Title:
Manila Electric Company vs. Province of Laguna and Benito R. Balazo

Facts:
Several municipalities in Laguna granted MERALCO franchise rights for electric supply through resolutions. Similarly, a franchise was granted by the National Electrification Administration to MERALCO for Calamba, Laguna. The enactment of the Local Government Code of 1991 (RA 7160) empowered local governments to levy taxes, leading Laguna to impose a franchise tax via Ordinance No. 01-92. MERALCO, having paid a franchise tax to the National Government, protested the additional tax imposed by Laguna, arguing it was covered by P.D. 551, which exempted them from further taxation. The Provincial Treasurer of Laguna denied MERALCO's claim for refund. Consequently, MERALCO sued for a refund in the Regional Trial Court of Sta Cruz, Laguna, which upheld the validity of the tax ordinance. MERALCO then appealed to the Supreme Court on several grounds, including the violation of the non-impairment clause and the conflict between RA 7160 and P.D. 551.

Issues:
1. Whether Section 2.09 of the Laguna Provincial Ordinance No. 01-92 violates the non-impairment clause and P.D. 551.
2. Whether RA 7160 repeals, amends, or modifies P.D. 551.
3. Applicability of the doctrine of exhaustion of administrative remedies.

Court's Decision:
The Supreme Court dismissed MERALCO's petition. It held that local governments have broader tax powers under the 1987 Constitution, subject to limitations and guidelines from Congress. RA 7160 enables local governments to impose taxes on franchises, despite prior exemptions, aiming to ensure their viability and autonomy. The withdrawal of exemptions under Section 193 of RA 7160 was deemed to include MERALCO's, overriding P.D. 551. The Court differentiated between contractual tax exemptions and those granted under franchises, stating that franchises could be amended, altered, or repealed by Congress.

Doctrine:
The decision established that the Local Government Code of 1991 (RA 7160) empowers local governments to impose taxes on franchises, notwithstanding any previous exemption granted by law or special law, thereby withdrawing previously granted tax exemptions to foster local government autonomy and self-sufficiency.

Class Notes:
– Tax powers of local governments are delegated by statute or the Constitution.
– RA 7160 allows for the imposition of taxes on businesses enjoying a franchise.
– Section 193 of RA 7160 withdraws prior tax exemptions, unless otherwise specified.
– The non-impairment clause does not protect tax exemptions granted under franchises since they are subject to amendment, alteration, or repeal by Congress.
– Legal distinctions exist between contractual tax exemptions and those granted under franchises.

Historical Background:
This case illustrates the transition and evolution of tax powers from being highly centralized to recognizing the autonomy and self-sufficiency of local government units (LGUs) in the Philippines. The promulgation of the 1987 Constitution and subsequent enactment of the Local Government Code of 1991 marked a significant shift in favor of LGU empowerment, evident in their expanded ability to levy taxes and manage local finances, leading to challenges in reconciling these new powers with existing national laws and previous exemptions.