20-000372-0072

REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

FIRST DIVISION

CTA CASE NO. 10392

SEAOIL PHILIPPINES, INC.,
Petitioner,

- versus -

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

NOTICE OF JUDGMENT BASED ON COMPROMISE AGREEMENT

To:

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

ATTY. AYESHA HANIA B. GUILING-MATANOG
ATTY. MARVEEN B. DE LA PAZ
Bureau of Internal Revenue
Room 703, Litigation Division, BIR Main Building
Sen. Miriam P. Defensor-Santiago Avenue
Diliman, Quezon City

ANGARA ABELLO CONCEPCION REGALA & CRUZ
22nd Floor, ACCRALAW Tower
Second Avenue corner 30th Street
Cresent Park West, Bonifacio Global City
1635 Taguig City

GREETINGS:

You are hereby notified by these presents that on **January 23, 2025,** a Decision was rendered in the above-entitled case, copy of which is attached hereto.

Quezon City, Philippines, **January 24, 2025.**

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

REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
Quezon City

FIRST DIVISION

SEAOIL PHILIPPINES, INC.,
Petitioner,

CTA CASE NO. 10392

Members:

- versus -

DEL ROSARIO, *P.J. Chairperson,*
BACORRO-VILLENA, *and*
CUI-DAVID, *JJ.*

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

Promulgated:
JAN 23 2025; 4:30PM

x - x

JUDGMENT BASED ON COMPROMISE AGREEMENT

***BACORRO-VILLENA, J.*:**

On 08 August 2024, the Court received a "Joint Motion for Judgment Based on Compromise Agreement"[1] (**Joint Motion**) from the parties, petitioner Seaoil Philippines, Inc. (**petitioner**) and respondent Commissioner of Internal Revenue (**respondent/CIR**), stating that respondent had accepted petitioner's offer of compromise. Consequently, petitioner paid the amount of ₱16,182,186.59, or 25% of the basic deficiency value-added tax (**VAT**) assessment of ₱64,728,746.37 (as indicated in the Final Decision on Disputed Assessment[2] [**FDDA**] of 25 September 2020).

The parties attached the following documents to their Joint Motion: (1) Original Judicial Compromise Agreement with signatures of petitioner's authorized representative, Paolo Bugayong (**Bugayong**), respondent CIR Romeo D. Lumagui, Jr. (**CIR Lumagui**), witnesses Atty.

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1 Division Docket, Volume III, pp. 1400-1403.

2 Id., Volume I, pp. 47-49.

Pia Justine S. Rodulfo and Atty. Slyvia R. Alma Jose[3]; (**2**) Original computer printout of Bureau of Internal Revenue (**BIR**) Form No. 0605 (Payment Form) for VAT in the amount of ₱16,182,186.59 filed through electronic filing and payment system (**eFPS**) on 16 April 2024[4]; (**3**) Original computer printout of the Filing Reference Page with Reference No. 292400059220634[5]; (**4**) Original Secretary's Certificate dated 02 May 2024 executed by petitioner's Corporate Secretary Atty. Emily Sibulo-Hayudini which authorized Bugayong to execute the compromise agreement on petitioner's behalf[6]; (**5**) Photocopy of Letter-Offer, dated 13 May 2022, where petitioner proposed a compromise settlement amount of ₱16,182,186.59, or the equivalent 25% of the basic deficiency VAT assessment of ₱64,728,746.37.[7]

In the Letter-Offer of 13 May 2022, petitioner cites that there exists doubtful validity in the assessment because: (*i*) the assessment is void for being issued beyond the three (3)-year prescriptive period; (*ii*) the assessment is void for failure to consider petitioner's explanations and supporting documents; (*iii*) the assessment is void for failure to indicate the facts and law upon which the assessment was made; (*iv*) the assessment has no factual and legal bases as petitioner correctly reported its sales in its VAT returns and has no undeclared sales; (*v*) there is a new and different assessment in the FDDA (not raised in the Preliminary Assessment Notice [**PAN**] nor Formal Letter of Demand [**FLD**]) which has no factual and legal bases as petitioner correctly treated as VAT zero-rated its sales in the amount of ₱154,982,701.37; (*vi*) the assessment has no factual and legal bases as petitioner correctly deducted the amount of input VAT attributable to its sales to the government; and, (*vii*) the assessment has no factual and legal bases as petitioner has input VAT from its purchases of capital goods amounting to ₱12,712,628.69 and is entitled to claim it as deduction upon its amortization; (**6**) Photocopy of Letter dated 14 March 2024 where the Chief of BIR Litigation Division informed petitioner that the National Evaluation Board (**NEB**) has approved the compromise settlement offer.[8]

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3 Id., pp. 1405-1411.
4 Id., p. 1412.
5 Id., p. 1413.
6 Id., pp. 1414-1415.
7 Id., pp. 1416-1417.
8 Id., p. 1418.

