

### Title: National Power Corporation vs. Central Board of Assessment Appeals, et al.

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### Facts:

1. **Agreement Formation**:

- On January 11, 1993, First Private Power Corporation (FPPC) entered into a Build-Operate-Transfer (BOT) agreement with the National Power Corporation (NAPOCOR) for the construction of the 215 Megawatt Bauang Diesel Power Plant in Payocpoc, Bauang, La Union.
- The agreement led to the creation of Bauang Private Power Corporation (BPPC) to own, manage, and operate the power plant.

2. **BOT Agreement Provisions**:

- Under the BOT agreement, BPPC was to operate the plant and convert diesel fuel provided by NAPOCOR into electricity for a fee.
- The power plant, fixtures, fittings, machinery, and equipment would be transferred to NAPOCOR without compensation at the end of a 15-year period.

3. **Tax Exemption Issue**:

- Initial declarations from the Municipal Assessor's Office of Bauang considered BPPC's machineries and equipment tax-exempt due to NAPOCOR's involvement.
- The issue of tax exemption was challenged, eventually leading the Bureau of Local Government Finance (BLGF) to determine that BPPC's machineries and equipment should be subject to real property tax.

4. **Litigation Timeline**:

- **LBAA**: NAPOCOR's petition for tax exemption was denied, with the Local Board of Assessment Appeals (LBAA) asserting that BPPC owned and operated the equipment, not NAPOCOR.
- **CBAA**: An appeal to the Central Board of Assessment Appeals (CBAA) also resulted in a dismissal based on similar grounds.
- **CTA**: NAPOCOR then filed a petition for review with the Court of Tax Appeals (CTA), which again ruled against NAPOCOR. BPPC's separate petition for review was consolidated and also dismissed.
- **Supreme Court**: NAPOCOR and BPPC both sought review by the Supreme Court.

### Issues:

1. Whether NAPOCOR is the actual, direct, and exclusive user of BPPC's machineries and equipment for the purposes of tax exemption under Section 234(c) of Republic Act No. 7160 (Local Government Code).
2. Whether BPPC can rely on NAPOCOR's tax exemption status through the BOT Agreement.
3. Whether the real property tax exemption under R.A. No. 7160 is retained when the machineries and equipment are used by a private entity under a BOT agreement.
4. Classification and applicable assessment levels of the power plant's machineries and equipment.

### Court's Decision:

- **Issue 1**:

- **Courts' Ruling**: NAPOCOR is not the actual, direct, and exclusive user of the equipment as BPPC owns, operates, and manages the plant. Hence, the tax exemption under Section 234(c) does not apply.

- **Issue 2**:

- **Courts' Ruling**: NAPOCOR's tax exemption status cannot be extended to BPPC. The contractual agreement between NAPOCOR and BPPC doesn't bind the government or absolve BPPC from tax liabilities.

- **Issue 3**:

- **Courts' Ruling**: The provisions of the Local Government Code and the BOT law do not allow the extension of tax exemption to a private entity like BPPC under the BOT arrangement.

- **Issue 4**:

- **Courts' Ruling**: Since BPPC, a non-GOCC entity, is the owner and user of the equipment, the equipment cannot be subject to a lower assessment level of 10% applicable to properties owned by GOCCs engaged in power generation.

### Doctrine:

1. **Clear Statutory Language**: Tax exemptions must be granted clearly and unequivocally by law; they are not extended by contractual agreements or inferred.

2. **Actual, Direct, and Exclusive Use Requirement**: Tax exemption under Section 234(c) of RA 7160 requires that the machinery be actually, directly, and exclusively used by a government-owned or -controlled corporation involved in power generation and transmission.

3. **Strict Interpretation of Tax Exemptions**: Tax exemptions are strictly construed against the taxpayer and in favor of the taxing authority. Unauthorized exemptions can only be rectified through legislative action, not judicial discretion.

### ### Class Notes:

- **Taxation Principles**: Emphasizes the principle that taxes are the rule, and exemptions are exceptions that must be clearly justified by statutory language.
- **BOT Agreements**: Highlights the nature and implications of BOT agreements in terms of ownership and usage rights over project assets, particularly in the power sector.
- **Jurisdiction and Authority**: Illustrates the role of various administrative and judicial bodies (LBAA, CBAA, CTA, and Supreme Court) in resolving tax exemption disputes.

### ### Historical Background:

The case highlights the significant period of privatization and public-private partnerships encouraged under the BOT Law in the Philippines, aiming to attract private investments in infrastructure. At the same time, it addresses the complexities and legal intricacies surrounding tax obligations in such collaborative arrangements, emphasizing the boundaries of tax exemptions for government-linked entities versus private corporations under local taxation laws.