REPUBLIC OF THE PHILIPPINES
Court of Tax Appeals
QUEZON CITY

Second Division

QUEZON CITY and the OFFICE OF THE CITY TREASURER OF QUEZON CITY,
Petitioners,

-versus-

SKY CABLE CORPORATION,
Respondent.

CTA AC NO. 295
[RTC Civil Case No. R-QZN-21-08820-CV]

Members:

RINGPIS-LIBAN, *Chairperson,*
MODESTO-SAN PEDRO, *and*
FERRER-FLORES, *JJ.*

Promulgated:

OCT 08 2024 3:4 p.m.

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DECISION

MODESTO-SAN PEDRO, J.:

The Case

Before the Court is a Petition for Review,[1] filed on July 3, 2023 by petitioners Quezon City and the Office of the City Treasurer against respondent Sky Cable Corporation, praying that the Court reverse and set aside the Decision,[2] dated January 20, 2023 ("Assailed Decision"), and Order,[3] dated May 24, 2023 ("Assailed Order"), both promulgated by Branch 104 of the Regional Trial Court of Quezon City ("RTC"). The Assailed Decision granted the complaint filed by respondent and ordered petitioner to refund erroneously paid local taxes to respondent. The Assailed Order denied petitioner's Motion for Reconsideration for lack of merit.

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1 *Rollo* Vol. 1, pp. 5-20.
2 *Id.* at 27-32.
3 *Id.* at 34-37.

The Parties[4]

Petitioner Quezon City is a duly constituted public corporation, organized and existing under and by virtue of *Commonwealth Act No. 502, as amended.*

Petitioner Office of the City Treasurer of Quezon City is a duly constituted department of the Quezon City Government and is mandated to implement *Quezon City Ordinance No. SP-91, Series of 1993, as amended*, also known as the *Quezon City Revenue Code* ("*QCRC*").

Respondent is a domestic corporation duly organized and existing under the laws of the Philippines, with principal office at the 6th Floor, ELJ Communications Center, Mother Ignacia St., Quezon City.

The Facts

On April 5, 2021, petitioners issued Business Tax Bill No. 1768237, assessing respondent for local business taxes ("LBT") for the 2nd quarter of 2021.[5]

Respondent paid the total amount assessed on April 20, 2021, and petitioners accordingly issued Official Receipt No. A3COR8732533-3, as proof of payment, and a business permit for calendar year 2021.[6]

Respondent then filed a protest against the assessment with a claim for refund or credit on May 20, 2021, but petitioners did not act on the same. As such, respondent filed a complaint before the RTC for the cancellation of assessment and for a refund or credit for the erroneously paid taxes.[7]

After petitioners filed their Answer on December 16, 2021, the parties moved, during Pre-Trial, to dispense with the trial, as (a) no factual issues were involved; (b) only legal issues were raised; and (c) the parties admitted all offered evidence. The RTC then granted the motion, and the parties filed their respective Memoranda.[8]

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4 *See* Petition for Review, p. 3, *id.* at 7.
5 *See* Petition for Review, p. 5, *id.* at 9.
6 *Id.*
7 *See* Petition for Review, pp. 5-6, *id.* at 9-10.
8 *See* Petition for Review, p. 6, *id.* at 10.

The RTC issued the Assailed Decision on January 2, 2023. Petitioners filed a Motion for Reconsideration against the same on February 21, 2023, but this was denied in the Assailed Order, which petitioners received on June 8, 2023.[9]

Aggrieved, petitioners filed the instant Petition for Review on July 3, 2023.

After order,[10] respondent filed its Comment (on Petition for Review dated 03 July 2023)[11] via registered mail on August 18, 2023. The Court then directed the parties to file their respective Memoranda,[12] with petitioners filing their Memorandum[13] on October 25, 2023, and respondent filing its Memorandum[14] via registered mail on November 3, 2023. Accordingly, the Court submitted this case for decision through a Minute Resolution,[15] dated November 15, 2023.

Hence, this Decision.

