

LIGHT RAIL TRANSIT AUTHORITY, PETITIONER, VS. CENTRAL BOARD OF ASSESSMENT APPEALS, BOARD OF ASSESSMENT APPEALS OF MANILA AND THE CITY ASSESSOR OF MANILA, RESPONDENTS.

G.R. No. 127316. October 12, 2000

Ponente: PANGANIBAN, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-127316/>

PANGANIBAN, J.:

The Light Rail Transit Authority and the Metro Transit Organization function as service-oriented business entities, which provide valuable transportation facilities to the paying public. In the absence, however, of any express grant of exemption in their favor, they are subject to the payment of real property taxes.

The Case

In the Petition for Review before us, the Light Rail Transit Authority (LRTA) challenges the November 15, 1996 Decision[1] of the Court of Appeals (CA) in CA-GR SP No. 38137, which disposed as follows:

"WHEREFORE, premises considered, the appealed decision (dated October 15, 1994) of the Central Board of Assessment Appeals is hereby AFFIRMED, with costs against the petitioner."[2]

The affirmed ruling of the Central Board of Assessment Appeals (CBAA) upheld the June 26, 1992 Resolution of the Board of Assessment Appeals of Manila, which had declared petitioner's carriageways and passenger terminals as improvements subject to real property taxes.

The Facts

The undisputed facts are quoted by the Court of Appeals (CA) from the CBAA ruling, as follows:[3]

"1. The LRTA is a government-owned and controlled corporation created and organized under Executive Order No. 603, dated July 12, 1980 'x x x primarily responsible for the construction, operation, maintenance and/or lease of light rail transit system in the Philippines, giving due regard to the [reasonable requirements] of the public transportation of the country' (LRTA vs. The Hon. Commission on Audit, GR No. No. 88365);

"2. x x x [B]y reason of x x x Executive Order 603, LRTA acquired real properties x x x constructed structural improvements, such as buildings, carriageways, passenger terminal stations, and installed various kinds of machinery and equipment and facilities for the purpose of its operations;

"3. x x x [F]or x x x an effective maintenance, operation and management, it entered into a Contract of Management with the Meralco Transit Organization (METRO) in which the latter undertook to manage, operate and maintain the Light Rail Transit System owned by the LRTA subject to the specific stipulations contained in said agreement, including payments of a management fee and real property taxes (Add'l Exhibit "I", Records)

"4. That it commenced its operations in 1984, and that sometime that year, Respondent-Appellee City Assessor of Manila assessed the real properties of [petitioner], consisting of lands, buildings, carriageways and

passenger terminal stations, machinery and equipment which he considered real propert[y] under the Real Property Tax Code, to commence with the year 1985;

"5. That [petitioner] paid its real property taxes on all its real property holdings, except the carriageways and passenger terminal stations including the land where it is constructed on the ground that the same are not real properties under the Real Property Tax Code, and if the same are real propert[y], these x x x are for public use/purpose, therefore, exempt from realty taxation, which claim was denied by the Respondent-Appellee City Assessor of Manila; and

"6. x x x [Petitioner], aggrieved by the action of the Respondent-Appellee City Assessor, filed an appeal with the Local Board of Assessment Appeals of Manila x x x. Appellee, herein, after due hearing, in its resolution dated June 26, 1992, denied [petitioner's] appeal, and declared that carriageways and passenger terminal stations are improvements, therefore, are real propert[y] under the Code, and not exempt from the payment of real property tax.

"A motion for reconsideration filed by [petitioner] was likewise denied."

The CA Ruling

The Court of Appeals held that petitioner's carriageways and passenger terminal stations constituted real property or improvements thereon and, as such, were taxable under the Real Property Tax Code. The appellate court emphasized that such pieces of property did not fall under any of the exemptions listed in Section 40 of the aforementioned law. The reason was that they were not owned by the government or any government-owned corporation which, as such, was exempt from the payment of real property taxes. True, the government owned the real property upon which the carriageways and terminal stations were built. However, they were still taxable, because beneficial use had been transferred to petitioner, a taxable entity.

The CA debunked the argument of petitioner that carriageways and terminals were intended for public use. The former agreed, instead, with the CBAA. The CBAA had concluded that since petitioner was not engaged in purely governmental or public service, the latter's endeavors were proprietary. Indeed, petitioner was deemed as a profit-oriented endeavor, serving as it did, only the paying public.

