

**\*\*Title:** Adamson Management Corporation, et al. vs. Commissioner of Internal Revenue, et al.**\*\***

**\*\*Facts:\*\***

This case involves two consolidated petitions that arose from transactions involving the sale of common shares of stock in Adamson and Adamson, Inc. (AAI) to APAC Holding Limited and APAC Philippines, Inc., leading to disputes over capital gains tax and Value Added Tax (VAT) assessments and subsequent criminal charges for tax evasion.

Initially, on June 20, 1990, and October 12, 1990, shares were sold, and capital gains tax was paid. However, on October 15, 1993, the Commissioner of Internal Revenue issued a “Notice of Taxpayer” to Adamson Management Corporation (AMC) and its officers for deficiencies in capital gains tax and VAT payments. Following this, criminal complaints were filed against AMC and its officers on October 22, 1993, for tax evasion, leading to a complex legal battle that involved motions to suspend proceedings based on prejudicial questions, requests for reconsideration with the Department of Justice (DOJ), and finally charges being filed before the Regional Trial Court (RTC) of Makati.

The petitioners filed a motion to dismiss or suspend on the grounds that there was no final tax assessment, invoking pending Supreme Court and Court of Tax Appeals (CTA) cases. The RTC initially denied this motion but granted a subsequent motion that challenged the RTC’s jurisdiction, framing the criminal complaints as decisions of the Commissioner that should be appealable to the CTA.

The Commissioner challenged the RTC’s dismissal by filing a petition for review with the Court of Appeals (CA), arguing that assessment of tax deficiencies is not a precondition for filing criminal complaints for tax evasion. The CA reversed the RTC’s decision, reinstating the criminal complaints, a decision questioned by the petitioners in the Supreme Court under G.R. No. 120935.

In parallel, in G.R. No. 124557, petitioners filed a Petition for Review with the CTA challenging the Commissioner’s findings of tax evasion, which was denied by the CTA considering the criminal complaint as an implied formal assessment. The Commissioner’s subsequent challenge to the CTA’s denial in the CA was dismissed, leading to her petition for review to the Supreme Court.

**\*\*Issues:\*\***

1. Whether the Commissioner has rendered an assessment, formal or otherwise, of the tax

liability of AMC et al.

2. The basis for the criminal cases for tax evasion against AMC et al.
3. Jurisdiction of the CTA to take cognizance of both the civil and the criminal aspects of the tax liability.

**\*\*Court's Decision:\*\***

1. The Supreme Court held the Commissioner's recommendation letter for filing criminal complaints cannot be considered a formal assessment of tax liability, as it neither was addressed to the taxpayers nor demanded payment.
2. The Court ruled that, under the National Internal Revenue Code, in cases involving fraudulent returns, proceedings in court for tax collection may begin without an assessment. It determined the criminal complaints were not premature despite the absence of a formal assessment.
3. The Court highlighted that the CTA's jurisdiction has expanded but reaffirmed that it only entertains appeals from final decisions or assessments of the Commissioner, or where the Commissioner has not acted within the prescribed period by the NIRC. Since no formal assessment was issued in this case, the CTA did not have jurisdiction.

**\*\*Doctrine:\*\***

The decision elucidates that a criminal prosecution for tax evasion does not necessitate a formal assessment of tax deficiencies. It clarifies the conditions under which the CTA has jurisdiction over tax disputes, emphasizing that a recommendation for filing criminal charges does not qualify as a formal assessment of tax liability.

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

- A formal assessment is a written notice and demand by the BIR for tax payment, which must be served on and received by the taxpayer.
- Criminal charges for tax evasion can be filed independently of a formal assessment in cases of fraudulent tax returns.
- The jurisdiction of the CTA is limited to appeals from final decisions or assessments of the Commissioner, or cases where the Commissioner has not acted within the prescribed period by NIRC.
- A recommendation to file criminal charges, absent a notice to taxpayers demanding payment, does not constitute an assessment.

**\*\*Historical Background:\*\***

This litigation provides significant insights into the legal intricacies of tax assessment,

evasion, and the procedural interplay between different legal bodies in the Philippines. It highlights the complex procedural and jurisdictional issues surrounding tax administration and enforcement in the Philippines, underscoring the importance of formalities in tax assessment and the separation of civil liability from criminal prosecutions in tax matters.