

Overview of Real Property Taxation and Related Reform Proposals in the Philippines

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NINO B. ALVINA, Bureau of Local Government Finance Department of Finance, Philippines

Workshop on Tax Policy for Domestic Resource Mobilization and Seminar on Property Tax Reform

20 to 23 February 2018 | ADB Institute, Tokyo, Japan

Legal Framework

The Local Government Code (LGC), the National Internal Revenue Code (NIRC)*, and the Urban Development and Housing Act (UDHA) mandate the imposition of property tax and tax on property-related transactions in the Philippines:

Local Government Imposition	National Government Imposition NIRC
• Basic Real Property Tax (up to 1% or 2%) LGC	 Capital Gains Tax (6%)
• Special Education Fund (up to 1%) LGC	Documentary Stamp Tax (1.5%)
• Idle Land Tax (up to 5%) LGC	• Donor's Tax (6%)
• Socialized housing tax (0.5%) UDHA	• Estate Tax (6%)
• Special Levy (up to 60% of cost of local project) LGC	• Creditable Withholding Tax (up to 6%)
• Tax on Transfer of Property Ownership (0.5%) LGC	 VAT (engaged in business) (12%)

* As amended by the Tax Reform for Acceleration and Inclusion (TRAIN) Law

Real Property Tax (RPT) Computation

RPT = Assessed Value (AV) x Tax Rate

AV = (Unit Value per SMV x Area) x Assessment Level (AL) by Class

Land		Machineries		Special Classes	
Property Class	Max AL	Property ClassMax AL(all lands, buildings, machineries, other improvements)			-
• Residential	• 20%			Actual Use	Max AL
 Agricultural Commercial Industrial Mineral Timberland 	 40% 50% 50% 50% 20% 	 Agricultural Residential Commercial Industrial 	 40% 50% 80% 80% 	 Cultural Scientific Hospital Local Water Districts GOCCS (Water/Power) 	 15% 15% 15% 10% 10%

Assessment Levels for Buildings/Improvements

Schedule	e (in Php '000)	Residential	Agricultural	Commercial/Industrial	Timberland
Over	Not Over	Maximum Assessment Levels			
	175	0%	-	-	-
175	300	10%	-	-	45%
300	500	20%	25%	30%	50%
500	750	25%	30%	35%	55%
750	1,000	30%	40%	50%	60%
1,000	2,000	35%	45%	60%	65%
2,000	5,000	40%	50%*	70%	70%*
5,000	10,000	50%	-	75%	-
10,000		60%	-	80%	-

* For properties with fair market value over Php2,000,000.00

Exemptions

- 1. <u>Ownership.</u> By: (i) the Republic, (ii) local governments (iii) registered cooperatives.
- <u>Character.</u> (i) charitable institutions, (ii) houses and temples of prayer and (iii) nonprofit or religious cemeteries.
- <u>Usage.</u> Actual, direct and exclusive use to which they are devoted for: (i) religious, charitable or educational purposes; (ii) M&E used by local water districts or by GOCCs (water/electric power); and (iii) M&E for pollution control and environmental protection.

Discounts

- 1. Before accrual up to 20%
- 2. Prompt Payment up to 20%

Penalties

- 1. Surcharge up to 25%
- 2. Interest max of 2%/mo., up to 36 mos

Collection Remedies

- 1. Administrative: Warrant of Levy
- 2. Judicial: Civil Action

Issues in Property Valuation

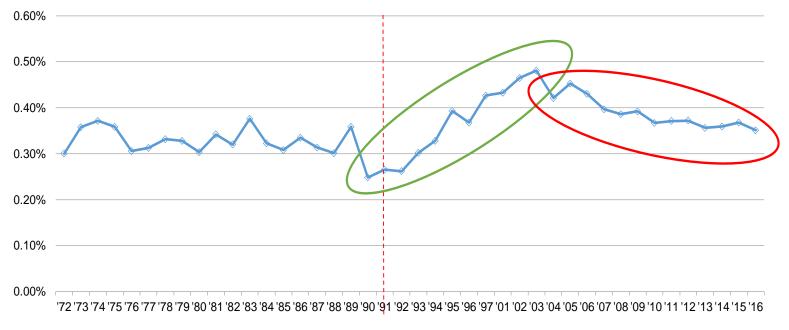
- 1. Multiple, overlapping valuations resulting in wide disparities in values: there are as many values as there are valuing agencies
- 2. Weak revenue performance of RPT: 0.35% of GDP; 9% of local revenues
- **3. Outdated valuations** used for governmental purposes, especially for national and local taxation; LGUs comingle valuation with taxation
- **4. Outdated valuations result in costs, foregone revenues**: overvaluation when government pays, undervaluation when government collects taxes
- **5.** No single agency responsible for ensuring that valuations/ revaluations are completed in accordance with standards
- 6. Absence of a comprehensive real property electronic database to capture transactions and support regular property re-valuations

