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SECOND DIVISION

[G.R. No. 248033. July 15, 2020]

PROVINCIAL GOVERNMENT OF CAVITE and PROVINCIAL TREASURER OF CAVITE, *petitioners, vs.* **CQM MANAGEMENT, INC., [as successor-in-interest of the Philippine Investment One (SPV-AMC), INC.],** *respondent.*

SYLLABUS

1. TAXATION; LOCAL GOVERNMENT CODE (R.A. 7160); REAL PROPERTY TAX; LIABILITY FOR TAXES RESTS ON THE OWNER OR BENEFICIAL USER OF THE PROPERTY AT THE TIME THE TAX ACCRUES; PRINCIPLE, APPLIED. –– In *National Power Corp. v. Province of Quezon, et al.*, the Court explained that the liability for taxes generally rests on the owner of the real property at the time the tax accrues as a necessary repercussion of exclusive dominion. However, personal liability for real property taxes may also expressly rest on the entity with the beneficial use of the real property. In either case, the unpaid tax attaches to the property and is chargeable against the taxable person who had actual or beneficial use and possession of it regardless of whether or not he is the owner. Here, as correctly pointed out by the CA, respondent was not yet the owner or entity with the actual or beneficial use of the building which was previously owned by Maxon (Maxon property) and the building which was previously owned by Ultimate (Ultimate property) during the years for which petitioners sought to collect real property taxes. Specifically, petitioners sought to collect from respondent real property taxes due on the Maxon property for the years 2000-2013 and on the Ultimate property for the years 1997-2013. However, respondent became the owner of the Maxon property and the Ultimate property only in March 2014, and August 2014, respectively. To impose the real property taxes on respondent, which was neither the owner nor the beneficial user of the property during the designated periods would not only be contrary to law but also unjust.

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2. ID.; ID.; ID.; ID.; STIPULATION IN THE DEED OF ASSIGNMENT OR CONTRACTUAL ASSUMPTION OF OBLIGATION TO PAY REAL PROPERTY TAX, BY ITSELF, IS INSUFFICIENT TO MAKE ONE LIABLE FOR TAXES. — Not even a stipulation in the Deed of Assignment that PI One, is selling, assigning and conveying in favor of respondent all rights, titles, obligations, benefits and interests in the Maxon Property will make respondent liable for the real property tax over the Maxon property. In *National Power Corp. v. Province of Quezon, et al.*, relying on the Court's pronouncement in *Testate Estate of Concordia T. Lim v. City of Manila*, the Court ruled that contractual assumption of the obligation to pay real property tax, by itself, is insufficient to make one liable for taxes. The contractual assumption of tax liability must be supplemented by an interest that the party assuming the liability had on the property; the person from whom payment is sought must have also acquired the beneficial use of the property taxed. In other words, he must have the use and possession of the property taxed. Given the foregoing, petitioners cannot conduct a tax delinquency sale of the Maxon and Ultimate properties which are now owned by respondent. To do so would effectively make respondent liable for the payment of real property taxes due on the Maxon property for the years 2000-2013 and on the Ultimate properties for the years 1997-2013 when it did not yet own or had actual or beneficial use of the properties. As the Court has discussed above, such is not only contrary to law, but is also unjust.

3. ID.; THE SPECIAL ECONOMIC ZONE ACT OF 1995 (R.A. 7916), AS AMENDED BY R.A. 8748; PRIOR CONCURRENCE OF THE LOCAL GOVERNMENT UNIT IS NOT REQUIRED BEFORE RESPONDENT CAN AVAIL ITSELF OF THE EXEMPTION UNDER THE LAW; HAVING BEEN REGISTERED WITH THE PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA), RESPONDENT IS EXEMPT FROM THE PAYMENT OF NATIONAL AND LOCAL TAXES INCLUDING REAL PROPERTY TAX ON THE SUBJECT PROPERTIES. — As correctly ruled by the CA, there is nothing in Section 24 which requires prior concurrence from the local government unit before respondent can avail itself of the exemption provided under the law. In fact, under Section 35 of RA No. 7916, the only requirement

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for business enterprises within a designated ECOZONE to avail themselves of all incentives and benefits provided for under RA 7916 is to register with the PEZA. This requirement was satisfied by respondent. Respondent's Registration and Lease Agreements with the PEZA which were cited by the CA in its Decision dated May 23, 2018 indicate that respondent was registered as an Ecozone Facilities Enterprise. x x x Significantly, in response to queries made by registered economic zone enterprises as to whether they are exempted from securing LGU Permits and from payment of local taxes, fees, licenses, *etc*., the PEZA issued Memorandum Circular No. 2004-024 which provides in part that "PEZA-registered economic zone enterprises availing of the 5% [gross income tax] incentive are exempted from payment of all national and *local* taxes, except real property tax on land owned by developers." In this case, there is nothing to indicate that respondent is a developer. Thus, considering RA 7916, as amended, its IRR, and Memorandum Circular No. 2004-024, it is evident that save for the payment of 5% gross income tax, respondent is exempt from the payment of national and local taxes including real property tax on the Maxon and Ultimate Properties.