Arguments of the Parties

Petitioners raise the following arguments:

1) In granting respondent's complaint, the RTC indirectly but effectively nullified *Section 23 of the QCRC*;[16]
2) The *QCRC* must prevail over the *Local Government Code* ("*LGC*") as the RTC failed to harmonize the two and as special laws must prevail over general ones;[17]
3) As it paid LBT without complaint in previous years, respondent is estopped from now questioning the validity of the *QCRC*;[18] and
4) Given the foregoing, respondent failed to prove that it is entitled to any tax refund or credit.[19]

Respondent counters the above with these contentions:

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9 *See* Petition for Review, pp. 6-7, *id.* at 10-11; *see also* Order, dated May 24, 2023, p. 1, *id.* at 34.
10 *See* Resolution, dated July 26, 2023, *Rollo,* p. 120.
11 *Id.* at 121-139.
12 *See* Resolution, dated September 11, 2023, *id.* at 145.
13 *Id.* at 146-165.
14 *Id.* at 166-191.
15 *Id.*, unpaginated.
16 *See* Petition for Review, pp. 8-14, *id.* at 12-18; *see also* Memorandum for the Petitioners, pp. 5-12, *id.* at 150-157.
17 *See* Petition for Review, pp. 14-15, *id.* at 18-19; *see also* Memorandum for the Petitioners, pp. 12-14, *id.* at 157-159.
18 *See* Petition for Review, pp. 15-17, *id.* at 19-21; *see also* Memorandum for the Petitioners, pp. 14-15, *id.* at 159-160.
19 *See* Petition for Review, pp. 17-18, *id.* at 21-22; *see also* Memorandum for Petitioners, pp. 15-16, *id.* at 160-161.

1) The RTC correctly held that petitioners' application of *Section 23 of the QCRC* was erroneous;[20]
2) There is no conflict between the *LGC* and the *QCRC*, and even if such a conflict existed, the *LGC* limits the taxing powers of local governments and must thus prevail;[21]
3) Respondent is not estopped from questioning the assailed assessment as it correctly availed of the proper remedies;[22] and
4) Respondent is entitled to a tax refund.[23]

The Ruling of the Court

The Petition for Review is bereft of merit.

The Court has jurisdiction over this case

Before delving into the merits, the Court must first determine whether it has jurisdiction over this case.

Section 7(a)(3) of Republic Act No. 1125, as amended ("*CTA Law*"), grants this Court appellate jurisdiction over rulings of the RTC in local tax cases:

> 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;

Meanwhile, under *Rule 4, Section 3(a)(3) of the Revised Rules of the Court of Tax Appeals, as amended* ("*RRCTA*"), the Court in Division can take cognizance of appeals from rulings of the RTC in the exercise of the latter's *original* jurisdiction:

> SEC. 3. Cases within the jurisdiction of the Court in Division. — The Court in Division shall exercise:

[20] *See* Comment, pp. 1-6, *id.* at 121-126; *see also* Memorandum, pp. 6-11, *id.* at 171-176.
[21] *See* Comment, pp. 7-12, *id.* at 127-132; *see also* Memorandum, pp. 11-16, *id.* at 176-181.
[22] *See* Comment, pp. 12-14, *id.* at 132-134; *see also* Memorandum, pp. 16-21, *id.* at 181-186.
[23] *See* Comment, pp. 14-18, *id.* at 134-138; *see also* Memorandum, pp. 21-24, *id.* at 186-189.

> (a) Exclusive original or appellate jurisdiction to review by appeal the following:
>
> . . . .
>
> (3) Decisions, resolutions or orders of the Regional Trial Courts in local tax cases decided or resolved by them in the exercise of their original jurisdiction;

Finally, *Rule 8, Section 3(a) of the RRCTA* provides a 30-day prescriptive period for these kinds of appeals:

> SEC. 3. *Who may appeal; period to file petition.* —
>
> (a) A party adversely affected by a *decision, ruling* or inaction of . . . a Regional Trial Court in the exercise of its original jurisdiction may appeal to the Court by petition for review filed within thirty days after receipt of a copy of such decision or ruling . . .

The present Petition for Review was filed to assail the Decision and Resolution rendered by the RTC in the exercise of its original jurisdiction. It thus falls under *Section 7(a)(3) of the CTA Law* and *Rule 3, Section 3(a)(3) of the RRCTA*.

