20-000228-0096

REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

SPECIAL FIRST DIVISION

CTA CASE NO. 10318

HIZON LABORATORIES, INC.,
Petitioner,

- versus -

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

NOTICE OF DECISION

To:

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

HON. CHARLITO MARTIN MENDOZA
Commissioner
Bureau of Internal Revenue
BIR National Office Building
Sen. Miriam P. Defensor-Santiago Avenue
Diliman, Quezon City

ATTY. AYESHA HANIA B. GUILING-MATANOG
ATTY. LARA NICOLE T. GONZALES
Bureau of Internal Revenue
Room 703, Litigation Division, BIR National Office Building
Sen. Miriam P. Defensor-Santiago Avenue
Diliman, Quezon City

AGAN MONTENEGRO MALASAGA & CO.
7th Floor, Electra House Building
115-117 Esteban Street, Legaspi Village
1229 Makati City

GREETINGS:

You are hereby notified by these presents that on **May 14, 2026,** a Decision was rendered in the above-entitled case, copy of which is attached hereto.

Quezon City, Philippines, **May 15, 2026.**

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

REPUBLIC OF THE PHILIPPINES
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HIZON LABORATORIES, INC.,
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- versus -

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

CTA Case No. **10318**

Members:

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

Promulgated:
MAY 14 2026 ; 11:05 AM

x - x

DECISION

BACORRO-VILLENA, J.:

Before the Court is a Petition for Review[1] filed by petitioner Hizon Laboratories, Inc. (**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[4] (**RRCTA**). It assails respondent Commissioner of Internal Revenue's (**respondent**'s/**CIR**'s) Final Decision on Disputed

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[1] Filed on 20 August 2020, Division Docket, Volume I, pp. 6-384, with annexes.

[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[.] (Emphasis supplied)

[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[.] (Emphasis supplied)

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

Assessment[5] (**FDDA**) dated 01 July 2020 which found petitioner liable to pay deficiency income tax, withholding tax on compensation (**WTC**), expanded withholding tax (**EWT**), and compromise penalties (collectively, the "**deficiency taxes**") for taxable year (**TY**) 2012 amounting to ₱306,573,406.80, inclusive of interest and surcharge, broken down as follows –

Tax Type	Basic	Interest	Surcharge	Total
Income Tax	₱139,298,897.00	₱161,742,239.28	₱ -	₱301,041,136.28
WTC	594.00	721.32	149.00	1,464.32
EWT	2,450,944.95	2,987,861.25	-	5,438,806.20
Compromise penalties				92,000.00
Total	**₱141,750,435.95**	**₱164,730,821.85**	**₱ 149.00**	**₱306,573,406.80**

PARTIES TO THE CASE

Petitioner is a corporation duly organized and existing under the laws of the Republic of the Philippines,[6] with office address at No. 29 Hizon Bldg., Quezon Ave., Lourdes 1, Quezon City, 1114.

Respondent, on the other hand, is the duly appointed CIR and head of the Bureau of Internal Revenue (**BIR**)[7] who is tasked to assess and collect all national internal revenue taxes, fees, charges, and enforce all forfeitures, penalties, and fines connected therewith.

FACTS OF THE CASE

On 04 June 2014, petitioner received a Letter of Authority (**LOA**) with number LOA-121-2014-00000018 (SN: eLA201100077564) dated 06 May 2014,[8] authorizing Revenue Officers (**ROs**) Thelma Pilar, Mariesol Girang, Rona Marcellano, and Dalisay Umlas, under the supervision of Group Supervisor (**GS**) Herminia Cercado (**Cercado**), to examine petitioner's books of accounts and other accounting records for all internal revenue taxes, except for value-added tax (**VAT**), including

5 Exhibit "P-2", Division Docket, Volume I, pp. 39-41; Exhibit "R-11", BIR Records, pp. 671-678.
6 Par. 1, Summary of Admitted Facts, Joint Stipulation of Facts and Issues (**JSFI**), id., p. 495.
7 Par. 2, id.
8 Par. 3, id.; Exhibit "R-1", BIR Records, p. 3.

documentary stamp tax and other taxes, for the calendar year (**CY**) 2012.[9] Thereafter, respondent issued the following: (1) First Notice with Checklist of Requirements dated 26 May 2014;[10] (2) Second Notice for Presentation of Books of Accounts and other Accounting Records dated 03 July 2014;[11] and (3) Final Notice dated 24 March 2015.[12]

Thereafter, on 13 August 2015, respondent issued a Preliminary Assessment Notice[13] (**PAN**) accompanied by Details of Discrepancies, finding petitioner liable for deficiency taxes totalling ₱208,621,377.00, inclusive of interest and surcharge, for TY 2012. On 27 August 2015, petitioner wrote the BIR[14] (**Reply to PAN**) informing the latter that a reconciliation report was being prepared. It also requested the BIR to provide a breakdown of deficiency taxes arising from its supposed overclaimed expenses and undeclared sales.

On 21 September 2015, respondent issued a Formal Letter of Demand[15] and Final Assessment Notice[16] (**FLD/FAN**), with Details of Discrepancies and Assessment Notices, upholding the same amount of basic deficiency tax assessments and differing only as to interest, for an aggregate amount of ₱211,674,680.00, inclusive of interest and surcharge. On 19 October 2015, petitioner filed a letter with the BIR captioned "Reply to your Formal Letter of Demand"[17] (**Reply to FAN**).

On 07 July 2020, petitioner received respondent's FDDA[18] imposing the same amount of basic deficiency taxes and differing only as to interest, for a total amount of ₱306,573,406.80, inclusive of interest.

PROCEEDINGS BEFORE THE COURT

On 20 August 2020, petitioner filed its Petition for Review[19] before the Court to appeal the FDDA that respondent issued. The same was raffled to this Division and docketed as CTA Case No. 10318.

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9 Id.
10 Exhibit "P-6", Division Docket, Volume II, pp. 858-859.
11 Exhibit "P-7", id., Volume I, pp. 46-47; Exhibit "R-3", BIR Records, p. 4.
12 Exhibit "P-8", id., p. 48; Exhibit "R-4", id., p. 5.
13 Exhibit "P-10", id., Volume II, pp. 860-867; Exhibit "R-6", id., pp. 559a-559h.
14 Exhibit "P-11", id., Volume I, p. 53; Exhibit "R-12", p. 563.
15 Exhibit "P-12", id., Volume II, pp. 868-875; Exhibit "R-8", id., pp. 583-590.
16 Exhibit "R-8", BIR Records, pp. 573-582.
17 Exhibit "P-13", Division Docket, Volume I, pp. 66-121; Exhibit "R-12", id., pp. 599-655.
18 Supra at note 5.
19 Supra at note 1.