Hence, this Petition.[4]

The Issues

In its Memorandum,[5] petitioner urges the Court to resolve the following matters:

"I

The Honorable Court of Appeals erred in not holding that the carriageways and terminal stations of petitioner are not improvements for purposes of the Real Property Tax Code.

"II

The Honorable Court of Appeals erred in not holding that being attached to national roads owned by the national government, subject carriageways and terminal stations should be considered property of the national government.

"III

The Honorable Court of Appeals erred in not holding that payment of charges or fares in the operation of the light rail transit system does not alter the nature of the subject carriageways and terminal stations as devoted for public use.

"IV

The Honorable Court of Appeals erred in failing to consider the view advanced by the Department of Finance, which takes charge of the overall collection of taxes, that subject carriageways and terminal stations are not subject to realty taxes.

"V

The Honorable Court of Appeals erred in failing to consider that payment of the realty taxes assessed is not warranted and should the legality of the questioned assessment be upheld, the amount of the realty taxes assessed would far exceed the annual earnings of petitioner, a government corporation."

The foregoing all point to one main issue: whether petitioner's carriageways and passenger terminal stations are subject to real property taxes.

The Court's Ruling

The Petition has no merit.

Main Issue:

May Real Property Taxes be Assessed and Collected?

The Real Property Tax Code,[6] the law in force at the time of the assailed assessment in 1984, mandated that "there shall be levied, assessed and collected in all provinces, cities and municipalities an annual ad valorem tax on real property such as lands, buildings, machinery and other improvements affixed or attached to real property not hereinafter specifically exempted." [7]

Petitioner does not dispute that its subject carriageways and stations may be considered real property under Article 415 of the Civil Code. However, it resolutely argues that the same are improvements, not of its properties, but of the government-owned national roads to which they are immovably attached. They are thus not taxable as improvements under the Real Property Tax Code. In essence, it contends that to impose a tax on the carriageways and terminal stations would be to impose taxes on public roads.

The argument does not persuade. We quote with approval the solicitor general's astute comment on this matter:

"There is no point in clarifying the concept of industrial accession to determine the nature of the property when what is fundamentally important for purposes of tax classification is to determine the character of the property subject [to] tax. The character of tax as a property tax must be determined by its incidents, and form the natural and legal effect thereof. It is irrelevant to associate the carriageways and/or the passenger terminals as accessory improvements when the view of taxability is focused on the character of the property. The latter situation is not a novel issue as it has already been resolved by this Honorable Court in the case of *City of Manila vs. IAC* (GR No. 71159, November 15, 1989) wherein it was held:

'The New Civil Code divides the properties into property for public and patrimonial property (Art. 423), and further enumerates the property for public use as provincial road, city streets, municipal streets, squares, fountains, public waters, public works for public service paid for by said [provinces], cities or municipalities; all other property is patrimonial without prejudice to provisions of special laws. (Art. 424, *Province of Zamboanga v. City of Zamboanga*, 22 SCRA 1334 [1968])

x x x

'...while the following are corporate or proprietary property in character, viz: 'municipal water works, slaughter houses, markets, stables, bathing establishments, wharves, ferries and fisheries.' Maintenance of parks, golf courses, cemeteries and airports, among others, are also recognized as municipal or city activities of a proprietary character (*Dept. of Treasury v. City of Evansville*; 60 NE 2nd 952)'

"The foregoing enumeration in law does not specify or include carriageway or passenger terminals as inclusive of properties strictly for public use to exempt petitioner's properties from taxes. Precisely, the properties of petitioner are not exclusively considered as public roads being improvements placed upon the public road, and this separability nature of the structure in itself physically distinguishes it from a public road. Considering further that carriageways or passenger terminals are elevated structures which are not freely accessible to the public, viz-a-viz roads which are public improvements openly utilized by the public, the former are entirely different from the latter.

"The character of petitioner's property, be it an improvements as otherwise distinguished by petitioner, needs no further classification when the law already classified it as patrimonial property that can be subject to tax. This is in line with the old ruling that if the public works is not for such free public service, it is not within the purview of the first paragraph of Art. 424 of the New Civil Code." [8]

Though the creation of the LRTA was impelled by public service -- to provide mass transportation to alleviate the traffic and transportation situation in Metro Manila -- its operation undeniably partakes of ordinary business. Petitioner is clothed with corporate status and corporate powers in the furtherance of its proprietary objectives. [9] Indeed, it operates much like any private corporation engaged in the mass transport industry. Given that it is engaged in a service-oriented commercial endeavor, its carriageways and terminal stations are patrimonial property subject to tax, notwithstanding its claim of being a government-owned or controlled corporation.

