



Republic of the Philippines
Supreme Court
Manila

THIRD DIVISION

PREME COURT OF THE PHILIPPINES
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UNIMASTERS CONGLOMERATION G.R. No. 214195
INCORPORATED,

Petitioner, Present:

LEONEN, J., *Chairperson*,
LAZARO-JAVIER,
LOPEZ, M. V.,
LOPEZ, J. Y., and
KHO, JR., *JJ.*:

- versus -

TACLOBAN CITY GOVERNMENT,
PRIVATIZATION AND MANAGEMENT
OFFICE, PHILIPPINE TOURISM
AUTHORITY, AND THE PROVINCE
OF LEYTE,

Promulgated:

Respondent. March 23, 2022
MisDcBatt

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DECISION

LOPEZ, J., *J.*:

Before Us is a Petition for Review on *Certiorari*¹ dated September 26, 2014, under Rule 45 of the Rules of Court, seeking the reversal of the Decision² dated August 22, 2014 in CTA EB No. 901 rendered by the Court of Tax Appeals *En Banc*.

¹ Rollo, pp. 3-50.
² *Id.* at 58-77.

Facts

Leyte Park Hotel Inc. (*LPHI*) is a 61,322-square meter property that stands on Magsaysay Boulevard, Tacloban City and covered by Transfer Certificate of Title No. T-1883. It is co-owned by Assets Privatization Trust (*APT*), now Privatization and Management Office (*PMO*), the Province of Leyte, and the Philippine Tourism Authority (*PTA*), now Tourism Infrastructure and Enterprise Zone Authority (*TIEZA*). *APT/PMO* holds 34% of the shares while *PTA* and the Province of Leyte hold 40% and 26% of the shares, respectively.³

On September 15, 1994, then *APT*, representing the owners of *LPHI*, and Unimasters Conglomeration Incorporated (*UCI*), through its President, Wilson Chan (*Chan*), entered into a Contract of Lease over *LPHI* with a duration of 12 years.⁴ A stipulation in the contract provides:

COMPLIANCE WITH APPLICABLE LAWS
AND REGULATIONS

x x x x

Section 11.04. Real property taxes shall be for the account of the LESSOR. Any payment of real property taxes by the LESSEE shall be credited against any amount due from the LESSEE to the LESSOR;⁵

x x x x

Initially, *UCI* was faithfully paying its monthly rentals and real property taxes, the latter payments were subsequently credited to its rental payment.⁶ However, starting December 16, 2000, *UCI* stopped paying its obligations, prompting *PMO* to send several letters demanding compliance with the provisions of the contract. Even so, the agreement expired without *UCI* settling its obligations. Since then, *UCI* has retained possession and enjoyment of the premises without paying any rentals and taxes due.⁷

Meanwhile, the City Treasurer of Tacloban sent several demand letters⁸ to *Chan* to collect the unpaid real property taxes of *LPHI* for the years 1989 to 2012 in the amount of ₱65,969,406.74, but the same remained unpaid despite notice. Hence, the City Treasurer of Tacloban instituted a collection case against *LPHI*, *UCI*, *APT*, *PTA*, and the Province of Leyte before the *CTA*. The case was subsequently docketed as *CTA OCA No. 012*.

³ *Id.* at 597.

⁴ *Id.* at 83-95.

⁵ *Id.* at 87.

⁶ *Id.* at 598.

⁷ *Id.*

⁸ Dated August 16, 2012, *id.* at 662; November 8, 2012, *id.* at 686.

After trial, the CTA (Special First Division) rendered a Decision,⁹ dated November 15, 2011, which found UCI liable to pay the amount of ₱22,826,902.20. However, the CTA recognized the clause in the Contract of Lease signed by the parties which allowed the crediting of any payments made by UCI against its rentals.¹⁰

UCI moved for reconsideration. When its motion was denied, UCI filed a petition for review before the CTA *En Banc*.¹¹

After due proceedings, the CTA *En Banc* issued the assailed Decision¹² dated August 22, 2014, which affirmed UCI's liability to pay the realty taxes for the period covering 1995-2004. Citing the cases of *GSIS v. City Treasurer and City Assessor of the City of Manila*¹³ and *Republic v. City of Kidapawan*,¹⁴ the CTA *En Banc* stood firm in ruling that realty tax pertaining to government assets attach 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.¹⁵