4. ID.; R.A. 7160; REAL PROPERTY TAX; UNPAID REAL PROPERTY TAXES CAN ONLY BE COLLECTED WITHIN FIVE (5) YEARS FROM THE DATE THEY BECOME DUE. — Lastly, as correctly ruled by the CA, the collection of some of the unpaid real property taxes sought by petitioner already prescribed. Section 270 of RA 7160 provides that "[t]he basic real property tax x x x shall be collected within five (5) years from the date they become due," and that "[n]o action for the collection of the tax, whether administrative or judicial, shall be instituted after the expiration of such period." Unfortunately, as discussed by the RTC and the CA, petitioners failed to collect the accrued real property taxes which date from as early as 1997.

APPEARANCES OF COUNSEL

Provincial Legal Office for petitioners.
AVB & Associates Law Office for respondent.

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D E C I S I O N

INTING, *J.*:

This is a Petition for Review on *Certiorari*[1] under Rule 45 of the Rules of Court assailing the Decision[2] dated May 23, 2018 and the Resolution[3] dated June 20, 2019 of the Court of Appeals (CA) in CA-G.R. CV No. 107654. The CA affirmed the Decision[4] dated February 19, 2016 and the Resolution dated July 7, 2016 of Branch 65, Regional Trial Court (RTC), Makati City that enjoined the Provincial Government of Cavite and the Provincial Treasurer of Cavite from conducting a tax delinquency sale of the real properties of CQM Management, Inc.

The Facts

On November 25, 2014, CQM Management, Inc. (respondent) filed a petition for injunction with prayer for temporary restraining order and preliminary injunction against the Provincial Government of Cavite and the Provincial Treasurer of Cavite (collectively, petitioners), Maxon Systems Philippines, Inc., (Maxon), and Ultimate Electronic Components, Inc. (Ultimate) in connection with Maxon's and Ultimate's unpaid real property taxes and the impending tax delinquency sale of their properties.[5]

On December 1, 2004, Philippine Investment One (SPV-AMC) Inc. (PI One), a domestic corporation organized as a Special Purpose Vehicle by virtue of The Special Purpose Vehicle (SPV) Act of 2002 or the Republic Act No. (RA) 9182, acquired from Rizal Commercial Banking Corporation (RCBC), through a Deed

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[1] *Rollo*, pp. 8-27.

[2] *Id.* at 30-44; penned by Associate Justice Eduardo B. Peralta, Jr. with Associate Justices Ricardo R. Rosario and Ronaldo Roberto B. Martin, concurring.

[3] *Id.* at 28-29.

[4] *Id.* at 45-52; penned by Judge Edgardo M. Caldona.

[5] *Id.* at 45, 48-49.

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of Assignment of even date, two non-performing loans—that of Maxon (Maxon loan) and Ultimate (Ultimate loan). The Maxon loan was secured by a real estate mortgage over a building (Maxon property), located at the Main Avenue, Philippine Economic Zone Authority (PEZA), Rosario, Cavite, containing an area of 17,466 square meters (sq.m.), and declared for tax purposes under Tax Declaration No. (TD) 17-009-01506. As of October 25, 2013, the outstanding obligation of Maxon to PI One stood at ₱30,000,000.00.[6]

On the other hand, the Ultimate loan was also secured by a real estate mortgage over a factory building (Ultimate property), likewise located at the PEZA, Rosario, Cavite, containing an area of 3,000 sq. m., and declared for tax purposes under TD 17-0009-03191. As of February 7, 2014, the outstanding loan obligation of Ultimate to PI One stood at ₱10,500,000.00.[7]

Thus, PI One tried to collect the obligations of Maxon and Ultimate, but the two companies failed to pay their obligation to PI One. Consequently, PI One filed petitions to foreclose the real estate mortgage of both Maxon and Ultimate. Subsequently, auction sales were conducted on the Maxon and Ultimate properties. The Maxon property was sold to PI One as the highest bidder; while the Ultimate property was sold to respondent. Subsequently, PI One sold all of of its rights over the Maxon property to respondent through a Deed of Assignment dated March 31, 2014. Thus, respondent became the new owner of both the Maxon and Ultimate properties.[8]

The problem arose when respondent started and tried to consolidate its tax declarations over the two properties after the lapse of the redemption periods. From the records of the Provincial Treasurer of Cavite, Maxon and Ultimate have unpaid real property taxes in the following amounts: (1) Maxon — ₱15,888,089.09 (for the years 2000-2013); and (2) Ultimate

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[6] *Id.* at 47.

