

Title:

****Commissioner of Internal Revenue vs. Court of Tax Appeals Second Division and QL Development, Inc.: A Procedural and Substantive Analysis on Prescription of Tax Collection****

Facts:

QL Development, Inc. (QLDI) received a Letter of Authority from the Commissioner of Internal Revenue (CIR) on November 12, 2012, for an examination of deficiency taxes for 2010. Following various notices and the failure of QLDI to protest the Formal Assessment Notice/ Formal Letter of Demand received on December 12, 2014, the CIR issued a Final Decision on Disputed Assessment, which QLDI received on March 3, 2015. QLDI's subsequent request for reconsideration was denied on February 4, 2020. Challenging the validity of the assessment and arguing that the CIR's right to collect had prescribed, QLDI filed a Petition for Review with the Court of Tax Appeals (CTA) Second Division on June 30, 2020. The CTA Second Division, resolving the issue of prescription, canceled the deficiency tax assessment against QLDI on June 7, 2021, and enjoined the CIR from collecting the taxes on December 11, 2021.

Issues:

1. Whether the remedy of certiorari was proper in challenging the CTA Division's Resolutions.
2. Whether the CIR's right to collect taxes from QLDI had already prescribed.
3. Whether the CTA has jurisdiction to decide on the matter of prescription of tax collection.

Court's Decision:

The Supreme Court dismissed the petition filed by the CIR, upholding the resolutions of the CTA Second Division. It was held that the CIR pursued an erroneous remedy by filing a certiorari petition directly to the Court instead of appealing the CTA Division's decision by a petition for review with the CTA En Banc. Furthermore, on the merits, the Court found that the CTA did indeed have jurisdiction to rule on the prescription of the CIR's right to collect taxes as an issue arising under the National Internal Revenue Code (NIRC). Finally, it was determined that the CIR's right to collect the assessed taxes had indeed prescribed, noting that the appropriate period for collection after the assessment was three years, not five, thereby ending by December 12, 2017, well before the CIR's collection efforts in 2020.

Doctrine:

- The jurisdiction of the Court of Tax Appeals extends to matters of prescription of the right

of the Commissioner of Internal Revenue to collect taxes, considered as “other matters” under the NIRC.

- The correct period for the collection of assessed taxes, following a timely assessment within the three-year ordinary prescriptive period, is an additional three years, not five, for initiating tax collection by distraint, levy, or court proceeding.

Class Notes:

- Remedial Law: The proper remedy against decisions of the CTA Division is an appeal to the CTA En Banc, not a certiorari petition directly to the Supreme Court.
- Taxation Law: The prescription period for tax collection following a valid assessment is three years, commencing from the date the assessment notice is released, mailed, or sent to the taxpayer (NIRC Section 203 and Section 222).
- Jurisdiction: The CTA holds jurisdiction over disputes involving prescription of tax collection as part of “other matters” arising under the NIRC.

Historical Background:

This case reflects the procedural intricacies and substantive principles governing tax collection disputes in the Philippines. It underscores the significance of adhering to specific prescriptive periods set by law for the assessment and collection of taxes, balancing the government’s authority to collect revenue with the taxpayer’s need for finality and security against indefinite tax liabilities.