As regards the enforceability of the contractual obligation of the local government units, particularly the crediting of paid realty taxes on UCI's account, the CTA *En Banc* deferred to resolve the issue considering the pendency of a case involving the validity of the lease agreement between the parties.¹⁶

Dissatisfied, UCI elevated the case to this Court ascribing error on the part of the CTA in holding UCI liable to pay the real property tax sought by the City Government of Tacloban over LPHI and in refusing to enforce the provision in the contract whereby PMO, PTA and the Province of Leyte contractually assumed liability to pay the taxes due.¹⁷

UCI urges this Court to nullify the CTA rulings which applied the beneficial use principle. Citing the case of *City of Pasig v. Republic of the Philippines*,¹⁸ UCI argues that the payment of realty taxes over LPHI should rest on the Republic in case the beneficial user failed to pay the required taxes thereon especially so in this case that the Republic, through the PMO, PTA, and the Province of Leyte, has waived its tax exemption when it contractually assumed the payment of real property taxes in the lease contract.¹⁹

⁹ *Id.* at 162-205.

¹⁰ *Id.* at 203.

¹¹ *Id.* at 13.

¹² *Id.* at 58-77.

¹³ 623 Phil. 964 (2009).

¹⁴ 513 Phil. 440 (2005).

¹⁵ *Id.* at 68-70.

¹⁶ *Id.* at 75-76.

¹⁷ *Id.* at 41.

¹⁸ 671 Phil. 791 (2011).

¹⁹ *Rollo*, p. 26.

Our Ruling

We deny the petition for failure of the petitioner to show that the CTA *En Banc* committed any reversible error in dismissing its appeal.

The CTA *En Banc* is correct in denying petitioner's appeal and, in effect, affirming the ruling of the CTA Division which found it liable to pay real property taxes over the LPHI property.

As cited by the CTA *En Banc*, Section 234 (a) of the Local Government Code exempts the real properties owned by the Republic from payment of real property tax, to wit:

Section 234. Exemptions from Real Property Tax. The following are exempted from payment of real property tax:

- (a) **Real property owned by the Republic of the Philippines or any of its political subdivisions except when the beneficial use thereof has been granted, for consideration or otherwise to a taxable person;**
- (b) Charitable institutions, churches, parsonages, or convents appurtenant thereto, mosques, non-profit or religious cemeteries and all lands, buildings and improvements actually, directly and exclusively used for religious, charitable, and educational purposes;
- (c) All machineries and equipment that are actually, directly and exclusively used by local water districts and government-owned or controlled corporations engaged in the supply and distribution of water and/or generation and transmission of electric power;
- (d) All real property owned by duly registered cooperatives as provided for under RA 6938; and
- (e) Machinery and equipment used for pollution control and environmental protection.²⁰ (Emphases supplied)

It is noticeable that the above-mentioned provision also contains a limitation to the exemption granted to the Republic or any of its political subdivisions when the beneficial use of the real property it owns is granted to a taxable person. At this point, it must be clarified that the term Republic likewise includes government instrumentalities as held in *Philippine Heart Center v. The Local Government of Quezon City*.²¹ Clearly, government instrumentalities are exempt from real property tax but the exemption shall not extend to taxable private entities to whom the beneficial use of the government instrumentality's properties has been vested.²²

²⁰ Republic Act 7160 or the Local Government Code of 1991, Section 234.

²¹ G.R. No. 225409, March 11, 2020.

²² *Id.*



Certainly, the hotel, which is the subject matter of this case, is owned in common by the Province of Leyte, which is a political subdivision, and by PMO and PTA, both government instrumentalities that are exempt from payment of real property taxes. The subsequent execution of a Contract of Lease between the co-owners of LPHI and UCI, a private entity, did not divest the former of their exemption from realty taxes, only that the hotel lost the exemption from being taxed and the burden to pay the taxes due thereon, passed on to UCI as the beneficial user thereof.

