DEPARTMENT OF FINANCE
BUREAU OF LOCAL GOVERNMENT FINANCE

Improving Local Finance, Empowering Local Governments towards Sustainability

Package 3
COMPREHENSIVE TAX REFORM PROGRAM

Real Property Valuation and Assessment Reform (RPVAR)

As of June 2021

Outline

What is wrong with the current system?
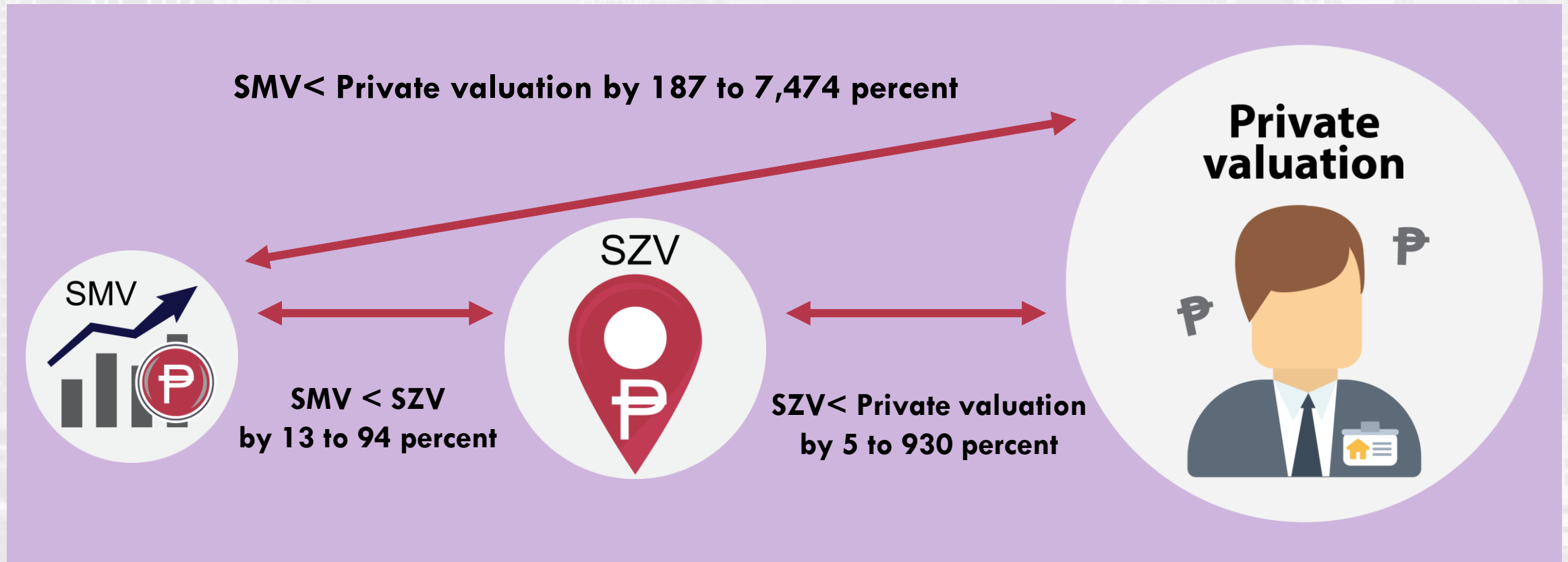

Why is RPVAR necessary?

What are the features of RPVAR?

WHAT IS WRONG WITH THE CURRENT SYSTEM?

- **Multiple, overlapping valuations** resulting in wide disparities in values: there are as many values as there are valuing agencies

- **Outdated valuations** used for governmental purposes, especially for national and local taxation; LGUs comingle valuation with taxation

- **Outdated valuations result in costs, foregone revenues**: overvaluation when government pays, undervaluation when government collects taxes

- **No single agency responsible** for ensuring that valuations/ revaluations are completed in accordance with standards

- **Absence of a comprehensive real property electronic database** to capture transactions and support regular property re-valuations

Outdated values therefore do not reflect the actual market sentiment.

SMV< Private valuation by 187 to 7,474 percent

SMV

SZV

Private valuation

SMV < SZV by 13 to 94 percent

SZV< Private valuation by 5 to 930 percent

Based on a 2004 Comparative Study of Land Values in Selected 19 Cities & Municipalities. Huge disparities have been noted in urban areas.

38 percent of schedule of zonal values (SZV) and 60 percent of schedule of market values (SMV) are outdated.

