

**\*\*Title:\*\*** Commissioner of Internal Revenue v. Fitness by Design, Inc.: A Scrutiny of Valid Assessment Notice Prerequisites

**\*\*Facts:\*\*** Fitness by Design, Inc. (“Fitness”) filed its Annual Income Tax Return for the year 1995 on April 11, 1996, claiming it was in its pre-operating stage during the taxable period. Several years later, on June 9, 2004, Fitness received a Final Assessment Notice dated March 17, 2004, under Letter of Authority No. 00002953, assessing a tax deficiency amounting to PHP 10,647,529.69. Fitness protested this notice on June 25, 2004, arguing the Commissioner’s assessment period had prescribed and that the assessment lacked basis, considering Fitness’s incorporation on May 30, 1995.

Following Fitness’s protest, on February 2, 2005, the Commissioner issued a Warrant of Distrain and/or Levy. In response, Fitness filed a Petition for Review with the Court of Tax Appeals (CTA) First Division, challenging the validity of the assessment and the warrant issued. The CTA First Division ruled in favor of Fitness, invalidating the assessment and subsequent warrant due to non-compliance with Section 228 of the National Internal Revenue Code. This decision was subsequently affirmed by the CTA En Banc, prompting the Commissioner to file a Petition for Review with the Supreme Court.

**\*\*Issues:\*\*** The central legal issue revolves around whether the Final Assessment Notice issued against Fitness by Design, Inc. is a valid and enforceable demand for payment under Section 228 of the National Internal Revenue Code and Revenue Regulations No. 12-99. The sub-issues include (1) the necessity of a definite due date in a Final Assessment Notice, and (2) the requirement to state the factual and legal bases for the assessment explicitly.

**\*\*Court’s Decision:\*\***

The Supreme Court denied the Commissioner’s petition, affirming the CTA En Banc’s decision. The Court reaffirmed the principles governing tax assessments, emphasizing the importance of due process in issuing a valid Final Assessment Notice. The Court highlighted that the notice must clearly state both the factual and legal bases for the assessment to enable the taxpayer to make an informed protest. Furthermore, it ruled that the Notice’s failure to stipulate a specific due date for payment invalidated the demand for tax liabilities. Consequently, the purported Final Assessment Notice was adjudged not to constitute a legitimate demand for payment due to its non-compliance with procedural requirements.

**\*\*Doctrine:\*\*** The Court reinforced the doctrine that a valid tax assessment must explicitly state the factual and legal basis behind it, as mandated by Section 228 of the National

Internal Revenue Code and Revenue Regulations No. 12-99. This requirement upholds the taxpayer's right to due process by enabling an informed response or protest against the tax assessment.

**\*\*Class Notes:\*\***

- Tax assessment validity hinges on compliance with procedural requirements, particularly the clear articulation of both factual and legal bases for the assessment.
- A definitive demand for payment, including a specific due date, is integral to the enforceability of a tax assessment.
- The taxpayer's right to due process is paramount and must be respected throughout the tax assessment and collection process.
- The burden of proving fraud in tax assessments rests with the Commissioner, especially when invoking an extended period for assessment based on alleged fraudulent returns.

**\*\*Historical Background:\*\*** The case highlights the continuing evolution of tax law jurisprudence, particularly concerning the procedural safeguards that ensure taxpayer rights within the tax assessment process. It underscores the judiciary's role in balancing the government's power to tax with the fundamental rights of individuals and entities, fostering a transparent and accountable taxation system.