

****Title:**** City of Iloilo vs. Smart Communications, Inc.: A Legal Examination of Local Franchise and Business Tax Exemptions

****Facts:****

The City of Iloilo, represented by its Treasurer, Mr. Romeo V. Manikan, issued a letter of assessment dated February 12, 2002, to Smart Communications, Inc. (SMART), demanding the payment of deficiency local franchise and business taxes amounting to P764,545.29 for the years 1997 to 2001. SMART protested the assessment, claiming exemption based on Section 9 of its legislative franchise under Republic Act (R.A.) No. 7294 and the mandate of R.A. No. 7925 or the Public Telecommunications Policy Act. The City of Iloilo denied the protest, citing non-compliance with Section 252 of the Local Government Code (LGC), which requires tax payment before protest. Subsequently, SMART filed a case against the City of Iloilo at the Regional Trial Court (RTC) of Iloilo City, which ruled in SMART's favor, declaring it exempt from the said taxes. Dissatisfied, the City of Iloilo appealed to the Supreme Court, challenging the RTC's decision.

****Issues:****

1. Whether SMART is exempt from the payment of local franchise and business taxes.
2. The applicability of the "in lieu of all taxes" clause in SMART's franchise regarding local taxes.
3. The effect of Section 23 of the Public Telecommunications Policy Act on SMART's tax exemption claims.
4. Whether SMART should be subject to surcharges and interest on the taxes due.

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

The Supreme Court granted the City of Iloilo's petition, reversing the RTC's decision. It ruled that SMART's claim for exemption, based on its franchise and the Public Telecommunications Policy Act, was unfounded. The Court reiterated the principle that tax exemptions must be construed strictly and any claim for exemption must be clearly justified by a clear and unequivocal provision of law. It found that the legislative intent behind the "in lieu of all taxes" clause in SMART's franchise did not categorically exempt it from local taxes. Furthermore, it clarified that Section 23 of the Public Telecommunications Policy Act refers to regulatory or reporting requirements exemptions and not tax exemptions. Consequently, SMART was found liable for the payment of local franchise and business taxes, plus the applicable surcharges and interest.

****Doctrine:****

1. Tax exemptions must be explicit and cannot be presumed or extended by vague implications.
2. The withdrawal of exemptions under the Local Government Code affects only those existing prior to its enactment and not those granted after.
3. The “in lieu of all taxes” clause does not automatically exempt a grantee from local taxes unless explicitly stated.
4. Legislative intent to grant tax exemptions must be unequivocally stated and cannot be implied from general terms.

****Class Notes:****

- Exemptions to local franchise and business taxes are not to be presumed and must be expressly stipulated in granting statutes.
- The “in lieu of all taxes” provision needs to specify the inclusion of local taxes to be effective against local tax impositions.
- The Public Telecommunications Policy Act’s equality clause does not extend to tax exemptions unless tax exemptions are explicitly stated.
- Reliance on interpretations by bodies such as the Bureau of Local Government and Finance (BLGF) does not justify exemptions from taxes, especially when such interpretations are not backed by clear statutory provisions.
- Procedural compliance, such as the requirement under Section 252 of the Local Government Code, is crucial in protesting tax assessments.

****Historical Background:****

This case highlights the evolving landscape of tax legislation and local government autonomy in the Philippines. Following the Local Government Code’s enactment in 1991, which aimed to empower local governments including the imposition of taxes, there has been increased scrutiny on tax exemptions granted to corporations by national law. The case represents a clash between local government taxation powers and statutory tax exemptions granted to entities by Congress, emphasizing the need for clear legislative language to avoid disputes.