Bureau of Internal Revenue (BIR)
46 out of 120 Revenue District Offices (RDOs) did not revise values in the last three years.
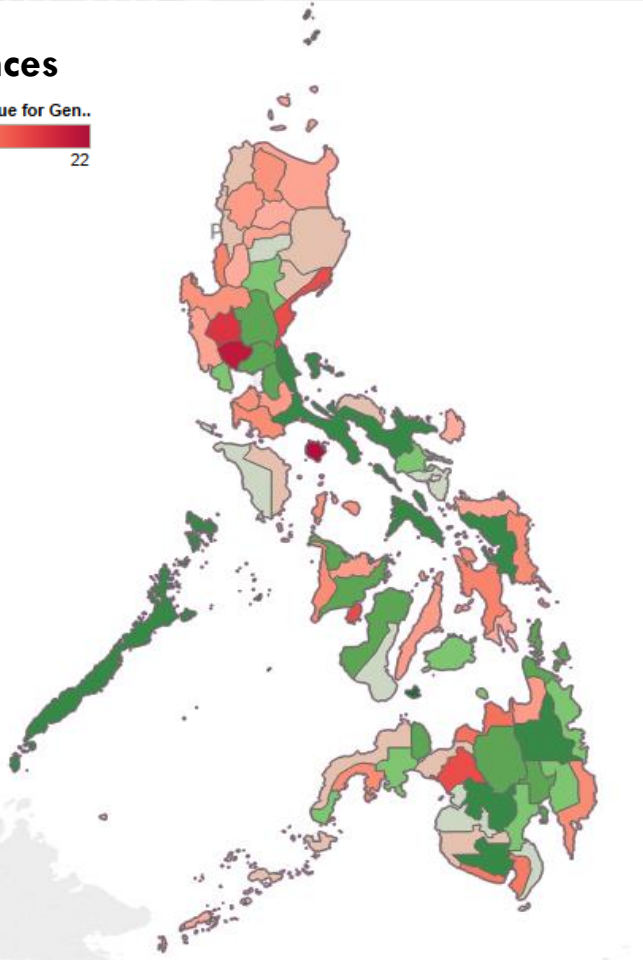
Local government units (LGUs)
137 out of 227 LGUs did not revise values in the last three years.

*SZVs data as of April 2021; LGU SMVs data as of May 2021.

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Local governments are not regularly updating their property values despite the requirement of the LGC.

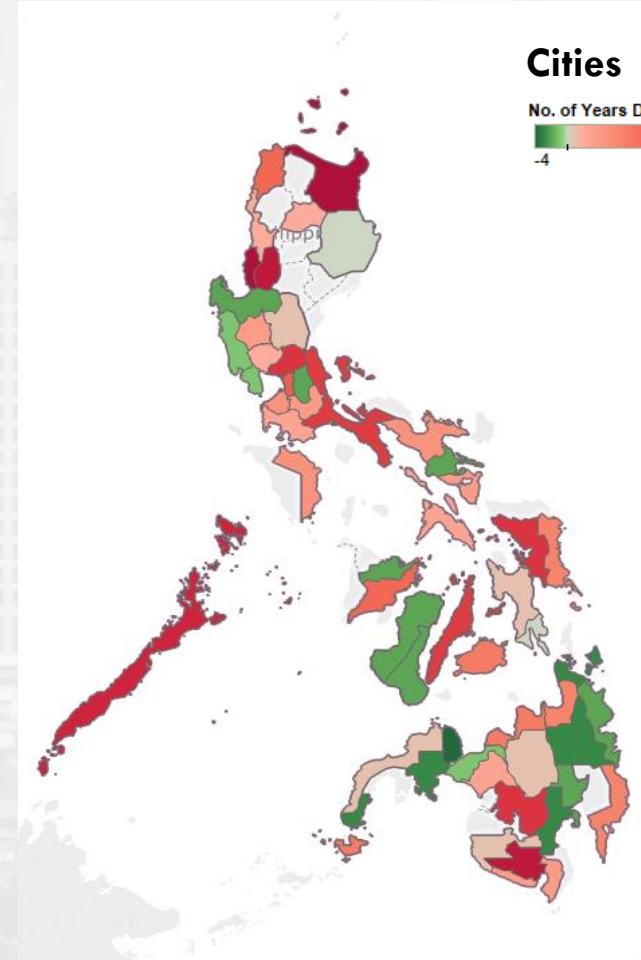**Provinces**

No. of Years Due for Gen..

-4 ———————— 22

60% of LGUs have outdated property valuations.

This year, around **97** cities and **40** provinces are non-compliant with the requirement to revalue properties once every 3 years.

Cities

No. of Years Due for Gen..

