CTA Form No. 8

22-000336-0076

REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

SPECIAL FIRST DIVISION

CTA CASE NO. 10916

FARMON AGRI-COMMUNITY CORP.,
Petitioner,

- versus -

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

NOTICE OF DECISION

To:

OFFICE OF THE SOLICITOR GENERAL
134 Amorsolo St., Legazpi Village
Makati City

ATTY. SYLVIA R. ALMA JOSE
ATTY. AYESHA HANIA B. GUILING-MATANOG
Bureau of Internal Revenue
Room 703, Litigation Division, BIR National Office Building
Sen. Miriam P. Defensor-Santiago Avenue
Diliman, Quezon City

ATTY. RENNETTE JOY G. ALFARO, CPA
G/F, King Street Mall, Rizal Avenue
District III, Cauayan City
3305 Isabela

GREETINGS:

You are hereby notified by these presents that on **April 21, 2026,** a Decision was rendered in the above-entitled case, copy of which is attached hereto.

Quezon City, Philippines, **April 22, 2026.**

Atty. Maria Johoanna F. Chan-Te
Executive Clerk of Court III

REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

SPECIAL FIRST DIVISION

FARMON AGRI-COMMUNITY CORP.,
Petitioner,

- versus -

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

CTA CASE NO. 10916

Members:

BACORRO-VILLENA, *Acting Chairperson, and*
CUI-DAVID, *JJ.*

Promulgated:
APR 21 2026 10:55 AM

x - x

DECISION

BACORRO-VILLENA, J.:

At bar is a Petition for Review[1] filed by petitioner Farmon Agri-Community Corp. (**petitioner**), pursuant to Section 3(a),[2] Rule 8 in relation to Section 3(a)(1),[3] Rule 4 of the Revised Rules of the Court of Tax Appeals (**RRCTA**).[4]

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1 Filed on 14 July 2022, Division Docket, Volume I, pp. 6-48.

2 **SEC. 3.** *Who may appeal; period to file petition.* —
(a) A party adversely affected by a decision, ruling or the inaction of the Commissioner of Internal Revenue on disputed assessments or claims for refund of internal revenue taxes, or by a decision or ruling of the Commissioner of Customs, the Secretary of Finance, the Secretary of Trade and Industry, the Secretary of Agriculture, or a Regional Trial Court in the exercise of its original jurisdiction may appeal to the Court by petition for review filed within thirty days after receipt of a copy of such decision or ruling, or expiration of the period fixed by law for the Commissioner of Internal Revenue to act on the disputed assessments.

3 **SEC. 3.** *Cases within the jurisdiction of the Court in Division.* — The Court in Division shall exercise:
(a) Exclusive original over or appellate jurisdiction to review by appeal the following:
(1) Decisions of the Commissioner of Internal Revenue in cases involving disputed assessments, refunds of internal revenue taxes, fees or other charges, penalties in relation thereto, or other matters arising under the National Internal Revenue Code or other laws administered by the Bureau of Internal Revenue[.]

4 A.M. No. 05-11-07-CTA.

Petitioner essentially prays for the cancellation of its alleged deficiency tax liabilities for taxable year (**TY**) 2018 amounting to ₱35,846,321.69, inclusive of surcharges, interests, and compromise penalty.[5]

PARTIES TO THE CASE

Petitioner is a corporation duly organized and existing under the laws of the Philippines, with registered address at Purok 3, Bannawag Sur, Diffun, Quirino, 3401.[6] Petitioner's primary business purpose is to operate and develop agricultural lands as well as raise and breed cows, goats, carabaos, pigs, and chickens.[7] It is registered with the Bureau of Internal Revenue (**BIR**) with Taxpayer Identification Number (**TIN**) 009-351-329-000 under Revenue District Office (**RDO**) No. 16 – Cabarroguis, Quirino.[8]

Respondent, on the other hand, is the duly appointed Commissioner of Internal Revenue (**respondent/CIR**) vested with the authority to carry out the functions, duties, and responsibilities of the said office including, *inter alia*, the power to decide disputed assessments, refunds of internal revenue taxes, fees, other charges, and penalties imposed in relation thereto, or other matters arising under the National Internal Revenue Code (**NIRC**) of 1997, as amended, or other laws or portions thereof administered by the BIR.

FACTS OF THE CASE

On 07 February 2020, respondent issued Letter of Authority (**LOA**) No. LOA-016-2020-00000019 / eLA201600018645 which authorized Revenue Officer (**RO**) April Jane Ramiro (**Ramiro**) and Group Supervisor (**GS**) Ma. Visitacion Ledesma (**Ledesma**) to examine petitioner's books of accounts and other accounting records for TY 2018.[9]

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5 Prayer, Petition for Review, supra at note 1, pp. 44-45.
6 Amended Articles of Incorporation dated 10 August 2016, Exhibit "P-4", Division Docket, Volume I, pp. 79-80.
7 Id., p. 79.
8 BIR Certificate of Registration dated 18 July 2016, Exhibit "P-5", id., p. 84.
9 LOA received by petitioner on 10 February 2020, Exhibit "R-1", BIR Records, Folder III, p. 58.

On the same day, respondent issued a First Notice requesting petitioner to submit the documents listed in the attached Audit Checklist of Requirements.[10]

When respondent did not receive a single document from petitioner, a Second Request for Presentation of Records (**Second and Final Notice**) was issued against petitioner warning it that a failure to produce the requested documents on time will result in the issuance of a Subpoena *Duces Tecum* (**SDT**).[11]

On 19 May 2021, respondent issued a Notice of Discrepancy (**NOD**).[12] Respondent, based on third-party information (**TPI**), found that petitioner made purchases in TY 2018 amounting to ₱62,714,029.12. Respondent then assessed the same as undeclared income resulting in deficiency income tax of ₱32,617,394.19, composed of:

Tax Type	Basic Tax	Surcharge	Interest	Compromise	Total
Income Tax	₱18,814,208.08	₱9,407,104.04	₱ 4,346,082.07	₱50,000.00	₱ 32,617,394.19

In the NOD, respondent invited petitioner to a conference to enable the latter to explain the initial findings.[13]

On 11 June 2021, respondent issued an Amended NOD (**Second NOD**).[14] Respondent discovered undeclared sales prompting an additional deficiency income tax and deficiency percentage tax. Respondent also found that petitioner's sales of agricultural supply was not among its registered line of business, resulting in deficiency registration fee. As a result, the assessment increased to ₱33,418,296.91, computed as follows:

Tax Type	Basic Tax	Surcharge	Interest	Compromise	Total
Income Tax	₱18,920,258.08	₱9,460,129.04	₱4,969,721.12	₱50,000.00	₱33,400,108.24

10 First Notice received by petitioner on 11 February 2020, Exhibit "R-3", id., p. 60. See also Audit Checklist of Requirements attached to the First Notice, Exhibit "R-2", id., p. 59.

11 Second Request for Presentation of Records dated 26 February 2020 and received by petitioner on 04 March 2020, Exhibit "R-4", id., p. 61.

