic Tax	Surcharge	Interest	Compromise	Total
Income Tax	1,100,977.47		862,563.06		1,963,540.53
Value-Added Tax	257,585.55		213,097.34		470,682.89

[13] Ibid., pp. 213-215.
[14] Ibid., p. 233.
[15] Ibid., pp. 194-198.

Expanded Withholding Tax	162,706,81		135,496.89		298,203.70
Documentary Stamp Tax	427,768.00	106,942.00	465,517.06		1,000227.06
Compromise				20,000.00	20,000.00
Total	1,949,037.83	106,942.00	1,676,672.35	20,000.00	3,645,712.18

WHEREAS, the parties have agreed to accept mediation to avoid prolonged litigation, as authorized by A.M. No. 11-1-05-SC-PHILJA;

WHEREAS, the Taxpayer offers for amicable settlement of the case the amount of Php877,239.23, which is broken down as follows:

TAX TYPE	BASIC DEFICIENCY TAX AMOUNT	PROPOSED SETTLEMENT AMOUNT	RATE OF PROPOSED SETTLEMENT
Income Tax	1,100,977.47	440,390.99	**40%**
Value-Added Tax	257,585.55	103,034.22	**40%**
Expanded Withholding Tax	162,706.81	162,706.81	**100%**
Documentary Stamp Tax	427,768.00	171,107.20	**40%**
TOTAL	**1,949,037.8**	**877,239.23**	

WHEREAS, the BIR, through the Commissioner of Internal Revenue, has evaluated the Taxpayer's proposal for amicable settlement, and believes that a compromise between parties would serve the interest of the Government as it would result in immediate tax collection and putting an end to litigation as provided in the Civil Code of the Philippines;

WHEREAS, on June 14, 2021, the Taxpayer, through e-Filing and Payment Scheme (eFPS) already paid the abovementioned compromise amount of Php877,239.23;

WHEREAS, the assistance of the assigned mediator resulted in making the parties realize the advantage of ending their dispute by agreeing upon a compromise;

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:

1. **<u>Compromise Amount</u>**. On order to settle this above-entitled case, the Taxpayer offered, and the BIR accepted, the amount equivalent to Forty Percent (40%) of the Income Tax, Value-Added Tax, and Documentary Stamp Tax assessed, as well as the amount equivalent to One Hundred Percent (100%) of the expanded Withholding Tax in the total compromise amount of Eight Hundred Seventy-Seven Thousand and Two Hundred Thirty-Nine Pesos and Twenty-Three Centavos (PhP877,239.23). This compromise amount is broken down into:

TAX TYPE	BASIC DEFICIENCY TAX AMOUNT	PROPOSED SETTLEMENT AMOUNT	RATE OF PROPOSED SETTLEMENT
Income Tax	1,100,977.47	440,390.99	**40%**
Value-Added Tax	257,585.55	103,034.22	**40%**
Expanded Withholding Tax	162,706.81	162,706.81	**100%**
Documentary Stamp Tax	427,768.00	171,107.20	**40%**
TOTAL	**1,949,037.8**	**877,239.23**	

2. **<u>Satisfaction/Payment of Compromise Amount</u>**. On June 14, 2021, the Taxpayer, through e-Filing and Payment Scheme (eFPS), already paid the abovementioned compromise amount of PhP877,239.23. Copies of the proofs of payment are attached to and made integral parts of this Agreement as Annexes "A" to "A-1".

3. **<u>Submission of this Compromise Agreement to the Honorable Court of Tax Appeals (CTA).</u>** This Agreement fully signed by the PARTIES shall be submitted for the approval of the Honorable CTA. 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.

4. **Effectivity of the Agreement.** This Agreement shall 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 undertakings of the PARTIES.

5. **Deliverables of the PARTIES upon approval of this Compromise Agreement by the Honorable CTA.** Upon verifying and confirming that the Taxpayer has already paid the Compromise Amount and upon signing this Agreement, the BIR undertakes to immediately execute and deliver to the Taxpayer any and all documents as may be required to effectively and fully implement the provisions of this Agreement, withdrawing, setting aside, and cancelling the Final Decision on Disputed Assessment (FDDA) dated July 20, 2020, the Final Assessment Notice (FAN) dated December 15, 2017, and the Preliminary Assessment Notice (PAN) dated November 8, 2017 it issued against the Taxpayer.

6. **Authority to Enter Compromise Agreement.** The petitioner Special Steel Products Co., Inc. through its President Joseph Anthony B. Pardo, and the respondent Commissioner of Internal Revenue, representing the BIR, warrant that they enter, sign, and execute this Agreement, and to deliver the necessary documents upon the approval of this Agreement by the Honorable CTA."

Section 204(A) of the NIRC of 1997, as amended, provides for the authority of the CIR to compromise the payment of any revenue tax, 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:**
>
> **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 P1,000,000.00) <u>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</u>. xxx"** *(Emphasis supplied)*

A compromise settlement is thus deemed valid when the following requirements are present:

> 1. The application for compromise should be based on either the doubtful validity of respondent's assessment or 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, while 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 compromise agreement should be approved by the NEB, which is composed of the respondent and his four (4) Deputy Commissioners if the subject assessment exceeds One Million pesos (P1,000,000.00) or where the settlement offered is less than the prescribed minimum rates.

To prove that the offer of compromise was approved by the CIR, the parties presented the Certificate of Availment dated January 19, 2022, signed by OIC-Assistant Commissioner Clavelina S. Nacar, and the Signature Page of the National Evaluation Board.

Having found the documents in order, the Court finds the Certificate of Availment sufficient evidence of the parties' compliance with the second and third requisites, respectively, and the mandate of Section 6 of RR No. 30-2002, as amended, to wit: -

> "SEC. 6. APPROVAL OF OFFER OF COMPROMISE.-
>
> Except for offers of compromise where the approval is delegated to the REB[16] 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**[17] 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.
>
> xxx xxx xxx
>
> Provided, however, that if the offer of compromise is less than the prescribed rates set forth in Sec. 4 hereof, the same shall always be subject to the approval of the NEB.
>
> 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. xxx"

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 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.[18]

---

16 Regional Evaluation Board.
17 National Evaluation Board.
18 David vs. Paragas, Jr., G.R. No. 176973, February 25, 2015.

Finding the subject compromise agreement to be in order and in compliance with established laws, rules and regulations, taking into consideration the documents submitted by the parties in support thereof, the same is approved.

WHEREFORE, in view of the foregoing, the parties' "Joint Motion to Approve and Render Judgment Based on Compromise Agreement" is **GRANTED**.

The "Compromise Agreement" is **APPROVED** and judgment is hereby rendered in accordance therewith. Accordingly, the proceedings in the instant case is considered **CLOSED and TERMINATED**.

SO ORDERED.

MA. BELEN M. RINGPIS-LIBAN
Associate Justice

WE CONCUR:

MARIA ROWENA MODESTO-SAN PEDRO
Associate Justice

CORAZON G. FERRER-FLORES
Associate Justice

ATTESTATION

I attest that the conclusions in the above Judgment on Compromise Agreement 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 Article VIII, Section 13 of the Constitution, and the Division Chairperson's Attestation, is it 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's Division.

ROMAN G. DEL ROSARIO
Presiding Justice