

THIRD DIVISION

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

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

DECISION

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