

45 Phil. 400

[G.R. No. 21080. November 09, 1923]

THE MANILA TRADING SUPPLY CO., PLAINTIFF AND APPELLANT, VS. CITY OF MANILA, DEFENDANT AND APPELLEE.

D E C I S I O N

STATEMENT

Plaintiff alleges that it is a domestic corporation, with its principal place of business in the City of Manila; that the defendant is a municipal corporation, chartered under the laws of the Philippine Islands; that plaintiff is a lessee from the Government of the Philippine Islands of a certain parcel of land in the City of Manila, known as block 73 of the Port Area, under a lease, which is attached to, and made a part of, the complaint; that for taxation purposes for the year 1921, the land was assessed by the city assessor in the sum of P57,973, upon which a tax of 1½ per cent was levied, amounting to P869.60. Plaintiff paid the tax under duress and protest, and to avoid fines, penalties and forfeitures; that the land in question is the property of the Government of the Philippine Islands, and is not subject to land tax. Like allegations are made for the year 1922, and plaintiff prays for judgment against the city for P1,739.20, with legal interest and costs.

The land is described as situate in the City of Manila, and—

“Known as lot No. 73, of reclamation No. 1, Manila Harbor, containing an area of five thousand seven hundred ninety-seven and thirty-one hundredth (5,797.31) square meters, as shown on the new plan of said reclamation prepared under the direction of the Director of Lands, which plan is now on file in the Bureau of Lands, Manila.”

The lease is for a full term of ninety-nine years at a yearly rental of 3 per cent of the appraised value of the land, to be paid semiannually in advance. It also provides for a new appraisal within five years after the execution of the lease, or any time in the discretion of the Secretary of Agriculture and Natural Resources.

The defendant filed a demurrer to the complaint upon the ground that—

“The facts alleged in the complaint do not constitute any cause of action against the defendant.”

The lower court sustained the demurrer, and dismissed the complaint, without costs, from which the plaintiff appeals, contending that—

“The court erred in finding that the plaintiff is liable for taxes imposed upon the land leased to it by the Government, the owner of the land.

“The court erred in not finding that the complaint states a cause of action for the recovery of taxes illegally collected, and in sustaining the defendant’s demurrer without leave to amend.”

JOHNS, J.:

The appellant cites and relies upon section 344 of the Administrative Code, as follows:

“Property exempt from tax.—The exemptions shall be as follows:

“(a) Property owned by the United States of America, the Government of the Philippine Islands, or by any province or municipality in the Philippine Islands.”

It also cites section 343 of the Administrative Code, as follows:

“Incidence of real-property tax.—In those parts of the Philippine Islands comprised in regularly organized municipalities situated elsewhere than in the Department of Mindanao and Sulu there shall be levied, assessed, and collected, an annual ad valorem tax on real property, including land, buildings and other improvements not hereinafter specifically exempted.”

In its brief a number of authorities are cited in substance and to the effect that “while the title remains in the government, public lands are not subject to state taxation, and tax sales and deeds thereof are void,” and that “the property of a municipal corporation is not liable for taxation for municipal purposes. It cannot tax its own property.” And quotes at length from a decision of the Supreme Court of California. (167 Cal., 425.^[1])

It is conceded that the title to the land is in the Government of the Philippine Islands, and that the plaintiff applied for, took and accepted, the lease in question under Act No. 1654 of the Philippine Commission.