As to the timeliness of the Petition's filing, petitioners received the Assailed Order on June 8, 2023, giving them until July 7, 2023 within which to file the Petition. As they filed it on July 3, 2023, the Petition was timely filed, and this Court properly acquired jurisdiction over the case.

Unfortunately, the Petition's timely filing is not enough to save it from its fatal lack of merit.

Section 23 of the QCRC must be read within the larger context of Section 150 of the LGC

Given that the controversy stems from a perceived conflict between the *LGC* and the *QCRC*, quoting the relevant provisions of the two laws here before summarizing the parties' competing interpretations of the same would help clarify the issue. *Section 150(a) and (b) of the LGC* states:

> SECTION 150. Situs of the Tax. — (a) For purposes of collection of the taxes under Section 143 of this Code, manufacturers, assemblers, repackers, brewers, distillers, rectifiers and compounders of liquor, distilled spirits and wines, millers, producers, exporters, wholesalers, distributors, dealers, contractors, banks and other financial institutions, and other businesses, maintaining or operating *branch or sales outlet*

> *elsewhere shall record the sale in the branch or sales outlet making the sale or transaction, and the tax thereon shall accrue and shall be paid to the municipality where such branch or sales outlet is located. In cases where there is no such branch or sales outlet in the city or municipality where the sale or transaction is made, the sale shall be duly recorded in the principal offices and the taxes due shall accrue and shall be paid to such city or municipality.*
>
> (b) The following sales allocation shall apply to manufacturers, assemblers, contractors, producers, and exporters with factories, project offices, plants, and plantations in the pursuit of their business:
>
>> (1) *Thirty percent (30%) of all sales recorded in the principal office shall be taxable by the city or municipality where the principal office is located*; and
>>
>> (2) *Seventy percent (70%) of all sales recorded in the principal office shall be taxable by the city or municipality where the factory, project office, plant, or plantation is located.*
>
> . . . .
>
> (Italics supplied.)

Meanwhile, *Section 23(a)(1) of the QCRC* provides:

> SECTION 23. Situs of the Tax. — a) All business establishments such as factories, assembly plants, plantations, farms and project offices which are found in Quezon City shall be subjected to the following sales allocation and situs of tax:
>
>> 1) Thirty percent (30%) of all sales or receipts recorded in the principal office shall be taxable by the locality where it is located while seventy percent (70%) thereof shall be taxable by the locality where the factory, plant, plantation, farm or project is actually located.

Notably, both the *LGC* and the *QCRC* distinguish between two kinds of offices: principal offices and non-principal offices based in a different locality from that of the principal office ("outside offices"). The *LGC* also identifies two subcategories of outside offices: branches or sales outlets ("branches"), which record their sales and pay 100% of the local taxes due on said sales to their respective localities, and "manufacturers, assemblers, contractors, producers, and exporters with factories, project offices, plants, and plantations" ("factories or similar"), whose sales are subjected to the allocation identified in *Section 150(b)* of said law.

The issue here arose when petitioners applied *Section 23(a)(1) of the QCRC* to respondent by imposing a 30% tax on the sales of its outside offices as respondent's principal office is located in Quezon City. Respondent does not agree with this, arguing that its outside offices fall under the first sentence of *Section 150(a) of the LGC*, not *Section 23(a)(1) of* *the QCRC*. Petitioners counter that the imposed tax is clearly provided by the latter provision, and that to claim otherwise would be an attack on the *QCRC*, which, being a special law, must prevail over the *LGC*.

Petitioners' argument is untenable. The *QCRC* lacks critical details provided in the *LGC*, and reading the former without the latter would inadvertently create a tax exemption.

Sections 23(a) and (1) of the QCRC are clearly based on *Sections 150(a) and (b)*. This can be seen, for example, in how the *QCRC* borrows the 30% and 70% sales allocation from the *LGC* and even uses a very similar list as the latter, echoing the identification of "factories," "assembly plants"/ "assemblers," "plantations," and "project offices." Both also apply the 30% allocation to the locality of the "principal office" and the 70% to the factories or similar. Indeed, the *QCRC* uses the general term "locality" as used by the *LGC*, rather than the more specific and appropriate "Quezon City."

