

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

Facts: The case revolves around the imposition and payment of local franchise tax by the Philippine Long Distance Telephone Company, Inc. (PLDT) to the City of Davao. PLDT had been paying a franchise tax amounting to three percent (3%) of its gross receipts, as provided under its amended charter (R.A. No. 7082), which essentially exempted it from “all taxes on this franchise or earnings thereof.” However, the enactment of the Local Government Code of 1991 (R.A. No. 7160) empowered local government units to impose taxes on businesses enjoying a franchise based on the income they receive or earn within their jurisdiction. Following this, the City of Davao enacted Ordinance No. 519, Series of 1992, imposing a franchise tax of seventy-five percent (75%) of one percent (1%) on businesses with a franchise, which affected PLDT’s previously enjoyed tax exemption status.

Subsequent legislative actions saw Congress granting franchises to Globe Mackay Cable and Radio Corp. (Globe) and Smart Information Technologies, Inc. (Smart) containing “in lieu of all taxes” clauses. Additionally, R.A. No. 7925 (Public Telecommunications Policy of the Philippines) was enacted, ostensibly offering PLDT the possibility of reclaiming its tax exemption status by virtue of its provision that any advantage granted under new franchises shall apply to previously granted franchises as well.

PLDT’s appeal for exemption from local franchise taxes and its demand for a refund of taxes paid under protest for specific periods were dismissed by the Regional Trial Court of Davao, leading to PLDT bringing the case before the Supreme Court.

Issues: The primary legal issue centered on whether PLDT is entitled to exemption from local franchise tax as a consequence of R.A. No. 7925, specifically whether the privileges granted to Globe and Smart through their respective franchises automatically apply to PLDT’s franchise. The case also raised questions regarding the interpretation of tax exemptions and the extent of local government units’ taxing powers under the Local Government Code.

Court’s Decision: The Supreme Court en banc denied PLDT’s motion for reconsideration, affirming that PLDT is not entitled to exemption from local franchise tax. The Court strictly construed tax exemptions, emphasizing that exemptions must be expressly stated in law and cannot be presumed or extended by inference. It was clarified that R.A. No. 7925 did not provide a clear and unequivocal tax exemption to PLDT; rather, it aimed to foster a

competitive environment within the telecommunications industry without granting automatic tax exemptions. Furthermore, legislative actions post-R.A. No. 7925, including the granting of franchises with explicit tax provisions, indicated a legislative intent against extending an automatic tax exemption to previously granted franchises like that of PLDT.

**Doctrine:** Tax exemptions must be clearly and unequivocally provided for by law, and cannot be presumed or extended by mere implication. The principle of strict interpretation against the taxpayer and in favor of the taxing authority applies, particularly in cases where tax exemptions are claimed.

**Class Notes:**

- Tax Exemptions: Must be explicit in law and are strictly construed against the claimant.
- Local Government Taxing Power: Local government units possess the authority to impose taxes within their jurisdiction as empowered by the Local Government Code of 1991 (R.A. 7160).
- Legislative Intent: Subsequent legislative actions, including express provisions in later-granted franchises, are indicative of legislative intent regarding tax exemptions.

**Historical Background:** This case highlights the tension between national legislation granting franchise tax exemptions to telecommunications companies and the Local Government Code's provisions empowering local taxation. It also underscores the evolving policies concerning the regulation and taxation of businesses enjoying a franchise in the context of fostering competition within the telecommunications sector in the Philippines.