

City of Lapu-Lapu vs. Philippine Economic Zone Authority; Province of Bataan, et al. vs. Philippine Economic Zone Authority

Facts

- **1972**: President Ferdinand E. Marcos issued Presidential Decree No. 66, establishing the Export Processing Zone Authority (EPZA) to encourage foreign commerce and industrialization. EPZA was declared a non-profit organization, exempted from all taxes, including real property taxes.
- **1979**: President Marcos issued Proclamation No. 1811, establishing the Mactan Export Processing Zone in Lapu-Lapu City, Cebu.
- **1995**: Republic Act No. 7916 (Special Economic Zone Act of 1995) created the Philippine Economic Zone Authority (PEZA) to replace EPZA, absorbing its responsibilities and exemptions except where inconsistent with RA 7916.
- **1998-2002**: City of Lapu-Lapu demanded PEZA pay real property taxes amounting to PHP 86.84 million for properties in the Mactan Economic Zone, based on Sections 193 and 234 of the Local Government Code (LGC) of 1991.
- **2002**: PEZA filed a petition for declaratory relief in RTC Pasay (Branch 111), asserting its exemption from real property taxes.
- **2006**: RTC Pasay ruled in favor of PEZA. City of Lapu-Lapu appealed to the Court of Appeals (CA).
- **2008**: CA dismissed the City's appeal for employing the wrong mode of appeal. The City's extension request was denied. The City of Lapu-Lapu then approached the Supreme Court.

- **2003-2004**: Province of Bataan demanded real property taxes from PEZA amounting to PHP 110.55 million for properties in Mariveles, Bataan.
- **2004**: PEZA filed a petition for injunction with RTC Pasay (Branch 115).
- **2007**: RTC denied PEZA's petition for injunction, finding PEZA liable for real property taxes. PEZA filed a petition for certiorari with the CA.
- **2008**: CA granted certiorari, voiding RTC's decision and nullifying Bataan's tax impositions. The Province of Bataan then appealed to the Supreme Court.

Issues

1. Whether the CA erred in dismissing City of Lapu-Lapu's appeal for raising pure questions of law.
2. Whether RTC Pasay (Branch 111) had jurisdiction over the PEZA's petition for declaratory relief against City of Lapu-Lapu.

3. Whether CA had jurisdiction over PEZA's petition for certiorari against Province of Bataan.

4. Whether PEZA is exempt from payment of real property taxes.

Court's Decision

- **Issue 1**: The CA correctly dismissed the City's appeal for raising pure questions of law which should have been directly filed before the Supreme Court via a petition for review under Rule 45.

- **Issue 2**: RTC Pasay lacked jurisdiction over PEZA's petition for declaratory relief because demand letters and tax assessments had already been issued by the City, indicating a breach of rights. A proper remedy would have been a direct judicial action such as an injunction.

- **Issue 3**: The CA lacked jurisdiction over the PEZA's petition for certiorari against the Province of Bataan. PEZA should have filed an appeal with the Court of Tax Appeals, which has exclusive appellate jurisdiction over local tax cases decided by RTCs.

- **Issue 4**: PEZA is exempt from real property taxes:

- **Under Local Government Code**: As an instrumentality of the national government, PEZA is exempt from local taxation under Section 133(o).

- **Property Classification**: Properties reserved for public use and development (like the Mactan Economic Zone and Bataan Freeport Area) are public dominion and thus exempt from real property taxes as per Section 234(a).

- **Inherited Exemption from EPZA**: PEZA assumed EPZA's tax-exempt character under Presidential Decree No. 66.

Doctrine

PEZA, as an instrumentality of the national government, is exempt from local taxes including real property taxes. Real properties owned by the Republic or its instrumentalities used for development purposes remain exempt even if their beneficial use is leased to non-taxable entities.

Class Notes

- **Key Elements of Economic Zone Law**:

1. **Presidential Decree No. 66**: Establishes EPZA and its tax exemptions.

2. **Republic Act No. 7916**: Transfers EPZA's roles to PEZA and provides guidelines for PEZA's operations and tax privileges.

3. **Local Government Code of 1991 (Sections 133(o), 234(a))**: Limits local governments' taxing powers over national government instrumentalities and properties of public dominion.

- **Important Points**:

- **Jurisdiction**: Declaratory relief inappropriate if rights are breached; proper remedy is injunctive relief.

- **Appeal Mechanism**: Use correct mode of appeal (directly to SC under Rule 45 for pure law questions).

- **Tax Exemptions**: PEZA's inherited tax-exempt status from EPZA; exemptions under the Local Government Code.

Historical Background

The case contextualizes economic measures initiated during the Marcos regime to boost industrialization and foreign investment through tax incentives and export processing zones. The legal transition in 1995 from EPZA to PEZA under President Ramos aimed to continue these benefits while streamlining administration and extending these benefits nationwide. The Local Government Code of 1991, ensuring fiscal autonomy for local governments, necessitated judicial clarification on national exemptions affecting agencies like PEZA.