

### Title:

Metropolitan Waterworks and Sewerage System vs. Central Board of Assessment Appeals, et al.

### Facts:

The case revolves around the Metropolitan Waterworks and Sewerage System's (MWSS) exemption from real property tax as contested by various entities of Pasay City, including the Central Board of Assessment Appeals (CBAA), the Pasay City Local Board of Assessment Appeals (LBAA), Pasay City itself, and its Treasurer and City Assessor. This dispute arose when Pasay City demanded real property taxes from MWSS for the year 2008, amounting to P166,629.36. MWSS contested this demand based on its status as a government instrumentality and public utility, invoking exemptions under existing laws and previous Supreme Court decisions, particularly pointing out its exemption as highlighted in the Manila International Airport Authority vs. CA case.

Following the Pasay City Treasurer's demanded payment, MWSS sought redress through a protest letter to the then Mayor of Pasay City, which was not acted upon, leading to an appeal to the LBAA. The LBAA dismissed MWSS's protest for failure to comply with the procedural requirement under Section 252 of the Local Government Code but also substantively found MWSS as a GOCC and, thus, taxable, especially since its properties were in use by Maynilad, a concessionaire and taxable entity. MWSS appealed to the CBAA, which affirmed the assessment's finality, this time citing failure to question the assessment before the city assessor as per Section 226 of the Local Government Code but acknowledged MWSS as a government instrumentality. MWSS further escalated the dispute to the Court of Appeals (CA), which dismissed the appeal due to non-exhaustion of administrative remedies, eventually leading to this petition to the Supreme Court.

### Issues:

1. Whether the CA erred in dismissing MWSS's appeal for failure to exhaust administrative remedies.
2. Whether Pasay City is authorized to assess and collect real property taxes from MWSS.

### Court's Decision:

1. **\*\*On Administrative Remedies:\*\*** The Supreme Court found that the CA erred in dismissing the appeal on the ground of non-exhaustion of administrative remedies. The Court noted that the central issue revolved around the legal question of Pasay City's authority to tax MWSS, a government instrumentality, which does not necessitate the

exhaustion of administrative remedies.

2. **On Tax Liability:** The Court declared MWSS, as a government instrumentality with corporate powers, exempt from real property taxation by local governments, in line with Sections 133(o) and 234(a) of the Local Government Code, unless the beneficial use of its properties is granted to a taxable person. Hence, MWSS was found not liable for real property taxes to Pasay City, except where it extends beneficial use of its properties to taxable entities like Maynilad.

### ### Doctrine:

- Government instrumentalities with corporate powers are exempt from local government real property taxes except when the beneficial use of such properties has been granted to a taxable entity.
- The principle of non-exhaustion of administrative remedies does not apply when at issue are purely legal questions, particularly regarding the authority to tax a government entity.

### ### Class Notes:

- **Key Concepts:**
- **Government Instrumentality:** An agency or instrument of the government, not integrated within the departmental framework but vested with special functions or jurisdiction, enjoying operational autonomy.
- **Real Property Tax Exemption:** Under Sections 133(o) and 234(a) of the Local Government Code, real properties owned by government instrumentalities are exempt from local real property taxes unless their beneficial use is granted to a taxable person.
- **Administrative Remedies:** The principle requiring the exhaustion of administrative mechanisms before resorting to judicial proceedings, which does not apply to pure questions of law.
- **Relevant Statutes:**
- **Local Government Code of 1991 (RA No. 7160), Sections 133(o), 234(a), 252, and 226:** Outline the limitations on local taxing powers, exemptions from real property tax, and procedural requirements for contesting tax assessments.

### ### Historical Background:

In evaluating MWSS's tax liability, the Supreme Court navigated through nuances in the legal framework governing government instrumentalities and their exemptions from local taxes. This case illustrates the evolving interpretation of such exemptions, especially in light

of privatization and concession agreements involving government utilities. It underscores a delicate balance between local government autonomy in taxation and the principle of exempting government instrumentalities to ensure that essential public services remain unburdened by local taxes.