

Title: Prime Steel Mill, Inc. vs. Commissioner of Internal Revenue

Facts:

On January 7, 2009, Prime Steel Mill, Inc. (Petitioner) received a Preliminary Assessment Notice (PAN) from the Bureau of Internal Revenue (BIR), issuing an assessment for deficiency income tax, value-added tax (VAT), and expanded withholding tax (EWT) for the taxable year 2005. Petitioner filed a protest against the PAN on January 22, 2009. Subsequently, on February 12, 2009, Petitioner received a Final Assessment Notice (FAN) and Formal Letter of Demand (FLD) reiterating the initial findings. Petitioner disputed these through another letter.

On April 14, 2014, Petitioner received a Final Decision on Disputed Assessment (FDDA) reaffirming their liability for income tax and VAT. Petitioner filed a Petition for Review with the Court of Tax Appeals (CTA), contesting the assessments' validity including an argument that the BIR's right to assess had already prescribed.

The CTA Third Division partially granted the petition, cancelling the VAT assessment while upholding the income tax assessment. The Third Division ruled that the right to assess VAT had prescribed. Both parties sought partial reconsideration but were denied, prompting them to file a petition for review with the CTA En Banc.

The CTA En Banc consolidated the petitions and directed parties to file their memoranda. Petitioner later filed a Supplemental Memorandum with additional arguments, including the lack of an issued Letter of Authority (LOA) and a violated 15-day period for responding to the PAN. The CTA En Banc dismissed these new arguments and affirmed the CTA Third Division's decision. Petitioner's motion for reconsideration was also denied.

Petitioner filed the current petition with the Supreme Court, focusing on the prescription of the right to collect assessed taxes and the due process violation regarding the FAN's issuance prior to the 15-day period provided to respond to the PAN.

Issues:

1. Did the BIR's right to collect assessed taxes prescribe?
2. Was there a violation of due process when the BIR issued the FAN without observing the 15-day period to reply to the PAN?

Court's Decision:

The Supreme Court evaluated whether the CTA En Banc erred in its affirmation of the

deficiency income tax assessment. The Petition was found meritorious primarily on due process grounds.

1. **BIR's Right to Collect Prescribed:** The Court did not find a compelling reason to delve into the prescription issue due to the more pressing due process violation.

2. **Violation of Due Process:** The BIR failed to observe the 15-day period for Petitioner to respond to the PAN. The BIR issued the FAN on January 14, 2009, before the 15-day response window closed, even though the FAN was received by the Petitioner on February 12, 2009. The Court ruled that strict compliance with due process was necessary, and substantial compliance, as argued by the Solicitor General, was insufficient.

Doctrine:

- Strict observance of the procedures for the issuance of tax assessments by the BIR is imperative to uphold taxpayers' due process rights. Issuing a FAN before the prescribed time to respond to a PAN violates due process and renders the assessment void ab initio.

Class Notes:

- Key Concepts:

1. Due Process in Tax Assessments
2. Prescription Period for Tax Collection
3. Role and Necessity of Preliminary and Final Assessment Notices

- Legal Statutes:

1. **Section 228, National Internal Revenue Code (Tax Code):** Compliance with procedural due process in tax assessments.
2. **Revenue Regulations No. 12-99:** Time frame for responding to PAN.

- Application:

1. A taxpayer must be provided a full 15 days to reply to a PAN before the issuance of a FAN.
2. Failure to comply renders the FAN void as it violates due process rights protection under the Tax Code and Revenue Regulations.

Historical Background:

The case underscores an ongoing tension between taxpayers' rights and tax administration efficiency. Traditionally, the Philippines' tax system mandates strict adherence to regulatory procedures to ensure fairness and transparency. This case reiterates the judiciary's role in

safeguarding procedural rights against administrative deviations, reinforcing a strict interpretation of tax laws and regulations.