12 Notice of Discrepancy received by petitioner on 20 May 2021, Exhibit "R-5", id., pp. 166-168.

13 Id.

14 Amended Notice of Discrepancy received by petitioner on 11 June 2021, Exhibit "R-6", id., pp. 169-170.

Percentage Tax	7,500.00	3,750.00	2,170.00	3,000.00	16,420.00
Registration Fee	500.00	125.00	143.67	1,000.00	1,768.67
Total	₱18,928,258.08	₱9,464,004.04	₱4,972,034.79	₱54,000.00	₱33,418,296.91

On 06 October 2021, respondent issued another Amended NOD (**Third NOD**), after finding additional purchases which were deemed as undeclared income.[15] Thus, petitioner was found liable for deficiency taxes for TY 2018 amounting to ₱35,306,629.95, computed as follows:

Tax Type	Basic Tax	Surcharge	Interest	Compromise	Total
Income Tax	₱19,562,249.42	₱9,781,124.71	₱5,894,757.82	₱50,000.00	₱35,288,131.95
Percentage Tax	7,500.00	3,750.00	2,460.00	3,000.00	16,710.00
Registration Fee	500.00	125.00	163.00	1,000.00	1,788.00
Total	₱19,570,249.42	₱9,784,999.71	₱5,897,380.82	₱54,000.00	₱35,306,629.95

When petitioner failed to appear for a conference and refute the NODs, RO Ramiro recommended the issuance of a Preliminary Assessment Notice (**PAN**).[16] Thus, on 10 December 2021, respondent issued the PAN, which was identical to the findings in the Second Amended NOD.[17] With the upward interest adjustment, petitioner was found liable for deficiency taxes for TY 2018 amounting to ₱35,774,689.11, computed as follows:

Tax Type	Basic Tax	Surcharge	Interest	Total
Income Tax	₱19,562,249.42	₱9,781,124.71	₱6,416,417.81	₱35,759,791.94
Percentage Tax	7,500.00	3,750.00	2,660.00	13,910.00
Registration Fee	500.00	250.00	237.17	987.17
Compromise	50,000.00	3,000.00	1,000.00	54,000.00
Total	₱19,620,249.42	₱9,788,124.71	₱6,420,314.98	₱35,774,689.11

On 27 December 2021, respondent received petitioner's response to the PAN (**Reply**).[18] In the Reply, petitioner's President, Teodulo O. Otoman II (**Otoman**) explained that the alleged undeclared purchases were sourced from "borrowings from different lenders" (*i.e.*, crowd

15 Amended Notice of Discrepancy received by petitioner on 13 October 2021, Exhibit "R-8", id., pp. 201-202.
16 See Memorandum dated 28 October 2021, Exhibit "R-9", id., pp. 209-210.
17 See Preliminary Assessment Notice with Details of Discrepancies received by petitioner on 17 December 2021, Exhibit "R-10", id., pp. 212-224.
18 Letter dated 20 December 2021, id., p. 354.

funding) and were not from alleged undeclared income. Petitioner argues that the assessment failed to consider the said information, which makes the assessment arbitrary.[19]

In order to prove the existence of the said borrowings, petitioner attached to the Reply the supposed contracts between petitioner and the said lenders.[20]

On 04 January 2022, respondent issued the Formal Letter of Demand (**FLD**) and Final Assessment Notices (**FANs**), reiterating the findings in the PAN.[21] With the upward adjustment in the interest, petitioner was found liable for deficiency taxes for TY 2018 amounting to ₱35,846,321.69, computed as follows:

Tax Type	Basic Tax	Surcharge	Interest	Total
Income Tax	₱19,562,249.42	₱9,781,124.71	₱6,488,146.06	₱35,831,520.19
Percentage Tax	7,500.00	3,750.00	2,687.50	13,937.50
Registration Fee	500.00	125.00	239.00	864.00
Compromise	50,000.00	3,000.00	1,000.00	54,000.00
Total	₱19,620,249.42	₱9,787,999.71	₱6,492,072.56	₱35,846,321.69

On 19 January 2022, respondent received petitioner's Protest in the form of a Request for Reinvestigation.[22] In the Protest, Otoman reiterated that the undeclared purchases were from crowd funding and not from alleged undeclared income. Petitioner emphasized that it never realized, earned, and received any undeclared income in the amount of ₱64,597,505.15. Petitioner also argued that even if it had undeclared purchases, respondent could not justify the conclusion that petitioner has undeclared income.[23]

On 18 March 2022, petitioner, in support of its Protest, submitted to respondent copies of deposit slips and loan contracts between

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19 Id.

20 Id., pp. 228-353.

21 See Formal Letter of Demand (FLD) with Details of Discrepancies received by petitioner on 12 January 2022, Exhibit "R-12", id., pp. 366-371. See also Formal Assessment Notices (FANs) likewise received by petitioner on 12 January 2022, Exhibit "R-12-1", id., pp. 362-365.

22 Undated Letter, id., p. 382-383.

23 Id.

petitioner and its lenders for the years 2017 and 2018, and a summary thereof.[24]

On 02 June 2022, respondent issued the Final Decision on Disputed Assessment (**FDDA**) denying the Protest for lack of factual and legal basis.[25] Hence, the assessment in the FLD/FAN amounting to ₱35,846,321.69 was reiterated.

Thereafter, petitioner's case docket was transmitted to respondent's Collection Division and later, to the Arrears Management Section, for collection. Respondent then issued a Warrant of Distraint and/or Levy (**WDL**) dated 12 August 2022.[26] However, when respondent's Seizure Agents attempted to serve the WDL at petitioner's registered address, they were referred to a different address where they were ultimately informed that Otoman was holding office in Pangasinan.

While a request for travel order to Pangasinan was being prepared for the WDL's service on petitioner, respondent's Collection Division was informed that petitioner had already filed the instant Petition for Review.[27]

<u>PROCEEDINGS BEFORE THE COURT</u>

On 14 June 2022, after its receipt of the FDDA, petitioner filed the instant Petition for Review on 14 July 2022.[28] The case was docketed as CTA Case No. 10916 and raffled to the Court's Second Division.[29]

In its petition, petitioner sought the cancellation of the assessment on the grounds that (1) the LOA was not revalidated even though the audit was not completed within 120 days from its issuance; (2) the PAN, FLD/FAN, and FDDA are void because respondent failed

24 See undated Letter with attached Summary of Contracts for the Years 2017 and 2018, id., pp, 387-408. See also copies of Loan Contracts with Deposit Slips for the years 2017 and 2018, BIR Records, Folders I and II, pp. 409-1220.

25 See Final Decision on Disputed Assessment (FDDA) received by petitioner on 14 June 2022, Exhibit "R-14", BIR Records, Folder 1, pp. 1276-1279.