In compliance with Court's Resolution dated 19 September 2024[9], respondent submitted the certified true copy of the Certificate of Availment (Compromise Settlement) (**CA**) dated 29 October 2024, together with the signature page containing the NEB's approval of the paid compromise amount of ₱16,182,186.59.[10]

Under A.M. No. 11-1-05-SC-PHILJA or otherwise known as the Interim Guidelines for Implementing Mediation in the Court of Tax Appeals (**Interim Guidelines**), upon approval of the compromise agreement, the Court shall render judgment based thereon.[11] Moreover, the subject Judicial Compromise Agreement likewise states that the same is subject to the approval of this Court; hence, this Judgment Based on Compromise Agreement (**JBCA**).

The subject Judicial Compromise Agreement reads as follows:

...

JUDICIAL COMPROMISE AGREEMENT

This **COMPROMISE AGREEMENT** ("**AGREEMENT**"), made and executed, by and between:

Petitioner **SEAOIL PHILIPPINES, INC.** ("SPI"), a domestic corporation duly organized and existing under the laws of the Republic of the Philippines, with address at the 22nd Floor, The Taipan Place Building, F. Ortigas Jr. Rd. Ortigas Center, San Antonio, Pasig City, Philippines, represented herein by its VP Finance and Accounting, **Paolo Bugayong**;

and

The Respondent **COMMISSIONER OF INTERNAL REVENUE** ("CIR"), with address at Room 703 BIR Building, Bureau of Internal Revenue ("BIR"), Diliman, Quezon City, Philippines, represented by the CIR, **Hon. Romeo D. Lumagui, Jr.** (collectively, the "PARTIES");

- Witnesseth That -

WHEREAS, on 03 November 2020, SPI filed a Petition for Review ("Petition") before this Honorable Court entitled "Seaoil Philippines, Inc. vs. Commissioner of Internal Revenue" docketed as CTA Case No. 10392, to question the alleged deficiency value added tax

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9 Id., pp. 1421-1426.
10 Id., pp. 1440-1441.
11 *See* Part IX(A) of the Interim Guidelines.

("VAT") assessment for Taxable Year 2015 pursuant to a Final Decision on Disputed Assessment dated 25 September 2020 issued by the CIR ("2015 Tax Assessment"). In the 2015 Tax Assessment, the CIR assessed SPI for **One Hundred Two Million Six Hundred Fifty-Five Thousand Ninety-Eight Pesos and 21/100 (Php 102,655,098.21) deficiency VAT**, inclusive of interests and penalties;

WHEREAS, during the pre-trial hearing, SPI manifested its intention to still proceed with a possible compromise with the CIR;

WHEREAS, pending trial, SPI submitted a Letter dated 13 May 2022 to the CIR to amicably settle the case and setting forth the legal and factual basis for the CIR to accept a compromise offer of **Sixteen Million One Hundred Eighty-Two Thousand One Hundred Eighty-Six and 59/100 (Php 16,182,186.59)**;

WHEREAS, on 18 April 2024, SPI has remitted and paid to the BIR the total amount of **Sixteen Million One Hundred Eighty-Two Thousand One Hundred Eighty-Six and 59/100 (Php 16,182,186.59)**, as evidenced by Payment Form (BIR Form No. 0605) filed on 16 April 2024, with eFPS Filing Reference No. 292400059220634, covering SPI's payment of Php 16,182,186.59;

WHEREAS, the CIR has evaluated SPI's proposal for amicable settlement and believes that a compromise would allow immediate tax collection and also put an end to litigation as provided in the Civil Code of the Philippines which is in accordance with the interest of the Government;

WHEREAS, the PARTIES have agreed to enter into an amicable settlement pursuant to the provisions of the Civil Code of the Philippines, jurisprudence, relevant decisions of the Honorable CTA and the Supreme Court, and pertinent laws and issuances on judicial compromise without contravening laws, morals, public order, and public policy;

