

****Title:****

City of Makati vs. Municipality of Bakun and Luzon Hydro Corporation, G.R. No. 228339

****Facts:****

Luzon Hydro Corporation (LHC) operates a hydroelectric power plant harnessing the Bakun River flowing through the Provinces of Ilocos Sur and Benguet. LHC's principal office is reflected as located in Alilem, Ilocos Sur in its Articles of Incorporation. The facility's power station and switch yard lie in Alilem, while structures like conveyance tunnels and desanders are in Bakun, Benguet. Additionally, LHC maintains an office in Makati City.

After a six-year tax holiday that ended in 2003, LHC began paying local business taxes on its gross receipts, splitting the taxes between Alilem, Bakun, and Makati as these are the relevant locales. Alilem received 30% given it hosted the principal office, while the remaining 70% was equally divided among Alilem, Bakun, and Makati as each claimed to be a situs of the plant operations or the designated project office.

Bakun challenged this scheme, claiming the full 70% allocation, sparking a dispute brought to the Bureau of Local Government Finance (BLGF). The BLGF deemed that only Bakun and Alilem were entitled to splits from the 70% share, reducing Makati's role to collecting regulatory fees.

LHC sought resolution via an interpleader action in the RTC of Makati City, which ruled that the 70% should be split among Alilem, Bakun, and Makati based on LHC's representation of Makati's office as a "project office."

Disagreeing with the RTC and affirming BLGF's stance, the CTA ruled that Makati was merely an "administrative office" and couldn't share in the 70% portion. This decision set the basis for Makati to escalate the matter to the Supreme Court after failed motions for reconsideration.

****Issues:****

1. Whether the CTA erred in disregarding the RTC's classification of LHC's Makati office as a "project office."
2. Whether Local Finance Circular No. 03-95 was properly applied in determining the nature of the Makati office.
3. Whether BLGF's opinion held binding authority.

4. Whether the CTA's decision should affect Alilem despite it not appealing the RTC's decision.
5. Whether the CTA had jurisdiction to review the matter as it stemmed from a special civil action for interpleader.

****Court's Decision:****

1. ****Nature of Makati Office:**** The Supreme Court upheld the CTA's determination that LHC's Makati office was merely an administrative office, not a project office. This was based on a detailed review of the actual business activities and tax situs principles under relevant law. Specifically, no sales or substantial operations took place there akin to a factory or plant but were mere administrative functions.
2. ****Application of Local Finance Circular No. 03-95:**** The Supreme Court agreed with the CTA's use of this circular as a guiding principle. The definition provided for a project office as akin to a factory applied logically to ensure uniform application of taxation rules for consistency in how business taxes are imposed.
3. ****BLGF Opinion's Authority:**** The Supreme Court clarified that while BLGF's opinions offer guidance, they do not hold binding authority akin to judicial determinations. Thus, the CTA was correct in reaching its decision independently of BLGF's stance but consonantly with legal principles.
4. ****Effect on Alilem:**** Despite Alilem not appealing, the Court held that common interest principles applied. Thus, a successful appeal by Bakun incidentally benefitted Alilem, ensuring that legal determinations regarding tax sharing applied uniformly to both locales participating in the tax situs determinations.
5. ****Jurisdiction of the CTA:**** The CTA's jurisdiction over local tax matters, even if derived from a special civil action for interpleader, was reaffirmed by the Supreme Court. The Court reiterated CTA's specialized competence in matters of taxation and upheld its jurisdictional scope as per the expanded authorities outlined in RA 9282.

****Doctrine:****

1. Business tax situs as per Section 150 of R.A. No. 7160 is based on where the business operations and sales are primarily conducted.
2. Administrative rulings (e.g., BLGF opinions) advise but do not bind judicial

determinations.

3. Uniform application of tax law principles is critical, irrespective of specific business types covered in local finance regulations (Local Finance Circular No. 03-95).

****Class Notes:****

- ****Situs of Tax:**** Key elements defining local business tax allocation are the function and execution of main business operations at specified locations (factories, project offices, plants, plantations).

- ****Administrative Office vs. Project Office:**** Definitions hinge upon the role akin to production involvement — administrative functions do not attract the same tax benefits as production facilities.

- ****Jurisdiction:**** The CTA has specialized and appellate jurisdiction over local tax matters from RTC judgments, notwithstanding the procedural origin as an interpleader.

****Historical Background:****

The case illustrates the complexities arising from multiple local government units (LGUs) asserting tax rights over business operations spanning different jurisdictions, emphasizing the need for clear legal guidelines in tax situs and LGU entitlements. The legal framework stems from the Local Government Code of 1991, reflecting its intent to decentralize fiscal powers while balancing local tax claims in multifaceted business contexts.