26 Id., pp. 1295-1298.

27 Letter dated 19 September 2022, BIR Records, Folder I, p. 1313-1314.

28 Petition for Review, supra at note 1.

29 Id.

to state the legal and factual basis of the assessments; (3) respondent made a sweeping presumption that the undeclared purchases came from undeclared taxable income; and (4) the imposition of 50% surcharge lacks factual and legal basis.[30]

On 07 September 2022, summons was issued which respondent received on 15 September 2022.[31] After it was granted an extension, respondent filed his or her Answer on 14 November 2022.[32] In the Answer, respondent argues that (1) the LOA's non-revalidation does not invalidate the assessments; (2) the deficiency income tax was premised on the undeclared purchases per TPI; (3) the alleged loan contracts have no probative value; (4) the deficiency percentage tax was based on undeclared sales of agricultural products; (5) petitioner failed to pay the annual registration fee for TY 2018; and (7) petitioner is liable for compromise penalty due its failure to pay tax.[33]

Thereafter, the Court set the Pre-Trial Conference on 30 March 2023.[34] After the parties filed their Pre-Trial Briefs,[35] pre-trial proceeded as scheduled on 30 March 2023.[36] With the filing of the parties' Joint Stipulation of Facts and Issues (**JSFI**) and the issuance of the Pre-Trial Order on 26 May 2023, the pre-trial stage of the proceedings was deemed terminated.[37]

In the meantime, on 02 May 2023, petitioner filed a Motion for the Appointment of an Independent Certified Accountant (**ICPA**) praying for the appointment of Marco Fernando L. Ng (**Ng**) as the ICPA for the case.[38]

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30 Id.

31 Division Docket, Volume I, p. 221.

32 See (1) Motion for Extension of Time to File Answer filed on 14 October 2022, id., pp. 245-248; (2) Order dated 18 October 2022 granting respondent an additional thirty (30) days or until 14 November 2022 to file the Answer, id., p. 250; and (3) Answer, id., pp. 257-268.

33 See Answer, id.

34 See Notice of Pre-Trial Conference dated 16 December 2022, id., pp. 271-272.

35 See petitioner's Pre-Trial brief filed on 24 March 2023; id., pp. 273-283. See also respondent's Pre-Trial Brief filed on 28 March 2023, id., pp. 287-291.

36 See Order dated 30 March 2023, id., pp. 311-A-311-B.

37 See (1) Joint Stipulation of Facts and Issues filed on 02 May 2023, id., pp. 324-331; (2) Resolution dated 18 May 2023 approving the JSFI, id., p. 380; (3) Pre-Trial Order dated 26 May 2023, id., pp. 382-387; (4) petitioner's Motion to Amend Pre-Trial Order filed on 05 July 2023, id., pp. 403-404; and (5) Resolution dated 25 July 2023 granting the Motion to Amend Pre-Trial Order, id., p. 408.

38 See Motion for the Appointment of an Independent Certified Public Accountant (ICPA), id., pp. 356-359.

On 29 May 2023, the case was transferred from the Second Division to the First Division, pursuant to Administrative Circular No. 01-2023 (Reorganizing the Divisions of the Court).[39]

Respondent then elevated the BIR records.[40]

After petitioner refused to undergo mediation, the Court set the hearing for the Motion for the Appointment of an ICPA and the initial presentation of petitioner's evidence on 07 September 2023.[41]

Subsequently, after a hearing, the Court granted petitioner's motion and appointed Ng as the ICPA for the case. On the same day, Otoman took the witness stand to testified *via* his Judicial Affidavit where he declared that petitioner submitted documents to the BIR to prove that its funds came from different lenders who loaned the money to petitioner through an online gaming application. Specifically, petitioner submitted a *Schedule of Loans* dated 18 March 2022 and *Revised Schedule of Loans for the Years 2017 and 2018*. In addition, petitioner submitted the loan contracts and deposit slips and/or bank confirmation slips that the lenders sent online through the online gaming application. He then added that in 2019, petitioner stopped borrowing from the public because of a Securities and Exchange Commission (**SEC**) issuance prohibiting it to source funds from the public without a license.[42]

Respondent did not conduct any cross-examination.[43]

Upon further clarificatory question from the Court, Otoman explained that petitioner's business concept is like Farmville (a farm-simulation online game) coming to real life wherein, the lenders, through an online game, will virtually plant their chosen crops. Petitioner will then cause the planting of the said chosen crops in actual

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39 See Notice dated 29 May 2023, id., p. 388.

40 See Compliance filed on 08 June 2023, id., pp. 390-392.

41 See Back to Court notice filed by the Philippine Mediation Center – Court of Tax Appeals (PMC-CTA) Unit on 29 June 2023, id., p. 395. See also petitioner's Letter dated 27 June 2023 addressed to the PMC-CTA Unit manifesting its unwillingness to enter into a compromise agreement, id., p. 396. See further Resolution dated 10 July 2023, id., p. 399.

42 See Judicial Affidavit [Petitioner's Witness, Teodulo O. Otoman II], Exhibit "P-31", id., pp. 231-241.

43 TSN dated 07 September 2023, p. 31.

farms by actual farmers. He also stated that 80% of its production pertained to local rice and the rest were vegetables and fruits.[44]

Next to testify was ICPA Ng who identified the ICPA Report that he submitted to the Court on 09 October 2023.[45] According to ICPA Ng, as a result of his examination of petitioner's accounts, he was able to ascertain that the undeclared purchases, importations, and acquisition of real properties are part of petitioner's capital expenditures and capital assets which should not be subject to income tax and Value-Added Tax (**VAT**). Moreover, petitioner is exempted from filing a Summary List of Purchases (**SLP**) being a non-VAT registered entity.[46]

Furthermore, ICPA Ng testified that he performed audit procedures to verify the existence and completeness of loan agreements entered into by petitioner. In the process, he found that out of the ₱75,579,780.00 listed in petitioner's Summary of Loans for the Years 2017 and 2018, ₱49,201,200.00 was supported by loan documents showing the date, name of lender, loan amount, notary fee, registration fee, deduction from profit, signature, mode of payment, and payment date.[47]

Again, respondent did not conduct cross-examination.[48]

After the presentation of its witnesses, petitioner proceeded to file its Formal Offer of Evidence (**FOE**), offering Exhibits "P-1" to "P-41-a", inclusive of sub-markings.[49] Respondent did not interpose specific objections to the FOE.[50]

While the Court admitted most of the exhibits, it also denied numerous documents for the following reasons:[51] (1) the documents

44 Id., pp. 32-33.

45 See Judicial Affidavit of Marco Fernandez L. Ng, Exhibit "P-41", id., pp. 438-448. See also ICPA Report dated 09 October 2023, Exhibit "P-40", id., pp. 420-435; See TSN dated 23 November 2023.

46 Id.

47 Id.

48 TSN dated 07 September 2023, p. 31.

49 See petitioner's FOE filed on 04 December 2023, Division Docket, Volume II, 461-473, pp. 343-349.

50 See Comment (Re: Petitioner's Formal Offer of Evidence) filed on 18 June 2024, id., pp. 666-668.

51 See Resolution dated 14 March 2024, id., pp. 673-676.

were not marked[52] and blurry (unreadable);[53] (2) the exhibit formally offered did not correspond with the document actually marked;[54] (3) the document was not identified by a witness;[55] (4) the documents were not marked and not identified by a witness;[56] and (5) the documents were mere scanned copies and were partially blurred.[57]

52

Exhibit No.	Description
"P-3-d"	General Information Sheet
"P-3-h"	Page 3 of the General Information Sheet

53

Exhibit No.	Description
"P-37-7", "P-37-10", "P-37-14", "P-37-28", "P-37-42" to "P-37-45", "P-37-49", "P-37-70", "P-37-73", "P-37-89" to "P-37-90", "P-37-99" to "P-37-104", "P-37-106", "P-37-110" to "P-37-117", "P-37-120", "P-37-123", "P-37-127", "P-37-129", "P-37-132", "P-37-134","P-37-142", "P-37-149" and "P-37-152"	Proof of Deposits on Loan Proceeds from Various Individuals