Subdivision (b) of section 2, among other things, recites that upon the completion of the plats and plans the Governor-General shall give notice to the public that any portion thereof, which had been made or reclaimed and which is not needed for public purposes, will be leased for commercial and business purposes, and that upon the receipt of an application for a lease, the Governor-General shall specify the land and give notice by public advertisement that an application has been made, and that the Government will lease the described lot or block for commercial and business purposes, such leases to run for a period of ninety-nine years at a rental of 3 per cent per annum of the appraised value, etc., and subdivision (c) provides for an appeal to the Court of First Instance from any reappraisal which may not be satisfactory to the tenant, and a further appeal by either party to the Supreme Court. Subdivision (d) provides that the improvements shall be made subject to the approval of the consulting architect, and that—

“* * * In case of failure to make such improvements within the time prescribed by the lease or to comply with any or all of the terms and conditions of said lease the same shall thereupon be forfeited, and that all improvements made on the leased property shall vest in and become the property of the

Government of the Philippine Islands. * * *

“Every such lease shall also contain a provision for the payment of the tax or taxes levied on said land or improvements and providing that upon the failure of the lessee to pay any such tax or taxes or any part thereof the lease shall forthwith cease and determine.”

Section 4 of the Act provides:

“All lands leased under the provisions of the foregoing sections of this Act, and all improvements thereon, shall be subject to local taxation against the lessees, their heirs, executors, administrators, successors, or assigns, to the same extent as if such lessees, their heirs, executors, administrators, successors, or assigns, were the owners of both land and improvements.”

Upon the facts in them stated, the authorities cited by the appellant are good law, but no authority is cited founded upon the facts shown in this record.

Act No. 1654 specifically provides for the payment of the stipulated rental, and that, in addition thereto and as a part thereof, the lease itself shall also contain a provision for the payment of the tax or taxes levied on the land or improvements, and that upon the failure of the lessee to pay any of such tax or taxes, “the lease shall forthwith cease and determine.” In other words, the payment of the taxes upon the land is one of the primary considerations which enters into, and becomes a part of, the lease. In the absence of the provision for the payment of the taxes in question, the Government would not have any legal right or authority to make the lease in question. When the plaintiff applied for, and obtained, its lease, the payment of the taxes was one of the considerations which entered into the execution of the lease, and one of the conditions precedent to the obtaining of the lease. Legally speaking, the amount of the taxes, which plaintiff agreed to pay, is a part of the stipulated rental. That is to say, as one of the primary considerations for the execution of the lease, the plaintiff not only covenants and agrees to pay as rental “3 per cent

per annum of the appraised value of the parcel of land leased," but, in addition thereto, and as a part of the lease, it further covenants and agrees to pay "the tax or taxes on said land or improvements."

Section 4 of the Act above quoted expressly provides that all lands leased under the provisions of the Act, and all improvements thereon, shall be subject to local taxation "to the same extent as if such lessees, their heirs, executors, administrators, successors, or assigns, were the owners of both land and improvements." In other words, by the terms of the Act, and the lease itself, the plaintiff has stipulated that, for the purpose of taxation, it is the owner of both the land and improvements. Having signed and entered under the lease, the plaintiff is estopped to claim or assert that it is not liable for the taxes in question. This is further evidenced by the fact that the lease also recites that for any failure or neglect to pay the taxes as they mature, "the lease shall forthwith cease and determine."

In other words, the covenant to pay the taxes is one of the primary considerations for which the Government executed and the plaintiff obtained the lease, and the covenant to pay the taxes is one of the express conditions by which the plaintiff is entitled to possession of the land, and is a condition precedent to the right of possession. In other words, the failure to pay any of the taxes as stipulated in the lease would operate to terminate the lease and oust the plaintiff from its possession of the land.

In legal effect, the Government said to the plaintiff that it would lease it the land at a stipulated rental, but in addition thereto, and as a part thereof, and as one of the considerations for such leasing, the plaintiff should further covenant and agree that, for the purpose of taxation, it is the owner of the land, and that it will pay all taxes on the land as they mature, and that for any failure or neglect to pay them, the Government could terminate the lease and oust the plaintiff from its possession. The plaintiff, having accepted the proposition, is bound by the terms and provisions of the lease and the covenants which it made in the lease.

The judgment of the lower court is affirmed, without costs to either party.
So ordered.

Johnson, Street, Malcolm, Avanceña, Villamor, and Romualdez, JJ., concur.

^[1] San Pedro etc. R. R. C. vs. City of Los Angeles.

Date created: June 10, 2014