Why are property values outdated

- 1. No sanction for non-compliance in the regular updating of the LGU Schedule of Fair Market Values and the BIR Zonal Values
 - BIR: Only 45% of BIR RDOs with updated Zonal Values within the last 5 years. 67 RDOs are in the process of revising.
 - LGUs: Only 36% of LGUs have updated SMVs. Around 100 non-compliant cities and 45 provinces in FY 2017.
- 2. LGUs fail to update and revise the SMV as basis for real property taxation despite statutory requirement: *unpopular, fear of political backlash, technical capacity, cost of revaluation, etc.*

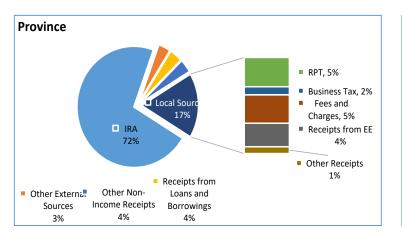
Declining property tax-to-GDP ratio

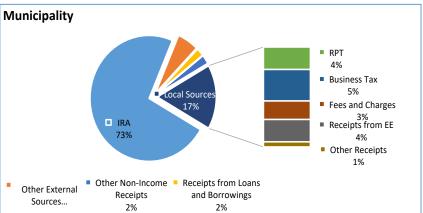
All Provinces, Cities, and Municipalities Source: DOF-BLGF, as of April 2017

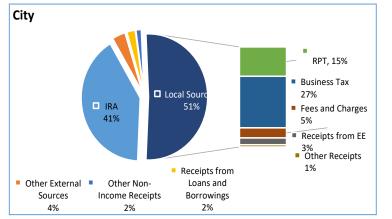


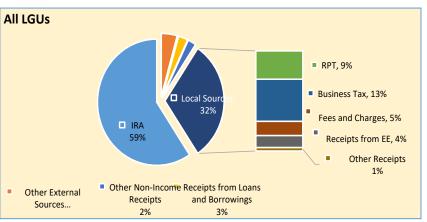
Enactment of the Local Government Code of 1991 (RA 7160)

Weak local revenue performance



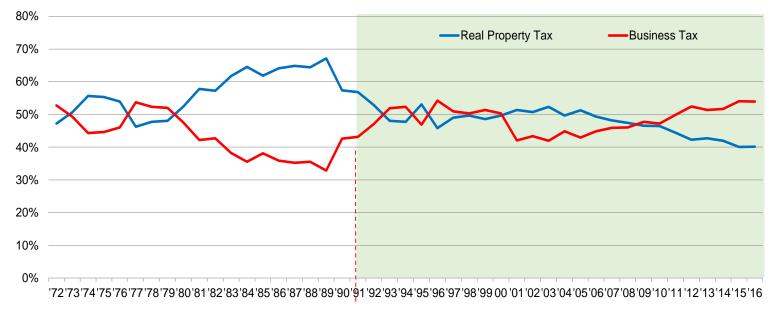






Property tax as a source of local income

All Provinces, Cities, and Municipalities Source: DOF-BLGF, as of April 2017



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

National taxes imposed on property transactions

Estate Tax; 41,481,294; 0% ______ Donor's Tax ; _____ 656,212,270; 1% Capital Gains Tax; 10,868,058,865; 19%

Documentary_____ Stamp Taxes ; 33,269,353,198; 56%

Creditable and Final Withholding Taxes; 14,228,659,576; 24%

Huge disparities of valuations in urban areas

18x

13x

Ayala Avenue, Makati City

- ✓ SMV: Php40,000 per square meter (FY 1994/1996)
- ✓ SZV: Php439,000 (CR) per square meter (2017)
- ✓ MV: Php700,000 per square meter

Legaspi Village, Makati City

- ✓ SMV: Php29,000 per square meter (FY 1994/1996)
- ✓ SZV: Php320,000 per square meter (2017)
- ✓ MV: Php390,000 per square meter

E. Rodriguez Jr. Ave – C5, Quezon City

- ✓ SMV: Php35,000 per square meter (FY 2017)*
- ✓ SZV: Php100,000 (CR) (2012)
- ✓ MV: Php130,000 per square meter

4x

700,000.00 600,000.00 500,000.00 400,000.00 300,000.00 200,000.00 100,000.00 - MV SZV SMV

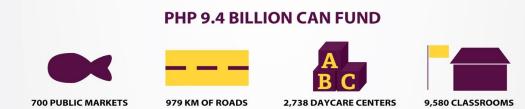
Ayala Avenue 🛛 Legaspi Village 🗆 E. Rodriguez Ave Jr. – C5

Foregone local revenues

Provinces forego up to PHP 9.4 Billion¹ in Real Property Taxes

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

There are 51 provinces that still use outdated SMVs contrary to the Local Government Code.



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 boards⁴.

Cities miss up to PHP 20.3 Billion¹ in Real Property Taxes

when they use outdated Schedules 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.