On 01 September 2020, the Court issued Summons[20] ordering respondent to file an Answer within thirty (30) days from receipt thereof. Respondent received the said Summons on 04 September 2020.[21] After the Court granted an extension of time,[22] the Answer[23] was filed on 03 November 2020. The BIR records were also later filed on 21 July 2023.[24]

Subsequently, the Court set the case for Pre-Trial Conference on 03 February 2021.[25] In compliance with the Court's directive, petitioner filed its Pre-Trial Brief on 29 January 2021,[26] while respondent filed his or her Pre-Trial Brief on 02 February 2021.[27]

On the scheduled Pre-Trial Conference, the parties were ordered to appear before the Philippine Mediation Center-Court of Tax Appeals (**PMC-CTA**).[28] However, they agreed not to have their case mediated,[29] hence, the case was then set anew for pre-trial on 08 September 2021.[30] In light of the then ongoing COVID-19 restrictions, the pre-trial was reset to 13 December 2021.[31] On the resetting of the Pre-Trial Conference, the Court granted the parties a 30-day period to submit their Joint Stipulation of Facts and Issues (**JSFI**).[32]

On 07 February 2022, petitioner filed a "Motion for Suspension of Proceedings"[33] to give way to then ongoing talks between the parties for possible amicable settlement. However, the same was denied for being moot.[34]

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20 Division Docket, Volume I, p. 385.
21 Id.
22 See Order dated 06 October 2020, id., p. 391.
23 Id., pp. 392-403.
24 See Compliance dated 21 July 2023, id., Volume II, pp. 599-601.
25 See Notice of Pre-Trial Conference dated 09 November 2020, id., Volume I, pp. 405-406.
26 Id., pp. 407-421.
27 Id., pp. 460-463.
28 See Resolution dated 03 February 2021, id., p. 470.
29 See No Agreement to Mediate dated 20 May 2021 issued by the PMC-CTA, id., p. 471.
30 See Resolution dated 21 July 2021, id., p. 474.
31 See Notice of Resetting dated 15 October 2021, id., p. 475.
32 See Order dated 13 December 2021, id., p. 477.
33 Id., pp. 488-490.
34 See Resolution dated 13 April 2022, id., pp. 529-530.

On 18 February 2022, the parties filed their JSFI.[35] The Court approved and adopted the same in its Pre-Trial Order[36] dated 30 March 2022. The pre-trial was then declared terminated.

Earlier, on 01 February 2021, petitioner filed a "Motion for Appointment of Independent Certified Public Accountant"[37] (**Motion to Appoint ICPA**), requesting the appointment of Renjay L. Santiago (**Santiago**) as the ICPA for this case. In its Order dated 12 April 2023,[38] the Court commissioned Santiago and directed him to submit his report by 13 June 2023. After the Court granted an extension of time, Santiago submitted his ICPA Report on 28 July 2023.[39]

On 29 May 2023, the case was transferred to the First Division, pursuant to Administrative Circular No. 01-2023 (Reorganizing the Divisions of the Court) dated 23 May 2023.[40]

On 13 June 2023, petitioner filed a "Motion for the Issuance of Subpoena *Duces Tecum*"[41] (**Motion to Issue SDT**) praying that Jethro M. Sabariaga (**Sabariaga**), Officer-in-Charge-Assistant Commissioner (**OIC-Asst. Comm.**) of the Large Taxpayers Service (**LTS**) of the BIR, and Magdalena A. Ancheta (**Ancheta**), Head Revenue Executive Assistant of the Excise LTS, be ordered to: (**a**) bring the documents of petitioner consisting of ten (10) boxes, containing original copies of supplier's invoices, sales invoices, and official receipts for TY 2012; or (**b**) inform the ICPA of the date, place, and time where the ICPA may be allowed to visit, examine, and obtain copies of the said documents. On 23 August 2023, the First Division denied the Motion to Issue SDT for being moot and academic in light of respondent's transmittal of the BIR records.[42] Thereafter, on 20 September 2023, petitioner filed a "Motion for Reconsideration [To the Resolution dated 23 August 2023],"[43] (**MR**) which was likewise denied.[44]

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35 Id., pp. 495-506.
36 Id., pp. 521-526.
37 Id., pp. 423-427.
38 Id., pp. 557-557a.
39 Exhibit "P-24", id., Volume II, pp. 624-717.
40 See Notice of Resolution dated 29 May 2023, id., Volume I, p. 557b.
41 Id., pp. 578-583.
42 See Resolution dated 23 August 2023, id., Volume II, pp. 771-774.
43 Id., pp. 790-797.
44 See Resolution dated 02 February 2024, id., pp. 820-824.

On 12 April 2023, petitioner presented its first witness, Jennifer F. Lopez (**Lopez**), who testified by way of her Judicial Affidavit[45] dated 18 August 2020 on petitioner's submission of the Reply to FAN, accompanied by 10 boxes of documents, *via* registered mail. According to Lopez, petitioner relied on the stamp marks in the registry return cards as proof of receipt by the BIR of said documents.

Upon cross-examination, Lopez specified that the receiving stamps in the submitted documents were from the Excise LT Audit Division I and the Office of the Commissioner. No redirect examination was conducted thereafter.[46]

On 23 August 2023, petitioner presented its second witness Luisa A. Madrileño (**Madrileño**) who testified by way of her Judicial Affidavit[47] dated 18 August 2020 on the following: (1) administrative proceedings with the BIR, starting from the receipt by petitioner of the LOA up to the issuance of the FDDA; (2) respondent's issuance of the PAN after 464 days from the date of LOA; (3) alleged prescription of respondent's right to assess deficiency EWT and WTC; and (4) explanation of discrepancies found in petitioner's financial reports, which formed the basis of respondent's tax assessments.

