

****Title: Commissioner of Internal Revenue vs. Yumex Philippines Corporation****

****Facts:****

1. ****March 4, 2010****: The Revenue District Officer (RDO) issued a Notice of Informal Conference to Yumex Philippines Corporation (Yumex), notifying Yumex of a preliminary assessment of various taxes and a compromise penalty.
2. ****August 2010****: In response, Yumex asserted its status as a Philippine Economic Zone Authority (PEZA)-registered corporation, claiming exemption from the Improperly Accumulated Earnings Tax (IAET).
3. ****December 16, 2010****: The Bureau of Internal Revenue (BIR) Regional Director (RD) issued a Preliminary Assessment Notice (PAN).
4. ****January 10, 2011****: A Formal Letter of Demand (FLD) along with a Final Assessment Notice (FAN) was issued, assessing Yumex for deficiency income tax, fringe benefits tax, IAET, and compromise penalties.
5. ****January 20, 2011****: Yumex protested the assessment, specifically asserting its exemption from IAET as a PEZA-registered entity.
6. ****February 4, 2011****: Yumex paid part of the assessed taxes but contested the interest and penalties, notably not addressing the IAET.
7. ****July 25, 2011****: After reinvestigation, the BIR reiterated its demand for the IAET and indicated subsequent collection actions.
8. ****September 7, 2011****: Yumex filed a Petition for Review before the Court of Tax Appeals (CTA) Division.

****Procedural History:****

- ****November 28, 2013****: The CTA Division ruled in favor of Yumex, invalidating the IAET assessment for lack of due process and factual basis.
- ****March 3, 2014****: The CTA Division denied the BIR's motion for reconsideration.
- ****Appeal to CTA En Banc****: The BIR elevated the case.
- ****August 11, 2015****: The CTA En Banc affirmed the CTA Division's decision.
- ****January 19, 2016****: The CTA En Banc denied the BIR's motion for reconsideration.
- ****Petition to the Supreme Court****: The BIR filed a petition for review on certiorari under Rule 45.

****Issues:****

1. Can the CTA Division consider the issue of the invalidity of the assessment for procedural due process violations?
2. Were the PAN and FLD/FAN issued in violation of Yumex's right to due process?

3. Is Yumex liable for deficiency IAET?

Court's Decision:

- **Issue 1:** The CTA Division was justified in addressing the due process violation issue despite it not being expressly raised by Yumex in its petition. The CTA has broad authority to consider related issues for a just disposition of cases, as per Section 1, Rule 14 of the Revised Rules of the CTA (RRCTA).
- **Issue 2:** The Court affirmed the invalidity of the PAN and FLD/FAN because the BIR issued them in violation of Yumex's due process rights. The taxpayer must be given 15 days to respond to the PAN before the final assessment. Since Yumex received the PAN and FLD/FAN simultaneously, it was deprived of this opportunity.
- **Issue 3:** Even assuming due process was observed, the IAET assessment lacked factual basis. As Yumex is a PEZA-registered entity, it is exempt from IAET under Sec. 4(g) of RR No. 2-2001, without distinction to whether it enjoys Income Tax Holiday (ITH) or a special tax rate.

Doctrine:

- **Due Process in Tax Assessment:** Sec. 228 of the National Internal Revenue Code (NIRC) and RR No. 12-99 mandates that taxpayers must be informed in writing of the law and facts on which the assessment is based, and a 15-day period must be provided to respond to the PAN.
- **Exemption of PEZA-Registered Entities from IAET:** Enterprises registered under PEZA are exempt from IAET per Sec. 4(g) of RR No. 2-2001, without distinguishing between those enjoying ITH and those under a special tax regime.

Class Notes:

- **Due Process Requirements in Tax Assessments:** Key provisions include Sections 228 and 3.1.2 of RR No. 12-99. Courts strictly require the assessment process to afford taxpayers procedural fairness.
- **Statutory Construction in Tax Law:** Specific provisions (like exemptions stated in RR No. 2-2001 for PEZA enterprises) override general provisions.
- **Constructive Notice in Tax Law:** Only applicable when actual receipt details are unverifiable; otherwise, actual dates must determine compliance with notification periods.

Historical Background:

The case reflects the increasing scrutiny and procedural rigor in tax assessments post-1997

Tax Reform Act. The high court's reaffirmation of procedural due process protections underscores taxpayer rights in contesting assessments, balancing the state's power to tax with protection against arbitrary enforcement.