-4 ———————— 22

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Sample of huge disparities in key cities

X Avenue, City A

✓ SMV: PHP 40,000 per square meter (FY 1994/1996)

✓ SZV: PHP 439,000 (CR) per square meter (2017)

✓ MV: PHP 700,000 per square meter

18x

Y Village, City A

✓ SMV: PHP 29,000 per square meter (FY 1994/1996)

✓ SZV: PHP 320,000 per square meter (2017)
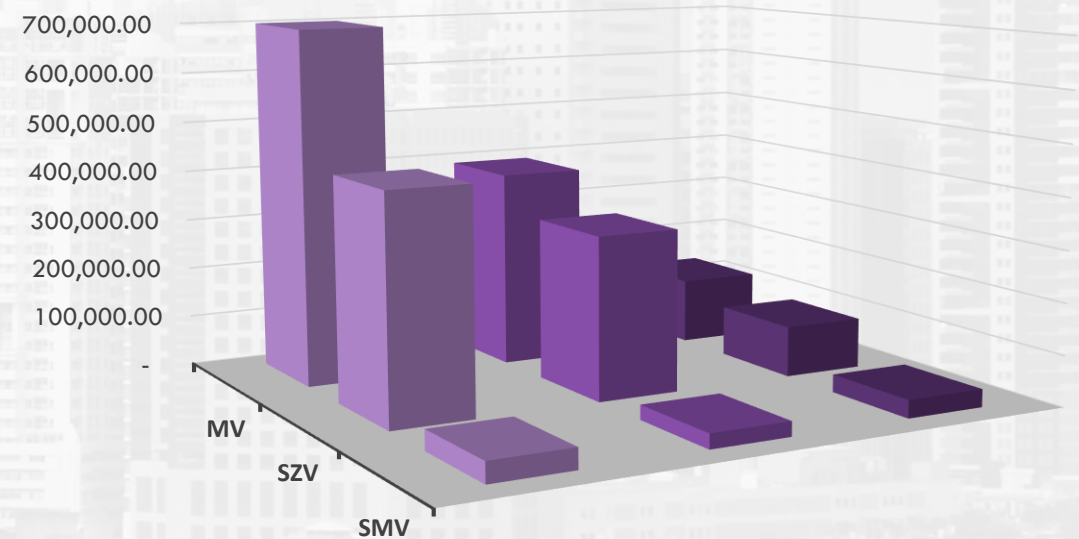
✓ MV: PHP 390,000 per square meter

13x

Z Avenue, City B

✓ SMV: PHP 35,000 per square meter (FY 2017)*

✓ SZV: PHP 100,000 (CR) (2012)

✓ MV: PHP 130,000 per square meter

4x

*Under TRO (April 2017)

Chart axis values: 700,000.00 / 600,000.00 / 500,000.00 / 400,000.00 / 300,000.00 / 200,000.00 / 100,000.00 / –
Axis labels: MV, SZV, SMV

Legend:
- X Avenue, City A
- Y Village, City A
- Z Avenue, City B

Sales Listing gathered in the internet; value estimate on land based on abstraction/extraction method.

At present, there can be three possible tax bases for a single transaction.

Tax type	Count of potential tax bases	Tax base
Capital gains tax	3	Highest of actual selling price, zonal value, and assessed value
Documentary stamp tax	3	Highest of actual selling price, zonal value, and assessed value from LGUs
Estate and donor's tax	2	Higher of zonal and assessed value
Real property tax	1	Assessed value

Note:
1. Zonal value is the real property value determined by the BIR.
2. Assessed value refers to the market value determined by the LGUs multiplied to the assessment levels based on the property classifications in the Local Government Code.

But there is no single agency ensuring that valuations from BIR and LGUs are in accordance with international standards.

LGU

BIR

Assessor prepares the Schedule of Market Values

Submit to Sanggunian for Approval/Funding for General Revision

Approved

Disapproved

Undertake General Revision
Update Records/Tax Declaration
Issue Notice of New Assessment

Use of old SMV for RPT, as well as for cases of appeals at LBAA/CBAA

Use of New Assessments for RPT, effective Jan 1 of subsequent year, as well as cases of appeals at LBAA/CBAA

- Technical Committees prepare zonal values: Executive Committee, Technical Committee, Sub-Technical Committee

- Value determination supported by assessors and private appraisers information

- Unlike the SMV, zonal values are determined only for land, condominiums, townhouses ownership

- Generally higher than LGU valuations; but not compliant with professional standards

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REAL PROPERTY TAX IS NOW CONTRIBUTING ONLY 28% TO LOCAL SOURCES, ON THE AVERAGE

Average (FYs 2014-2019)

28%
RPT to Local Sources

Average (FYs 2016-2019)

0.35%
RPT to GDP

For FY 2018

₱51.20B
NG Property-Related Taxes

FY 2018

0.26%
NG Property-Related Taxes to GDP

Opportunities for the LGUs to capture:

Expansion in renting and business activities by 2.3% in 2019 (one of the main drivers of economic growth, contributing 4.97% to the GDP)

