

Title:

****Commissioner of Internal Revenue vs. Asalus Corporation: A Dispute Over the Prescriptive Period for VAT Assessment****

Facts:

This case revolves around the deficiency Value-Added Tax (VAT) assessment issued by the Commissioner of Internal Revenue (CIR) against Asalus Corporation (Asalus) for the taxable year 2007. The sequence of events is as follows:

1. ****Notice of Informal Conference (December 16, 2010):**** Asalus received a notice regarding the investigation of its 2007 VAT transactions. Asalus questioned the computation basis in its response.
2. ****Preliminary Assessment Notice (PAN) (January 10, 2011):**** CIR issued a PAN finding Asalus liable for deficiency VAT amounting to approximately PHP 413 million. Asalus protested this PAN but was denied by the CIR.
3. ****Formal Assessment Notice (FAN) (August 26, 2011):**** Asalus received a FAN indicating a lowered liability to around PHP 95 million. Asalus filed a protest and a supplemental protest claiming the assessment had prescribed under Section 203 of the National Internal Revenue Code (NIRC).
4. ****Final Decision on Disputed Assessment (FDDA) (October 16, 2012):**** The decision showed a further revised liability amounting to approximately PHP 106 million. Asalus then petitioned for review at the Court of Tax Appeals (CTA) Division, arguing prescription under Section 203 of the NIRC.

The case escalated to the Supreme Court after the CTA En Banc affirmed the CTA Division's ruling canceling the assessment on grounds of prescription.

Issues:

1. Whether the CIR sufficiently informed Asalus that the FAN and FDDA fell under the ten-year prescriptive period per Section 222(A) of the 1997 NIRC.
2. Whether Asalus' failure to report all fees collected from its members for healthcare services constitutes a "false" return under Section 222(A).
3. Whether the CIR's right to assess Asalus for its deficiency VAT for 2007 had already prescribed.

Court's Decision:

The Supreme Court granted the petition, reversing the CTA En Banc's decision and remanding the case to the CTA for determination of VAT liabilities. The Court found:

- There were substantial underdeclarations in Asalus' VAT returns, triggering a prima facie presumption of falsity.
- Asalus was sufficiently informed about the basis of the assessment, including the ten-year prescriptive period, as the PAN explicitly mentioned it and subsequent notices referred back to the PAN.
- The CIR need not present further evidence to prove the falsity of the returns because the presumption of falsity was not rebutted by Asalus.

Doctrine:

The case reiterates the doctrine that a substantial underdeclaration of taxable sales, receipts, or income constitutes prima facie evidence of a false return, justifying the application of the ten-year prescriptive period under Section 222 of the NIRC. Additionally, it emphasizes that substantial compliance with notice requirements suffices provided the taxpayer is substantially informed of the assessment's factual and legal bases.

Class Notes:

- ****Prescriptive Periods for Tax Assessment:**** General prescriptive period is three years, but a ten-year period applies in cases of false, fraudulent returns or failure to file a return.
- ****Prima Facie Evidence of Falsity:**** A substantial underdeclaration (over 30%) constitutes prima facie evidence of a false return.
- ****Notice Requirements:**** A taxpayer must be substantially informed of the assessment's factual and legal bases; references within documents can suffice for substantial compliance.

Historical Background:

This case illustrates the complexities of VAT assessments in the Philippines, especially concerning the interpretation of false or fraudulent returns and the corresponding prescriptive periods for tax assessment under the NIRC. It underscores the critical balance between the BIR's duty to collect the correct taxes and the taxpayer's right to be properly informed of tax assessments.