

FIRST DIVISION

[G.R. No. 233861, January 12, 2021]

CITY OF ILOILO, PETITIONER, VS. PHILIPPINE PORTS AUTHORITY AND DEVELOPMENT BANK OF THE PHILIPPINES,

ZALAMEDA, J.:

Before the Court is a petition for review on *certiorari*^[1] under Rule 45 of the Rules of Court assailing the Decision^[2] of the Court of Appeals (CA) dated 22 November 2016 and Resolution^[3] dated 28 July 2017 in CA G.R. CV No. 102578.

Antecedents

On 03 November 2005, the Development Bank of the Philippines (DBP) received a Notice of Garnishment^[4] from petitioner City of Iloilo (petitioner), levying bank deposits of the Philippine Ports Authority (PPA) on account of its realty and business tax(es) delinquencies, interest, charges and penalties in the amount of Php44,298,470.11, pursuant to this Court's judgment in G.R. Nos. 109791^[5] and 143214.^[6] DBP thus notified PPA of the notice of garnishment.^[7]

PPA requested petitioner to recall the notice of garnishment,^[8] claiming that its liability for local and real property taxes subject of this Court's judgment in G.R. Nos. 109791 and 143214, including interests and surcharges, had already been paid.^[9] It also asked DBP to release its funds from garnishment.^[10] Both efforts to cancel the garnishment of its funds proved futile.

On 05 June 2009, PPA filed a complaint against petitioner and DBP for declaration of nullity of the notice of garnishment with prayer for temporary Restraining Order (TRO) and/or writ of preliminary injunction,^[11] docketed as Civil Case No. 09-121552, before Branch 33, Regional Trial Court (RTC) of Manila.

DBP, in its Answer, acknowledged the local government unit's power to issue a notice of garnishment against bank deposits of delinquent taxpayers. It explained that it has no authority to determine if PPA had already settled its tax obligations with petitioner, hence, it cannot release PPA's funds from garnishment.^[12]

Petitioner, for its part, argued that the complaint had no cause of action since PPA's status as a taxable entity had already been settled under G.R. Nos. 109791 and 143214. It also alleged that PPA failed to comply with the condition precedent under Section 252 of the Local Government Code (LGC), specifically, to pay its tax liabilities under protest.^[13]

The RTC denied the application for a writ of injunction on 23 July 2009.^[14] The PPA questioned the RTC resolution before the CA through a petition for *certiorari*, which was denied. This Court affirmed the CA in G.R. No. 204908.

On 19 September 2012, the RTC rendered a Decision^[15] dismissing PPA's complaint for lack of merit. It found that the notice of garnishment was not limited to the amounts subject of G.R. Nos. 109791 and 143214 but also included other liabilities, particularly those pertaining to the Iloilo Port Complex. The RTC ruled that PPA could not invoke the ruling in *Spouses Curata v. Philippine Ports Authority*^[16] because the subject of that decision was expropriation, and it was issued in 2009, or four (4) years after petitioner's issuance of the notice of garnishment in 2005.

PPA thus appealed to the CA.^[17] Notably, only DBP filed an appellee's brief. Meanwhile, on 07 November 2013, petitioner requested DBP to release Php67,686,923.90 additional funds from PPA's accounts, in view of the finality of this Court's judgment in G.R. No. 204908.^[18]

DBP, through its Balanga, Bataan branch, remitted to petitioner the deposits of PPA in the amount of Php3,892,372.99 on 26 November 2013.^[19] It remitted an additional Php554,959.72 on 18 December 2013, allegedly pertaining to the interests accruing on the previously garnished deposits of PPA.^[20]

On 20 November 2014, petitioner issued sixteen (16) notices of assessment to PPA for its real property tax liabilities for 2015.^[21]

Ruling of the CA

The CA granted the appeal and ruled in favor of PPA on 22 November 2016. It declared the Notice of Garnishment dated 26 October 2005 void, and directed petitioner to return the amount of Php26,661 ,552.41 to PPA.^[22]

It held that PPA is a government instrumentality pursuant to the rulings in *MIAA v. Court of Appeals* (MIAA case),^[23] *Republic v. Parañaque*,^[24] *Philippine Fisheries Development Authority v. Court of Appeals*.^[25] As such, its real properties devoted for public use are exempt from real property tax.^[26]