3.4% increase in ownership of dwellings

GDP Growth in FY 2019: 5.9%

Main contributors to the country's economic growth:

1. Manufacturing – 22.83%
2. Trade Sector – 17.23%
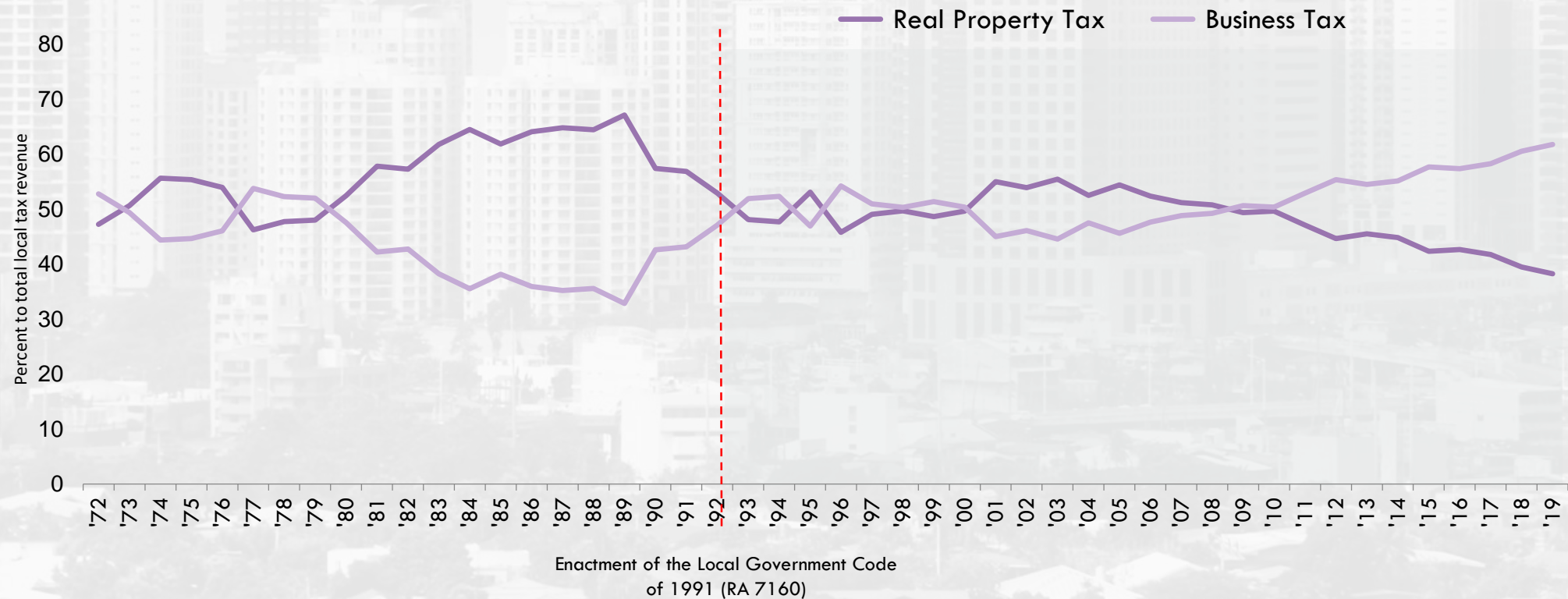3. Real Estate, Renting & Business Activities – 11.13%

