

****Title:**** First Philippine Industrial Corporation vs. Court of Appeals

****Facts:****

First Philippine Industrial Corporation (FPIC) is a grantee of a pipeline concession under Republic Act No. 387, as amended, to contract, install and operate oil pipelines. The original concession was granted in 1967 and renewed by the Energy Regulatory Board in 1992. In January 1995, FPIC applied for a mayor's permit with the Office of the Mayor of Batangas City. However, the City Treasurer required FPIC to pay a local tax based on its gross receipts for fiscal year 1993, assessed at P956,076.04, payable in four installments. To avoid operational disruption, FPIC paid the first quarter's tax under protest.

On January 20, 1994, FPIC filed a letter-protest with the City Treasurer arguing that as a pipeline operator, they are exempt from paying such a tax under Section 133 of the Local Government Code (LGC). The protest was denied on March 8, 1994, by the City Treasurer. FPIC then filed a complaint for a tax refund with the Regional Trial Court (RTC) of Batangas City, challenging the tax imposition.

On October 3, 1994, the RTC dismissed FPIC's complaint. FPIC appealed to the Court of Appeals, which affirmed the RTC decision on November 29, 1995. FPIC's motion for reconsideration was denied on July 18, 1996. FPIC then filed a petition with the Supreme Court, which initially was denied but subsequently reinstated on January 20, 1997, upon FPIC's motion for reconsideration.

****Issues:****

1. Whether FPIC is considered a common carrier or a transportation contractor under the law.
2. Whether FPIC is exempt from the business tax imposed by the City of Batangas under Section 133 (j) of the Local Government Code.

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

1. ****Whether FPIC is a common carrier:****

The Supreme Court held that FPIC is indeed a common carrier under Article 1732 of the Civil Code, which defines common carriers as any service engaged in the transportation of passengers or goods, by land, water, or air, for compensation, without distinction as to the means of transport. The Court found FPIC met these criteria, despite having a limited

clientele, as it transports petroleum for hire and offers services to anyone willing to engage them.

2. **Exemption under Section 133 (j) of the Local Government Code:**

The Court concluded that FPIC, as a common carrier by pipeline, falls within the scope of Section 133 (j) of the Local Government Code, exempting common carriers from local business taxes. The legislative intent behind this exemption was to avoid duplicative taxation, as FPIC was already subject to a three-percent common carrier's tax under the National Internal Revenue Code.

The Supreme Court thus ruled in favor of FPIC, reversing the Court of Appeals' decision and holding that the business tax imposed by the City of Batangas on FPIC's gross receipts was invalid.

Doctrine:

1. **Definition of Common Carrier (Article 1732, Civil Code):** Includes any entity transporting goods or passengers for compensation, without distinction as to the method of transport or generality of clientele.
2. **Section 133 (j) of the Local Government Code of 1991:** Local government units cannot impose taxes on gross receipts of common carriers already subject to the national common carrier's tax to avoid double taxation.

Class Notes:

- **Common Carrier:** Defined under Article 1732 of the Civil Code; this applies broadly to businesses engaged in transporting goods or passengers for hire, including pipelines.
- **Exemption from Local Taxes:** Under Section 133 (j) of the Local Government Code, common carriers are exempt from local business taxes to avoid duplication with the national common carrier's tax.
- **Strict Interpretation of Tax Exemptions:** Tax statutes are construed strictly against the government and in favor of the taxpayer.

Historical Background:

This case reflects the broader historical context of the tax reform in the Philippines, specifically under the Local Government Code of 1991 aimed at decentralizing taxing powers to local government units while maintaining necessary exemptions to avoid overburdening businesses and preventing duplicative taxation. The definition and scope of

“common carriers” were pivotal in this context to determine appropriate tax liabilities and exemptions.