

****Title:**** Pepsi-Cola Bottling Company of the Philippines, Inc. vs. Municipality of Tanauan, Leyte, et al.

****Facts:**** The Pepsi-Cola Bottling Company of the Philippines, Inc. initiated a legal action on February 14, 1963, against the Municipality of Tanauan, Leyte, and its officials, challenging the constitutionality of Republic Act No. 2264 (Local Autonomy Act) and seeking to nullify Municipal Ordinances Nos. 23 and 27, series of 1962, for imposing a “municipal production tax” on soft drinks. The conflict arose when the acting Municipal Treasurer demanded compliance with Ordinance No. 27, leading Pepsi-Cola to argue that these ordinances represented an undue delegation of taxing authority, were confiscatory, oppressive, involved double taxation, and imposed an unfair and unjust tax burden. The Court of First Instance of Leyte dismissed the complaint, affirming the constitutionality and legality of the challenged provisions. The case was then appealed to the Court of Appeals, which eventually certified it to the Supreme Court as involving purely legal questions.

****Issues:**** The Supreme Court addressed three major issues:

1. Whether Section 2 of Republic Act No. 2264 constitutes an undue delegation of taxing power.
2. Whether Ordinances Nos. 23 and 27 resulted in double taxation and imposed percentage or specific taxes prohibited under the law.
3. Whether Ordinances Nos. 23 and 27 were unjust and unfair.

****Court’s Decision:****

1. The Court held that the delegation of taxing power to local governments under Section 2 of Republic Act No. 2264 was not an undue delegation, stating that local governments have the inherent right to levy taxes for matters of local concern. The Court also emphasized that the delegation of such power did not make the law confiscatory and oppressive.
2. Regarding the claim of double taxation, the Court clarified that Ordinance No. 27 was designed to replace Ordinance No. 23 and that only Ordinance No. 27 was being enforced. Thus, the argument of double taxation was dismissed. Furthermore, the Court determined that Ordinance No. 27 did not impose a percentage or a specific tax prohibited by law but was a valid exercise of the local government’s taxation power.
3. On the issue of the tax being unjust and unfair, the Court found that the tax rate imposed

by Ordinance No. 27 was neither unjust nor unfair, nor was it so excessive as to be prohibitive. It concluded that the local government had the discretion to determine the rates of imposable taxes.

Doctrines: The Supreme Court reestablished the principle that local governments possess the inherent authority to levy taxes on matters of local concern. It also clarified that the legislative power to create political corporations for local self-government includes the authority to endow these entities with the power to tax. Furthermore, it affirmed that double taxation is not per se prohibited under Philippine law unless it involves the same governmental entity taxing the taxpayer twice for the same purpose.

Class Notes:

- **Delegation of Taxing Powers:** Local governments can be delegated the power to tax by the legislative body as long as the delegation is within constitutional limits and specific guidelines provided by law.
- **Double Taxation:** Not inherently unconstitutional in the Philippines, unless it involves taxing the same subject by the same jurisdiction for the same purpose twice.
- **Due Process in Taxation:** A tax does not violate due process provided it serves a public purpose, is uniform, the person or property taxed is within the jurisdiction, and where applicable, notice and a hearing are provided.
- **Specific and Percentage Taxes:** Local governments are prohibited from imposing percentage taxes on sales or taxes on articles subject to specific taxes except as explicitly allowed by law.

Historical Background: The Pepsi-Cola Bottling Company case, decided in the context of the Local Autonomy Act (Republic Act No. 2264), highlights the evolving principles of local governance and taxation in the Philippines. This decision underscored the autonomy of local governments in creating their sources of revenue and clarified the scope of their taxing powers, contributing to the legal foundation for the decentralization of governmental functions and greater local self-determination.