

Title: Power Sector Assets and Liabilities Management Corporation v. Commissioner of Internal Revenue

Facts:

The Power Sector Assets and Liabilities Management Corporation (PSALM), a government-owned and controlled corporation created under Republic Act No. 9136 (Electric Power Industry Reform Act of 2001 or EPIRA), sought to manage the sale, disposition, and privatization of the National Power Corporation (NPC) assets in an orderly manner. This included the Pantabangan-Masiway and Magat Hydroelectric Power Plants, which were sold through public biddings won by First Gen Hydropower Corporation and SN Aboitiz Power Corporation, respectively. The Bureau of Internal Revenue (BIR) demanded the payment of P3,813,080,472 as deficiency value-added tax (VAT) for the sales. PSALM remitted this amount under protest and filed a petition with the Department of Justice (DOJ), contesting the VAT imposition. The DOJ ruled in favor of PSALM, declaring the VAT imposition null and void and ordered a refund. The BIR contested the DOJ's jurisdiction, arguing the matter should be within the purview of the Court of Tax Appeals (CTA). The Court of Appeals sided with the BIR, nullifying the DOJ's decisions for lack of jurisdiction. PSALM then elevated the matter to the Supreme Court.

Issues:

1. Whether the Court of Appeals erred in giving due course to the petition for certiorari against the DOJ's decisions.
2. Whether the DOJ acted within its jurisdiction in settling the dispute between the BIR and PSALM.
3. Whether the DOJ correctly ruled that the sale of power plants was not subject to VAT.
4. Whether the Court of Appeals' grant of the petition for certiorari was proper.

Court's Decision:

The Supreme Court ruled in favor of PSALM, finding the petition meritorious. It held that the DOJ had jurisdiction to decide on the matter under Presidential Decree No. 242, as the dispute was solely among government entities regarding the interpretation of tax laws. The Court further decided that the sale of the power plants was not "in the course of trade or business" and, thus, not subject to VAT. The decisions of the Secretary of Justice were reinstated, but the BIR was given an opportunity to appeal these decisions to the Office of the President.

Doctrine:

Intra-governmental disputes involving questions of law, including tax issues, fall within the jurisdiction of the Secretary of Justice under Presidential Decree No. 242. Furthermore, the sale of government assets in fulfillment of a statutory mandate, such as under the EPIRA law, is not considered a transaction “in the course of trade or business” for VAT purposes.

Class Notes:

- A governmental entity’s sale of assets as part of statutory mandates is not subject to VAT if not in the course of trade or business.
- Presidential Decree No. 242 provides for the Department of Justice to adjudicate disputes among government entities, including those related to tax interpretations.
- The jurisdiction over the subject matter cannot be conferred by agreement among parties but is determined by law.

Historical Background:

The case was positioned against the backdrop of the Philippine government’s efforts to reform the power sector through the EPIRA law, aiming for the privatization of the National Power Corporation’s assets to address its financial liabilities. The dispute over the VAT imposition on the sale of NPC assets to private entities underscored the complexities involved in the privatization process, particularly in interpreting tax implications within governmental transactions.