The *QCRC* also seems to lack certain details provided by the *LGC*. For example, the *QCRC* does not include a requirement for the principal office to record the sales of its non-branch outside offices, unlike the *LGC*. It is thus unclear from where the *QCRC* gained the assumption that principal offices would record the sales and receipts of its outside offices comes or in what instances a principal office would be allowed to *not* record the sales of its outside offices—a confusion dispelled if the *QCRC* is read in the wider context of the *LGC*.

From the above, it would seem perfectly sensible to interpret the *QCRC* through the lens of the *LGC* in order to supplement the lacks and ambiguities of the former. An important lack in the *QCRC*, however, is the lack of a provision imposing a tax on branches that (a) record their own sales; and (b) are located in Quezon City.

Recall that *Section 23(a)(1) of the QCRC* applies to "all sales or receipts *recorded in the principal office*." That qualifier restricts this specific subsection from covering sales *not recorded in the principal office*. However, *Section 23* lacks any mention of such sales. What would happen, then, if a branch is located in Quezon City and records its own sales, which are not recorded in the taxpayer's principal office?

If the *QCRC* is read in isolation, as petitioners insist, then said sales would be completely exempt from any local taxes.

Take the following hypothetical situation. A taxpayer's principal office is located in Makati City, but it operates a branch in Quezon City. As its operations are not limited to Quezon City, it falls at least partially under the *LGC*, whose requirements on recording sales it follows to a fault. The sales it makes through its Quezon City branch are recorded in said branch but not in its Makati City principal office.

On one hand, Makati City will be unable to impose any local taxes on said sales. Nothing in the *LGC* allows a local government to tax sales made by and recorded in a branch located elsewhere.

On the other hand, Quezon City will also be unable to impose any local taxes of its own. As discussed, nothing in the *QCRC* allows Quezon City to tax sales not recorded in the principal offices. Its only provision on the matter clearly specifies "sales or receipts *recorded in the principal office*."

Reading the *QCRC* in isolation and claiming that it is not clarified by the *LGC* would thus be disastrous. It would produce an unjustified tax exemption for any business operating a branch in Quezon City, simply because the *QCRC* is silent on the matter.

The above is not an issue, however, if the *QCRC* is applied together with the relevant provisions of the *LGC*. Under such an application, Quezon City would be able to tax 100% of the sales made by and recorded in the Quezon City branch, following the first sentence of *Section 150(a) of the LGC*.

This Court cannot condone an interpretation of the law that produces an unwarranted tax exemption. And given that refusing to allow the suppletory application of the *LGC* to the *QCRC* results in such an exemption, We cannot permit petitioners' interpretation and application of the *QCRC*.

Considering that (1) the *QCRC* lacks critical details included in the *LGC*; (2) *Section 23(a)(1) of the QCRC* is clearly based on *Section 150(b) of the LGC*; and (3) refusing to apply the *LGC* with the *QCRC* creates an unwarranted tax exemption, *Section 23(a)(1) of the QCRC* must be understood as being equivalent to *Section 150(b) of the LGC*. The allocation thus applies to factories or similar but *not* to branches. As the 30% tax collected by petitioners was imposed on sales made by respondent's *branches*, said collection was improper. Respondent is thus entitled to the refund granted by the RTC.

Petitioners' arguments are premised on the correctness of their interpretation of the law and must thus be rejected

The Court has found that petitioners' interpretation and application of the *QCRC* were fatally flawed. However, petitioners' arguments regarding collateral attacks, the prioritization of special laws, and estoppel are all based on the assumption that said interpretation is correct. Their arguments thus hold no water.

First, in arguing that respondent and the RTC are guilty of attacking the law, petitioners assume that their interpretation of the *QCRC* is the same as the code itself. It is not, as discussed above. As the *LGC* must be suppletorily applied to the *QCRC*, petitioners' version of the latter is a *misinterpretation* of the law. Consequently, neither respondent nor the RTC performed any collateral attack on the *QCRC*; they merely refuted a misinterpretation of the same.