BSP: residential real estate prices rose by 6.2% percent year-on-year in 2019

NG Real Property-Related Taxes:
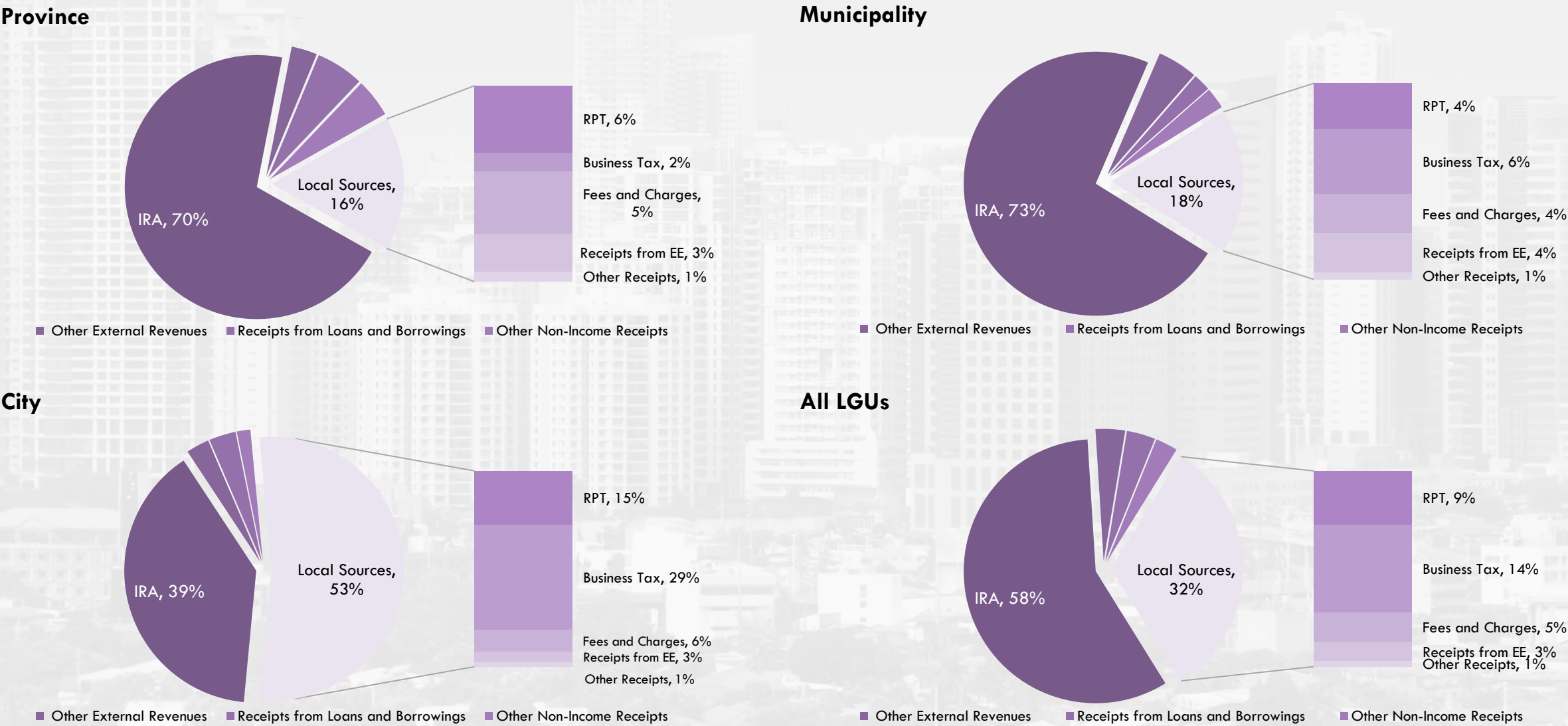*CGT, DST, Donor's Tax, Estate Tax, VAT*

The share of RPT in local tax revenue sources has been decreasing since the enactment of the Local Government Code.

Share of local tax revenue sources

All Provinces, Cities, and Municipalities
*Source: DOF-BLGF, as of June 2020*

Enactment of the Local Government Code
of 1991 (RA 7160)

Breakdown of revenue sources, 2019

Province

IRA, 70%

Local Sources, 16%

- RPT, 6%
- Business Tax, 2%
- Fees and Charges, 5%
- Receipts from EE, 3%
- Other Receipts, 1%

■ Other External Revenues ■ Receipts from Loans and Borrowings ■ Other Non-Income Receipts

Municipality

IRA, 73%

Local Sources, 18%

- RPT, 4%
- Business Tax, 6%
- Fees and Charges, 4%
- Receipts from EE, 4%
- Other Receipts, 1%

■ Other External Revenues ■ Receipts from Loans and Borrowings ■ Other Non-Income Receipts

City

IRA, 39%

Local Sources, 53%

- RPT, 15%
- Business Tax, 29%
- Fees and Charges, 6%
- Receipts from EE, 3%
- Other Receipts, 1%

■ Other External Revenues ■ Receipts from Loans and Borrowings ■ Other Non-Income Receipts

All LGUs

IRA, 58%

Local Sources, 32%

- RPT, 9%
- Business Tax, 14%
- Fees and Charges, 5%
- Receipts from EE, 3%
- Other Receipts, 1%

■ Other External Revenues ■ Receipts from Loans and Borrowings ■ Other Non-Income Receipts

Real property tax to GDP ratio has been decreasing starting 2004.