WHEREAS, the Honorable CTA has issued ruling allowing judicial compromise similar to the instant case;

WHEREAS, the PARTIES, for the purpose of avoiding and putting an end to a protracted, expensive, and mutually prejudicial litigation, have agreed to amicably settle the above-mentioned case, upon terms and conditions hereinafter set forth; and

NOW, THEREFORE, for and in consideration of the foregoing premises, the PARTIES hereto have agreed as follows:

Section 1. Judicial Compromise Amount. In order to settle the above-mentioned case, SPI has offered and paid, and the CIR has accepted, the total payment of **Sixteen Million One Hundred**

Eighty-Two Thousand One Hundred Eighty-Six and 59/100 (Php 16,182,186.59) (the "Judicial Compromise Amount")

Section 2. Submission to the Honorable CTA. This Agreement, fully signed by the PARTIES, shall be submitted for the approval of the Honorable Court of Tax Appeals in CTA Case No. 10392. The PARTIES undertake to perform any and all acts, and submit any and all documents, required by the Honorable CTA to be able to render a Judgment by Compromise Agreement in the said case.

Section 3. Effectivity of the Agreement. This Agreement shall take effect and bind the PARTIES upon approval by the Honorable CTA. This Agreement shall thereafter remain in force and effect until completion and fulfillment of the covenants and undertaking of the PARTIES hereto.

Section 4. Deliverables of the PARTIES upon approval of this Agreement by the Honorable CTA. Upon final approval by the Honorable CTA of this Agreement, the CIR undertakes to execute and deliver to SPI any and all documents as may be required to effectively and fully implement the provisions of this Agreement, withdrawing and cancelling the FAN dated 31 May 2019 and FDDA dated 25 September 2020.

Section 5. Authority to Enter Compromise Agreement. The CIR warrants that he has the necessary authority and capacity under the law to enter, sign, and execute this Agreement, and to deliver its implementing documents upon its approval of the Honorable CTA.

SPI, through its VP Finance and Accounting, **Paolo Bugayong**, is duly authorized by the Board of Directors of SPI and has full legal capacity to enter, sign, and execute this Agreement, and to deliver payment of the above-agreed amount.

Section 6. Full and Final Settlement. This Agreement is executed by the PARTIES for the purpose of amicably settling the pending CTA Case No. 10392. Upon approval by the Honorable CTA, the CIR recognizes the full satisfaction of the supposed tax liability of SPI in connection with CTA Case No. 10392 and acknowledges that SPI no longer has any tax liability whatsoever based upon, arising from, or in connection with the 2015 Tax Assessment.

Section 7. Disapproval of this Agreement by the Honorable CTA. In the event that this Agreement is disapproved by the Honorable CTA, the PARTIES agree to a curing period of sixty (60) days, subject to extension, from receipt of the Order/Resolution disapproving this Agreement. During such curing period, the PARTIES mutually agree to perform any and all acts necessary to rectify or correct the deficiency, defect, or imperfection which caused its disapproval, and re-submit the rectified or corrected Agreement for approval of the Honorable CTA. However, in case the deficiency, defect or imperfection is not or cannot be rectified or corrected within the said curing period, or still not approved by the Honorable CTA after it is rectified or corrected by the parties:

1. The amount already paid by SPI to the Bureau of Internal Revenue shall be deemed a tax credit which may be applied against internal revenue taxes for which SPI may be directly liable, as allowed under existing rules and regulations; and

2. The proceedings of CTA Case No. 10392 shall continue and the discussions pursuant to the disapproved Agreement cannot be used by the PARTIES in said proceeding unless consent of the other party be obtained.

Section 8. No Admission of Liability. The execution of this Agreement shall not constitute or be interpreted in any way as an admission or acknowledgment of error or liability by the PARTIES.

Section 9. Non-Performance. The PARTIES agree that the failure of any PARTY to comply with any of the terms and conditions of this Agreement shall entitle the aggrieved PARTY to file an appropriate motion with the Honorable CTA for the immediate implementation and execution of the terms and conditions of this Agreement or the judgment or order of the Honorable CTA approving the same.