True, petitioner's carriageways and terminal stations are anchored, at certain points, on public roads. However, it must be emphasized that these structures do not form part of such roads, since the former have been constructed over the latter in such a way that the flow of vehicular traffic would not be impeded. These carriageways and terminal stations serve a function different from that of the public roads. The former are part and parcel of the light rail transit (LRT) system which, unlike the latter, are not open to use by the general public. The carriageways are accessible only to the LRT trains, while the terminal stations have been built for the convenience of LRTA itself and its customers who pay the required fare.

Basis of Assessment Is Actual Use of Real Property

Under the Real Property Tax Code, real property is classified for assessment purposes on the basis of actual use, [10] which is defined as "the purpose for which the property is principally or predominantly utilized by the person in possession of the property." [11]

Petitioner argues that it merely operates and maintains the LRT system, and that the actual users of the carriageways and terminal stations are the commuting public. It adds that the public-use character of the LRT is not negated by the fact that revenue is obtained from the latter's operations.

We do not agree. Unlike public roads which are open for use by everyone, the LRT is accessible only to those who pay the required fare. It is thus apparent that petitioner does not exist solely for public service, and that the LRT carriageways and terminal stations are not exclusively for public use. Although petitioner is a public utility, it is nonetheless profit-earning. It actually uses those carriageways and terminal stations in its public utility business and earns money therefrom.

Petitioner Not Exempt from Payment of Real Property Taxes

In any event, there is another legal justification for upholding the assailed CA Decision. Under the Real Property Tax Code, real property "owned by the Republic of the Philippines or any of its political subdivisions and any government-owned or controlled corporation so exempt by its charter, provided, however, that this exemption

shall not apply to real property of the abovenamed entities the beneficial use of which has been granted, for consideration or otherwise, to a taxable person." [12]

Executive Order No. 603, the charter of petitioner, does not provide for any real estate tax exemption in its favor. Its exemption is limited to direct and indirect taxes, duties or fees in connection with the importation of equipment not locally available, as the following provision shows:

"ARTICLE 4

TAX AND DUTY EXEMPTIONS

Sec. 8. Equipment, Machineries, Spare Parts and Other Accessories and Materials. - The importation of equipment, machineries, spare parts, accessories and other materials, including supplies and services, used directly in the operations of the Light Rails Transit System, not obtainable locally on favorable terms, out of any funds of the authority including, as stated in Section 7 above, proceeds from foreign loans credits or indebtedness, shall likewise be exempted from all direct and indirect taxes, customs duties, fees, imposts, tariff duties, compensating taxes, wharfage fees and other charges and restrictions, the provisions of existing laws to the contrary notwithstanding."

Even granting that the national government indeed owns the carriageways and terminal stations, the exemption would not apply because their beneficial use has been granted to petitioner, a taxable entity.

Taxation is the rule and exemption is the exception. Any claim for tax exemption is strictly construed against the claimant. [13] LRTA has not shown its eligibility for exemption; hence, it is subject to the tax.

WHEREFORE, the Petition is hereby DENIED and the assailed Decision of the Court of Appeals AFFIRMED. Costs against the petitioner.

SO ORDERED.

Melo, (Chairman), Vitug, and Purisima, JJ., concur.

Gonzaga-Reyes, J., no part.

[1] Penned by Justice Ramon Mabutas Jr., with the concurrence of Justices Minerva P. Gonzaga-Reyes (Division chairperson and now a member of this Court) and Salvador J. Valdez (member).

[2] Rollo, p. 43.

[3] CA Decision, pp. 2-3; rollo, pp. 29-30.