Upon cross-examination, Madrileño confirmed that petitioner submitted documents in support of its Reply to FAN on 19 October 2015,[48] but that there were no such supporting documents attached to its Reply to PAN.[49] No redirect examination ensued.[50]

In response to the Court's clarificatory questions, Madrileño stated that seven (7) years have lapsed from the issuance of the LOA up to the FDDA, and during that time, petitioner did not execute any waiver of the defense of prescription.[51] She also confirmed that although the boxes of documents were sent to the BIR *via* registered mail,[52]

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45 Id., Volume I, pp. 312-316.
46 TSN dated 12 April 2023, p. 12.
47 Division Docket, Volume I, pp. 133-143.
48 TSN dated 23 August 2023, p. 29.
49 Id.
50 Id., p. 36.
51 Id., pp. 36-37.
52 Id., p. 38.

petitioner is unaware of the identity of the BIR personnel who received the same.[53]

On 19 June 2024, petitioner presented its last witness, ICPA Santiago, who testified by way of his Second Judicial Affidavit[54] dated 17 August 2023. There, he testified on his findings on the alleged deficiency taxes, as shown in his ICPA Report. No cross-examination followed.[55]

On the other hand, respondent presented its witness, Chief RO Rona B. Marcellano (**RO Marcellano**) on 05 February 2025. Through her Judicial Affidavit[56] dated 22 August 2023, she testified on: (1) petitioner's repeated failure to submit all the documents that the BIR requested, hence the issuance of multiple notices for presentation of books of accounts and other accounting records; (2) the events surrounding the PAN's issuance up to the FLD/FAN; and (3) petitioner's submission of a "request for reinvestigation."

On cross-examination, and in response to the Court's clarificatory questions, RO Marcellano confirmed that the BIR did not reply to petitioner's request for a detailed breakdown or explanation of the deficiency taxes in its Reply to PAN since the requested information was already attached to the PAN itself.[57] Also, the FLD/FAN does not contain a specific reference to the Reply to PAN.[58]

RO Marcellano also stated that: (1) prior to the issuance of the PAN, she was not aware of any revalidation of the LOA;[59] (2) there was no sworn certification to confirm the purported third-party source on the RELIEF program of the BIR;[60] and (3) there was no waiver of the statute of limitations in this case.[61] Thereafter, no redirect examination was conducted.[62]

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53 Id., pp. 45-46.
54 Exhibit "P-29-2", Division Docket, Volume II, pp. 733-752.
55 TSN dated 19 June 2024, p. 8.
56 Exhibit "R-13", Division Docket, Volume II, pp. 761-768.
57 TSN dated 05 February 2025, pp. 15-16, 20-24.
58 Id., pp. 17-18.
59 Id., p. 13.
60 Id., p. 18.
61 Id., p. 19.
62 Id., p. 20.

After completing the presentation of evidence, petitioner, on 29 July 2024, filed its Formal Offer of Evidence[63] (**FOE**), consisting of Exhibits **"P-1"** to **"P-32-A"**, inclusive of sub-markings. On 08 August 2024, respondent filed his or her Comment/Opposition (Re: Petitioner's [FOE]).[64] In its Resolution dated 20 November 2024,[65] the First Division admitted all the exhibits offered, *except* Exhibits **"P-24-1"**, **"P-24-2"**, **"P-24-3"**, **"P-24-4"**, **"P-24-5"**, **"P-25-6"**, **"P-24-7"**, **"P-24-8"**, **"P-24-9"**, and **"P-24-10"**,[66] which were denied for not having been duly marked, and Exhibits **"P-25"**, **"P-26"**, **"P-27"**, and **"P-28"**,[67] which were denied for being mere photocopies.

On the other hand, on 10 February 2025, respondent filed its FOE,[68] consisting of Exhibits **"R-1"** to **"R-12"**,[69] *sans* petitioner's

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63 Division Docket, Volume II, pp. 846-856.

64 Id., pp. 878-880.

65 Id., pp. 887-889.

66

Exhibit No.	Description
"P-24-1"	Annual Income Tax Return for taxable year 2012
"P-24-2"	Audited Financial Statements
"P-24-3"	Quarterly Income Tax Return (1st Quarter)
"P-24-4"	Quarterly Income Tax Return (2nd Quarter)
"P-24-5"	Quarterly Income Tax Return (3rd Quarter)
"P-25-6"	Quarterly Income Tax Return (4th Quarter)
"P-24-7"	Value-Added Tax (VAT) Reconciliation for the year 2012
"P-24-8"	Service Receivables for the year 2012
"P-24-9"	Summary List of Importations and Reconciliations for the year 2012
"P-24-10"	Reconciliation of expenses subjected to expanded withholding tax for the year 2012

67

Exhibit No.	Description
"P-25"	Professional Regulation Commission (PRC) ID of Mr. Renjay L. Santiago
"P-26"	Board of Accountancy Certificate (BOAC) of Mr. Renjay L. Santiago
"P-27"	Bureau of Internal Revenue (BIR) Certificate of Accreditation of Mr. Renjay L. Santiago
"P-28"	Curriculum Vitae of Mr. Renjay L. Santiago

68 Id., pp. 915-924.

69

Exhibit No.	Description
"R-1"	Letter of Authority No. LOA-121-2014-00000018/SN: eLA201100077564 dated 06 May 2014
"R-2"	First Notice with Checklist of Requirements dated 26 May 2014
"R-3"	Second Notice for Presentation of Books of Accounts and Other Accounting Records dated 03 July 2014
"R-4"	Final Notice dated 24 March 2015
"R-5"	Memorandum dated 20 July 2015
"R-6"	Preliminary Assessment Notice dated 13 August 2015, with attachments
"R-7"	Memorandum dated 11 September 2015
"R-8"	Formal Letter of Demand dated 21 September 2015, with attachments

comment thereto.[70] In its Resolution dated 25 April 2025,[71] the First Division acted upon respondent's FOE, admitting all the exhibits submitted by the latter.

In compliance with the First Division's directive, respondent filed his or her Memorandum[72] on 29 May 2025, while petitioner filed its Memorandum[73] on 04 June 2025. The case was then submitted for decision.[74]

ISSUES

As the parties so stipulated, the issues for this Court's resolution are —

I.
WHETHER THE TAX ASSESSMENT OF RESPONENT COMMISSIONER OF INTERNAL REVENUE (RESPONDENT) AGAINST PETITIONER HIZON LABORATORIES, INC. (PETITIONER) FOR TAXABLE YEAR 2012 UNDER LETTER OF AUTHORITY (LOA)-121-2014-00000018 (SN: ELA201100077564) IS VALID;

II.
WHETHER THE SUBJECT LETTER OF AUTHORITY WAS REVALIDATED AFTER THE LAPSE OF 120 DAYS;

III.
WHETHER THE TAX ASSESSMENT OF RESPONDENT AGAINST PETITIONER FOR TAXABLE YEAR 2012 VIOLATES THE LATTER'S RIGHT TO PROCEDURAL AND SUBSTANTIVE DUE PROCESS;

IV.
WHETHER RESPONDENT'S RIGHT TO ASSESS PETITIONER FOR DEFICIENCY TAXES FOR TAXABLE YEAR 2012 HAS ALREADY PRESCRIBED; AND

"R-9"	Memorandum of Assignment with No. D-07-17-013 with attached letter dated 20 September 2017
"R-10"	Memorandum dated 16 September 2019
"R-11"	Final Decision on Disputed Assessment dated 01 July 2020
"R-12"	BIR Investigation Records

70 See Records Verification dated 03 March 2025, id., p. 926.
71 Id., pp. 931-932.
72 Id., pp. 933-967.
73 Id., pp. 970-1000.
74 See Notice of Resolution dated 30 June 2025, id., p. 1002.