All Provinces, Cities, and Municipalities
Source: DOF-BLGF, as of August 2019

Enactment of the Local Government Code of 1991
(RA 7160)

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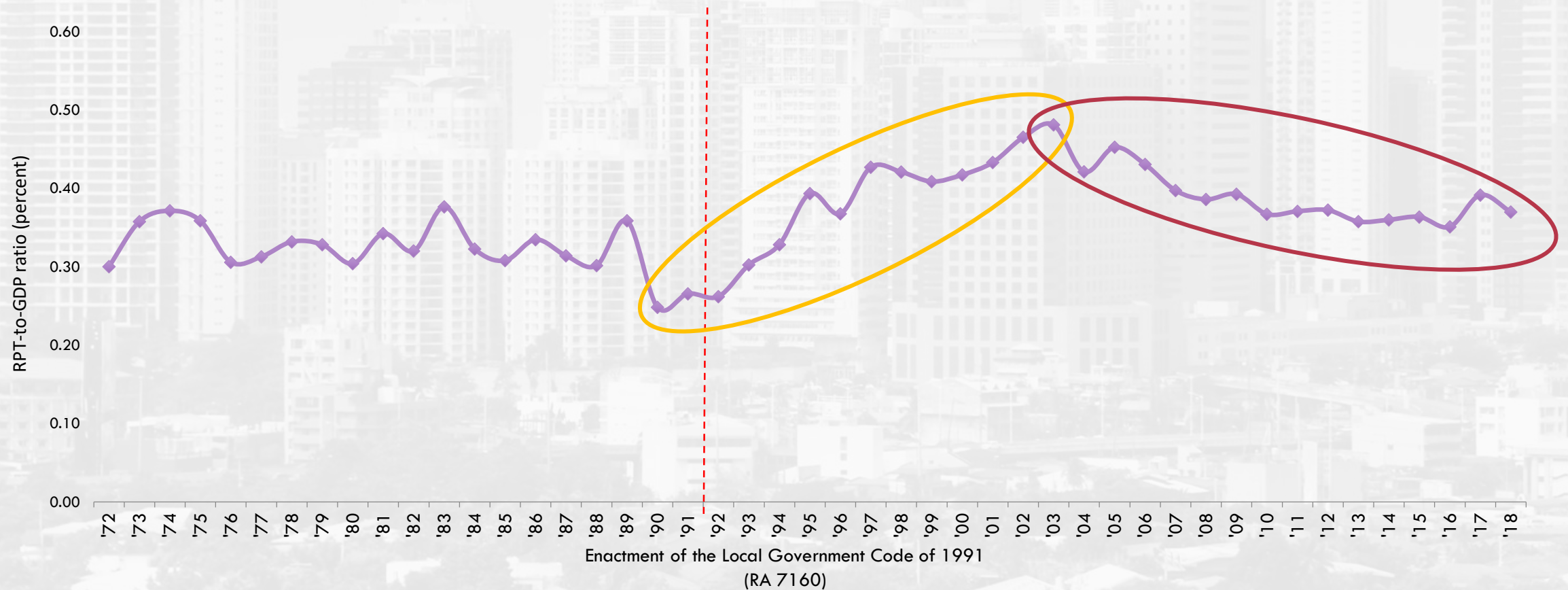
RPVAR helps accelerate infrastructure projects through the use of a common valuation standard.

1

Unrealized revenues and socio-economic benefits from delayed projects

2

Right-of-way compensation problems due to conflicting land values

3

Lengthy court litigation arising from valuation disputes

4

Delayed projects

5

Incurred cost overruns

RPVAR improves the valuation of real property so that stakeholders can unlock the potential of their assets.

Property owners will know the true value of their assets so they can price their transactions properly, such as sales, rentals, and mortgages.

Government can increase their income potential.

Updating the SMVs can unlock new progressive revenue sources for LGUs to implement their social projects.

Provinces forego up to PHP 7.4 Billion[1] in Real Property Taxes

due to outdated Schedule of Market Values (SMV) and low collection efficiency.

There are 45 provinces that still use outdated SMV's contrary to the Local Government Code.

PHP 7.4 BILLION CAN FUND

551 PUBLIC MARKETS

771 KM OF ROADS

2,155 DAYCARE CENTERS

7,542 CLASSROOMS

If fully enforced and properly administered, real property tax is a progressive and stable source of revenues to be shared to municipalities, barangay, and local school boards[4].

Cities miss up to PHP 23.077 Billion[1] in Real Property Taxes

when they use outdated Schedule of Market Values (SMVs) and are not aggressive in tax collection

About PHP 15.9 Billion of which are foregone in 51 metropolitan areas and highly urbanized cities alone.

About **PHP 23,077 Billion** of which are foregone in 51 metropolitan areas and highly urbanized cities alone.

PHP 23,077 BILLION CAN FUND

339 SANITARY LANDFILLS

513 TRANSPORT TERMINALS

1,154 SATELLITE HEALTH CENTERS

3,330 LOW-COST RESETTLEMENT PROJECTS

Total potential incremental revenue of **30.5 billion pesos**

Bureau of Local Government Finance estimates as of June 2018

With the reform, allocation per public school student from the SEF could potentially increase by 36%, which means more funds available for the public education sector.

