

Title: Digital Telecommunications Philippines, Inc. vs. City Government of Batangas

Facts:

In 1994, Digital Telecommunications Philippines, Inc. (petitioner) was granted a 25-year franchise under Republic Act No. 7678 (RA 7678) to operate telecommunications systems throughout the Philippines. Notably, Section 5 of RA 7678 detailed the tax provisions relevant to the grantee, including a clause on real property tax. In 1997, after installing telecommunications facilities in Batangas City, the petitioner ran into trouble securing operational permits due to discrepancies in computed fees and unresolved realty tax liabilities. Citing RA 7678, and backed by opinions from the Bureau of Local Government Finance (BLGF) and the Office of the President, the petitioner claimed exemption from realty taxes.

The Batangas City Government refused to issue the operational permit for 1999 without the realty tax payment. Facing a threat of operation shutdown by the city, the petitioner paid the realty taxes under protest and filed a case in 1999 for prohibition and mandamus with prayer for a temporary restraining order or writ of preliminary injunction. This legal challenge was initially ruled in favor of the petitioner by RTC-Branch 3, declaring the petitioner's telecommunications-related properties exempt from real property taxes. The case was later reassigned to RTC-Branch 8, which reversed the decision and declared the petitioner liable for realty taxes.

Issues:

1. Whether the phrase "exclusive of this franchise" in Section 5 of RA 7678 exempts the petitioner's real properties used in its telecommunications business from realty taxes.
2. The proper interpretation of the tax provisions in Section 5 of RA 7678 regarding the liability of the petitioner for taxes on its real and personal properties.

Court's Decision:

The Supreme Court ruled that the petition lacked merit, affirming the RTC-Branch 8's decision that the petitioner is not exempt from paying real property tax. Key conclusions included:

- The phrase "exclusive of this franchise" in Section 5 of RA 7678 signifies that the franchise itself is not subject to real and personal property taxes listed in the section but does not exempt the petitioner's real properties used in telecommunications from realty taxes.
- The Court rejected the petitioner's interpretation of tax exemptions based on the mentioned clause, emphasizing that tax provisions must be clear and unequivocal for

exemptions to apply, and ambiguities are resolved in favor of tax imposition.

- The historical usage of the phrase in legislation does not support the claim of exemption from real property taxes for properties used in the operation of the franchise.

Doctrine:

- Tax exemptions must be expressly stated and cannot be presumed or derived from vague implications. The phrase “exclusive of this franchise” excludes the franchise from the taxable properties but does not exempt the real properties used in the operation of the franchise from realty taxes.

Class Notes:

- Tax Exemptions: Exemptions from taxes must be clearly stated in the law; ambiguity in tax provisions will be interpreted in favor of tax imposition.

- Realty Taxes: Properties used in the operation of a franchise are subject to realty taxes unless explicitly exempted by law.

- Interpretation of Statutes: In tax law, words conveying exemptions must be clear and unequivocal. Ambiguities are resolved against the taxpayer.

Historical Background:

This case illustrates the evolving interpretation of legal provisions regarding tax liabilities of telecommunication companies in the Philippines. It underscores the principle that tax exemptions are strictly construed and emphasizes the legislative intent to subject telecommunications companies to the same tax burdens as other entities, reinforcing the principle of parity in taxation.