V.

WHETHER PETITIONER IS LIABLE FOR DEFICIENCY INCOME TAX, WITHHOLDING TAX ON COMPENSATION, EXPANDED WITHHOLDING TAX, AND COMPROMISE PENALTIES FOR THE TAXABLE YEAR 2012 IN THE AGGREGATE AMOUNT OF ₱306,573,406.80.

ARGUMENTS

Petitioner prays for this Court to declare that it is not liable for the deficiency tax liabilities following petitioner's blatant violation of its due process rights. According to it, the audit conducted by ROs exceeded the 120-day period without the LOA being revalidated. Likewise, the FLD/FAN did not address the petitioner's Reply to PAN and no detailed breakdown of the deficiency EWT assessment was provided. Moreover, prescription of respondent's right to assess has partially set in insofar as the EWT and WTC assessments are concerned, while respondent's right to collect the deficiency taxes is totally barred also by prescription.

Respondent, on the other hand, contends that non-revalidation of the LOA will not render the examination and resulting assessments void. Such circumstance will only warrant a disciplinary action against the erring RO. Furthermore, the details of discrepancies attached to the PAN, FLD/FAN, and the discussion in the FDDA, already clearly show the factual and legal bases for the assessments and, thus, petitioner was duly informed of the same.

In addition, respondent is of the position that petitioner failed to submit documents to counter the assessments issued against it within the 60-day period in cases of requests for reinvestigation. Lastly, respondent avers that EWT assessments are imprescriptible on the ground that these do not represent petitioner's own tax liabilities *per se*, but are actually penalties for petitioner's failure to withhold and remit the taxes to the government.

On the merits, petitioner argues that: (**a**) the alleged discrepancy in gross revenue or receipts *per* income tax return and VAT return is due to mere timing difference; (**b**) the alleged overclaimed expenses, undeclared sales, and unaccounted importations – all of which were computed using Computer-Assisted Audit Tools and Techniques (**CAATTs**) – lacked confirmation or verification from third-party sources; (**c**) a portion of salaries and wages not legally subject to withholding tax was nevertheless assessed for deficiency WTC; and (**d**) respondent did not secure a conformity from petitioner prior to the imposition of the compromise penalty.

Respondent counters that petitioner was unable to proffer sufficient contrary evidence to overcome his or her findings *vis-à-vis* overclaimed expenses, undeclared sales, and unaccounted importations, as well as those relating to deficiency EWT and WTC. As for the compromise penalty, respondent argues that while the National Internal Revenue Code (**NIRC**) of 1997, as amended, uses the nomenclature "compromise", the same is not a compromise agreement as defined under the Civil Code of the Philippines, but is imposed to avoid criminal prosecutions arising from violations of the NIRC.

RULING OF THE COURT

Before going into the merits of the case, We shall first resolve whether the Court has jurisdiction over the present Petition for Review insofar as the timeliness of the same is concerned.

THE PETITION FOR REVIEW WAS TIMELY FILED AND THE COURT ACQUIRED JURISDICTION OVER THE CASE

Based on the records of the case at bar, petitioner received the FDDA[75] on 07 July 2020. Pursuant to Section 3(a), Rule 8 of the RRCTA, petitioner has 30 days from receipt of the FDDA, or until 06 August 2020, to elevate the case to the CTA. Here, petitioner filed the instant Petition for Review before the Court on 20 August 2020,[76] which is clearly beyond the 30-day period to appeal to the CTA.

This notwithstanding, it should be noted that on 03 August 2020, the Supreme Court issued Administrative Circular No. 43A-2020,[77] which provides that:

75 Supra at note 5.
76 Supra at note 1.
77 Addendum to Administrative Circular No. 43-2020 (Court Operations from 3 to 14 August 2020)

> ...
>
> In view of the imposition of Modified Enhanced Community Quarantine (MECQ) in Metro Manila, Cavite, Rizal, Bulacan and Laguna from 4 to 18 August 2020, and in addition to the provisions of Administrative Circular No. 43-2020 [*inadvertently numbered as A.C. No. 42-2020*] dated 2 August 2020, the courts in the said areas during the period of 4 to 18 August 2020, shall also observe, as follows:
>
> 1. The **reglementary periods for the filing of petitions,** appeals, complaints, motions, pleadings and other court submissions before the courts **shall be suspended from 4 to 18 August 2020, and shall resume on 19 August 2020,** without prejudice to those who have already filed such pleadings and documents within their reglementary periods. In the same manner, the periods for court actions with prescribed periods are likewise suspended, and shall resume on 19 August 2020.[78]
>
> ...

Applying this to the case at bar, the reglementary period to file the Petition for Review, which was supposed to end on 06 August 2020, was tolled on 04 August 2020, leaving petitioner with two (2) days (from the resumption of the said period on 19 August 2020), or **until 20 August 2020** to file the same. Since the instant Petition for Review was filed precisely on 20 August 2020, the same was timely filed and this Court has jurisdiction over the same.

We now proceed to address the merits of the Petition for Review.

After thoroughly reviewing the records and evaluating the parties' arguments *vis-à-vis* the pertinent laws, rules, and jurisprudence, this Court finds that **respondent's right to <u>assess</u> deficiency taxes has partially prescribed** (insofar as the deficiency WTC and EWT for the period of January to August 2012 are concerned), while its **right to <u>collect</u> all deficiency taxes is totally barred by prescription.**

RESPONDENT'S RIGHT TO ASSESS AND COLLECT THE SUBJECT DEFICIENCY TAXES HAVE PRESCRIBED

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[78] Emphasis supplied and italics in the original text.