54 Exhibit "P-36-297" (Covers 2018 Loan Agreements).
55 Exhibit "P-3-d" (General Information Sheet).
56

Exhibit No.	Description
"P-26-a"	Updated BIR Certificate of Accreditation as Tax Practitioner (M. Ng & T. Lopez Partnership Firm)
"P-27-a"	Updated BIR Certificate of Accreditation as Tax Practitioner (M. Ng & T. Lopez Partnership Firm)

57

Exhibit No.	Description
"P-36-332"	2018 Loan Agreements
"P-37-15" to "P-37-18", "P-37-21", "P-37-26", "P-37-32" to "P-37-33", "P-37-34" to "P-37-37", "P-37-39", "P-37-40", "P-37-46" to "P-37-48", "P-37-50", "P-37-53" to "P-37-55", "P-37-59", "P-37-60", "P-37-62" to "P-37-63", "P-37-65" to "P-37-69", "P-37-71", "P-37-74" to "P-37-77", "P-37-79" to "P-37-80", "P-37-82" to "P-37-83", "P-37-85" to "P-37-87", "P-37-91" to "P-37-92", "P-37-94", "P-37-97" to "P-37-98", "P-37-107" to "P-37-109", "P-37-118", "P-37-121", "P-37-124", "P-37-128", "P-37-130", "P-37-131", "P-37-133", "P-37-138" to "P-37-141", "P-37-143", "P-37-145" to "P-37-146", "P-37-148", "P-37-150" to "P-37-151", "P-37-153", "P-37-156", "P-37-159" to "P-37-162", "P-37-165" and "P-37-176"	Proof of Deposits on Loan Proceeds from Various Individuals

Following the denial of the aforementioned exhibits, petitioner filed a motion for reconsideration (**MR**), which the Court eventually granted in partial.[58] After ICPA Ng identified, marked, and submitted clear and readable Portable Document Format (**PDF**) copies of the denied exhibits, the Court admitted the same, except for Exhibit "P-37-91"[59] which remained unreadable.[60]

During respondent's turn to present evidence on 15 October 2024, RO Ramiro assumed the witness stand as the sole witness.[61] Testifying by way of her Judicial Affidavit,[62] RO Ramiro tackled on the issuance of the LOA,[63] Checklist of Requirements,[64] First Notice,[65] Second and Final Notice,[66] NOD,[67] Second NOD,[68] Memorandum dated 22 June 2021,[69] Third NOD,[70] Indorsement dated 28 October 2021,[71] PAN,[72] Memorandum dated 29 December 2021,[73] FLD/FAN,[74] Memorandum dated 08 April 2022,[75] FDDA,[76] and the BIR Records.[77]

On cross-examination, RO Ramiro confirmed that indeed her Judicial Affidavit made no mention of (1) who or which authorized representative received the Checklist of Requirements, and (2) why

"P-38-196" and "P-38-217" to "P-38-218"	2017 Loan Agreements

58 See **(1)** petitioner's Motion for Reconsideration (on the Resolution of the Honorable Court dated 14 March 2024) and Motion to Cancel the Hearing Set on 30 April 2024 filed on 27 March 2024, Division Docket, Volume II, pp. 691-697; **(2)** Notice dated 19 April 2024, id., p. 702; **(3)** Notice dated 15 May 2024, id., p. 705; **(4)** Resolution dated 26 June 2024, id., pp. 708-713; **(5)** ICPA Ng's Compliance Manifestation filed on 08 July 2024, id., pp. 714-722; and **(6)** Resolution dated 22 August 2024, id., pp. 727-731.

59 Exhibits "37-1" to "37-176" were offered as Proof of Deposits on Loan Proceeds from Various Individuals. See petitioner's FOE, supra at note 49, p. 469.

60 See Resolution dated 22 August 2024, supra at note 58.

61 See Order dated 15 October 2025, Division Docket, Volume II, pp. 753-754.

62 See Judicial Affidavit of Revenue Officer April Jane B. Ramiro, Exhibit "R-16", id., Volume I, pp. 298-307.

63 Supra at note 9.

64 Supra at note 10.

65 Id.

66 Supra at note 11.

67 Supra at note 12.

68 Supra at note 14.

69 Exhibit "R-7", BIR Records, Folder III, pp. 183-186.

70 Supra at note 15.

71 BIR Records, Folder III, p. 211.

72 Supra at note 16.

73 Exhibit "R-11", BIR Records, Folder III, pp. 357-359.

74 Supra at note 21.

75 Exhibit "R-13", BIR Records, Folder I, pp. 1270-1273.

76 Supra at note 25.

77 Supra at note 40.

there was a recomputation of the assessment from the Second NOD to the Third NOD.[78]

On redirect examination, RO Ramiro clarified that the LOA, together with the Checklist of Requirements, was served on Maria Teresa Rosendo (petitioner's employee) at petitioner's address in Alicia, Isabela. According to RO Ramiro, petitioner did not submit any of the documents requested in the said Checklist. She also clarified that there was a recomputation from the Second NOD to the Third NOD due to additional TPI. [79]

No re-cross examination was conducted.[80]

Responding to the Court's clarificatory questions, RO Ramiro explained that the Second NOD was issued because of additional TPI, while the Third NOD was issued to incorporate the findings and observations of the Assessment Division.[81]

After the presentation of its testimonial evidence, respondent filed his or her FOE offering Exhibits "R-1" to "R-15-2",[82] with sub-

78 TSN dated 15 October 2024, pp. 10-13.
79 Id., pp. 13-16.
80 Id., p. 16.
81 Id., pp. 16-23.
82

Exhibit No.	Description
"R-1-"	Letter of Authority No. SN: eLA201600018645/LOA-016-2020-00000019 dated 7 February 2020.
"R-2"	Checklist of Requirements
"R-3-"	First Notice
"R-4"	Second Request for Presentation of Records
"R-5"	Notice of Discrepancy
"R-6"	Amended Notice of Discrepancy dated 11 June 2021
"R-7"	Memorandum dated 22 June 2021
"R-8"	Amended Notice of Discrepancy dated 6 October 2021
"R-9"	Memorandum dated 28 October 2021
"R-10"	Preliminary Assessment Notice dated 10 December 2021 with attached Details of Discrepancies
"R-11"	Memorandum dated 29 December 2021
"R-12"	Formal Letter of Demand with attached Details of Discrepancies dated 4 January 2022
"R-12-1"	Audit Result/Assessment Notices
"R-13"	Memorandum
"R-14"	Final Decision on the Disputed Assessment
"R-15-", "R-15-1" and "R-15-2"	BIR Investigation Records

markings.[83] The Court, over petitioner's objections as to their relevance to the issue agreed upon, admitted the documents.[84]

Finally, petitioner filed its Memorandum on 06 March 2025 while respondent filed his or her Memorandum on 17 March 2025.[85] The Court then submitted the case for decision on 21 April 2025.[86]

