

Case Title

****Quezon City and the City Treasurer of Quezon City vs. ABS-CBN Broadcasting Corporation****

Facts

1. ****Background****: The City Government of Quezon City passed a revenue code in 1993 imposing a franchise tax on businesses operating within its jurisdiction.
2. ****ABS-CBN's Franchise****: On May 3, 1995, ABS-CBN Broadcasting Corporation received a franchise under R.A. No. 7966 to operate radio and television stations. Section 8 of R.A. No. 7966 specified that ABS-CBN would pay a franchise tax of 3% of its gross receipts "in lieu of all taxes" on the franchise.
3. ****Tax Payments****: ABS-CBN had been paying local franchise taxes to Quezon City but developed an opinion that it was exempt due to the "in lieu of all taxes" provision in its franchise. It paid the local franchise tax under protest and filed a claim for a refund for taxes paid in 1996 and the first quarter of 1997, totaling P14,233,582.29.
4. ****Procedural Posture****:
 - ABS-CBN filed a written claim for a refund on January 29, 1997, which reiterated in a letter dated March 3, 1997.
 - With no response from the City Treasurer, ABS-CBN filed a complaint in RTC on June 25, 1997, seeking the nullity of the tax imposition and a refund totaling P19,944,672.66.
 - Quezon City argued that the exemption claimed by ABS-CBN was invalid as the Local Government Code had withdrawn such exemptions.
 - ABS-CBN filed a supplemental complaint on August 13, 1997, adding more amounts paid under protest.
5. ****RTC Decision****: In January 1999, RTC declared the local franchise tax imposed under Quezon City Ordinance invalid post-enactment of R.A. No. 7966 and ordered a refund.
6. ****CA Proceedings****: Quezon City appealed to the CA, which dismissed the appeal on September 1, 2004, stating the issues raised were purely legal and appropriate for the Supreme Court.
7. ****Supreme Court Petition****: Quezon City and its Treasurer petitioned the Supreme Court arguing that the "in lieu of all taxes" provision did not exempt ABS-CBN from local taxes.

Issues

1. ****Whether the "in lieu of all taxes" provision in ABS-CBN's franchise serves to exempt it from the payment of local franchise tax imposed by Quezon City.****
2. ****Whether the issues raised were appropriate for the Court of Appeals or the Supreme Court.****

3. **Whether the procedural prerequisites, including the requirement of a prior written claim for refund, had been met.**

Court's Decision

1. **Procedural Issue**: The Supreme Court ruled that the dismissal of the appeal by the CA was correct as the issues presented were purely legal and should be decided by the Supreme Court per Rule 45.

2. **"In Lieu of All Taxes" Provision**:

- **General Rule of Interpretation**: The phrase "in lieu of all taxes" did not clearly specify whether it included local taxes. The burden of proving such an exemption rests on the entity claiming it.

- **Strictissimi Juris Principle**: Tax exemptions must be explicitly clear and not left to implication. ABS-CBN failed to show that local franchise tax was unequivocally covered by the exemption clause in R.A. No. 7966.

- **Functus Officio Point**: The clause has become inoperative due to legislative developments. The introduction of the VAT law and subsequent amendments subjected companies like ABS-CBN to VAT instead of the franchise tax.

3. **Substantive Decision**: The Supreme Court reversed the CA and RTC decisions and dismissed ABS-CBN's claim for a refund. The franchise tax conversion to VAT implied that the "in lieu of all taxes" clause did not cover local franchise taxes post-VAT law applicability.

Doctrine

1. **Tax Exemption Interpretation**: Tax exemptions must be expressed in clear and unequivocal terms, with the burden of proof resting on the entity claiming exemption.

2. **Subsequent Legislative Overriding**: The adoption of subsequent tax laws, like VAT, can render previous franchise tax exemptions clause *functus officio*.

Class Notes

1. **Tax Exemptions**: Must be strictly construed against the taxpayer and liberally in favor of the taxing authority. Claims must be unmistakable and clear in organic law or statutory provision.

2. **Local Taxing Powers**: Local governments are empowered to impose taxes under the Constitution and the LGC but these powers can be limited by specific congressional exemptions.

3. **Hierarchy of Courts**: Legal questions involving statutory interpretation or exemption clauses typically fall under the jurisdiction of the Supreme Court.

Historical Background

This case highlights the interaction between national franchises and local taxation authority in the Philippines. It underscores the evolving nature of tax law with the introduction of VAT and the inherent tension between local government revenue-raising efforts and statutory tax exemptions granted by Congress. The ruling serves as a critical reference point for similar future disputes in the legal interpretation of tax exemption clauses within legislative franchises.