

Title: Commissioner of Internal Revenue vs. Metro Star Superama, Inc.

Facts:

Metro Star Superama, Inc. (Metro Star), a domestic corporation engaged in cinema/movie house operations, was subjected to a tax assessment for deficiency value-added tax (VAT) and withholding tax for the taxable year 1999 amounting to PHP 292,874.16. The assessment originated from an examination of Metro Star's books by Revenue Officer Daisy G. Justiniana, initiated by a Letter of Authority issued on January 26, 2001. Despite several requests and a Subpoena Duces Tecum, Metro Star failed to comply, leading to an investigation based on the best evidence obtainable and the subsequent issuance of a Preliminary 15-day Letter received by Metro Star on November 9, 2001.

Upon failure to settle the alleged deficiency, a Formal Letter of Demand was sent on April 3, 2002, followed by a Final Notice of Seizure on May 12, 2003. A Warrant of Distraint and/or Levy was also issued demanding payment. Metro Star filed a Motion for Reconsideration with the Commissioner of Internal Revenue (CIR) on July 30, 2004, which was denied. They then petitioned for review with the Court of Tax Appeals (CTA) Second Division claiming a lack of due process for not receiving a Preliminary Assessment Notice (PAN).

Issues:

1. Whether the respondent complied with due process in issuing the deficiency tax assessment.
2. Whether the assessments issued were void for failure to state the law and facts upon which they are based.
3. Whether or not Metro Star, as a cinema operator, is subject to VAT on sales of services.
4. Whether the assessment was based on the best evidence obtainable.

Court's Decision:

The Supreme Court upheld the CTA-En Banc and CTA-Second Division's decisions that the CIR failed to prove Metro Star received the PAN, thus denying due process. The Court emphasized the mandatory nature of serving a PAN as part of the due process requirement in issuing a deficiency tax assessment. The lack of a PAN and the CIR's failure to provide substantial evidence of its issuance and receipt rendered the assessment void. Consequently, the CIR's petition was denied, and it was ordered to desist from collecting the taxed amounts from Metro Star.

Doctrine:

The mandatory requirement of serving a Preliminary Assessment Notice (PAN) as part of the due process in the issuance of a deficiency tax assessment was reiterated. The failure to comply with this requirement renders the assessment void.

Class Notes:

- **Due Process in Tax Assessment:** The taxpayer must be informed in writing of the law and facts on which the tax assessment is made. Failure to comply with this requirement renders the assessment void.
- **Importance of PAN:** A Preliminary Assessment Notice (PAN) is crucial in tax assessments for it constitutes the taxpayer's opportunity to understand and contest the assessment. Without the PAN being properly issued and received, the assessment is legally ineffective.
- **Burden of Proof:** When a taxpayer denies receipt of an assessment or notice from the BIR, the burden shifts to the BIR to prove that such notice was indeed received by the taxpayer.

Historical Background:

This case highlights the procedural safeguards in the Philippine tax system ensuring taxpayers' rights to due process. It underscores the importance of the BIR's adherence to its own rules and regulations in the conduct of tax assessments, reflecting the balance between the government's authority to collect taxes and protecting taxpayer rights under the law.