

**\*\*Title:\*\*** Mandanas v. Ochoa, et al.: The Definitive Ruling on the Just Share of Local Government Units in National Taxes

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

This case revolves around the proper interpretation of Section 284 of Republic Act No. 7160 (Local Government Code), which stipulates the share of local government units (LGUs) in national taxes. The petitioners challenged the limitation of the “just share” to “national internal revenue taxes,” contending that such a limitation violates Article X, Section 6 of the 1987 Constitution, which mandates that LGUs should receive a just share in the “national taxes.”

The petitioners, consisting of various local officials and a private citizen, argued that “national taxes” encompass not only national internal revenue taxes collected by the Bureau of Internal Revenue (BIR) but also include collections by the Bureau of Customs (BOC) and other taxes. The case underwent a complex procedural journey, beginning from petitions filed before the Supreme Court, with motions and interventions along the way. After careful deliberation, the Supreme Court arrived at a decision that dramatically changed the landscape of local government financing in the Philippines.

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

1. Whether the phrase “internal revenue” in Section 284 of the LGC is unconstitutional for being more restrictive than what Article X, Section 6 of the 1987 Constitution prescribes.
2. Whether all national taxes, including those collected by the BOC, should be included in determining the just share of LGUs.
3. Whether the decision should have a prospective application only.

**\*\*Court’s Decision:\*\***

1. **\*\*First Issue:\*\*** The Court declared the phrase “internal revenue” in Section 284 of the LGC unconstitutional, expanding the base to include all national taxes in the computation of LGU shares. This conclusion is derived from the principle that Congress cannot restrict the base amount for calculating the LGU shares to national internal revenue taxes only.
2. **\*\*Second Issue:\*\*** The Court ruled that all national tax collections should be included in the computation of the LGUs’ shares, subject to specific exceptions like taxes collected for special purposes funds and national wealth development. This includes, among others, BIR and BOC collections and 50% of VAT collected in the Autonomous Region in Muslim Mindanao.

3. **Third Issue:** The Court held that the decision has a prospective application. The adjusted amounts were determined to be effective after the resolution became final, implying that the computation based on all national taxes would be implemented starting in the following fiscal year.

**Doctrine:**

The definitive doctrine established in this case is the expanded interpretation of the LGUs' just share of national taxes, as mandated by the Constitution. The Supreme Court clarified that the term "national taxes" in Article X, Section 6 of the 1987 Constitution includes all forms of national taxes and cannot be limited to national internal revenue taxes only.

**Class Notes:**

- The term "just share" refers to the share of LGUs in national taxes as mandated by the Constitution.
- "National taxes" include, but are not limited to, BIR and BOC collections and specific regional tax collections.
- The Supreme Court can strike down provisions of legislation that do not adhere to the Constitution's mandate.
- The doctrine of operative fact recognizes the effects of an unconstitutional statute up until it is declared invalid.
- The liquidity of LGUs is partly reliant on their share of national taxes.

**Historical Background:**

The historical context of this case underscores the importance of fiscal autonomy for local government units in the Philippines. The decision highlights the ongoing evolution of local governance since the enactment of the 1987 Constitution, which ushered in a new era of local autonomy and decentralized power. The ruling strengthened the fiscal capabilities of LGUs, providing them with a greater share of national taxes and enhancing their ability to deliver services to constituents. It underscores the spirit of the Local Government Code, which envisions empowered and financially independent LGUs as vital components of national development.