In *MWSS v. Central Board of Assessment Appeals*,²³ We emphasized that while the liability for taxes generally falls on the owner of the real property, personal liability for real property taxes may also expressly rest on the entity with the beneficial use of the real property at the time the tax accrues.

Parenthetically, in *City Treasurer of Taguig v. Bases Conversion and Development Authority*,²⁴ citing *National Power Corporation v. Province of Quezon, et al.*,²⁵ We made explicit that the obligation to pay real property taxes rests on the person who derives benefit from its utilization, thus:

The liability for taxes generally rests on the owner of the real property at the time the tax accrues. This is a necessary consequence that proceeds from the fact of ownership. However, personal liability for realty taxes may also expressly rest on the entity with the beneficial use of the real property, such as the tax on property owned by the government but leased to private persons or entities, or when the tax assessment is made on the basis of the actual use of the property. In either case, the unpaid realty tax attaches to the property but is directly chargeable against the taxable person who has actual and beneficial use and possession of the property regardless of whether or not that person is the owner.²⁶ (Emphasis and citations omitted)

The principle referred above is known as the beneficial use principle which traces its origin from Section 234 (a) of the Local Government Code. The said provision exempts properties owned by the Republic from real estate taxes, save in cases where its beneficial use has been granted to a taxable person. In such cases, the unpaid taxes shall be chargeable to the taxable person who enjoys actual or beneficial use or possession of the realty property regardless of whether or not it is the owner thereof.²⁷

The disposition in *Philippine Heart Center v. Local Government of Quezon City*²⁸ is on point. In that case, We said that it is the “taxable person”

²³ G.R. No. 215955, January 13, 2021.

²⁴ G.R. No. 232278, July 13, 2020.

²⁵ 610 Phil. 456 (2009).

²⁶ *Supra* note 23.

²⁷ *Testate Estate of Concordia T. Lim v. City of Manila*, 261 Phil. 602, 607 (1990).

²⁸ *Supra* note 21.

with beneficial use who shall be responsible for payment of real property taxes due on government properties. Any remedy for the collection of taxes should then be directed against the “taxable person,” the same being an action *in personam*.

Petitioner, nonetheless, cites this Court’s ruling in *City of Pasig v. Republic of the Philippines*,²⁹ quoting as follows:

Section 234 (a) of Republic Act No. 7160 states that properties owned by the Republic of the Philippines are exempt from real property tax “**except when the beneficial use thereof has been granted, for consideration or otherwise, to a taxable person.**” Thus, the portions of the properties not leased to taxable entities are exempt from real estate tax while the portions of the properties leased to taxable entities are subject to real estate tax. The law imposes the liability to pay real estate tax on the Republic of the Philippines for the portions of the properties leased to taxable entities. It is, of course, assumed that the Republic of the Philippines passes on the real estate tax as part of the rent to the lessees.³⁰ (Emphasis in the original, underscoring supplied)

Significantly, petitioner’s appreciation of Our ruling in the *City of Pasig* is less than accurate. In said case, We stressed the import of Section 234 (a) of Republic Act No. 7160 in that “properties owned by the Republic of the Philippines are exempt from real property tax “**except when the beneficial use thereof has been granted, for consideration or otherwise, to a taxable person**”.”³¹ As We explained in *Philippine Heart Center*, “the Republic and its instrumentalities x x x retain their exempt status despite leasing out their properties to private individuals.”³² This exemption comes from its character as a government entity. But the moment beneficial use of the property owned by the government instrumentality is granted to a taxable person, the tax exemption is lifted and the liability to pay falls on the beneficial user or possessor.³³

In the more recent case of *Estampador v. City of Manila*,³⁴ We distinguished who between the property owner and the beneficial user the tax liability falls. Citing once again the case of *Philippine Heart Center*, We reiterated that it is the taxable person with the beneficial use who shall be responsible for the payment of real property taxes due on government properties.³⁵ Since tax collection is a personal action, the tax authority should go after the taxable person.

²⁹ *Supra* note 18.

³⁰ *Id.* at 804-805.

³¹ *Id.* at 804.

³² *Supra* note 21.

³³ *University of the Philippines v. City Treasurer of Quezon City*, G.R. No. 214044, June 19, 2019.

³⁴ G.R. No. 227288, March 18, 2021.