Section 203 of the NIRC of 1997, as amended, provides for the three (3)-year prescriptive period in the assessment and collection of internal revenue taxes:

> ...
>
> **SEC. 203.** *Period of Limitation Upon Assessment and Collection.* - Except as provided in Section 222, internal revenue taxes shall be **assessed within three (3) years after the last day prescribed by law for the filing of the return**, and no proceeding in court without assessment for the collection of such taxes shall be begun after the expiration of such period: *Provided*, That **in a case where a return is filed beyond the period prescribed by law, the three (3)-year period shall be counted from the day the return was filed**. For purposes of this Section, a return filed before the last day prescribed by law for the filing thereof shall be considered as filed on such last day.[79]
>
> ...

In *Commissioner of Internal Revenue v. Court of Tax Appeals Second Division and QL Development, Inc.*[80] (***QL Development***), the Supreme Court ruled that in cases of valid assessments issued within the three (3)-year period, the BIR has another three (3) years to collect the deficiency taxes.

However, by exception, in case of filing of a false or fraudulent return with intent to evade tax, or failure to file a return, the prescriptive period to assess extends to 10 years from discovery of the falsity, fraud, or omission. Thereafter, the prescriptive period to collect extends to five (5) years following the assessment. Section 222 of the NIRC of 1997, as amended, clearly provides that:

> ...
>
> **SEC. 222.** *Exceptions as to Period of Limitation of Assessment and Collection of Taxes.* –
>
> (a) In the case of a false or fraudulent return with intent to evade tax or of failure to file a return, the tax may be assessed, or a proceeding in court for the collection of such tax may be filed without assessment, at any time within **ten (10) years after the discovery of the falsity, fraud or omission:** *Provided*, That in a fraud assessment which has become final and executory, the fact of fraud shall be

[79] Emphasis supplied and italics in the original text.

[80] G.R. No. 258947, 29 March 2022.

> judicially taken cognizance of in the civil or criminal action for the collection thereof.
>
> ...
>
> (c) Any internal revenue tax which has been assessed within the period of limitation as prescribed in paragraph (a) hereof may be **collected by distraint or levy or by a proceeding in court within five (5) years following the assessment** of the tax.[81]
>
> ...

In *Bank of the Philippine Islands v. Commissioner of Internal Revenue*[82] (**BPI**), the Supreme Court summarized the rules on prescriptive periods for assessment and collection of taxes as follows:

> ...
>
> As enunciated in these statutory provisions, the BIR has three [3] years, counted from the date of actual filing of the return or from the last date prescribed by law for the filing of such return, whichever comes later, to assess a national internal revenue tax or to begin a court proceeding for the collection thereof without an assessment. In case of a false or fraudulent return with intent to evade tax or the failure to file any return at all, the prescriptive period for assessment of the tax due shall be 10 years from discovery by the BIR of the falsity, fraud, or omission. When the BIR validly issues an assessment, within either the three-year or ten-year period, whichever is appropriate, then the BIR has another three years after the assessment within which to collect the national internal revenue tax due thereon by distraint, levy, and/or court proceeding. The assessment of the tax is deemed made and the three-year period for collection of the assessed tax begins to run on the date the assessment notice had been released, mailed or sent by the BIR to the taxpayer.
>
> ...

THE EXTRAORDINARY PRESCRIPTIVE PERIOD TO ASSESS AND COLLECT DEFICIENCY TAXES *DOES NOT* APPLY IN THIS CASE

However, the extraordinary period of 10 years to assess and five (5) years to collect cannot be invoked haphazardly and purely at the whim or convenience of the parties. Instead, it must be consistent with the taxpayer's fundamental right to due process. The Supreme Court, in

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81 Emphasis supplied and italics in the original text.

82 G.R. No. 139736, 17 October 2005; Citations omitted.

McDonald's Philippines Realty Corporation v. Commissioner of Internal Revenue[83] (**McDonald's**) elucidated that:

> ...
>
> [W]hile the law accords the tax authorities an extended period within which they may investigate the taxpayer and issue a corresponding tax assessment, **the law does so by exception.** Furthermore, it is recognized that the law on prescription should be ***liberally construed in favor of the taxpayer***, to afford them protection against unreasonable examination, investigation, or assessment.
>
> Thus, when invoking the benefit of the extraordinary 10-year assessment period, as well as the presumption of falsity or fraud, the **tax authorities are duty-bound to respect a taxpayer's *fundamental right to due process of the law*.** There is due process when the taxpayer is provided with information necessary to mount an *intelligent and timely protest/defense to the assessment.*
>
> Consequently, *first*, the **tax authorities are required to *communicate* to the taxpayer, in a clear and adequate manner, the basis for extending the assessment period.** Guided by the pronouncements in *Asalus, Fitness by Design*, and *Spouses Magaan*, the tax authorities are obligated to indicate in the *assessment notice* that the extraordinary prescriptive period is being applied and the bases of allegations of falsity or fraud (First Due Process Requirement).
>
> *Second*, they are likewise *proscribed from adopting a position inconsistent with the invocation of the extended period* or that which will mislead the taxpayer and prejudice its defense (Second Due Process Requirement).
>
> ...

In the same case, the Supreme Court went on to summarize the due process requirements in the invocation of the extraordinary prescriptive period as follows:

> ...
>
> ii. Due Process Requirements
>
> (1) **First Due Process Requirement. The assessment notice issued to the taxpayer must <u>clearly state</u>** the following:

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[83] G.R. No. 247737, 08 August 2023; Citations omitted, italics and emphasis in the original text and supplied.

a. **that extraordinary prescriptive period (not the basic three year period) is being applied**, and

b. the bases of allegations of falsity or fraud, e.g., if the CIR seeks to rely on the *presumption of falsity or fraud particularly, the formal notice to the taxpayer must set out the computation by which it ascertained that the misdeclaration in the return surpassed the 30% threshold.*

(2) **Second Due Process Requirement.** The tax authorities have **not acted in a manner that is inconsistent with the invocation of the extraordinary prescriptive period or have otherwise misled the taxpayer that the basic period will be applied.**[84]

...

A review of the records of the instant case would show that **respondent never informed petitioner that it was invoking the extraordinary prescriptive period for assessment and collection of deficiency taxes.** Nothing in the PAN, FLD/FAN, nor FDDA indicates anything to the effect that respondent found petitioner to have filed a false or fraudulent return, or failed to file a return, sufficient to warrant the application of the extraordinary prescriptive periods.