[4] This Petition was deemed submitted for decision on October 13, 1999, upon receipt by the Court of the Explanation filed by Attys. Melchor R. Monsod and Jose A. Perello Jr. of the Office of the City Legal Officer of Manila, who clarified that they were adopting as memorandum their February 28, 1998 Comment. Received by the Court on November 3, 1998 was Petitioner LRTA's Memorandum signed by Government Corporate Counsel Jun Valerio, Assistant Government Corporate Counsel Antonio M. Brillantes, and Government Corporate Attorney IV Isabelo G. Gumaru. On September 30, 1998, the Office of the Solicitor General filed a "Manifestation and Motion for Leave to Adopt Comment as Memorandum for the Central Board of Assessment Appeals." The OSG's May 2, 1997 Comment was signed by Assistant Solicitor General Mariano M. Martinez and Solicitors Luis F. Simon and Brigido Artemon M. Luna.

[5] Rollo, pp. 151-152; original written entirely in upper case.

[6] Presidential Decree No. 464. See also the Local Government Code of 1991 or Republic Act No. 7160, which took effect on January 1, 1992.

[7] *Ibid.*, §38. This is identical to §232 of the Local Government Code (LGC), which reads:

"Section 232. Power to Levy Real Property Tax. A province or city or a municipality within the Metropolitan Manila Area may levy an annual ad valorem tax on real property such as land, building, machinery, and other improvement not hereinafter specifically exempted."

[8] Comment of the Office of the Solicitor General, pp. 8-10; rollo, pp. 70-72.

[9] See Section 4 of Executive Order No. 603, the LRTA charter, which provides:

"ARTICLE 2
CORPORATE POWERS

"Sec. 4. General Powers. - The Authority, through the Board of Directors, may undertake such action as are expedient for or conducive to the attainment of the purposes and objectives of the Authority, or of any purpose reasonably incidental to or consequential upon any of these purposes. As such, the Authority shall have the following general powers:

- (1) To have continuous succession under its corporate name, until otherwise provided by law;
- (2) To prescribe, amend, and/or repeal its by-laws;
- (3) To adopt and use a seal and alter it at its pleasure;
- (4) To sue and be sued;
- (5) To contract any obligation or enter into, assign or accept the assignment of, and vary or rescind any agreement, contract of obligation necessary or incidental to the proper management of the Authority;
- (6) To borrow funds from any source, private or public, foreign or domestic, and to issue bonds and other evidence of indebtedness, the payment of which shall be guaranteed by the National Government, subject to pertinent borrowing law;
- (7) To acquire, receive, take, and hold by bequest, devise, gift, purchase or lease, either absolutely or in trust for any of its purposes, from foreign and domestic sources, any asset, grant or property, real or personal, subject to such limitations as are provided in existing laws; to convey or dispose of such assets, grants, or properties, movable and immovable; and invest and/or reinvest such proceeds and deal with and expand its assets and income in such a manner as will best promote its objectives;
- (8) To improve, develop or alter any property held by it;
- (9) To carry on any business, either alone or in partnership with any other person or persons;
- (10) To employ an agent or contractor or perform such things as the Authority may perform;
- (11) To exercise the right of eminent domain, whenever the Authority deems it necessary for the attainment of its objectives;
- (12) To prescribe rules and regulations in the conduct of its general business as well as to fix and implement the terms and conditions of its related activities;
- (13) To determine the fares payable by persons traveling on the light rail system, in consultation with the Board of Transportation;

(14) To establish, operate, and maintain branches or field offices when required by the exigencies of its business;

(15) To determine its organizational structure and the number, positions and salaries of its personnel, subject to pertinent organization and compensation law; and

(16) To exercise such powers and perform such duties as may be necessary to carry out the business and purposes for which the Authority was established or which, from time to time may be declared by the Board of Directors to be necessary, useful, incidental or auxiliary to accomplish such purposes; and generally, to exercise all powers of an Authority under the Corporation Law that are not inconsistent with the provisions of this Order, or with orders pertaining to government corporate budgeting, organization, borrowing, or compensation."

[10] §19 of the Real Property Tax Code reads: "Real property shall be classified for assessment on the basis of its actual use, regardless of where located and whoever uses it." See also §198 (b) of the LGC, an identical proviso which reads: "Real property shall be classified for assessment purposes on the basis of its actual use."

[11] See §3 (a) of the Real Property Tax Code and §199 (b) of the LGC.

[12] Section 40 (a) of the Real Property Code and Section 234 (a) of the Local Government Code. Thus, petitioner will not find solace under the Local Government Code either, for the reasons discussed above.

[13] *Mactan Cebu International Airport Authority v. Marcos*, 261 SCRA 667, September 11, 1996.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.