Even assuming *arguendo* that the *QCRC* can be read in isolation, petitioners failed to even attempt to defend their interpretation of the same. They simply quoted the law and then acted as if their idiosyncratic reading of the same is beyond dispute. This is, however, false. Even if one were to restrict oneself to the *QCRC* and ignore the *LGC*, petitioners' version of the *QCRC* is not the only interpretation possible. Other defensible interpretations, even ones incompatible with that of petitioners, are possible. As such, petitioners' own version cannot automatically be taken as the correct one. This is so especially because, to repeat, petitioners did not even bother to establish or argue the correctness of their interpretation beyond treating the same as a given.

In short, even if the *QCRC* is read in isolation, petitioners' interpretation of it is not equivalent to the law. We are thus not convinced that respondent or the RTCeffectively nullified the *QCRC* rather than simply argued against a misinterpretation of the same. The two actions are not commensurate.

Second, even if respondent paid LBT in the past, petitioners failed to show that such LBT was assessed in accordance with their current interpretation of the *QCRC*. In other words, petitioners did not show that respondent previously paid taxes imposed on 30% of the sales made by their branches outside of Quezon City (which would, in effect, be an admission that petitioners have been imposing incorrect assessments upon respondent for years). Without proof to the contrary, the Court must assume that (a) petitioners *correctly* assessed respondent in previous years; and (b) respondent paid the *correctly* assessed LBT. This would not contradict respondent's current claim or estop it from assailing *incorrectly* assessed LBT. Petitioners' argument thus crashes before it even leaves the ground.

Third, petitioners' argument that special laws must prevail against general laws sees no application here. The imposition of taxes on 30% of the sales made by respondent's branches is not a special law. As already found, it is an *erroneous application* of the law. Consequently, it cannot prevail over any law or any correct interpretation of such. In any event, and as found by the RTC, the two laws can be sensibly harmonized. Consequently, no conflict arises between the two, and there is no need to determine which must prevail over the other.

We thus find all of petitioners' arguments to be unsuccessful. All that is left is to ensure that respondent is actually entitled to a refund, following *both* the *QCRC* and the *LGC*.

Respondent was not liable for the tax collected by petitioners and is thus entitled to a refund

First, a correction: while both respondent and the RTC observed that civil cases generally rest on a preponderance of evidence,[24] this rule is not applicable here. Claims for tax refunds are in the nature of exemptions and are thus strictly construed against the claimants. As such, claimants must *substantially* prove their entitlement to the refund sought.[25]

To review, respondent's claim is based on three major allegations: (a) it paid, to petitioners, taxes imposed under *Section 23(a)(1) of the QCRC*; (b) its branches outside of Quezon City should fall under the first sentence of *Section 150(a) of the LGC* and not *Section 150(b) of the LGC* and *Section 23(a)(1) of the QCRC*; and (c) it is thus entitled to refund. To determine the truth of (c), respondent's entitlement to the refund sought, We must first see if respondent sufficiently proved both (a) and (b).

Anent (a), the parties agree, and the RTC found, that respondent paid the LBT in question. Respondent thus sufficiently proved that it paid the taxes for which it now seeks a refund.

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24 *See* Order, dated May 24, 2023, p. 4, RTC Records Vol. 2, p. 659.

25 *See Commissioner of Internal Revenue v. CE Casecnan Water and Energy Company, Inc.*, G.R. No. 212727, February 1, 2023; *see also Taihei Alltech Construction (Phil.), Inc. v. Commissioner of Internal Revenue*, GR. No. 258791, December 7, 2022; *see also Team Energy Corporation v. Commissioner of Internal Revenue*, G.R. Nos. 197663 & 197770, March 14, 2018; *see also Coca-Cola Bottlers Philippines, Inc. v. Commissioner of Internal Revenue*, G.R. No. 222428, February 19, 2018; *see also CBK Power Company Limited v. Commissioner of Internal Revenue*, G.R. No. 198729-30, January 15, 2014.

In order to prove (b), respondent would have to prove that the offices it operates outside of Quezon City are branches. After all, if said outside offices were not branches, then the sales made outside Quezon City would fall under the second sentence of *Section 150(a) of the LGC*, meaning that petitioners should have collected taxes due on 100% of the sales made in said offices. Alternatively, if said outside offices were not branches but factories or similar, then these would fall under *Section 150(b) of the LGC* and *Section 23(a) of the QCRC*. The tax would thus have been correctly collected, and respondent would not be entitled to a refund of the same.

