

Title: National Power Corporation vs. City of Cabanatuan

Facts:

1. The National Power Corporation (NPC), a government-owned and controlled corporation formed under Commonwealth Act No. 120, as amended, sells electricity to residents of Cabanatuan City, generating a gross income of P107,814,187.96 in 1992.
2. The City of Cabanatuan, under Section 37 of Ordinance No. 165-92, assessed a franchise tax of P808,606.41 (75% of 1% of the NPC's 1992 gross receipts).
3. NPC refused to pay the tax, asserting exemption under Section 13 of Rep. Act No. 6395.
4. The City of Cabanatuan filed a collection suit in the Regional Trial Court (RTC) of Cabanatuan City, contesting that NPC's exemption was repealed by Section 193 of Rep. Act No. 7160.
5. The RTC dismissed the case, upholding NPC's exemption due to the special law Rep. Act No. 6395 and citing that implied repeals are not favored.
6. The Court of Appeals reversed the RTC's decision, invoking Section 193 of the Local Government Code (LGC) which withdrew the exemption, and ordered NPC to pay franchise tax plus surcharge and litigation expenses.
7. NPC filed a Motion for Reconsideration, which was denied by the Court of Appeals.

Issues:

1. Does Section 137 of the LGC apply only to private entities, exempting NPC which is a non-profit public corporation?
2. Can a general law (LGC) repeal a special law (NPC's charter)?
3. Should tax exemption enforced through police power override the taxing power of local governments under the LGC?

Court's Decision:

1. **Applicability of Section 137 of the LGC:** The Supreme Court (SC) ruled that Section 137 of the LGC, read with Section 151, authorizes LGUs to impose a franchise tax on businesses, including government-owned corporations like NPC.
- **Issue Resolution:** The SC found that NPC is a franchise holder enjoying a secondary or special franchise under its charter, thus falling within the purview of Sections 137 and 151 of the LGC.
2. **Special vs. General Law:** The SC determined that Section 193 of the LGC expressly withdrew tax exemptions previously granted to all entities, including government-owned corporations like NPC, except for specified exceptions.

- ***Issue Resolution***: The repeal is not implied but express and categorical, thus applying over the special exemption in NPC's charter.

3. ****NPC's Non-Profit Status and Taxation****: The SC clarified that the franchise tax is a charge on the exercise of NPC's franchise privileges, not on the entity's income or ownership structure.

- ***Issue Resolution***: The non-profit status of NPC does not exempt it from franchise taxation as it is engaged in business activities of generating and selling electricity, which makes it liable under the LGC.

**Doctrine:**

- ****Comprehensive Withdrawal of Tax Exemptions****: Section 193 of the LGC effectively nullified all previous tax exemptions granted to government-owned and controlled corporations except local water districts, cooperatives, non-stock and non-profit hospitals, and educational institutions.

- ****Supremacy of Local Government Code****: Even special laws granting tax exemptions to state instrumentalities are overridden by the LGC, which can impose taxes on these entities.

**Class Notes:**

- ****Franchise Tax****: A tax on the privilege of engaging in a business, not dependent on ownership or profit-making capacity (Section 137 LGC).

- ****Repeal of Exemptions****: Section 193 LGC categorically repeals prior tax exemptions (expressio unius est exclusio alterius principle).

- ****Local Autonomy****: Enhanced tax powers of LGUs under the 1987 Constitution and the LGC for generating local revenue.

**Historical Background:**

- ****Local Fiscal Autonomy****: Reflecting the thrust for decentralization and local autonomy in the 1987 Constitution, the LGC of 1991 expanded LGUs' tax powers to support local development and fiscal independence.

- ****NPC's Evolution****: Originally established to centralize electric power generation, NPC's exemption reflected a time when national policy focused on developing nationwide infrastructure, now adjusted under policies promoting local government self-reliance.