[7] *Id.*

[8] *Id.* at 47-48.

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— ₱6,238,407.76 (for the years 1997-2013). Because of the unpaid real property taxes, respondent could not obtain the necessary tax clearance from petitioners in order to transfer the TDs over the Maxon and Ultimate properties under its name. Worse, the Provincial Treasurer of Cavite issued a tax assessment and a warrant of levy against Maxon and Ultimate after having declared the properties as delinquent. It also set the same for public auction on December 10, 2014, in order to satisfy the unpaid real property taxes assessed against them. However, the scheduled auction did not push through as the RTC issued a timely preliminary writ of injunction enjoining the prospective sale.[9]

The RTC Ruling

On February 19, 2016, the RTC rendered its Decision[10] in favor of respondent. The RTC ruled that respondent is not liable for the real property tax over its properties as it is exempt under Section 24[11] of RA 7916,[12] as amended by RA 8748, as well as on equity consideration arising from laches and estoppel. It ruled that the Maxon and Ultimate properties which are located in a special economic zone under the PEZA in Cavite are exempt from any local or national tax, save for a 5% tax on their gross income. Thus, the RTC made permanent the writ of injunction which it earlier issued.[13]

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[9] *Id.* at 48.

[10] *Id.* at 45-52.

[11] Section 24 of Republic Act No. (RA) 7916 provides:

SEC. 24. *Exemption from National and Local Taxes*. — Except for real property taxes on land owned by developers, no taxes, local and national, shall be imposed on business establishments operating within the ECOZONE. In lieu thereof, five percent (5%) of the gross income earned by all business enterprises within the ECOZONE shall be paid and remitted as follows:

(a) Three percent (3%) to the National Government;

(b) Two (2%) which shall be directly remitted by the business establishments to the treasurer's office of the municipality or city where the enterprise is located.

[12] The Special Economic Zone Act of 1995.

[13] *Rollo*, pp. 50-52.

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Petitioners filed a motion for reconsideration, but the RTC denied it in its Resolution dated July 7, 2016.[14]

The CA Ruling

In its Decision[15] dated May 23, 2018, the CA denied the petition.

The CA ruled that respondent was neither the owner nor the entity with the actual or beneficial use or possession of the pieces of real property for which real property taxes for the taxable years 2000-2013 (Maxon property) and 1997-2013 (Ultimate property) were sought by petitioner. It explained that respondent became the owner of the Ultimate property only upon the expiration of the three-month redemption period which was in August, 2014. Respondent also became the absolute owner of Maxon only when PI One assigned its right over the realty following the expiration of the three-month redemption period in March, 2014. Thus, it would be incongruous to impose a legal obligation upon respondent to pay the accrued realty taxes of the properties considering that respondent was not in possession thereof. Further, inasmuch as respondent was not the owner nor did it have actual or beneficial use or possession of the subject properties at the time of accrual of the taxes sought to be collected, its right to file a protest under the Local Government Code was contrary to petitioners' perception, non-existent.[16]

The CA also ruled that the properties involved were exempt from real estate taxation pursuant to Section 24 of RA 7916, as amended. Moreover, the provisions of RA 7916 were mute as to any requirement of prior concurrence from the local government unit involved before respondent can avail itself of the tax exemption provided under the law. Instead,

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[14] *Id.* at 34.

[15] *Id.* at 30-44.

[16] *Id.* at 38-39.