ISSUE

The lone issue forwarded for the Court's resolution is —

WHETHER PETITIONER FARMON AGRI-COMMUNITY CORP. IS LIABLE TO PAY THE ASSESSED DEFICIENCY TAXES IN THE AGGREGATE AMOUNT OF ₱35,846,321.69, ALLEGEDLY REPRESENTING PETITIONER'S INCOME TAX, PERCENTAGE TAX, AND REGISTRATION FEE FOR UNDECLARED SALES OF AGRICULTURAL SUPPLIES, INCLUSIVE OF SURCHARGES AND INTEREST FOR THE TAXABLE YEAR 2018.[87]

ARGUMENTS

In praying for the cancellation of the assessment, petitioner advanced the following arguments:

First, the PAN, FLD/FAN, and the FDDA merely cited Revenue Audit Memorandum Order (**RAMO**) No. 1-2000[88] and Section 32[89] of the NIRC of 1997, as amended, as the legal bases for the assessment for deficiency income tax. According to petitioner, this falls short of the due

83 See Respondent's Formal Offer of Evidence (FOE) filed on 28 October 2024, Division Docket, Volume II, pp. 732-742.
84 See Comment (On the Respondent's Formal Offer of Evidence) filed on 04 November 2024, id., pp. 746-748. See also Resolution dated 03 February 2025, id., pp. 767-768.
85 See petitioner's Memorandum, id., pp. 799-824. See also respondent's Motion to Admit (Attached Memorandum dated March 17, 2025), id., pp. 827-845.
86 See Notice of Resolution dated 21 April 2025, id., p. 847.
87 See Pre-Trial Order dated 26 May 2023, supra at note 37, p. 383.
88 Updated Handbook on Audit Procedures and Techniques Volume I (Revision —Year 2000), 17 March 2000.
89 SEC. 32. *Gross Income.* —
(A) *General Definition.* — Except when otherwise provided in this Title, gross income means all income derived from whatever source, including (but not limited to) the following items:
...
(B) *Exclusions from Gross Income.* — The following items shall not be included in gross income and shall be exempt from taxation under this Title[.]

process requirement to show, in detail, the facts and the law, rules and regulations, or jurisprudence on which the proposed assessment was based. RAMO No. 1-2000 explicitly provides that it is neither intended to provide a source of tax law or procedural doctrine nor a substitute reference material of revenue issuances. Meanwhile, the citation of the entire Section 32 of the NIRC of 1997, as amended, only shows that respondent could not clearly determine the precise source of the alleged undeclared income. Thus, the PAN, FLD/FAN, and FDDA are all void for having been issued in violation of petitioner's right to due process.[90]

Petitioner adds that respondent erred in matching data from its Reconciliation of Listings for Enforcement (**RELIEF**) system to petitioner's Summary List of Purchases (**SLP**) because as a non-VAT entity, it is not required to submit an SLP. Moreover, respondent did not obtain sworn statements from petitioner and the alleged suppliers verifying the alleged TPIs. It further argues that respondent cannot – by any stretch of imagination – assess income tax based on its alleged purchases and importations. According to it, the three (3) criteria for imposition of income tax were not met: (1) that there must be a gain or profit; (2) that the gain or profit must be realized or received, actually or constructively; and (3) that the recipient is not exempted by law or treaty from income tax.[91]

Petitioner also assails the imposition of 50% surcharge since there was clearly no imputation of fraud in the PAN, FLD/FAN, and FDDA.[92]

Lastly, petitioner argues that respondent erred in not appreciating the loan contracts and deposit slips that it previously submitted in support of its defense that the amount used to finance its purchases and importation were sourced from borrowings or crowd funding. Contrary to respondent's position that the loan contracts are mere unaccepted offers, the loan contracts were already perfected upon the delivery of the loaned amount. Moreover, Otoman, as petitioner's President (not only a Managing Director) has the authority to enter into the loan contracts. The absence of secondary license to solicit funds from the public, the lack of provision regarding interest, and the alleged irregularities in their notarization do not affect the validity and of the loan contracts.[93]

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[90] Petitioner's Memorandum, supra at note 85, pp. 802-809.
[91] Id., pp. 809-814.
[92] Id., pp. 815-817.
[93] Id., pp. 817-824.

On the other hand, mirroring the Answer earlier filed, respondent argued in his or her memorandum that the non-revalidation of an LOA does not render an assessment void but would only warrant disciplinary action against the erring RO.[94]

Respondent also reiterates that petitioner's deficiency income tax, percentage tax, and registration fees, together with the imposition of interest and 50% surcharge, were correctly assessed.[95] Respondent further claims that the TPIs (which were used as basis of the undeclared purchases) were verified by petitioner's suppliers, the Bureau of Customs (**BOC**), and the relevant Office of the City Assessors.[96]

Lastly, respondent maintains that the loan contracts that petitioner submitted bear no probative value because: **(1)** they are mere unaccepted offer without the parties' signature of parties; **(2)** they do not show acknowledgement of one party's payment and the other party's receipt thereof **(3)** Otoman signed the contracts in his capacity as preparer and not as a contracting party; **(4)** there is no showing that Otoman was authorized to enter into any investment or loan agreements (especially since petitioner is not allowed under its Articles of Corporation to solicit investments from the public); **(5)** petitioner's AFS did not recognize any liabilities and investments that corresponds to the loan agreements; **(6)** the loan contracts were purportedly for farm production but petitioner was registered to do livestock and poultry production; **(7)** there was no provision for interest and payment or return of the borrowed amount; and **(8)** there were irregularities in their notarization.[97]

RULING OF THE COURT

The Court finds it proper to first determine whether it has jurisdiction over the instant petition before it delves into the merits of the case.

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94 Respondent's Memorandum, supra at note 85, pp. 836-840.
95 Id., p. 840.
96 Id., pp. 840-841.
97 Id., pp. 841-842.

THE COURT HAS JURISDICTION OVER
THE INSTANT PETITION.

The Court of Tax Appeals (**CTA**), being a court of special jurisdiction, can only take cognizance of matters which are clearly within its jurisdiction.[98] In this connection, Section 11 of the Republic Act (**RA**) No. 1125,[99] as amended by RA 9282,[100] provides for the proper period during which a party may bring an appeal before the CTA, to wit:

> ...
>
> SEC. 11. *Who May Appeal; Mode of Appeal; Effect of Appeal.* — Any party adversely affected by a decision, ruling or inaction of the Commissioner of Internal Revenue, the Commissioner of Customs, the Secretary of Finance, the Secretary of Trade and Industry or the Secretary of Agriculture or the Central Board of Assessment Appeals or the Regional Trial Courts may file an appeal with the CTA within thirty (30) days after the receipt of such decision or ruling or after the expiration of the period fixed by law for action as referred to in Section 7(a)(2) herein.[101]
>
> ...

On the other hand, Section 228 of the NIRC of 1997, as amended, outlines how a taxpayer may administratively protest an assessment issued by the CIR or his or her duly authorized representative and later on, if necessary, appeal the same to the CTA:

> ...
>
> Sec. 228. *Protesting of Assessment.* — When the Commissioner or his duly authorized representative finds that proper taxes should be assessed, he shall first notify the taxpayer of his findings[.] ...
>
> ...
>
> Within a period to be prescribed by implementing rules and regulations, the taxpayer shall be required to respond to said notice. If the taxpayer fails to respond, the Commissioner or his duly

98 *Commissioner of Internal Revenue v. V.Y. Domingo Jewellers, Inc.*, G.R. No. 221780, 25 March 2019, citing *Commissioner of Internal Revenue v. Burmeister and Wain Scandinavian Contractor Mindanao, Inc.*, G.R. No. 190021, 22 October 2014.