MAIN FEATURES OF RPVAR

Multiple valuation bases → **Single valuation base for taxation and benchmark for other purposes (e.g., ROW acquisition, lease, rental)**

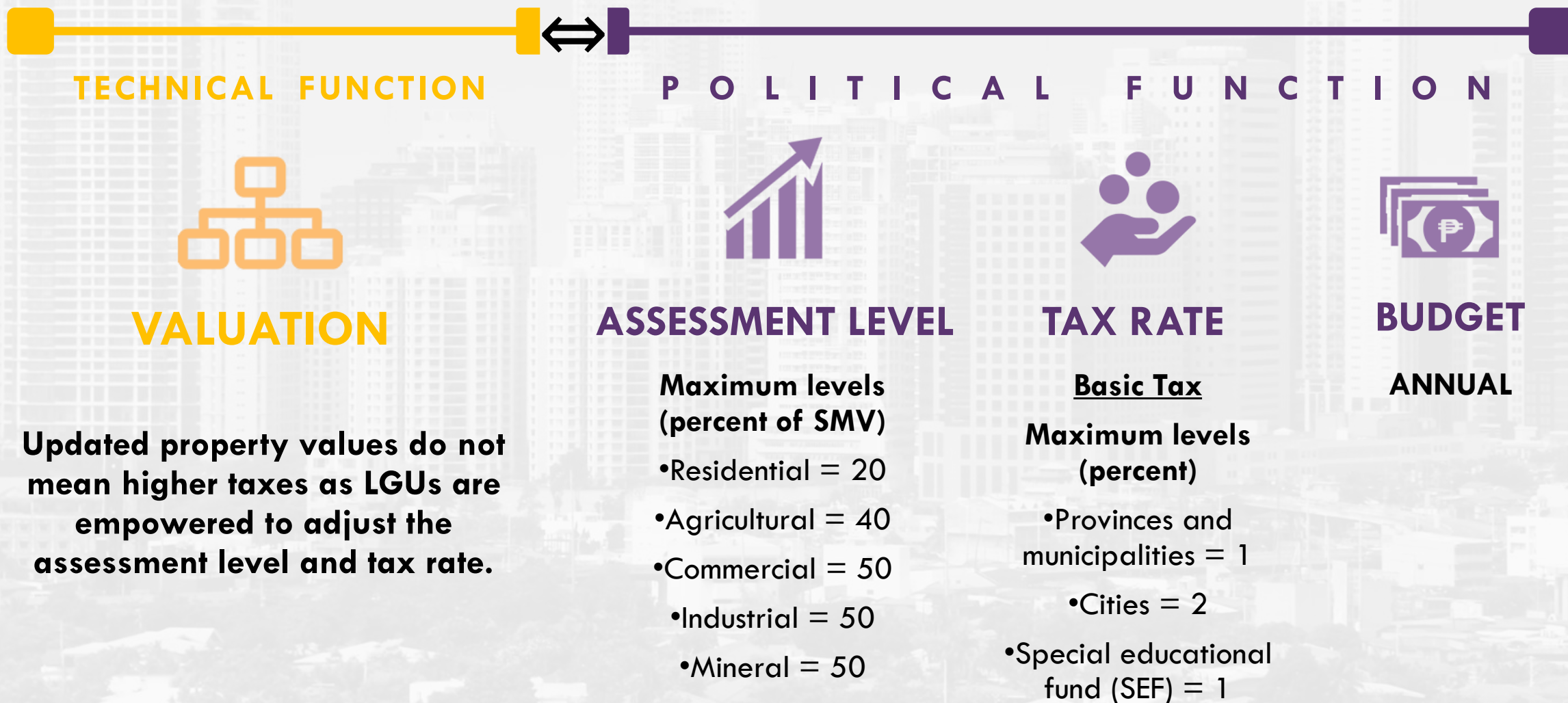**Outdated values** → **Regular updating and depoliticization of valuation**

Unreliable and non-transparent valuation → **Comprehensive electronic database**

While LGUs focus on their political functions, RPVAR will ensure that the SMVs are reliable and in accordance with internationally accepted valuation standards.

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TECHNICAL FUNCTION

POLITICAL FUNCTION

VALUATION

Updated property values do not mean higher taxes as LGUs are empowered to adjust the assessment level and tax rate.

ASSESSMENT LEVEL

Maximum levels (percent of SMV)

- Residential = 20
- Agricultural = 40
- Commercial = 50
- Industrial = 50
- Mineral = 50

TAX RATE

Basic Tax

Maximum levels (percent)

- Provinces and municipalities = 1
- Cities = 2
- Special educational fund (SEF) = 1

BUDGET

ANNUAL

Under RPVAR, there shall be a single real property valuation base for taxation and benchmarking of other government agencies.

LGU

BIR

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Dis...