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Section 35[17] of RA 7916 required business enterprises within a designated ecozone to register with PEZA in order to avail themselves of the incentives and benefits under RA 7916. Such requirement was demonstrated by respondent's Registration and Lease Agreements with PEZA.[18]

The CA further ruled that some of the unpaid realty taxes sought to be collected by the Provincial Government of Cavite already prescribed and can no longer be collected under Section 270 of RA 7160, also known as the Local Government Code, which provides that the basic real property tax shall be collected within five years from the date they become due and that no action for the collection of the tax, whether administrative or judicial, shall be instituted after the expiration of such period. Here, Maxon had been delinquent in the payment of its realty tax since 2000, while Ultimate failed to pay realty taxes since as early as 1997. Petitioners failed to offer any plausible reason for their failure to collect the accrued real property taxes.[19]

The CA furthermore ruled that petitioners are barred by laches and estoppel, substantial justice, and fair play from collecting the real property taxes due on the properties previously owned by Maxon and Ultimate.[20]

Lastly, the CA ruled that respondent sufficiently established its right to the issuance of a permanent injunction against petitioners. It explained that as the new owner, respondent had a clear right over the properties and that there was a clear violation of such right in the threatened auction sale of the properties by the Provincial Treasurer of Cavite for the unpaid realty taxes

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[17] Section 35 of RA 7916 provides:

SECTION 35. *Registration of Business Enterprises*.— Business enterprises within a designated ECOZONE shall register with the PEZA to avail of all incentives and benefits provided for in this Act.

[18] *Rollo*, pp. 40-41.

[19] *Id.* at 41-42.

[20] *Id.* at 42-43.

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thereon. Moreover, irreparable damage would be caused to respondent if the auction sale of the properties will proceed.[21]

Hence, the petition.

The Courts Ruling

The Court denies the petition for failure of petitioners to show that the CA committed any reversible error in dismissing its appeal.

The CA is correct in denying petitioners' appeal and in effect, affirming the ruling of the RTC which permanently enjoined petitioners from conducting tax delinquency sale over respondent's properties which are located at the PEZA, Rosario, Cavite.

In *National Power Corp. v. Province of Quezon, et al.*,[22] the Court explained that the liability for taxes generally rests on the owner of the real property at the time the tax accrues as a necessary repercussion of exclusive dominion.[23] However, personal liability for real property taxes may also expressly rest on the entity with the beneficial use of the real property.[24] In either case, the unpaid tax attaches to the property and is chargeable against the taxable person who had actual or beneficial use and possession of it regardless of whether or not he is the owner.[25]

Here, as correctly pointed out by the CA, respondent was not yet the owner or entity with the actual or beneficial use of

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[21] *Id.* at 43-44.

[22] 610 Phil. 456 (2009).

[23] *Id.* at 467, citing *City of Baguio v. Busuego*, 188 Phil. 218, 223-224 (1980) and *Meralco v. Barlis*, 477 Phil. 12, 37 (2004).

[24] *Id.*, citing *Republic of the Philippines v. City of Kidapawan*, 513 Phil. 440, 452 (2005), citing Vitug and Acosta, *Tax Law and Jurisprudence* (2000 ed.), p. 490.

[25] *Id.* at 467-468, citing *Testate Estate of Concordia T. Lim v. City of Manila*, 261 Phil. 602, 607 (1990).

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the building which was previously owned by Maxon (Maxon property) and the building which was previously owned by Ultimate (Ultimate property) during the years for which petitioners sought to collect real property taxes. Specifically, petitioners sought to collect from respondent real property taxes due on the Maxon property for the years 2000-2013 and on the Ultimate property for the years 1997-2013. However, respondent became the owner of the Maxon property and the Ultimate property only in March 2014, and August 2014, respectively. To impose the real property taxes on respondent, which was neither the owner nor the beneficial user of the property during the designated periods would not only be contrary to law but also unjust.[26]

Not even a stipulation in the Deed of Assignment that PI One. is selling, assigning and conveying in favor of respondent all rights, titles, obligations, benefits and interests in the Maxon Property will make respondent liable for the real property tax over the Maxon property. In *National Power Corp. v. Province of Quezon, et al.*,[27] relying on the Court's pronouncement in *Testate Estate of Concordia T. Lim v. City of Manila*,[28] the Court ruled that contractual assumption of the obligation to pay real property tax, by itself, is insufficient to make one liable for taxes.[29] The contractual assumption of tax liability must be supplemented by an interest that the party assuming the liability had on the property; the person from whom payment is sought must have also acquired the beneficial use of the property taxed.[30] In other words, he must have the use and possession of the property.[31]

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[26] *Id.*

[27] *National Power Commission v. Province of Quezon, supra* note 22. See also *National Power Corp. v. Province of Quezon, et al.*, 624 Phil. 738 (2010).

[28] 261 Phil. 602 (1990).

[29] *National Power Commission v. Province of Quezon, supra* note 22 at 471; See also *National Power Corp. v. Province of Quezon, et al., supra* note 27 at 745.