99 AN ACT CREATING THE COURT OF TAX APPEALS.

100 AN ACT EXPANDING THE JURISDICTION OF THE COURT OF TAX APPEALS (CTA), ELEVATING ITS RANK TO THE LEVEL OF A COLLEGIATE COURT WITH SPECIAL JURISDICTION AND ENLARGING ITS MEMBERSHIP, AMENDING FOR THE PURPOSE CERTAIN SECTIONS OR REPUBLIC ACT NO. 1125, AS AMENDED, OTHERWISE KNOWN AS THE LAW CREATING THE COURT OF TAX APPEALS, AND FOR OTHER PURPOSES.

101 Italics in the original text.

> authorized representative shall issue an assessment based on his findings.
>
> Such assessment may be protested administratively by filing a request for reconsideration or reinvestigation within thirty (30) days from receipt of the assessment in such form and manner as may be prescribed by implementing rules and regulations. Within sixty (60) days from filing of the protest, all relevant supporting documents shall have been submitted; otherwise, the assessment shall become final.
>
> **If the protest is denied in whole or in part**, or is not acted upon within one hundred eighty (180) days from submission of documents, **the taxpayer adversely affected by the decision or inaction may appeal to the Court of Tax Appeals within thirty (30) days from receipt of the said decision**, or from the lapse of the one hundred eighty (180)-day period; otherwise, the decision shall become final, executory and demandable.[102]
>
> ...

In *Philippine Amusement and Gaming Corporation v. Bureau of Internal Revenue, et al.*[103] and later on in *Commissioner of Internal Revenue v. V.Y. Domingo Jewellers, Inc.*,[104] the Supreme Court explained that there are three (3) options by which a taxpayer may appeal the denial of its administrative protest, to wit:

> ...
>
> **1. If the protest is wholly or partially denied by the CIR or his authorized representative, then the taxpayer may appeal to the CTA within 30 days from receipt of the whole or partial denial of the protest;**
>
> 2. If the protest is wholly or partially denied by the CIR's authorized representative, then the taxpayer may appeal to the CIR within 30 days from receipt of the whole or partial denial of the protest; [and]
>
> 3. If the CIR or his authorized representative failed to act upon the protest within 180 days from submission of the required supporting documents, then the taxpayer may appeal to the CTA within 30 days from the lapse of the 180-day period.
>
> ...

102 Italics in the original text and emphases supplied.
103 G.R. No. 208731, 27 January 2016.
104 G.R. No. 221780, 25 March 2019; Citation omitted and emphasis supplied.

In this case, the following are the pertinent dates and events in determining the timeliness of the Petition for Review:

Date	Event
12 January 2022	Petitioner received respondent's FLD/FAN dated 04 January 2022.[105]
19 January 2022	Petitioner filed its Protest (Request for Reinvestigation).[106]
18 March 2022	Petitioner submitted documents in support of its Protest.[107]
14 June 2022	Petitioner received the FDDA dated 02 June 2022.[108]
14 July 2022	Petitioner filed the instant Petition for Review.[109]

As mentioned, if the CIR or his authorized representative denies the protest wholly or partially, the taxpayer may appeal to the CTA within 30 days from its receipt of the denial of the protest.

Here, petitioner received the FDDA issued by the CIR's authorized representative (*i.e.*, the Regional Director of Revenue Region No. 03 - Tuguegarao City) on 14 June 2022, thus, the instant Petition for Review filed 30 days later on 14 July 2022, was filed on time.

THE ASSESSMENT IS VOID FOR HAVING BEEN ISSUED IN VIOLATION OF PETITIONER'S RIGHT TO DUE PROCESS.

Section 228 of the NIRC of 1997, as amended, as implemented by Revenue Regulations (**RR**) No. 12-99,[110] and as amended by RR No. 18-13,[111] outlines the due process requirements for the issuance of deficiency tax assessments.

105 See Formal Letter of Demand (FLD) with Details of Discrepancies, and Formal Assessment Notices (FAN), supra at note 21.

106 Undated Letter, supra at note 22.

107 Undated Letter with attached Summary of Contracts for the Years 2017 and 2018 and copies of Loan Contracts with Deposit Slips for the years 2017 and 2018, supra at note 24.

108 See Final Decision on Disputed Assessment (FDDA) dated 03 November 2021, Exhibit "R-11", and Acknowledgement of Receipt dated 12 November 2021, supra at note 25.

109 Petition for Review, supra at note 1.

110 Implementing the Provisions of the National Internal Revenue Code of 1997 Governing the Rules on Assessment of National Internal Revenue Taxes, Civil Penalties and Interest and the Extra-Judicial Settlement of a Taxpayer's Criminal Violation of the Code Through Payment of a Suggested Compromise Penalty.

111 Amending Certain Sections of Revenue Regulations No. 12-99 Relative to the Due Process Requirement in the Issuance of a Deficiency Tax Assessment.

Section 228 of the NIRC of 1997, as amended, states:

...

SEC. 228. *Protesting of Assessment*. - When the Commissioner or his duly authorized representative finds that proper taxes should be assessed, he shall first notify the taxpayer of his findings[.]

...

The taxpayers shall be informed in writing of the law and the facts on which the assessment is made; otherwise, the assessment shall be void.

Within a period to be prescribed by implementing rules and regulations, the taxpayer shall be required to respond to said notice. If the taxpayer fails to respond, the Commissioner or his duly authorized representative shall issue an assessment based on his findings.[112]

...

On the other hand, relevant portions of Section 3 of RR No. 12-99, as amended, state:

...

SEC. 3. *Due Process Requirement in the Issuance of a Deficiency Tax Assessment*. —

3.1 Mode of procedure in the issuance of a deficiency tax assessment:

3.1.1 *Preliminary Assessment Notice (PAN)*. — If after review and evaluation by the Commissioner or his duly authorized representative, as the case may be, it is determined that there exists sufficient basis to assess the taxpayer for any deficiency tax or taxes, the said Office shall issue to the taxpayer a Preliminary Assessment Notice (PAN) for the proposed assessment. It shall show in detail, the facts and the law, rules and regulations, or jurisprudence on which the proposed assessment is based (see illustration in ANNEX "A" hereof).

If the taxpayer fails to respond within fifteen (15) days from date of receipt of the PAN, he shall be considered in default, in which case, a Formal Letter of Demand and Final Assessment Notice (FLD/FAN) shall be issued calling for payment of the taxpayer's deficiency tax liability, inclusive of the applicable penalties.

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112 Emphasis supplied and italics in the original text.

> **If the taxpayer, within fifteen (15) days from date of receipt of the PAN, responds that he/it disagrees with the findings of deficiency tax or taxes, an FLD/FAN shall be issued within fifteen (15) days from filing/submission of the taxpayer's response, calling for payment of the taxpayer's deficiency tax liability, inclusive of the applicable penalties.**[113]
>
> ...

