

Title: Social Security System vs. City of Bacolod and Miguel Reynaldo (201 Phil. 1)

Facts: The Social Security System (SSS), a government-owned and controlled corporation, owned a five-story building in Bacolod City referred to as the SSS Building, constructed on four parcels of land. In 1970, the City of Bacolod assessed these properties for taxation at PHP 1,744,840.00. Due to the SSS's failure to pay realty taxes for 1968, 1969, and 1970, which totaled PHP 104,956.06 including penalties, the city, in early 1970, levied upon the lands and building, eventually declaring them forfeited in its favor on April 3, 1970. The SSS contested this by sending a letter to the City Mayor of Bacolod, invoking its tax-exempt status as a government entity, which the City Treasurer ignored. Consequently, the SSS filed a lawsuit in the Court of First Instance of Negros Occidental seeking to nullify the forfeiture. The court issued a preliminary injunction against the city, preventing it from consolidating ownership over the properties, subjected to a PHP 105,000.00 cash bond posted by the petitioner. However, the lower court ultimately dismissed the SSS's complaint, ruling that SSS properties were not exempt from real property taxes, prompting the appeal to the Supreme Court.

Issues: The primary legal issue is whether properties owned by the Social Security System (SSS), a government corporation performing proprietary functions, are exempt from real estate taxes.

Court's Decision: The Supreme Court found the petition meritorious and set aside the lower court's decision, holding that under Section 29 of the Charter of the City of Bacolod, properties owned by the government, including those owned by the SSS, are exempt from real estate taxes. The Supreme Court elucidated that the exemption provided by the Charter and Commonwealth Act No. 470 (dealing with real estate taxes) applies broadly to government-owned properties without regard to their use for governmental or proprietary functions. It underscored that taxation of government property serves no beneficial purpose since it merely shifts funds within government coffers. Moreover, the Court highlighted that Presidential Decree No. 24 explicitly exempts the SSS from taxes, solidifying its tax-exempt status.

Doctrine: The Supreme Court established or reiterated the doctrine that properties owned by the government, regardless of whether they are employed for governmental or proprietary purposes, are exempt from real estate taxes. This is supported by the broad and comprehensive exemption provisions found in the Charter of the City of Bacolod and Commonwealth Act No. 470, as well as the specific exemption granted to the SSS under

Presidential Decree No. 24.

Class Notes:

- Government-owned properties, irrespective of their use, are exempt from real estate taxes.
- The distinction between constituent and ministrant (governmental and proprietary) functions of government agencies does not apply to tax exemptions of government-owned properties.
- Presidential Decree No. 24 specifically exempts SSS from all forms of taxes, reinforcing its status as a tax-exempt entity.

Historical Background: The case arose from the contested real estate tax obligations of the Social Security System for its property in Bacolod City. The issue highlights the broader legal debate over the taxable status of government-owned entities, particularly those engaged in proprietary activities, against the backdrop of evolving tax laws and decrees. The Supreme Court's decision reflects an important reaffirmation of the principle that government entities, by virtue of their ownership by the Republic, should generally be exempt from taxation to avoid the illogical transfer of funds within government departments and to ensure the efficient operation of public services.