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ownership

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not compliant with professional standards

RPVAR will provide transparency and accountability through the separation of valuation from taxation process.

Valuation Process

✓ Assessor prepares the SMV and submits to BLGF Regional Office

✓ Reviews the proposed SMV
✓ Conducts at least one public consultation
✓ Endorses the proposed SMV to the BLGF Executive Director and the Commissioner of Internal Revenue

✓ BLGF and BIR recommends and endorses the proposed SMV to the Secretary of Finance

✓ Once approved, publish the approved SMVs in the Official Gazette and post in the official website of DOF and concerned LGUs

✗ If the SOF did not approve then return the proposal to the assessor of LGU for revision

✓ DOF sends the approved SMV to BLGF
✓ BLGF sends approved SMV to concerned assessor

BIR will use the SMV for national taxation. Other NGAs, GOCC, banks, financial institutions and corporations to use SMV as benchmark:
- o Social Policy Programs
- o Mortgage
- o Lease
- o Expropriation
- o Land Conversion
- o Etc.

With the approved SMV, LGUs to **set the assessment level and tax rates** through an ordinance

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Setting of assessment level and tax rate process

✓ Assessor, in coordination with the treasurer, estimates and submits revenue and tax impact report with the approved SMV to LCE.

✓ LCE transmits report to the Sanggunian for the enactment of an ordinance

✓ Sanggunian enacts ordinance for the revision of property assessment level and/or tax rate

✓ LCE approves the ordinance for the assessment levels and tax rates enacted by the sanggunian.

✗ Failure to act on the ordinance within 15 days for the provinces while 10 days for the cities shall render the same approved

✓ Concerned LGU publishes the approved ordinance for the assessment levels and tax rates in a newspaper of local circulation

- *Conduct a general revision of property assessments and classifications*
- *Send new assessment notices to all property owners.*

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RPVAR will ensure that the SMVs are accurately updated every three years.

Creation of an electronic database
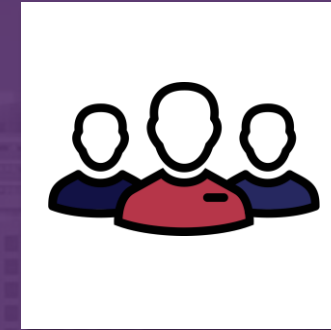
Formation of central and regional consultative committees

Penal provisions

Taxpayer's remedy to appeal to LBAAs

WHAT ARE THE SALIENT FEATURES OF THE REFORM?

1. Roles of BLGF and establishment of the Real Property Valuation Service (RPVS)

2. Creation of central and regional consultative committees

3. Preparation and approval of the SMVs

4. Setting assessment levels and tax rates

5. Publication of assessment levels and tax rates

6. Use of SMVs

7. Regular updating of the SMVs

8. Conduct of capacity building interventions

9. Development of Real Property Information System

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WHAT ARE THE SALIENT FEATURES OF THE REFORM?

10. Transmission of real property transactions data to the BLGF

    a. Duty of Register of Deeds to supply assessors with real property transactions data

    b. Duty of official issuing building permits or certificates of registration of machinery to transmit copy of permit to the assessor

    c. Duty of geodetic engineers to furnish copy of plans to the assessor

    d. Duty of Registrar of Deeds and notaries public to assist the provincial, city, or municipal assessor

11. Appointment of assessors

12. Qualification of local government assessors

13. Penal provisions

    a. Failure to comply with the required submission of documents

WHAT ARE THE SALIENT FEATURES OF THE REFORM?

b. Failure to comply with the valuation standards

c. Failure to prepare schedule of market values

d. Government agents delaying the review, approval and implementation of SMV, and conduct of general revisions

e. Violations of other provisions

f. Taxpayers' remedies in case of erroneous assessments of real properties

14. Transitory guidelines

15. Saving clause

16. Budgetary requirements for the updating of SMVs

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Key benefits

Enhanced technical cooperation between national and local governments

More efficient rollout of infrastructure projects due to minimized valuation disputes

Improved investor's confidence and public trust in government's valuation

KEY MESSAGES

1 RPVAR **improves the valuation of real property** so that both government and the people can reap the full potential of their property

Better valuation means better selling price, rental price, collateral value, tax collections, etc.

2 RPVAR helps **accelerate the completion of infrastructure projects** through the use of a common valuation standard.

3 Updated property values can help local governments **increase their income potential to improve public services.**

These updated values do not mean higher taxes as local governments can adjust assessment levels and tax rates to mitigate the impact on the people.

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Our vision for the property valuation

harmony, consistency, efficiency, and equity

improved governance, transparency, and trust

Let's be partners for change!

For more information, please visit:

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For questions, you may directly email us at:

doftaxreform@dof.gov.ph

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