In the landmark case of *Commissioner of Internal Revenue v. Avon Products Manufacturing, Inc.*[114] (**Avon**), citing *Ang Tibay, represented by Toribio Teodoro, manager and proprietor, and National Workers' Brotherhood v. The Court of Industrial Relations and National Labor Union, Inc.*,[115] the Supreme Court emphasized the CIR's duty to: (1) inform the taxpayer of the legal and factual bases of the assessment; (2) consider the taxpayer's explanations or defenses regarding the assessment; and (3) provide reasons for rejecting such explanations or defenses. Failure to comply with these requirements renders the assessment void, *viz*:

> ...
>
> The facts demonstrate that Avon was deprived of due process. It was not fully apprised of the legal and factual bases of the assessments issued against it. The Details of Discrepancy attached to the Preliminary Assessment Notice, as well as the Formal Letter of Demand with the Final Assessment Notices, did not even comment or address the defenses and documents submitted by Avon. **Thus, Avon was left unaware on how the Commissioner or her authorized representatives appreciated the explanations or defenses raised in connection with the assessments.** There was clear inaction of the Commissioner at every stage of the proceedings.
>
> ...
>
> Upon receipt of the Preliminary Assessment Notice, Avon submitted its protest letter and supporting documents, and even met with revenue examiners to explain. Nonetheless, the Bureau of Internal Revenue issued the Final Letter of Demand and Final Assessment Notices, merely reiterating the assessments in the Preliminary Assessment Notice. There was no comment whatsoever on the matters raised by Avon, or discussion of the Bureau of Internal Revenue's findings in a manner that Avon may know the various issues involved and the reasons for the assessments.
>
> ...

---

113 Emphasis supplied and italics in the original text.

114 G.R. Nos. 201398-99 & 201418-19, 03 October 2018.

115 G.R. No. 46496, 27 February 1940.

> **The Notice of Informal Conference and the Preliminary Assessment Notice are a part of due process. They give both the taxpayer and the Commissioner the opportunity to settle the case at the earliest possible time without the need for the issuance of a Final Assessment Notice.** However, this purpose is not served in this case because of the Bureau of Internal Revenue's inaction or failure to consider Avon's explanations.
>
> ...
>
> Indeed, the Commissioner's inaction and omission to give due consideration to the arguments and evidence submitted before her by Avon are deplorable transgressions of Avon'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.**
>
> ...
>
> In this case, Avon was able to amply demonstrate the Commissioner's disregard of the due process standards raised in *Ang Tibay* and subsequent cases, and of the Commissioner's own rules of procedure. **Her disregard of the standards and rules renders the deficiency tax assessments null and void.**[116]
>
> ...

Verily, in *Commissioner of Internal Revenue v. Yumex Philippines Corporation*,[117] the Supreme Court reaffirmed *Avon* and emphasized the importance of observing procedural due process:

> ...
>
> In *Commissioner of Internal Revenue v. Avon Products Manufacturing, Inc.* (*Avon case*), the Court enjoined strict observance by the BIR of the prescribed procedure for issuance of the assessment notices with due regard for the taxpayers' constitutional rights. It is mandatory that the BIR not only inform the taxpayer through the PAN, FLD, and FAN of the facts, law and regulations, and jurisprudence on which the assessment against it is based, but it must also accord the taxpayer the opportunity to be heard through the entire process, *i.e.*, from tax investigation until tax assessment.
>
> ...

116 Citations omitted and emphasis supplied.

117 G.R. No. 222476, 05 May 2021 citing G.R. Nos. 201398-99 & 201418-19. Citation omitted and italics in the original text.

In the case at bar, respondent issued the PAN on 10 December 2021 wherein he or she found petitioner liable for deficiency taxes for TY 2018 amounting to ₱35,774,689.11, inclusive of interests and surcharges.[118]

In response, petitioner, through Otoman, filed its Reply on 27 December 2021.[119] The Reply states:

> ...
> December 20, 2021
>
> **BUREAU OF INTERNAL REVENUE**
> Revenue Region No. 03
> BIR Regional Office Building
> Carig Sur, Tuguegarao City
>
> Attention: **THELMA S. MILABAO**
> Regional Director
>
> Subject: **FARMON AGRI-COMMUNITY CORP.**
> Preliminary Assessment Notice Dated December 10, 2021
> Issued pursuant to an eLA201600018645/
> LOA-016-2020-00000019 dated February 7, 2020.
>
> Madam:
>
> This refers to the Preliminary Assessment Notice we received last December 17, 2021 from your authorized revenue officers, informing me of the alleged deficiency Income Tax, Percentage Tax, deficiency registration fee and Compromise Penalty in the total amount of ₱35,828,689.11, inclusive of increments.
>
> Attached to the said notice is "Annex A", which contains among others, the amount of presumed undeclared income amounting to ₱64,854,000.25 which resulted in the presumed deficiency income tax of ₱35,759,791.94.
>
> Farmon Agri-Community Corp. was incorporated only in 2017, and through our crowd funding method, we are able to raise capital to acquire property and equipment for the purpose of engaging in agricultural trading.

---

118 See Preliminary Assessment Notice (PAN) with Details of Discrepancies received by petitioner on 17 December 2021, Exhibit "R-10", supra at note 17.

119 Letter dated 20 December 2021, supra at note 18.

With all due respect, we find that the said assessment is erroneous on the ground that the same is arbitrary and without factual basis. The amount of ₱64,854,000.25 consist of property acquisition, purchase of equipment, and other farm related products. The said amount did not come from income, rather, it came from borrowings from different lenders (crowd funding), hence not considered as income.

The assessment fails to consider this information which makes it arbitrary.

In view of the foregoing, may we respectfully request your good office to consider the above information in making the assessment.

Rest assured that we are fully committed to faithfully comply with the requirements of our Tax laws.

Very Truly Yours,

MR. TEODULO O. OTOMAN, II
President, FARMON AGRI-COMMUNITY CORP.

...

To prove its assertion that the amounts used to pay for the alleged undeclared purchases were sourced from lenders, petitioner submitted **126 "loan" contracts** between petitioner and the alleged lenders from 2017 to 2018.[120]

The contracts are identical and one of them reads:[121]

FarmOn Agri Community Corp.
#577 P-Maligaya, Batal, Santiago City

This agreement is hereby entered into between **FarmOn.ph** by Sproads (hereinafter referred to as "Company" and [redacted] hereinafter referred to as "FarmOner") on **January 10, 2018.**

FARMONER'S DETAILS.

Name:	[redacted]
Mobile:	[redacted]
Email:	[redacted]
Address:	[redacted]

120 Supra at note 20.
121 BIR Records, Folder III, at p. 353.

Crops	# of Plots	Amount
Papaya	23	₱98,900.00

PAYMENT DETAILS.

Sub Total: ₱98,900.00
Notary Fee: ₱0.00
Deduct from Profit ₱0.00

TOTAL ₱98,900.00

CROPS.
Seedlings, farmland, organic fertilizers and farmers shall be provided by FarmOn.ph. The Company will only be using hybrid seedlings obtained from dependable seed companies.

LIVESTOCKS.
Young animals, shelter, farmland, animal's food and vitamins, and farmers shall be provided by FarmOn.ph. The Company will make sure that the young animals will only be obtained from reputable farm.

PRODUCT-RELATED SPECIFIC.
The FarmOner will receive videos and pictures twice a month for crop updates and status.

