

****Title: Bases Conversion and Development Authority and John Hay Management Corporation vs. City Government of Baguio****

****Facts:****

In 1992, Congress passed Republic Act No. 7227, creating the Bases Conversion and Development Authority (BCDA) to repurpose former US military bases. One such base, Camp John Hay, was designated to become a tourism and development region. The John Hay Management Corporation (JHMC), a BCDA subsidiary, was established to oversee this transformation. A special economic zone within Camp John Hay, known as the John Hay Special Economic Zone, was later proclaimed by President Ramos in 1994, extending tax and duty incentives similar to those in other economic zones.

However, the legality of these incentives was challenged, leading to a 2003 Supreme Court decision that invalidated the tax exemptions unless statutorily provided. Responding, Congress enacted laws (RA 9399 and RA 9400) to reaffirm and clarify these fiscal incentives.

Troubles resurfaced when Baguio City, through Administrative Order No. 102 (2009), required businesses within the John Hay Special Economic Zone to secure city permits and pay corresponding fees. The BCDA and JHMC resisted, emphasizing their exemption from local taxes and asserting their autonomy in regulatory matters within the economic zone. The city government, however, insisted on compliance, leading to a legal battle that saw the BCDA and JHMC filing for declaratory relief against the city's order.

The Regional Trial Court of Baguio City sided with the City Government, differentiating between regulatory fees for permits and taxes, the former being non-exemptible as they were for regulation, not revenue. The BCDA and JHMC's motion for reconsideration was denied, prompting an appeal to the Supreme Court, which then had to dissect whether statutory exemptions covered exemptions from regulatory fees and whether the specific exactions under Baguio's ordinance were taxes or fees.

****Issues:****

1. Whether statutory tax exemptions apply to fees for business permits required by local government units.
2. Whether the fees imposed under Baguio City's Administrative Order No. 102 are taxes or regulatory fees.
3. Assuming the fees are regulatory, whether the Baguio City government has waived its

right to collect these due to prior agreements.

****Court's Decision:****

The Supreme Court denied the petition, affirming the Regional Trial Court's decision. It clarified that statutory tax exemptions do not extend to regulatory fees for business permits. These fees, the Court reasoned, are distinct from taxes; they are levied for regulation instead of revenue, falling within the local government's police power rather than its taxing authority. The Court further expounded that RA 7916 (Special Economic Zone Act) provided tax and duty incentives but did not exempt entities within economic zones from regulatory fees imposed by local governments for business permits. The agreements between the BCDA, JHMC, and the City Government of Baguio were interpreted as not waiving the city's right to impose regulatory fees, highlighting autonomy in local governance and regulation.

****Doctrine:****

The imposition of fees for business permits by local government units is a regulatory, not revenue-generating, exercise of police power. Thus, entities, even those within special economic zones and enjoying tax exemptions, are not exempt from securing business permits or paying the corresponding regulatory fees.

****Class Notes:****

- Statutory tax exemptions do not extend to fees imposed for regulatory purposes by local government units.
- The collection of fees for business permits is rooted in the local government's police power, distinct from its power to tax.
- Local governments can impose regulatory fees to cover the costs of regulating businesses within their jurisdiction, separate from tax revenues.
- Agreements or resolutions between special economic zone authorities and local governments that provide for income sharing or other financial arrangements do not implicitly waive the local government's right to impose regulatory fees.

****Historical Background:****

This case highlights the evolving legal and policy framework governing special economic zones in the Philippines, particularly the interplay between national development objectives and local governance autonomy. It underscores the judiciary's role in delineating the boundaries of tax exemptions and regulatory fees amidst the country's efforts to stimulate economic growth through special economic zones, juxtaposing the principles of local autonomy against the backdrop of national economic policy.