

Title: Manila Electric Company vs. The City Assessor and the City Treasurer of Lucena City

Facts:

The Manila Electric Company (MERALCO), a public utility company involved in electric distribution, faced a legal challenge regarding the real property tax assessment on its facilities in Lucena City, Quezon Province. Initiated on February 20, 1989, MERALCO received Tax Declaration No. 019-6500 from the City Assessor covering its transformers, electric posts, transmission lines, insulators, and electric meters, classifying them as capital investments with a specific market value and assessed value. Claiming exemption from real property tax based on their franchise agreements, MERALCO appealed to the Local Board of Assessment Appeals (LBAA) of Lucena City.

The LBAA ruled in favor of MERALCO, pointing to franchise provisions exempting MERALCO's facilities from taxes and referencing a 1964 Supreme Court decision classifying similar facilities as personal, not real, property. However, the City Assessor appealed to the Central Board of Assessment Appeals (CBAA), which upheld the LBAA's decision.

On October 16, 1997, the City Treasurer of Lucena notified MERALCO of a real property tax delinquency on its machineries dating back to 1990, totaling P17,925,117.34, based on a new Tax Declaration (No. 019-7394). MERALCO appealed again, but the LBAA ruled against them, citing the Local Government Code of 1991 (Republic Act No. 7160) that effectively removed the previous tax exemptions. The CBAA and subsequently the Court of Appeals affirmed the LBAA's decision, denying MERALCO's claim for exemption and declaring the properties as subject to real property taxes.

Issues:

1. Whether MERALCO's transformers, electric posts, transmission lines, insulators, and electric meters are subject to real property tax.
2. Whether the tax assessments for the years 1992-1997 against MERALCO's facilities were valid and made in accordance with the Local Government Code.

Court's Decision:

The Supreme Court partly granted MERALCO's petition. It ruled that MERALCO's facilities are not exempt from real property tax under the Local Government Code. However, the appraisal and assessment made by the City Assessor were declared null and void for failing to comply with the requirements of the Local Government Code and violating MERALCO's right to due process. The Court thus ordered the cancellation of the collection letter and

Notice of Assessment but without prejudice to a proper appraisal and reassessment.

Doctrine:

1. The withdrawal of tax exemptions under the Local Government Code.
2. The broadened definition of “machinery” under the Local Government Code as subject to real property taxes.
3. The requirement for specific and proper appraisal and assessment as part of a taxpayer’s right to due process.

Class Notes:

- Tax exemptions must be clear and unequivocal.
- Machinery for real property tax purposes under the Local Government Code includes not only those traditionally considered immovable but also movable facilities essential to a business’s operations.
- Real property tax assessments must comply with procedural requirements under the Local Government Code to respect the taxpayer’s due process rights.
- Local Government Code of 1991 (Republic Act No. 7160) provisions relevant to real property tax: Sections 199(o), 224, 225, 232, and 252.

Historical Background:

The case reflects the evolution of tax regulation concerning public utilities like MERALCO and highlights the impacts of the Local Government Code of 1991 on previously granted tax exemptions. The case underscores the tension between local government units’ autonomy in taxation under the Code and the franchise rights granted to public utilities, concluding a significant shift in the legal landscape governing real property tax exemptions.