

Title: ****National Power Corporation vs. Province of Quezon and Municipality of Pagbilao****

Facts:

In this case, the Province of Quezon assessed Mirant Pagbilao Corporation (Mirant) for unpaid real property taxes amounting to P1.5 Billion for machineries located in its power plant in Pagbilao, Quezon. The National Power Corporation (Napocor), under a Build-Operate-Transfer (BOT) Agreement with Mirant, disputed this assessment before the Local Board of Assessment Appeals (LBAA), claiming tax exemptions under the Local Government Code (LGC) due to its government-owned or -controlled corporation (GOCC) status and function in electricity generation and transmission. The LBAA rejected Napocor's protest due to a lack of legal standing. Napocor appealed this decision claiming legal interest based on its eventual ownership transfer under the BOT Agreement, obligation to pay taxes as stipulated in the agreement, and operational control. The Supreme Court initially denied Napocor's claim based on insufficient legal interest and the non-applicability of the claimed tax exemptions. Napocor motioned for reconsideration, arguing for legal interest based on contractual tax liability assumption and likened its BOT arrangement to conditional sales under Article 1503 of the Civil Code. Additionally, Napocor requested the referral of the case to the Court En Banc and saw a Motion for Intervention from the Philippine Independent Power Producers Association, Inc. (PIPPA).

Issues:

1. Whether Napocor possesses the requisite legal interest to protest the tax assessment made by the Province of Quezon.
2. The applicability of tax exemptions and privileges under the Local Government Code to Napocor.
3. Whether the BOT Agreement between Napocor and Mirant confers upon Napocor the ownership of the machineries for the purpose of tax exemption.

Court's Decision:

The Supreme Court denied the motion for reconsideration by Napocor and upheld its initial decision that Napocor lacked the legal interest necessary to protest the tax assessment. The Court clarified that legal interest must be direct and substantial, involving rights in the property itself rather than a mere contractual obligation to pay taxes. It further distinguished the BOT Agreement not as mere financing but as a framework where the private entity (Mirant/TeaM Energy) retains operational control and ownership until the transfer date, hence not entitling Napocor to tax exemptions intended for property owners or those with immediate control. The Court also disapproved the analogy of the BOT

arrangement with conditional sales under the Civil Code, reinforcing that contractual agreements do not alter tax liabilities or exemptions under the LGC.

Doctrine:

The Court reaffirmed that legal interest in property, sufficient to contest a property tax assessment, pertains to ownership or direct control over the property in question. Tax exemptions under the Local Government Code are not extended based on contractual obligations to bear tax liability but require actual, direct, and exclusive use or possession of the property involved.

Class Notes:

- Legal Standing: Requires a direct and substantial interest in the case.
- BOT Agreements: Distinguish between financier and operational control versus actual ownership for tax purposes.
- Tax Exemptions: Governed by statutory provisions rather than contractual stipulations.
- Sections 202 and 206 of the LGC: Mandate declaration and proof of tax exemption claims by the property owner.
- Article 1503 of the Civil Code: On conditional sales, not directly applicable to BOT agreements for purposes of tax liability.

Historical Background:

This case underscores the legal complexities inherent in public-private partnerships, specifically under Build-Operate-Transfer agreements, in relation to tax liabilities and exemptions. It signals the judiciary's stance on the interpretation of legal interest and the application of local tax exemptions to entities under BOT agreements, further delineating the boundaries between operational control and ownership for tax purposes in the Philippines' power sector.