Further, the CA noted that the issue of whether Iloilo Port Complex is a taxable property was already settled by a final and executory decision^[27] of Branch 34, RTC of Iloilo City dated 11 August 1992.^[28] As to the notice of garnishment, the CA found it invalid because PPA had already settled its liabilities under G.R. Nos. 109791 and 143214. The CA also noted that the City of Iloilo's failure to issue a notice of assessment prior to the distraint was in violation of Section 195 of the LGC^[29] Finally, it opined that petitioner should have sought execution of the judgment in G.R. Nos. 109791 and 143214 instead of pursuing civil remedies against PPA.^[30]

Hence, this petition for review.

Issues

Petitioner raised the following grounds in support of its petition:

- I. THE HONORABLE COURT OF APPEALS HAS ERRED IN DENYING THE PETITIONER'S MOTION FOR RECONSIDERATION DESPITE THE FACT THAT THE APPELLATE COURT DID NOT ACQUIRE JURISDICTION OVER THE SUBJECT MATTER THE QUESTION BEING THE VALIDITY

OF THE LOCAL GOVERNMENT UNIT TO IMPLEMENT AND ENFORCE LOCAL TAX COLLECTION THROUGH GARNISHMENT WHICH FALLS WITHIN THE EXCLUSIVE JURISDICTION OF THE COURT OF TAX APPEALS (CTA);

II. THE HONORABLE COURT OF APPEALS GRAVELY ERRED AND COMMITTED GRAVE ABUSE OF DISCRETION AMOUNTING TO LACK OR EXCESS OF JURISDICTION WHEN IT HELD THAT SECTION 196 OF RA 7160 DOES NOT FIND APPLICATION IN THE INSTANT CASE

Petitioner contends that the CA has no jurisdiction to review the judgment of the RTC. Citing *CE Casecan Water & Energy Co., Inc. v. Province of Nueva Ecija*,^[31] it claims that the CTA has jurisdiction to review the decision of the RTC since the same involves a local tax case.^[32] Likewise, the CA erroneously relied on the *MIAA* case because allegedly there is no categorical declaration therein that MIAA and PPA are similarly situated in terms of their tax-exempt status.^[33]

Ruling of the Court

The CA has jurisdiction to review the RTC decision

Jurisdiction is defined as the power and authority of a court to hear, try, and decide a case. In order for the court or an adjudicative body to have authority to dispose of the case on the merits, it must acquire, among others, jurisdiction over the subject matter.^[34] Jurisdiction over the subject matter of a case is conferred by law.^[35]

The jurisdiction of the CTA on local tax cases is set forth in Section 7 (a) (3) of Republic Act No. 9282 (RA 9282), 52, viz.:

SEC. 7. Jurisdiction.-The CTA shall exercise:

a. Exclusive appellate jurisdiction to review by appeal, as herein provided:

3. Decisions, orders or resolutions of the Regional Trial Courts in local tax cases originally decided or resolved by them in the exercise of their original or appellate jurisdiction.

Based on this provision, the CTA's appellate jurisdiction over RTC decisions, orders, or resolutions may only be invoked over a ruling in a local tax case.^[36] In other words, the action in the RTC must be in the nature of a tax case, or one which primarily involves a tax issue.^[37] On the other hand, the jurisdiction of the court is determined by the nature of the action pleaded based on the allegations in the complaint and the character of the relief sought.^[38]

In this case, PPA's complaint for declaration of nullity and damages with prayer for TRO and/or writ of preliminary injunction assails petitioner's resort to garnishment in order to enforce the final and executory judgment of this Court in G.R. Nos. 109791 and 143214, viz:

FIRST CAUSE OF ACTION

3.2 As intimated, defendant City sought to garnish plaintiff's funds with defendant DBP to satisfy plaintiff's alleged liability for taxes, interests,

penalties and surcharges adjudged in G.R. Nos. 109791 and 143214.

3.3 But **plaintiff effected full payment of its assessed tax liabilities** as follows:

- (i) realty taxes and penalties on the warehouse subject of G.R. Nos. 109791 and 143214 in the total amount of Php1,259,916 for the period covering 1985 to 1996;
- (i) business taxes and penalties subject of G.R. No. 109791 in the total amount of Php446,505.92 for the period of 1984 to 1986 and 1995-2005;
- (ii) realty taxes and penalties on the edifices and buildings covered by G.R. No. 143214 in the aggregate sum of Php227,917.28.