Products will be sold in the FarmOn.ph Marketplace, FarmOner shall earn 50% of the TOTAL profit gained.

Proft gained will show up in your FarmOn's account, which can then be transferred to your bank account.

COMMENCEMENT. Registration is open until February 15, 2018 on a first-come, first serve basis. Actual land farming starts on March 15, 2018.

Changes on the number of crops and/or livestock after payment has made shall not be entertained.

VALIDITY OF THE CONTRACT. Contract is valid after full payment has been received and is valid for one full-harvest season. Renewal after the harvest season is required to reactivate account.

GUARANTEE. In the event that an unforeseen circumstance such as super typhoon and the like strikes and destroys the crop and/or livestock, FarmOn will replace them with seedlings and young animals, NO EXTRA CHARGES from FarmOner. FarmOn.ph will also be responsible for providing organic fertilizers and the like for the crops. In addition, FarmOn.ph will also shoulder vitamin shots and necessary medications for the livestock, with NO REQUIRED EXTRA FEES from the FarmOner.

PAYMENT.
Payment shall be coursed through either one of the ff options:
(1) BDO Bank Deposit and (2) Cash Payment

BDO Bank Deposit:
Account No.: 0082[redacted]
Name: Farmon Agri Community Corp
Account Type: Savings
Branch: Santiago City, Isabela Branch

Cash Payment:
Visit us at our main office address below:
#577 P-Maligaya, Batal, Santiago City
Isabela, Philippines
Mobile No.: (+63) 906-4951-[redacted]

REINVESTMENT. For FarmOner with reinvestment, FarmOner shall send signed contract for confirmation within 3-5 working days.

NON[-]CONFORMANCE OF PAYMENT. Registration shall be forfeited if FarmOner expressed non[-]conformance of payment within 3-5 banking days after the contract has been received.

CANCELLATION/REJECTION. Payments made before March 15, 2018 can be refunded – but a 25% service fee shall be deducted. Payments made after March 15, 2018 cannot be refunded. FarmOner shall bear all costs, expenses, and attorney's fees in an action brought to recover payment under this contract or in which the Company may become a party by reason of this contract.

LATE PAYMENT. Payments made after 5 banking days automatically forfeits contract and can be refunded, but FarmOner shall bear all costs and expenses such as P200 processing fee and bank charges upon recovering payment.

LIMITATION OF LIABILITY. Should there be legal dispute from the execution of this Agreement, Company's liability shall be limited to the amount it has received from FarmOner's payment.

ACCEPTANCE OF AGREEMENT. The above prices, terms and conditions are hereby accepted. The Company is authorized to prepare the crops and livestock as outlined in this agreement. Payment will be made as proposed on this contract.

Conforme: *[Signature of Lender]*	Prepared by: *[Signature]* Teodulo Otoman II Managing Director

Applying *Avon*, respondent is behooved to consider petitioner's Reply and the 126 contracts attached thereto. However, on 04 January 2022, or merely eight (8) days after its receipt of petitioner's Reply to the PAN, respondent already issued the FLD/FAN.[122]

A careful review of the said FLD/FAN shows that it did not make mention nor discuss the Reply to the PAN and the 126 contracts attached thereto. Instead, the Details of Discrepancies[123] attached to the FLD/FAN is the exact reiteration of the Details of Discrepancies[124] attached to the PAN. Thus, the FLD/FAN merely replicated the findings in the PAN without reference to petitioner's Reply to the PAN. Ironically, there was an upward adjustment in the interest as petitioner's assessment increased from ₱35,774,689.11 to ₱35,846,321.69, aggregate.

Incidentally, We are not unaware that in a Memorandum addressed to the Regional Director, RO Ramiro recommended the issuance of the FLD/FAN after considering the Reply to the PAN.[125] In the Memorandum, RO Ramiro explained that (1) petitioner's SEC registration does not allow it to solicit funds from the public, (2) its BIR registration does not indicate that it is engaged in crowd funding, and (3) its AFS did not recognize infusion of investments or incurrence of liabilities. RO Ramiro concluded that there is a windfall of wealth upon petitioner which is subject to applicable taxes.

However, for unknown reasons, respondent did not inform petitioner's of the reasons in rejecting the arguments in the Reply. As thoroughly discussed in *Avon*, it is an indispensable requirement of due process not only to consider the taxpayer's explanations, but more importantly, to inform the taxpayer of the reasons for rejecting its explanations or defenses. The Court is, thus, constrained to declare the assessment void due to respondent's failure to comply with such

122 See FLD/FAN, supra at note 21.
123 BIR Records, Folder III, pp. 366-368.
124 Id., pp. 219-221.
125 See Memorandum dated 29 December 2021, Exhibit "R-11", id., pp. 357-359.

requirement which, ultimately, translated in a violation of petitioner's right to due process.

Incidentally, while the parties did not specifically raise the aforementioned issue during the proceedings, this Court cannot turn a blind eye to respondent's lapse. As declared by the Supreme Court in *Commissioner of Internal Revenue v. Lancaster Philippines, Inc.*:[126]

> ...
>
> On whether the CTA can resolve an issue which was not raised by the parties, we rule in the affirmative.
>
> Under Section 1, Rule 14 of A.M. No. 05-11-07-CTA, or the Revised Rules of the Court of Tax Appeals, the CTA is not bound by the issues specifically raised by the parties but may also rule upon related issues necessary to achieve an orderly disposition of the case. The text of the provision reads:
>
> SECTION 1. *Rendition of judgment.* — x x x
>
> In deciding the case, the Court may not limit itself to the issues stipulated by the parties but may also rule upon related issues necessary to achieve an orderly disposition of the case.
>
> ...

Thus, for a complete and orderly disposition of the case, it is only proper for the Court to take cognizance of respondent's actions impairing petitioner's due process rights.

With the foregoing, the Court find it unnecessary to resolve the other issues raised by the parties as they could no longer change the outcome of the case.

WHEREFORE, the foregoing premises considered, the present Petition for Review filed by petitioner Farmon Agri-Community Corp. on 14 July 2022 is hereby **GRANTED**. Accordingly, respondent Commissioner of Internal Revenue's Formal Letter of Demand and Final Assessment Notices dated 04 January 2022 are declared **VOID** and henceforth **CANCELLED**. Consequently, the Final Decision and

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126 G.R. No. 183408, 12 July 2017; Citation omitted and italics in the original text.

Disputed Assessment dated 14 June 2022 covering the assessed deficiency tax liabilities against petitioner for the TY 2018, in the aggregate amount of ₱35,846,321.69, is also **CANCELLED** and **SET ASIDE**.

Respondent Commissioner of Internal Revenue or any person duly acting on his behalf is hereby **ENJOINED** and **PROHIBITED** from collecting the said amount against petitioner.

SO ORDERED.

JEAN MARIE A. BACORRO-VILLENA
Associate Justice

I CONCUR:

LANEE S. CUI-DAVID
Associate Justice

ATTESTATION

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

JEAN MARIE A. BACORRO-VILLENA
Associate Justice
Special 1st Division Acting Chairperson

CERTIFICATION

Pursuant to Article VIII, Section 13 of the Constitution, and the Special 1st Division Acting Chairperson's Attestation, it is hereby certified that the conclusions in the above Decision 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
Presiding Justice