

### Title: Batangas Power Corporation v. Batangas City & National Power Corporation

### Facts:

In the early 1990s, the Philippines was experiencing a significant power crisis, leading the government, through the National Power Corporation (NPC), to attract investors with incentives, including tax payments, under the Build Operate and Transfer (BOT) Agreement. On June 29, 1992, Enron Power Development Corporation, later succeeded by Batangas Power Corporation (BPC), entered into a BOT Agreement with NPC to supply and eventually transfer a power station to NPC after 10 years. BPC registered as a pioneer enterprise with the Board of Investments (BOI) on September 13, 1992, entitling it to a tax holiday for six years.

In 1998, Batangas City demanded business taxes from BPC for the years 1994 onwards, which BPC refused, citing its tax-exempt status. On April 15, 1999, the city modified its demand to only cover taxes for 1998-1999, but BPC maintained it was still within its tax holiday period, arguing the holiday began on its commercial operation date, July 16, 1993, as confirmed by BOI due to force majeure delays.

With the matter unresolved, BPC filed a petition for declaratory relief with the Makati Regional Trial Court (RTC) against Batangas City and NPC, seeking affirmation of its non-liability for the taxes, attributing the responsibility to NPC under the BOT Agreement. Batangas City and NPC filed their responses. During the proceedings, the city withheld BPC's business permit, prompting BPC to file a supplemental petition for an injunction, which the RTC initially dismissed, holding BPC liable for the taxes and stating NPC lost its tax exemption with the passage of the Local Government Code (LGC).

### Issues:

1. When does BPC's 6-year tax holiday commence: at BOI registration or commercial operation?
2. Did the Makati RTC have jurisdiction over the petition for an injunction against Batangas City?
3. Were NPC's tax exemption privileges withdrawn by the Local Government Code?

### Court's Decision:

The Philippine Supreme Court dismissed the consolidated petitions, agreeing with the RTC's decisions. It ruled that:

1. BPC's tax holiday began on its BOI registration date, not on the start of its commercial

operations, aligning with the applicable LGC provision over BOI's regulations concerning income taxes.

2. NPC's failure to contest the jurisdiction of Makati RTC over the injunction petition precludes them from challenging it at the Supreme Court.

3. The LGC's enactment removed NPC's tax exemption privileges under its charter, aligning with the Court's decision in *National Power Corporation v. City of Cabanatuan*, emphasizing local government units' power to levy taxes following the 1987 Constitution, promoting local autonomy and decentralization.

### ### Doctrine:

- The commencement of a tax holiday for BOI-registered pioneer enterprises is from the date of BOI registration, not the date of commercial operation, concerning local taxes under the LGC.
- Participation in a judicial proceeding without challenging its jurisdiction waives the right to contest it later based on unfavorable judgment.
- The enactment of the Local Government Code expressly and generally repealed tax exemption privileges previously enjoyed by government-owned or controlled corporations, like NPC, aligning with the policy of promoting local autonomy and decentralization.

### ### Class Notes:

- **\*\*Tax Holiday Start Date\*\***: For pioneer enterprises registered with BOI, their local tax holiday commences from the date of registration, not from the date of actual business operations (LGC, Sec. 133(g)).
- **\*\*Jurisdiction Participation Principle\*\***: Engaging in a judicial process without contesting jurisdiction waives the right to dispute it on later stages based on the case's outcome.
- **\*\*Repeal of Tax Exemptions\*\***: The LGC specifically repeals previous statutes granting tax exemptions to government-owned corporations, emphasizing the broad taxation powers granted to local government units to foster local autonomy (Sec. 193, LGC).

### ### Historical Background:

This case illustrates the legal and fiscal state transition in the Philippines during the 1990s from centralized power with broad tax exemptions for state-owned entities to promoting local government autonomy post-1987 Constitution. The facts underscore the government's efforts to address the power crisis through privatization and incentives, while the legal contention reflects the evolving legal landscape concerning local and national tax obligations and exemptions, particularly in the context of investment incentive agreements like the BOT.