REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

THIRD DIVISION

WUNDERMAN INTERNATIONAL PHILIPPINES, INC.,
Petitioner,

- versus -

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

CTA Case No. 10648

Members:

MANAHAN, *Chairperson,*
REYES-FAJARDO, and
ANGELES, *JJ.*

Promulgated:

JAN 20 2025
10:02 a.m.

x- -x

JUDGMENT BY COMPROMISE AGREEMENT

REYES-FAJARDO, *J.*:

A Judicial Compromise Agreement (JCA)[1] executed by and between petitioner and respondent, was notarized on October 7, 2024, which is hereby reproduced in *verbatim*:

> **JUDICIAL COMPROMISE AGREEMENT**
>
> **KNOWN ALL MEN BY THESE PRESENTS:**
>
> This **JUDICIAL COMPROMISE AGREEMENT ("Agreement")**, made and executed, by and between:
>
> **WUNDERMAN INTERNATIONAL PHILIPPINES, INC. ("TAXPAYER")**, a domestic corporation duly organized and existing under the laws of the Republic of the Philippines, with principal office at 7th Floor, Equitable Bank Tower, 8751 Paseo de Roxas, Salcedo Village, Makati City, Metro Manila,

1 Annex "C," the parties' Joint Motion to Approve and Render Judgment Based on Compromise Agreement. Footnotes omitted.

Philippines, represented by its Chief Finance Officer, Meinrado D. Sabayle;

- 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, **ROMEO D. LUMAGUI, JR.**;

(collectively, the "**PARTIES**");

- Witnesseth That -

WHEREAS, the **BIR** issued to the **TAXPAYER** a *Formal Letter of Demand with Assessment Notices* ("**FLD**") dated January 14, 2020 for the alleged deficiency value-added tax ("**VAT**"), final withholding tax ("**FWT**") and documentary stamp tax ("**DST**") for the taxable year 2016 in the total amount of PhP11,131,226.25 (inclusive of surcharge and interest);

WHEREAS, on February 14, 2020, the **TAXPAYER** then filed with the **BIR** its *Protest to the Formal Letter of Demand dated January 14, 2020* ("**Protest**") and requested for a reinvestigation and the eventual cancellation of the FLD;

WHEREAS, the **BIR** issued a *Final Decision on Disputed Assessment* ("**FDDA**") dated July 26, 2021 upholding the assessment against the **TAXPAYER** for alleged VAT and DST for the taxable year 2016 in the aggregate amount of PhP7,498,705.32 (inclusive of interest and penalties);

WHEREAS, the **TAXPAYER** instituted an action against the **BIR** entitled *Wunderman International Philippines, Inc. vs. Commissioner of Internal Revenue,* docketed as CTA Case No. 10648, pending before the Honorable Third Division of the Court of Tax Appeals ("**CTA**"), seeking the cancellation of the FDDA;

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 compromises 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 forty percent (40%) of the basic taxes assessed in the FDDA amounting to PhP4,577,869.25 in the **total compromise amount of One Million Eight Hundred Thirty-One Thousand One Hundred Forty-Seven and 70/100 Pesos (PhP1,831,147.70) ("Judicial Compromise Amount").**

This amount is broken down as follows:

Tax Type	Basic Tax	Compromise Amount
VAT	4,446,768.25	1,778,707.30
DST	131,101.00	52,440.40
Total	4,577,869.25	1,831,147.70

Section 2. Submission to the Honorable Court of Tax Appeals. This Agreement fully signed by the **PARTIES** shall be submitted for the approval of the Honorable Court of Tax Appeals ("**CTA**") in CTA Case No. 10648. 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 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 FDDA dated July 26, 2021.

Section 5. Authority to Enter Compromise Agreement. The **BIR**, through Commissioner Romeo D. Lumagui, Jr., warrants 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 Chief Finance Officer, Meinrado D. Sabayle, 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 Judicial Compromise 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. 10648. 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. 10648[,] 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. 10648.

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 the 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. 10648 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. Nullification of this Agreement by the Honorable Supreme Court. In the remote event that this Agreement is later nullified by the Honorable Supreme Court, the **PARTIES** likewise agree to a curing period of sixty (60) days from receipt of the Order/Resolution nullifying 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 nullification, and re-submit the rectified or corrected Agreement for approval of the Honorable Supreme Court. In case the deficiency, defect or imperfection, however, is not or cannot be rectified or corrected within the said curing period, or still not approved by the Honorable Supreme Court after it is rectified or corrected:

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, or be applied for a tax refund, as allowed under existing rules and regulations; and

2. The proceedings of CTA Case No. 10648 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 9. No Admission of Liability. The execution of this **Agreement** shall not constitute or be interpreted in any way as an admission or acknowledgement of error or liability by the **PARTIES**.

