

Title: Philippine Long Distance Telephone Company, Inc. vs. City of Davao and Adelaida B. Barcelona

Facts:

In January 1999, the Philippine Long Distance Telephone Co., Inc. (PLDT) applied for a Mayor's Permit to operate in Davao Metro Exchange. The City of Davao withheld the permit until PLDT paid a local franchise tax of P3,681,985.72 for the first to fourth quarters of 1999. PLDT protested this assessment on May 31, 1999, claiming exemption based on Bureau of Local Government Finance (BLGF) opinion and requested a refund for franchise taxes paid for 1997 and the first three quarters of 1998.

The City Treasurer of Davao, Adelaida B. Barcelona, denied PLDT's protest and refund request, citing legal opinions and a local ordinance imposing a tax on businesses with a franchise. PLDT's subsequent legal challenge in the Regional Trial Court (RTC) of Davao was denied, with the RTC affirming the City Treasurer's decision based on the Local Government Code (LGC) provisions, stating that all prior exemptions were withdrawn unless exemptions applied to local taxes were expressly provided.

Aggrieved, PLDT filed a petition for review in the Supreme Court, arguing misapplication of the LGC provisions, claiming that its franchise and Republic Act No. 7925 should exempt it from local franchise and business taxes.

Issues:

1. Whether PLDT is exempt from local franchise taxes under its franchise and the provisions of Republic Act No. 7925.
2. Whether the Bureau of Local Government Finance's opinion, claiming PLDT's exemption from local taxes, should be considered binding.

Court's Decision:

The Supreme Court denied PLDT's petition for review on certiorari. The Court held that tax exemptions are highly disfavored and must be expressed clearly by the statute. It stated that Section 137 of the LGC does not cover future exemptions and that Congress has the power to grant exemptions pursuant to a declared national policy. However, the Court found that PLDT's claim to exemption, based on the inferred treatment from other franchises under RA 7925, was unfounded.

Regarding BLGF's opinion, the Court reasoned that BLGF does not possess judicial functions nor conducts expertise on legal interpretations that courts should defer to.

Ultimately, interpreting Section 23 of RA 7925 as a blanket tax exemption for all telecommunications entities, including those whose exemptions had been withdrawn by the LGC, was incorrect. As such, PLDT must pay the local franchise taxes as assessed by the City of Davao and is not entitled to a refund for the taxes paid.

Doctrine:

The Supreme Court reiterates that tax exemptions are highly disfavored and must be expressed in clear and unambiguous language by the legislature. The doctrine of strict construction applies against the taxpayer and in favor of the taxing authority. The power of local government units to levy taxes under the Local Government Code does not diminish Congress's authority to grant tax exemptions pursuant to national policy, with the caveat that such exemptions must be explicitly provided for.

Class Notes:

- * Tax exemptions are construed strictly against the taxpayer and liberally in favor of the taxing authority.
- * BLGF opinions on matters of legal interpretation, such as tax exemptions, do not carry judicial deference.
- * The principle of equality of treatment under RA 7925 does not automatically apply to grant tax exemptions across all telecommunications entities.
- * Administrative agencies' opinions do not override the clear statutory language of tax laws.

Historical Background:

This case underscores the continuing tension between local government units asserting their right to impose taxes under the Local Government Code and entities claiming exemption based on national legislations or specific franchises. It illustrates the Supreme Court's consistent stance on the strict interpretation of tax exemptions and the limited circumstances under which they may be granted.