In fact, when respondent computed the deficiency tax assessments in the PAN, FLD/FAN, and FDDA, respondent consistently used the 25% surcharge, instead of the 50% surcharge which the NIRC of 1997, as amended, imposes in case of false or fraudulent return, or willful neglect to file a return. Respondent's use of the 25% surcharge is inconsistent with the invocation of the extraordinary prescriptive periods, thereby leading petitioner to believe that respondent was operating under the ordinary prescriptive periods instead of the extraordinary ones. Had respondent indeed been convinced (at the onset) that there was falsity or fraud in petitioner's filing of the subject returns, he or she should have already imposed the 50% surcharge.

Worse, instead of properly informing the taxpayer that the extraordinary prescriptive period was being invoked and the basis for doing so, respondent only raised the issue of filing of a false or fraudulent return, **for the first time, in the Answer.**[85] In the Answer, respondent also only made a bare citation of Section 222 of the NIRC of

[84] Italics and emphasis in the original text and supplied, and underscoring supplied.
[85] Supra at note 23.

1997, as amended, **without** establishing *prima facie* evidence of falsity or fraud, as defined under Section 248(B) of the NIRC of 1997, as amended:

> ...
>
> SEC. 248. *Civil Penalties.* —
>
> ...
>
> (B) In case of willful neglect to file the return within the period prescribed by this Code or by rules and regulations, or in case a false or fraudulent return is willfully made, the penalty to be imposed shall be fifty percent (50%) of the tax or of the deficiency tax, in case any payment has been made on the basis of such return before the discovery of the falsity or fraud: *Provided*, That **a substantial underdeclaration of taxable sales, receipts or income, or a substantial overstatement of deductions, as determined by the Commissioner pursuant to the rules and regulations to be promulgated by the Secretary of Finance, shall constitute *prima facie* evidence of a false or fraudulent return:** *Provided, further,* That failure to report sales, receipts or income in an amount exceeding thirty percent (30%) of that declared per return, and a claim of deductions in an amount exceeding thirty percent (30%) of actual deductions, shall render the taxpayer liable for substantial underdeclaration of sales, receipts or income or for overstatement of deductions, as mentioned herein.[86]
>
> ...

Verily, in *McDonald's*, the Supreme Court declared that the CIR may only be relieved from the burden of proof of false or fraudulent return when there is *prima facie* evidence of fraud:

> ...
>
> **The CIR may be relieved from the above-mentioned burden of proof when there *is prima facie evidence of falsity or fraud*,** as defined under Section 248(B) of the 1997 Tax Code.
>
> (1) The CIR ascertains that there is a *misstatement/misdeclaration* in the return, in particular,
>
> (a) an *understatatement/underdeclaration* of sales, receipts, or income or
>
> (b) an *overstatement/overdeclaration* of expenses or other deductions, and

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86 Emphasis supplied and italics in the original text.

> (2) the misstatement is *substantial*, such that exceeds the corresponding amount declared in the return by 30%.
>
> **30% threshold satisfied.** There is *prima facie* evidence of falsity or fraud and the burden of proof shifts to the taxpayer. **If the taxpayer fails to overcome the presumption, the *prima facie* evidence shall be sufficient to justify the application of the 10-year period.**[87]
>
> ...

In other words, it is the *prima facie* evidence of falsity or fraud that shifts the burden of proof to the taxpayer, *i.e.*, to overcome the said presumption. Without the *prima facie* evidence being established first, respondent's invocation of the extraordinary period to assess and collect deficiency taxes fails. The same is true in the case at bar, considering that respondent, in his or her Answer, merely cited provisions of law and jurisprudence, without even a single statement to establish *prima facie* evidence of falsity or fraud committed by petitioner. Interestingly, respondent did not reiterate the same argument in its Memorandum.[88]

Therefore, respondent's violation of the first and second due process requirements in the application of the extraordinary prescriptive periods, coupled with respondent's failure to establish *prima facie* evidence of falsity or fraud, and the delay in the timing of raising the same in the Answer – taken together – could only lead this Court to conclude that the allegation of falsity or fraud was merely intended to skirt the issue of prescription. To the Court's mind, it was so hasty an afterthought that respondent even made a 180-degree turn and completely dropped the argument in his or her Memorandum.

In view of the foregoing disquisition, the Court is constrained to apply, in herein case, the ordinary period of three (3) years for assessment, plus another three (3) years for collection.

In the case at bar, the subject deficiency taxes concern the filing of the Annual Income Tax Return (**AITR**), and monthly returns for WTC and EWT, for TY 2012. The actual filing dates and respective deadlines for assessment and collection of deficiency taxes are laid out below:[89]

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87 Supra at note 83; Emphasis supplied and italics in the original text.
88 Supra at note 72.
89 Emphasis indicates prescribed assessments.

Return	Actual filing date	Deadline of period to assess	Deadline of period to collect
AITR 2012	15 April 2013	15 April 2016	15 April 2019
WTC Jan 2012	14 February 2012	14 February 2015	14 February 2018
WTC Feb 2012	14 March 2012	14 March 2015	14 March 2018
WTC Mar 2012	13 April 2012	13 April 2015	13 April 2018
WTC Apr 2012	14 May 2012	14 May 2015	14 May 2018
WTC May 2012	13 June 2012	13 June 2015	13 June 2018
WTC Jun 2012	13 July 2012	13 July 2015	13 July 2018
WTC Jul 2012	14 August 2012	14 August 2015	14 August 2018
WTC Aug 2012	14 September 2012	14 September 2015	14 September 2018
WTC Sep 2012	12 October 2012	12 October 2015	12 October 2018
WTC Oct 2012	14 November 2012	14 November 2015	14 November 2018
WTC Nov 2012	14 December 2012	14 December 2015	14 December 2018
WTC Dec 2012	14 January 2013	14 January 2016	14 January 2019
EWT Jan 2012	14 February 2012	14 February 2015	14 February 2018
EWT Feb 2012	14 March 2012	14 March 2015	14 March 2018
EWT Mar 2012	13 April 2012	13 April 2015	13 April 2018
EWT Apr 2012	14 May 2012	14 May 2015	14 May 2018
EWT May 2012	14 June 2012	14 June 2015	14 June 2018
EWT Jun 2012	13 July 2012	13 July 2015	13 July 2018
EWT Jul 2012	14 August 2012	14 August 2015	14 August 2018
EWT Aug 2012	14 September 2012	14 September 2015	14 September 2018
EWT Sep 2012	12 October 2012	12 October 2015	12 October 2018
EWT Sep 2012	14 November 2012	14 November 2015	14 November 2018
EWT Nov 2012	14 December 2012	14 December 2015	14 December 2018
EWT Dec 2012	14 January 2013	25 January 2016	25 January 2019

Considering that the FLD/FAN for the subject deficiency taxes was issued on **21 September 2015,**[90] **the WTC and EWT assessments from January to August 2012 have already prescribed.** Only the assessments for: (1) income tax; (2) WTC for September to December 2012; and (3) EWT for September to December 2012, were timely issued.

