

Title: Commissioner of Internal Revenue v. Lingayen Gulf Electric Power Co., Inc.

Facts:

Lingayen Gulf Electric Power Co., Inc. (respondent taxpayer) was an electric power company operating under municipal franchises in Lingayen and Binmaley, Pangasinan, with tax payment rates of 1% for the first 20 years and 2% for the subsequent 15 years on gross earnings. These franchises were approved by the President of the Philippines on February 24, 1948. The Bureau of Internal Revenue (BIR) assessed deficiency franchise taxes on the respondent based on Section 259 of the National Internal Revenue Code, which prescribed a 5% franchise tax rate instead of the lower rates provided in the municipal franchises. Disputes arose for alleged deficiency taxes and surcharges for the years 1946-1954 and 1959-1961. The respondent taxpayer protested these assessments, claiming an overpayment instead of a deficiency. Subsequent appeals led to the Court of Tax Appeals (CTA), where the cases were jointly heard.

While the matter was pending, the Congress of the Philippines enacted Republic Act No. 3843, granting the respondent a legislative franchise subject to a 2% franchise tax on gross receipts from electricity sales, in lieu of all other taxes. Despite this new law, the BIR continued to seek collection of the earlier assessed taxes.

Issues:

1. Whether the 5% franchise tax under Section 259 of the National Internal Revenue Code could be collected from the respondent for the period before the effectivity of R.A. No. 3843.
2. Whether Section 4 of R.A. No. 3843 violates the constitutional rule of “uniformity and equality of taxation.”
3. If Section 4 of R.A. No. 3843 is constitutional, whether it could be applied retroactively.
4. Whether the respondent taxpayer is liable for fixed and deficiency percentage taxes for the period prior to the approval of its municipal franchises (i.e., from January 1, 1946, to February 29, 1948).

Court’s Decision:

1. The Supreme Court held that the respondent was liable only for the 2% franchise tax as provided by R.A. No. 3843 from the date the original municipal franchise was granted, overriding the 5% tax rate prescribed by the Tax Code.
2. The Court ruled that Section 4 of R.A. No. 3843 was constitutional since the power to tax includes the power to grant tax exemptions, which does not necessarily violate the equal protection clause.

3. The Supreme Court affirmed the retroactive application of R.A. No. 3843 based on its explicit provision stating the retroactive effect to the date the original franchise was granted.

4. For the period preceding the approval of the franchise, the respondent taxpayer was liable for fixed and percentage taxes as a seller of light, heat, and power. However, it was found that the respondent already paid significantly more than what was rightfully due, negating any deficiency liability for that earlier period.

Doctrine:

The Court established that a legislative franchise could provide for a tax rate that supersedes local franchise tax rates, and such provisions may be given retroactive effect if explicitly stated in the law. It also reinforced the doctrine that tax exemptions provided by legislative franchise do not violate the constitutional rule on uniformity and equality of taxation.

Historical Background:

This case represents an instance where the Supreme Court had to deal with the interplay between municipal franchises granted prior to comprehensive tax legislation and later legislative actions that directly affect the tax obligations of franchisees. The decision showcases the Court's deference to the legislative will in granting tax privileges and exemptions and underscores the legislature's authority in matters of taxation, particularly when dealing with legislative franchises. The outcome reflects the historic legislative practice of using franchises to regulate utilities while maintaining the capacity to alter the fiscal terms as public policy dictates.