How, then, can a taxpayer prove that its non-principal offices are branches? The *Implementing Rules and Regulations of the Local Government Code of 1991* ("*IRRLGC*") provides an answer.

Article 243(a)(2) of the IRRLGC defines a branch as follows:

> (2) Branch or Sales Office — a fixed place in a locality which conducts operations of the business as an extension of the principal office. Offices used only as display areas of the products where no stocks or items are stored for sale, although orders for the products may be received thereat, are not branch or sales offices as herein contemplated. A warehouse which accepts orders and/or issues sales invoices independent of a branch with sales office shall be considered as a sales office.

From the above, a branch is an office that serves "as an extension of the principal office" by conducting the operations of the business of the latter. The second sentence clarifies that offices that merely display products but do not actually store or sell these are not branches, while the third sentence adds that even a warehouse can be a branch so long as it accepts orders and/or issues sales invoices. As such, the important characteristic of a branch is that it is engaged in the sale of the services or products of the principal office.[26]

Respondent had earlier presented proof before the RTC that all of its outside offices were engaged in sales as "cable television services."[27] As such services are conducted as the main business of respondent's principal office, it thus proved that its outside offices are branches. Given that respondent's outside offices are branches, the sales made by said branches are taxable under the first sentence of *Section 150(a) of the LGC*, but not under either the second sentence of said provision or the pair of *Section 150(b) of the LGC* and *Section 23(a)(1) of the QCRC*. Finally, given that the sales made by respondent's branches are taxable under *Section 150(a) of the LGC*, they should not have been deemed liable to pay the excess amount assessed via *Section 23(a)(1) of the QCRC*.

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26 *See also The Municipality of Bakun v. Luzon Hydro Corporation*, CTA AC No. 100, November 8, 2013.

27 *See* Certification, Exhibit "P", RTC Records Vol. 1, p. 73.

In sum, respondent is entitled to the refund sought. The RTC did not err in ruling so.

As an aside, We note that respondent also raised the issue of double taxation before both the RTC and this Court.[28] It claims to have paid local taxes on the same set of sales twice: once to the localities where its branches are based, then to Quezon City. To fully substantiate such a claim, respondent would have to offer evidence that it actually paid LBT to localities other than Quezon City. It should have shown that, for example, it paid Pasig City the correct amount of LBT due from the very same sales that petitioners would further tax themselves. It offered no such evidence, however. The Court thus cannot simply accept that the sales of its branches were taxed twice.

Fortunately for respondent, its claim for refund is not solely based on its allegation of double taxation. Respondent has already proven that it paid taxes for which it was never actually liable. For the specific purposes of its claim, this is enough to prove that respondent is, indeed, entitled to a refund, regardless of whether it has proven payment of local taxes to other localities.

To conclude, We see no serious error in the ruling of the RTC and, thus, no compelling reason to grant the present Petition.

ACCORDINGLY, the instant Petition for Review, filed on July 3, 2023, is hereby **DENIED** for lack of merit. The assailed Decision, dated January 20, 2023, and assailed Order, dated May 24, 2023, both rendered by the Regional Trial Court of Quezon City, are hereby **AFFIRMED**.

SO ORDERED.

MARIA ROWENA MODESTO-SAN PEDRO
Associate Justice

WE CONCUR:

MA. BELEN M. RINGPIS-LIBAN
Associate Justice

CORAZON G. FERRER-FLORES
Associate Justice

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[28] *See* Complaint, pp. 18-19, *id.* at 18-19; *see also* Memorandum *Ex Abundante ad Cautelam*, pp. 16-17, RTC Records Vol. 2, pp. 492-493; *see also* Comment (On Petition for Review dated 03 July 2023), p. 12, *Rollo*, p. 132.

ATTESTATION

I attest that the conclusion in the above Decision were reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MA. BELEN M. RINGPIS-LIBAN
Associate Justice
Chairperson

CERTIFICATION

Pursuant to Article VIII, Section 13 of the Constitution and the Division Chairperson's Attestation, it is hereby certified that the conclusions in the above Decision were reached in consultation before the case was assigned to the writer of the opinion of the Court.

ROMAN G. DEL ROSARIO
Presiding Justice