Section 10. Signatures and Counterparts. This Agreement may be signed in counterparts, each of which when executed and delivered shall constitute a duplicate original, but all of which shall be taken together as a single instrument. Until and unless each party has received a counterpart hereof signed by the other party hereto, the Agreement shall have no effect and no party shall have any right or obligation hereunder.

IN WITNESS WHEREOF, *the PARTIES hereto have mutually and voluntarily agreed to the foregoing stipulations and have hereunto signed these presents at the date and place indicated above, for the consideration and approval of the Honorable Court.*

SEAOIL PHILIPPINES, INC.
Petitioner

By:

Signed
PAOLO BUGAYONG
VP Finance and Accounting

COMMISSIONER OF INTERNAL REVENUE
Respondent

By:

Signed
ROMEO D. LUMAGUI, JR.
010470
Commissioner of Internal Revenue

WITNESS:

Signed	Signed
ATTY. PIA JUSTINE S. RODULFO	SVLVIA R. ALMA JOSE Chief, Litigation Division

...

We resolve.

In *Commissioner of Internal Revenue v. Iconic Beverages, Inc.*[12], the Supreme Court held that respondent's authority to compromise is purely discretionary, and the courts cannot interfere with the exercise of discretionary functions, absent grave abuse of discretion, to wit:

> ...
>
> The power of the CIR to enter into compromise agreements for deficiency taxes is explicit in Section 204 (A) of the Tax Code, as amended. The CIR may compromise an assessment when a reasonable doubt as to the validity of the claim against the taxpayer exists, as in this case, or the financial position of the taxpayer demonstrates a clear inability to pay the tax. It is settled that the authority of the CIR to compromise is purely discretionary, and the courts cannot interfere with his exercise of discretionary functions, absent grave abuse of discretion. Here, no grave abuse of discretion exists.
>
> In this regard, a compromise agreement has the effect of *res judicata* on the parties. Compromises are generally to be favored and those entered into in good faith cannot be set aside, except when there is mistake, fraud, violence, intimidation, undue influence, or falsity of documents. None of these exceptions obtain in the present case.
>
> ...

As to the required approval of the Compromise Agreement, Section 6 of Revenue Regulation (**RR**) No. 30-2002[13], as amended by RR No. 9-2013[14], states:

> ...
>
> **SEC. 6. APPROVAL OF OFFER OF COMPROMISE.** – Except for offers of compromise where the approval is delegated to the REB

[12] G.R. Nos. 240651 & 240665 (Notice of Resolution), 06 July 2021; Citations omitted and italics in the original text.

[13] Revenue Regulations Implementing Sections 7(c), 204(A) and 290 of the National Internal Revenue Code of 1997 on Compromise Settlement of Internal Revenue Tax Liabilities Superseding Revenue Regulations Nos. 6-2000 and 7-2001.

[14] Amending Certain Provisions of Revenue Regulations No. 30-2002.

pursuant to the succeeding paragraph, all compromise settlements within the jurisdiction of the National Office (NO) shall be approved by **a majority of all the members of the** NEB composed of the Commissioner and the four (4) Deputy Commissioners. All decisions of the NEB, **granting the request of the taxpayer or** favorable **to the taxpayer**, shall have the concurrence of the Commissioner.

xxx xxx xxx

<u>The compromise offer shall be paid by the taxpayer upon filing of the application for compromise settlement. No application for compromise settlement shall be processed without the full settlement of the offered amount. In case of disapproval of the application for compromise settlement, the amount paid upon filing of the aforesaid application shall be deducted from the total outstanding tax liabilities.</u>[15]

xxx xxx xxx

...

Furthermore, Revenue Memorandum Order (**RMO**) No. 3-2017[16] likewise provides:

...

All approved applications for compromise settlement and/or abatement of penalties shall be issued Certificate of Availment (**CA**) following the prescribed format as per attached Annexes "A" and "B", while denied applications shall be issued Notice of Denial (ND) following prescribed format as per attached annexes "C" and "D".[17]

...

Consequently, a compromise settlement of any tax liability where the basic tax involved exceeds ₱1 million, such as in this case, must bear the approval of the majority of all NEB members. Such approval shall be evidenced by a CA following the prescribed format.

The records show that the parties were able to submit the certified true copy of the CA and its signature page (showing the unanimous approval of the NEB members).[18]

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15 Emphasis and underscoring in the original text.

