

### Title:

City of Pasig and Crispina V. Salumbre vs. Manila Electric Company

### Facts:

The legal dispute began when, on 26 December 1992, the Sangguniang Bayan of the Municipality of Pasig enacted Ordinance No. 25, which established a franchise tax applicable within the municipal territory. Specifically, Section 32 of the Ordinance imposed a franchise tax on all businesses operating under a franchise at a rate of fifty percent of one percent of their gross receipts from the preceding calendar year.

Pasig's transition from a municipality to a highly urbanized city followed on 25 January 1995, under Republic Act No. 7829. Despite this change in status, on 24 August 2001, the City of Pasig demanded franchise tax payments from the Manila Electric Company (MERALCO) for the years 1996 to 1999, based on Ordinance No. 25.

MERALCO contested the validity of this demand, citing several grounds: a Department of Justice declaration of the ordinance's invalidity, a Pasig City Regional Trial Court (RTC) ruling for a franchise tax refund to MERALCO, and affirmations of the RTC decision by both the Court of Appeals (CA) and the Supreme Court.

Unsatisfied with the Treasurer's Office's inaction, MERALCO initiated a lawsuit for annulment of the demand. The RTC sided with the City of Pasig, but this decision was reversed by the CA, leading to the current petition for review to the Supreme Court.

### Issues:

1. Whether the CA correctly ruled that the City of Pasig had no legal basis to impose the franchise tax for the years 1996 to 1999.
2. Whether the conversion of Pasig from a municipality to a city empowered it to levy franchise taxes despite the prior ordinance being void.
3. The legal standing of Municipal Ordinance No. 25 following the city's transition.

### Court's Decision:

The Supreme Court affirmed the CA's decision that the City of Pasig had no valid legal basis to impose the franchise tax on MERALCO for the specified period. The Court elaborated that municipalities lack the authority to levy a franchise tax, making Ordinance No. 25 null and void from its inception. The subsequent conversion of Pasig into a city did not rectify the ordinance's inherent invalidity nor grant the city retrospective power to enforce such a tax. The Supreme Court aligned with previous jurisprudence, underscoring that a municipality's

conversion into a city does not cure the original defects of an ordinance.

**### Doctrine:**

1. **Authority to Levy Taxes**: Under the Local Government Code of 1991, the power to impose a franchise tax is exclusive to provinces and cities, not municipalities.
2. **Validity of Ordinances**: An ordinance enacted by a municipality that contravenes the law is null and void ab initio, and its invalidity is not remedied by the municipality's later conversion into a city.

**### Class Notes:**

- **Franchise Tax**: A tax imposed on businesses operating under a franchise; based on a percentage of gross receipts.
- **Local Government Code of 1991 (Sections 137 and 151)**: Defines the taxing powers of local government units, expressly prohibiting municipalities from levying taxes allocated to provinces and cities.
- **Null and Void Ordinances**: Ordinances that are against mandatory or prohibitory laws are void from the outset and cannot produce any legal effect.
- **Transitional Authority from Municipality to City**: The conversion of a municipality into a city does not validate previously void actions or ordinances.

**### Historical Background:**

This legal battle underscores the delineation of taxing authority among local government units under the Local Government Code of 1991 in the Philippines. It highlights the limitations municipalities face in taxation and reiterates the consistency required between local ordinances and national laws, especially in the context of the evolving administrative status of local government units.