In terms of collection, it should first be noted that collection efforts come in many forms, one of which is an answer to a taxpayer's petition for review filed before the CTA. As explained by the Supreme Court in *QL Development:*

> ...
>
> To reiterate, the CIR's collection efforts are initiated by distraint, levy, or court proceeding. The distraint and levy proceedings are validly begun or commenced by the issuance of a warrant of

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90 Supra at note 15.

> distraint and levy and service thereof on the taxpayer. And, a judicial action for the collection of a tax is initiated: (a) by the filing of a complaint with the court of competent jurisdiction; or (b) **where the assessment is appealed to the [Court of Tax Appeals], by filing an answer** to the taxpayer's petition for review wherein payment of the tax is prayed for.[91]
>
> ...

The records in the instant case bear that no warrant of distraint and/or levy (**WDL**) nor warrant of garnishment (**WOG**) has been issued against petitioner. As for the judicial action, this Court notes that respondent filed his or her Answer containing a prayer to order petitioner to pay the subject deficiency taxes on **03 November 2020**.[92] As the filing of the Answer clearly falls beyond the last day of the prescriptive period to collect the subject deficiency taxes as shown in the table above, **respondent's right to collect the subject deficiency taxes is already time-barred.**

PETITIONER'S REPLY TO FINAL ASSESSMENT NOTICE (FAN) IS A REQUEST FOR RECONSIDERATION, *NOT* REINVESTIGATION

Respondent, in this case, also avers that petitioner's Reply to FAN[93] was in the nature of a request for reinvestigation. We shall address this argument insofar as it relates to the issue of prescription.

Section 223 of the NIRC of 1997, as amended, provides for instances when the running of the statute of limitation may be suspended, one of which is when the taxpayer requests a reinvestigation:

> ...
>
> **SEC. 223.** *Suspension of Running of Statute of Limitations.* - The running of the Statute of Limitations provided in Sections 203 and 222 on the making of assessment and the beginning of distraint or levy or a proceeding in court for collection, in respect of any deficiency, shall be suspended for the period during which the Commissioner is prohibited from making the assessment or beginning distraint or levy or a proceeding in court and for sixty (60) days thereafter; **when the taxpayer requests for a reinvestigation which is granted by the**

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91 Supra at note 80; Citations omitted and emphasis supplied.
92 Supra at note 23.
93 Supra at note 17.

> **Commissioner**; when the taxpayer cannot be located in the address given by him in the return filed upon which a tax is being assessed or collected: *Provided*, that, if the taxpayer informs the Commissioner of any change in address, the running of the Statute of Limitations will not be suspended; when the warrant of distraint or levy is duly served upon the taxpayer, his authorized representative, or a member of his household with sufficient discretion, and no property could be located; and when the taxpayer is out of the Philippines.[94]
>
> ...

The NIRC of 1997, as amended, expressly states, and jurisprudence also confirms, that in order to suspend the running of the prescriptive periods for assessment and collection, two (2) requisites must concur: (1) the taxpayer must have requested for a reinvestigation; and (2) the CIR or his or her duly authorized representative must have granted the said request.

In *BPI*, the Supreme Court explained that a mere request for reinvestigation, without having been granted by the CIR, will not suspend the running of the statute of limitations:

> ...
>
> That the BIR Commissioner must first grant the request for reinvestigation as a requirement for suspension of the statute of limitations is even supported by existing jurisprudence.
>
> In the case of *Republic of the Philippines v. Gancayco*, taxpayer Gancayco requested for a thorough reinvestigation of the assessment against him and placed at the disposal of the Collector of Internal Revenue all the evidences he had for such purpose; yet, the Collector ignored the request, and the records and documents were not at all examined. Considering the given facts, this Court pronounced that –
>
>> . . . ***The act of requesting a reinvestigation alone does not suspend the period. The request should first be granted, in order to effect suspension.*** (Collector vs. Suyoc Consolidated, supra; also Republic vs. Ablaza, supra). Moreover, the Collector gave appellee until April 1, 1949, within which to submit his evidence, which the latter did one day before. There were no impediments on the part of the Collector to file the collection case from April 1, 1949. . . .

[94] Italics in the original text, emphasis and underscoring supplied.

In *Republic of the Philippines v. Acebedo*, this Court similarly found that –

> . . . [T]he defendant, after receiving the assessment notice of September 24, 1949, asked for a reinvestigation thereof on October 11, 1949 (Exh. A). ***There is no evidence that this request was considered or acted upon.*** In fact, on October 23, 1950 the then Collector of Internal Revenue issued a warrant of distraint and levy for the full amount of the assessment (Exh. D), but there was no follow-up of this warrant. Consequently, ***the request for reinvestigation did not suspend the running of the period for filing an action for collection.***

The burden of proof that the taxpayer's request for reinvestigation had been actually granted shall be on respondent BIR Commissioner. The grant may be expressed in communications with the taxpayer or implied from the actions of the respondent BIR Commissioner or his authorized BIR representatives in response to the request for reinvestigation.[95]

...

In the present case, petitioner's Reply to FAN[96] explicitly stated that it is requesting a **reconsideration** of the assessment. Thus, respondent's characterization that the same is a request for reinvestigation, despite the clear statement of petitioner that the same is a request for reconsideration, is unwarranted.

Even assuming *arguendo* that petitioner requested for a reinvestigation, the prescriptive periods for assessment and collection of taxes would still not have been tolled. Even the BIR records do not contain any documentation informing petitioner that a request for reinvestigation was ever granted. After respondent received petitioner's Reply to FAN on 19 October 2015, what followed was a sequence of internal correspondence between BIR officials regarding the continuation of the investigation, which culminated in the issuance of the FDDA on 01 July 2020. There is no evidence adduced to the effect that from the BIR's receipt of the Reply to FAN up to the issuance of the FDDA, respondent informed petitioner of the grant of its request for reinvestigation.

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95 Supra ta note 82; Citations omitted, emphasis, italics, and underscoring in the original text.
96 Supra at note 17.

It is crucial to point out that it is the grant of the request for reinvestigation which triggers the suspension of the statute of limitations for assessment and collection of taxes.[97] Consequently, the period of suspension would be counted from the date of the said grant. There being no evidence of such grant in this case, it would be impossible to determine exactly when, during the almost five (5)-year period from the BIR's receipt of the Reply to FAN up to the issuance of the FDDA, the applicable prescriptive periods were effectively tolled. Therefore, without the said grant of the request for reinvestigation by the BIR, the prescriptive periods in the instant case continued to run and accordingly lapsed as discussed in the preceding section.