Section 10. 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 the 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 11. Signature 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.

WUNDERMAN INTERNATIONAL PHILIPPINES, INC., Petitioner	**COMMISSIONER OF INTERNAL REVENUE** Respondent
By:	By:
(Sgd.) **MEINRADO D. SABAYLE** Chief Finance Officer	(Sgd.) **ROMEO D. LUMAGUI, JR.** Commissioner

Through their Joint Motion to Approve and Render Judgment based on Compromise Agreement, the parties seek for: (1) the approval of their JCA; and (2) the rendition of judgment, declaring CTA Case No. 10648 as closed and terminated.

RULING

The Joint Motion is impressed with merit.

Republic of the Philippines v. Heirs of Cruz, et al.[2] 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:

---

2 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;[3] *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;[4] *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[5] 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. To be precise, Meinrado D. Sabayle's authority to compromise on petitioner's behalf, is based on the notarized Secretary's Certificate dated August 18, 2021,[6] whereas respondent's authority to compromise internal revenue taxes is conferred by Section 204(A) of the NIRC, as amended.

Second and Third. Record shows that on January 6, 2020,[7] petitioner received the BIR's Preliminary Assessment Notice (PAN) dated December 13, 2019. Counting 15 days from January 6, 2020, petitioner had until January 21, 2020 to file a reply or response on the

---

3 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.

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

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

6 Item 5, Secretary's Certificate dated August 18, 2021. Docket, p. 40.

7 Bottom portion, first page of the PAN, *id.* at p. 102, in relation to par. 4, Petition for Review, *id.* at p. 8.

PAN, as guaranteed by Section 228 of the NIRC, as amended, in relation to Section 3 of Revenue Regulations (RR) No. 18-2013. Yet, the BIR prematurely issued the Formal Letter of Demand and Final Assessment Notices on January 14, 2020,[8] which was prior to the expiration of the 15-day period for petitioner to file a reply or response on the PAN, offensive of the latter's right to due process. This casts serious doubt on the government's claim against petitioner. *Prime Steel Mill, Incorporated v. Commissioner of Internal Revenue*,[9] citing *Commissioner of Internal Revenue v. Yumex Philippines Corp.*,[10] is on point:

> In the very recent case of *Commissioner of Internal Revenue v. Yumex Philippines Corp.*, the Court had occasion to state that the 15-day period provided under Revenue Regulations No. 12-99 [as amended by RR No. 18-2013] for a taxpayer to reply to a PAN should also be strictly observed by the BIR. The Court highlighted that "[o]nly after receiving the taxpayer's response or in case of the taxpayer's default can respondent issue the FLD/FAN."
>
> While *Yumex* rests on slightly different factual circumstances, it may nevertheless apply analogously to the case at bench. There can be no substantial compliance with the due process requirement when the BIR completely ignored the 15-day period by issuing the FAN and FLD even before petitioner was able to submit its Reply to the PAN.

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

> 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 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 ...

---

8 Docket, pp. 127-136.
9 G.R. No. 249153, September 12, 2022.
10 G.R. No. 222476, May 5, 2021.

Fourth and Fifth. In the BIR's FDDA, the total basic taxes found against petitioner for TY 2016 amounted to ₱4,577,869.25.[11] Meanwhile, petitioner paid ₱1,831,147.70,[12] as compromise amount, which accounts for 40% of the basic taxes in the FDDA.

Considering that the total basic taxes involved exceeds ₱1,000,000.00, approval of the NEB is indispensable. This approval was secured, as evidenced by the Certificate of Availment (Compromise Settlement) dated October 4, 2024,[13] along with the Judicial Compromise Offer,[14] showing that the NEB unanimously accepted petitioner's compromise amount.

ACCORDINGLY, the parties' Joint Motion to Approve and Render Judgment Based on Compromise Agreement is **GRANTED.** The Judicial Compromise Agreement executed by and between petitioner, as represented by Meinrado D. Sabayle, and respondent, notarized on October 7, 2024 is **APPROVED.** CTA Case No. 10648 is **DECLARED CLOSED** and **TERMINATED.**

In view thereof, all pending incidents are hereby 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

---

11 See Section 1, parties' JCA. *Supra* note 1.
12 Annex "B," parties' Joint Motion to Approve and Render Judgment Based on Compromise Agreement.
13 Annex "D," parties' Joint Motion to Approve and Render Judgment Based on Compromise Agreement.
14 Annex "E," parties' Joint Motion to Approve and Render Judgment Based on Compromise Agreement.

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, 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