[30] *Id.*

[31] *Id.*

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Given the foregoing, petitioners cannot conduct a tax delinquency sale of the Maxon and Ultimate properties which are now owned by respondent. To do so would effectively make respondent liable for the payment of real property taxes due on the Maxon property for the years 2000-2013 and on the Ultimate properties for the years 1997-2013 when it did not yet own or had actual or beneficial use of the properties. As the Court has discussed above, such is not only contrary to law, but is also unjust.

Parenthetically, respondent is exempt from paying real property taxes over the Maxon and Ultimate properties from the time it had acquired ownership and/or actual or beneficial use of the properties pursuant to Section 24 of RA 7916, as amended by RA 8748, to wit:

> SEC. 24. *Exemption from National and Local Taxes.* — Except for real property taxes on land owned by developers, no taxes, local and national, shall be imposed on business establishments operating within the ECOZONE. In lieu thereof, five percent (5%) of the gross income earned by all business enterprises within the ECOZONE shall be paid and remitted as follows:
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> (a) Three percent (3%) to the National Government;
>
> (b) Two percent (2%) which shall be directly remitted by the business establishments to the treasurer's office of the municipality or city where the enterprise is located.

As correctly ruled by the CA, there is nothing in Section 24 which requires prior concurrence from the local government unit before respondent can avail itself of the exemption provided under the law. In fact, under Section 35 of RA No. 7916, the only requirement for business enterprises within a designated ECOZONE to avail themselves of all incentives and benefits provided for under RA 7916 is to register with the PEZA. This requirement was satisified by respondent.

Respondent's Registration and Lease Agreements with the PEZA which were cited by the CA in its Decision dated May 23, 2018 indicate that respondent was registered as an Ecozone

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Facilities Enterprise.[32] Section 2, Rule XVI, Part VII of the Implementing Rules and Regulations (IRR) of RA 7916 provides for the incentives of an Ecozone Facilities Enterprise, to wit:

> SECTION 2. *ECOZONE Facilities, Utilities and Tourism Enterprises*. — ECOZONE Facilities, Utilities and Tourism Enterprises shall be entitled to the following incentives:
>
> *a. Exemption from national and local taxes and lieu thereof payment of a special tax rate of jive percent (5%) on gross income in accordance with Section 1(A) of Rule XIV and Rule XX of these Rules*;
>
> b. Additional Deduction for Training Expenses — The same incentives as provided for under Section 1(B) of Rule XIV of these Rules shall also apply to ECOZONE Facilities, Utilities and Tourism Enterprises;
>
> c. Incentives provided under R.A. 6957 as amended by R.A. 7718, otherwise known as the Build Operate and Transfer Law, subject to such conditions as may be prescribed by the Board; and
>
> d. Other incentives available under the Code, as may be determined by the Board subject to the conditions provided under Sections 3 and 5 of Rule XIII of these Rules. (Italics supplied.)

Significantly, in response to queries made by registered economic zone enterprises as to whether they are exempted from securing LGU Permits and from payment of local taxes, fees, licenses, *etc*., the PEZA issued Memorandum Circular No. 2004-024 which provides in part that "PEZA-registered economic zone enterprises availing of the 5% [gross income tax] incentive are exempted from payment of all national and *local* taxes, except real property tax on land owned by developers."

In this case, there is nothing to indicate that respondent is a developer. Thus, considering RA 7916, as amended, its IRR,

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[32] *Rollo*, p. 41.

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and Memorandum Circular No. 2004-024, it is evident that save for the payment of 5% gross income tax, respondent is exempt from the payment of national and local taxes including real property tax on the Maxon and Ultimate Properties.

Lastly, as correctly ruled by the CA, the collection of some of the unpaid real property taxes sought by petitioner already prescribed. Section 270 of RA 7160 provides that "[t]he basic real property tax x x x shall be collected within five (5) years from the date they become due," and that "[n]o action for the collection of the tax, whether administrative or judicial, shall be instituted after the expiration of such period." Unfortunately, as discussed by the RTC and the CA, petitioners failed to collect the accrued real property taxes which date from as early as 1997.

WHEREFORE, the Petition is **DENIED**. The Decision dated May 23, 2018 and the Resolution dated June 20, 2019 of the Court of Appeals in CA-G.R. CV No. 107654 are **AFFIRMED**.

SO ORDERED.

Perlas-Bernabe, S.A.J. (*Chairperson*), *Hernando, Delos Santos,* and *Gaerlan,*[*] *JJ.*, concur.

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[*] Designated as additional member per Special Order No. 2780 dated May 11, 2020.