WHEN RESPONDENT'S RIGHT TO ASSESS AND COLLECT DEFICIENCY TAXES HAVE PRESCRIBED, THE CASE SHOULD BE DISMISSED

Section 1, Rule 9 of the Rules of Civil Procedure, as amended, provides that the court shall dismiss the case *motu proprio* on the ground of prescription:

> ...
>
> SEC. 1. *Defenses and objections not pleaded.* — Defenses and objections not pleaded either in a motion to dismiss or in the answer are deemed waived. However, **when it appears from the pleadings or the evidence on record** that the court has no jurisdiction over the subject matter, that there is another action pending between the same parties for the same cause, or **that the action is barred** by a prior judgment or **by statute of limitations, the court <u>shall</u> dismiss the claim.**[98]
>
> ...

The use of the word "shall" underscores the mandatory character of the Rule. "Shall" is a word of command, and one which has always or which must be given a compulsory meaning, and it is generally imperative or mandatory.[99] Consequently, in *Bank of the Philippine Islands v. Commissioner of Internal Revenue,*[100] the Supreme Court proceeded to dismiss the case *motu proprio* on the ground of prescription:

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[97] See *Bank of the Philippine Islands v. Commissioner of Internal Revenue*, supra at note 82.

[98] Italics in the original text, emphasis and underscoring supplied.

[99] *Cipriano Enriquez, et al. v. Maximo Enriquez (Now Deceased), Substituted by Carmen Agana, et al.*, G.R. No. 139303, 25 August 2005.

[100] G.R. No. 181836, 09 July 2014; Citations omitted, emphasis supplied and italics in the original text.

> ...
>
> **If the pleadings or the evidence on record show that the claim is barred by prescription, the court is mandated to dismiss the claim even if prescription is not raised as a defense.** In *Heirs of Valientes v. Ramas*, we ruled that the CA may *motu proprio* dismiss the case on the ground of prescription despite failure to raise this ground on appeal. The court is imbued with sufficient discretion to review matters, not otherwise assigned as errors on appeal, if it finds that their consideration is necessary in arriving at a complete and just resolution of the case. **More so, when the provisions on prescription were enacted to benefit and protect taxpayers from investigation after a reasonable period of time.**
>
> ...

Here, the issue of prescription was not merely implied or belatedly raised; instead, it was **squarely alleged** in the Petition for Review filed by petitioner and consistently invoked until the filing of petitioner's Memorandum.

As a final note, it should be noted that it is not just the mandatory nature of the rule on dismissing cases on the ground of prescription that compels Us to rule in favor of the taxpayer in the instant case. It has long been established in jurisprudence that prescription in tax cases is liberally construed in favor of the taxpayer. In *Commissioner of Internal Revenue v. BASF Coating + Inks Phils., Inc.*,[101] the Supreme Court explained that:

> ...
>
> It bears stressing that, in a number of cases, this Court has explained that the statute of limitations on the collection of taxes **primarily benefits the taxpayer.**
>
> ...
>
> Likewise, in *Republic of the Philippines v. Ablaza*, this Court elucidated that the prescriptive period for the filing of actions for collection of taxes is justified by the need to protect law-abiding citizens from possible harassment. Also, in *Bank of the Philippine Islands v. Commissioner of Internal Revenue*, it was held that the statute of limitations on the assessment and collection of taxes is **principally intended to afford protection to the taxpayer against unreasonable investigations as the indefinite extension of the period for assessment deprives the taxpayer of the assurance that he will no longer be subjected to further investigation** for

[101] G.R. No. 198677, 26 November 2014; Citations omitted, emphasis supplied and italics in the original text.

> taxes after the expiration of a reasonable period of time. Thus, in *Commissioner of Internal Revenue v. B.F. Goodrich Phils., Inc.*, this Court ruled that the **legal provisions on prescription should be liberally construed to protect taxpayers** and that, as a corollary, the exceptions to the rule on prescription should be strictly construed.
>
> ...

Furthermore, in *QL Development*, the Supreme Court recognized that while taxes are the lifeblood of the government, it cannot sanction the continued assessment or collection of taxes that have clearly prescribed:

> ...
>
> At this juncture, the Court ought to reiterate that **while taxes are the lifeblood of the nation, the Court cannot allow tax authorities indefinite and infinite periods to assess and collect alleged unpaid taxes.** Certainly, it is an **injustice to leave taxpayers in perpetual uncertainty whether they will be made liable for deficiency or delinquent taxes.** The Court has elaborated on the significance of adopting a statute of limitations on tax assessment and collection in this wise:
>
>> The law prescribing a limitation of actions for the collection of the income tax is beneficial both to the Government and to its citizens; to the Government because tax officers would be obliged to act promptly in the making of assessment, and to citizens because **after the lapse of the period of prescription citizens would have a feeling of security against unscrupulous tax agents who will always find an excuse to inspect the books of taxpayers, not to determine the latter's real liability, but to take advantage of every opportunity to molest peaceful, law-abiding citizens.** Without such legal defense taxpayers would furthermore be under obligation to always keep their books and keep them open for inspection subject to harassment by unscrupulous tax agents. The law on prescription being a remedial measure should be interpreted in a way conducive to bringing about the [beneficent] purpose of affording protection to the taxpayer within the contemplation of the Commission which recommends the approval of the law.[102]
>
> ...

[102] Supra at note 80; Citations omitted and emphasis supplied.

Having determined that respondent's right to collect the deficiency taxes has prescribed, this Court finds no reason to address the other issues raised by the parties.

WHEREFORE, with the foregoing considerations, the present Petition for Review filed by petitioner Hizon Laboratories, Inc. on 20 August 2020, is hereby **GRANTED**. Respondent Commissioner of Internal Revenue's notices and assessments imposing deficiency tax liabilities against petitioner for the taxable year 2012 amounting to ₱306,573,406.80, inclusive of interest and surcharge, are hereby **CANCELLED** and **SET ASIDE**, respondent's right to collect the same having prescribed.

Respondent Commissioner of Internal Revenue or any person duly acting on his or her behalf is hereby **ENJOINED** from pursuing any action against petitioner relative to the above-mentioned time-barred assessments.

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

MA. BELEN M. RINGPIS-LIBAN
Presiding Justice