

Title: Mactan-Cebu International Airport Authority v. City of Lapu-Lapu and Elena T. Pacaldo

Facts:

The Mactan-Cebu International Airport Authority (MCIAA), a government entity established under Republic Act No. 6958 to manage the Mactan International Airport in Cebu and other airports in the province, enjoyed real property tax exemption. This exemption was altered when the Supreme Court, in a 1996 decision (*Mactan-Cebu International Airport Authority v. Marcos*), declared that under the Local Government Code (Republic Act No. 7160), MCIAA was no longer exempt from real estate taxes. Consequently, the City of Lapu-Lapu assessed real estate taxes on MCIAA-owned properties including the airport terminal building, airfield, runway, and taxiway. MCIAA sought exemptions for properties used for public purposes and paid the City approximately PHP 275.7 million under protest while disputes on specific tax assessments were resolved.

After further legal confrontations and a failed public auction initiated by the City for delinquent properties, both parties battled through the court system—first with MCIAA filing a petition for prohibition with the Regional Trial Court (RTC) of Lapu-Lapu City, then escalating the matter to the Court of Appeals (Cebu City) upon adverse RTC decision. The Court of Appeals ruled against MCIAA, pointing out that MCIAA was a government-owned corporation subject to realty tax, a decision that disagreed with the later Supreme Court ruling in *Manila International Airport Authority v. Court of Appeals* which classified entities like MCIAA as government instrumentalities exempt from local government taxes.

Issues:

1. Whether MCIAA is a government instrumentality exempt from local taxes.
2. Whether properties owned by MCIAA, utilized exclusively for sovereign purposes, are taxable by the City of Lapu-Lapu.
3. The validity of the Court of Appeals's reliance on the principle established in the 1996 MCIAA case in light of the subsequent *Manila International Airport Authority v. Court of Appeals* ruling.

Court's Decision:

The Supreme Court granted the petition, reversing and setting aside the decisions of the Court of Appeals. It held that MCIAA was not a government-owned or controlled corporation but an instrumentality of the National Government, hence exempt from local taxes under the Local Government Code. The Court reiterated doctrines from the *Manila International*

Airport Authority case, effectively overruling the 1996 MCIAA precedent in applying these principles. Therefore, MCIAA's properties used exclusively for public or governmental purposes were declared exempt from real property taxes imposed by the City of Lapu-Lapu.

Doctrine:

Government instrumentalities vested with corporate powers but not organized as stock or non-stock corporations are exempt from local taxes. Properties of such instrumentalities, intended for public use or governmental purposes and owned by the Republic of the Philippines, are also exempt from real property taxes.

Class Notes:

- Government Instrumentalities: Entities not integrated within the department framework, performing governmental functions, devoid of any stockholders or shares of stock, essentially holding assets in trust for the government.
- Real Property Tax Exemption: Provided under Section 234 of the Local Government Code for properties owned by the Republic or utilized for public purposes.
- Decision Hierarchy: Supreme Court en banc decisions prevail over Division decisions. Subsequent jurisprudence can overrule or modify earlier rulings to adapt to new legal interpretations or policies.
- Public Dominion Properties: By virtue of Article 420 of the Civil Code, properties intended for public use or service are considered owned by the State and are not subject to taxes, liens, or execution.

Historical Background:

This case reflects the evolving interpretation of the tax obligations of government entities and instrumentalities within the Philippine legal system. It underscores the tension between local government units' power to tax and the National Government's immunity from local taxation, a balance crucial to fiscal administration and public service continuity in the country.