16 Amending Further the Prescribed Format for the Certificate of Availment/Approval and Notice of Denial Relative to Application for Compromise Settlement and/or Abatement of Penalties Pursuant to Section 204 of the Tax Code, as Amended.

17 Emphasis supplied.

18 Supra at note 10.

Furthermore, the parties' Judicial Compromise Agreement likewise reveals their true intention to settle 25% of the basic deficiency VAT assessed in the amount of ₱64,728,746.37[19]; thus, paying a total of ₱16,182,186.59 on 16 April 2024.

After a careful scrutiny of the parties' documents submitted in support of the subject Judicial Compromise Agreement[20], the Court finds the same in order and in compliance with the established laws, rules and regulations.

In *Felipe O. Magbanua, et al. v. Rizalino Uy*[21], the Supreme Court ruled as follows:

> ...
>
> A compromise agreement is a contract whereby the parties make reciprocal concessions in order to resolve their differences and thus avoid or put an end to a lawsuit. They adjust their difficulties in the manner they have agreed upon, disregarding the possible gain in litigation and keeping in mind that such gain is balanced by the danger of losing. Verily, the compromise may be either extrajudicial (to prevent litigation) or judicial (to end a litigation).
>
> A compromise must not be contrary to law, morals, good customs and public policy; and must have been freely and intelligently executed by and between the parties. To have the force of law between the parties, it must comply with the requisites and principles of contracts. Upon the parties, it has the effect and the authority of *res judicata*, once entered into.
>
> When a compromise agreement is given judicial approval, it becomes more than a contract binding upon the parties. Having been sanctioned by the court, it is entered as a determination of a controversy and has the force and effect of a judgment. It is immediately executory and not appealable, except for vices of consent or forgery. The nonfulfillment of its terms and conditions justifies the issuance of a writ of execution; in such an instance, execution becomes a ministerial duty of the court.
>
> ...
>
> The issue involving the validity of a compromise agreement notwithstanding a final judgment is not novel. *Jesalva v. Bautista*, upheld a compromise agreement that covered cases pending trial, on

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[19] Amount lifted from the Final Decision on Disputed Assessment dated 25 September 2020, Exhibit "P-12", Division Docket, Volume I, pp. 47-66.

[20] Supra at note 3.

[21] G.R. No. 161003, 06 May 2005; Citations omitted and italics in the original text.

> appeal, and with final judgment. The Court noted that Article 2040 impliedly allowed such agreements; there was no limitation as to when these should be entered into. *Palanca v. Court of Industrial Relations* sustained a compromise agreement, notwithstanding a final judgment in which only the amount of back wages was left to be determined. The Court found no evidence of fraud or of any showing that the agreement was contrary to law, morals, good customs, public order, or public policy.
>
> *Gatchalian v. Arlegui* upheld the right to compromise prior to the execution of a final judgment. The Court ruled that the final judgment had been novated and superseded by a compromise agreement. Also, *Northern Lines, Inc. v. Court of Tax Appeals* recognized the right to compromise final and executory judgments, as long as such right was exercised by the proper party litigants.
>
> ...
>
> There is no justification to disallow a compromise agreement, solely because it was entered into after final judgment. The validity of the agreement is determined by compliance with the requisites and principles of contracts, not by when it was entered into. As provided by the law on contracts, a valid compromise must have the following elements: (1) the consent of the parties to the compromise, (2) an object certain that is the subject matter of the compromise, and (3) the cause of the obligation that is established.
>
> ...

WHEREFORE, in view of the foregoing, the Joint Motion for Judgment Based on Compromise Agreement is **GRANTED.** Accordingly, petitioner Seaoil Philippines, Inc. and respondent Commissioner of Internal Revenue's Judicial Compromise Agreement is hereby **APPROVED.** Having been impressed with judicial imprimatur, the parties are hereby **ENJOINED** to faithfully comply with all the terms and conditions of the aforesaid Compromise Agreement (which constitutes the Court's judgment in the case at bar).

Accordingly, this case is now deemed **CLOSED AND TERMINATED**

SO ORDERED.

JEAN MARIE A. BACORRO-VILLENA
Associate Justice

WE CONCUR:

ROMAN G. DEL ROSARIO
Presiding Justice

LANEE S. CUI-DAVID
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, it is hereby certified that the conclusions in the above Judgment Based on Compromise Agreement were reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

ROMAN G. DEL ROSARIO
Presiding Justice