3.4 **That payment of the foregoing sums completely satisfied the tax liabilities adverted to is evidenced by official receipts issued by no less than defendant City**, thru its City Treasurer, which indicate the word "FULL" to describe the event of plaintiff's payment.

3.5 Notwithstanding such clear notation on the official receipts, defendant City illegally and want only issued a notice of garnishment to collect the very same tax liabilities subject of the mentioned Supreme Court cases.

3.6. Worse the purposed liabilities ballooned exponentially to PPhp44,298,471.37 without any specification.

3.7 Moreover, note that the notice of garnishment was issued in implementation of the final and executory decisions in G.R. Nos 109791 and 143214. XXX

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3.9 **G.R. No. 109791 to recall, originated from an action for collection instituted by defendant City.** The liabilities adjudged thereto, as affirmed by the Honorable Supreme Court, is enforceable only by a writ of execution duly issued by the trial court. Instead of going thru the legal and procedural remedies in the execution of judgment, defendant City took upon itself to implement the judgment by unilaterally issuing the subject notice of garnishment. To aggravate its procedural lapse, defendant City itself served the notice of garnishment when it should have been served by the court sheriff as provided by the rules of court.

3.10 The notice of garnishment therefore, is defective and irregular on two counts: (i) it is without basis as the liabilities alluded to therein have been fully paid; and (ii) it was issued **in violation of the rule on execution of judgments, which defendant City should have followed**. Failing in this respect, the notice of garnishment should be nullified under Article 4 of the Civil Code which renders void ab initio acts done in violation of mandatory provision of the law.^[39] (Emphasis ours)

It is apparent then that PPA is not objecting to the amount of its tax liability. On the contrary, it admitted that it is indeed liable for the real property and business taxes for the periods adjudged under G.R. Nos. 109791 and 143214. Indeed, it even admits it had already paid its liability in full. The complaint was merely to question petitioner's resort to garnishment, claiming that it already paid its liabilities therein. Clearly, PPA's complaint was **not anchored on a tax issue** but on the propriety of the remedy adopted by the City of Iloilo to enforce the final judgment of this Court. As such, the subject RTC Decision could not be characterized as a local tax case over which the CTA could have properly assumed jurisdiction on appeal.

The existence of a final and executory judgment fixing PPA's local and real property tax liabilities distinguishes this case from *CE Casecan Water & Energy Co., Inc. v. Province of Nueva Ecija*.^[40] While the latter case stemmed from a supposed erroneous assessment of therein petitioner's real property tax liability, the instant controversy is premised on the erroneous execution of this Court's final and executory judgment in G.R. Nos. 109791 and 143214.

As an incident of its exemption from local taxation, its properties are likewise exempt from the means to collect such taxes

In the MIAA case,^[41] the Court also elucidated that properties of government instrumentalities are of public dominion and are thus outside the commerce of men. They are not subject to levy, encumbrance, or disposition through public or private sale since they are intended for public use. This is necessarily so because essential public services will stop if properties of public dominion are subject to encumbrances, foreclosures, and auction sale.^[42]

The Court, in *Spouses Curata v. Philippine Ports Authority*,^[43] invalidated the lower court's action in subjecting PPA funds to execution pending appeal as payment for just compensation. Citing the ruling in *MIAA*, this Court declared that PPA is a government instrumentality, whose properties may not be subjected to any form of execution, *viz*:

In Commissioner of Public Highways v. San Diego, no less than the eminent Chief Justice Claudio Teehankee explained the rationale behind the doctrine that government funds and properties cannot be seized under a writ of execution, thus:

The universal rule that where the State gives its consent to be sued by private parties either by general or special law, it may limit claimant's action "only up to the completion of proceedings anterior to the stage of execution" and that the power of the Courts ends when the judgment is rendered, since government funds and properties may not be seized under writs of execution or garnishment to satisfy such judgments, is based on obvious considerations of public policy. Disbursements of public funds must be covered by the corresponding appropriation as required by law. **The functions and public services rendered by the State cannot be allowed to be paralyzed or disrupted by the**