³⁵ *Supra* note 21.

Here, as correctly pointed out by the CTA *En Banc*, the tax exemption, which the owners of LPHI carry, is withdrawn the moment the beneficial use or possession over the real property was granted to petitioner, a taxable entity. From then on, tax liability accrued and the corresponding duty for the payment of the real property tax devolved on petitioner as the taxable beneficial user and possessor thereof.³⁶

This notwithstanding, petitioner invokes PMO and PTA's contractual liability under the September 15, 1994 Contract of Lease to enforce the tax liabilities imposed against it by the Tacloban City Government.

While We recognize the existence of the provision in the Lease Contract pertaining to PMO and PTA's assumption of tax liability, such assumption of obligation to pay real property tax does not automatically exonerate petitioner from the burden created by law especially so that the validity of the contractual stipulation of the parties is being questioned before the Regional Trial Court. In this regard, We agree with the CTA *En Banc* when it said:

Clearly, this Court can only determine the extent of petitioner's real property tax liability for respondent Tacloban City Government in relation to the beneficial use clause under Section 234 (a) of R.A. 7160. The contractual obligations of the parties under the lease agreement concern petitioner and the lessors only. Respondent Tacloban City Government is not privy to the lease contract.³⁷

In the Resolution dated April 17, 2012, the Court in Division correctly observed that:

It has come to the notice of the Court that there is a proper case pending before the Regional Trial Court of Makati, which is the proper forum to determine the validity and enforceability of the Contract of Lease.

Hence, RTC Makati, and not this Court shall resolve the validity of the contract of lease including the contractual stipulations of the parties.

Indeed, not being a party to the contract and without showing that it had knowledge of the same, the local government of Tacloban City cannot be automatically bound by said agreement.

The first paragraph of Article 1311 provides that contracts take effect only between the parties, their assigns and heirs, except in cases where the rights and obligations arising from the contract are not transmissible by their nature, or by stipulation or by provision of law.³⁸ Under the general principle of relativity of contracts, a contract can only bind the parties who had entered into it or their successors or heirs who have assumed their personality or

³⁶ *Supra* note 13.

³⁷ *Rollo*, pp. 75-76.

³⁸ See *Heirs of Villeza v. Aliangan*, G.R. Nos. 244667-69, December 2, 2020.

juridical possession, and that, as a consequence, such contract cannot favor or prejudice a third person,³⁹ even if he or she is aware of such contract and has acted with knowledge thereof.⁴⁰ Stated differently, where there is no privity of contract, there is likewise no obligation or liability to speak about.⁴¹


At any rate, whether circumstances exist to warrant the validity and enforceability of Section 11.04 of the contract is a matter that should be threshed out in the appropriate forum, as one has in fact been filed.

WHEREFORE, foregoing considered, the Petition is **DENIED**. The Decision dated August 22, 2014 of the Court of Tax Appeals *En Banc* in CTA EB No. 091 is **AFFIRMED**.

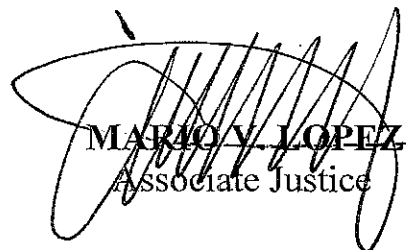
SO ORDERED.


JHOSEP V. LOPEZ
Associate Justice

WE CONCUR:


MARYIC M.V.F. LEONEN
Associate Justice


AMY C. LAZARO-JAVIER
Associate Justice


MARIO V. LOPEZ
Associate Justice


ANTONIO T. KHO, JR.
Associate Justice

³⁹

Id.

⁴⁰

Home Guaranty Corp. v. Manlapaz, G.R. No. 202820, January 13, 2021.

⁴¹

Asian Terminals, Inc. v. Padoson Stainless Steel Corp., 834 Phil. 47, 61-62 (2018), citing *Philippine National Bank v. Dee, et al.*, 727 Phil. 473, 480 (2014).

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ATTESTATION

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


**MARVIC M.V.F. LEONEN**

Associate Justice

Chairperson, Third Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

**ALEXANDER G. GESMUNDO**

Chief Justice