298 SANITARY

LANDFILLS

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

PHP 20.3 BILLION CAN FUND







451 TRANSPORT TERMINALS 1,015 SATELLITE HEALTH CENTERS 2,929 LOW-COST RESETTLEMENT PROJECTS

DOF - BLGF | DEPARTMENT OF FINANCE - BUREAU OF LOCAL GOVERNMENT FINANCE | DOF - BLGF | DEPARTMENT

62 of 80 provinces' use outdated basis' for collecting real property tax

5 in every 8 of them have property tax contributing only less than 5% to their annual regular income.³

Revenues from real property tax (RPT) sustain local government units' delivery of basic services for the people. Under the Local Government Code, RPT should be based on a Schedule of Market Values (SMV) that is fair, current, and updated. Provinces and cities are required to update the SMV and to conduct general revision of property assessments and classification once every three years.

However, several provinces failed to comply with this provision. When local government units fail to update their SMVs, they result to limited revenues to the government and

- 80 Number of provinces
- 62 provinces have outdated SMIV as of 2014
- 50 provinces are already overdue for general revisio property assessments and classification
- 30 provinces are compliant in conducting a general
- newision once every three years

ON WHAT YEAR ARE THE PROPER

0.0	WHAT TEAK AKE THE PROPER
WAR: TO: SWA	TREMINCHS.
1985	Maguindanao
1992	Basilan
1993	Marinduque
1994	
1997	Camarines Sur
1998	Negros Oriential
1999	Guimaras, Tarlac, Zambales
2000	Benguet
2001	Bataam
2002	Albay, Bukidnon, Dinagat Islands, Iloilo,
2003	Aurora, Cagayan, Zamboanga Del Sur
2005	Aklan, Bulacan, Palawan, Sulu, Western
2006	Misamis Oriental, Occidental Mindono, 1
2007	Agusan Del Norte, Antique, Bohol, Iloco
2008	Biliran, Camiguin, Davao Del Norte, Iloc
	Romblon, Sultan Kudarat, Tawi-Tawi, Za
2009	
	Wacaya, Southern Leyte,
2010	
pdated	
	Laguna, Lanao Del Norte, Negros Occid
	Sorsogon, South Cotabato, Surigao Dell
vu nibq	ated Schedule of Market Valu
	More revenue

Check out the detailed analysis and copies Do you know of any imegular practices in you



4 in every 5 cities use outdated bases for collecting real property tax

The cities of Lamitan, Malabon, Navotas, and Tanauan are outdated by 19 years.

Local government units (LGUs)² are required by law to revise their Schedule of Market Values (SMVs) and conduct a general revision of property assessments and classification once every three years.

Most cities, like the provinces in last week's Tax Watch, do not comply with the law.

- 143 number of cities in the Philippines
- 116 cities with outdated SMVs as of 2014
- 27 cities with updated SMVs that recently conducted a general revision of property assessments and classification 1991 the oldest existing base valuation year of a city (Mandaue)
- 19 the longest number of years a city has not done any reassessment or reclassification (Lamitan, Malabon, Navotas, Tanauan)

ON WHAT YEAR ARE THE PROPERTY TAXES OF CITIES CURRENTLY BASED?

- BASE YEAR OF 1991 Mandaue
 - 1992 Lamitan, Malabon, Malaybalay, Navotas, San Fernando (La Union), Tanauan, Tuguegarao, Valencia, Valenzuela 1993 Dumaguete, Gapan, Mandaluyong, San Jose
 - 1994 Mabalacat
 - 1995 Angeles, Baguio, General Santos, Quezon, Toledo
 - 1996 Alaminos, Makati, Oroquieta, Parañague, Pasig, San Juan, Tarlac
 - 1997 Kidapawan, Puerto Princesa, San Jose del Monte 1998 Guihulngan, Malolos, Taniay
 - 1999 Calbayog, Danao, Ormoc, Sipalay, Tabaco, Tacloban
 - 2000 Bogo, Carcar, Lucena, Naga (Cebu)
 - 2001 Marikina Pasay
 - 2002 Bais, Cebu, Dagupan, Dasmariñas, Las Piñas, Mati, Olongapo, Roxas, San Carlos (Pangasinan), Tayabas 2003 Cabadbaran, Legazp
 - 2004 Bacolod, Caloocan, Iloilo, Iriga, Sagay, Tagbilaran
 - 2005 Batac, Cabanatuan, Dapitan, Lipa, Meycauyan 2006 Bago, Bayugan, Cagayan De Oro, Canlaon, Dipolog, El Salvador, Maasin, Urdaneta
 - 2007 Baybay, Cotabato, Davao, Isabela, Laoag, Santiago, Tandag
 - 2008 Bacoor, Bayawan, Borongan, Butuan, Cabuyao, Catbalogan, Gingoog, Ilagan, Imus, Island Garden City of Samal, Ligao, Naga (Camarines Sur), Pagadian, Passi, San Carlos (Negros Occidental), San Fernando (Pampanga), Silay, Tabuk, Tacurong, Taguig
 - 2009 Kabankalan, Panabo, Trece Martires
 - 2010 Antipolo, Cadiz, Calapan, Cavite, Palayan, Santa Rosa, Tagaytay, Talisay (Negros Occidental), Vigan, Zamboanga Balanga, Batangas, Biñan, Bislig, Calamba, Candon, Cauayan, Digos, Escalante, Himamaylan, Iligan, Koronadal, La Updated Carlota, Lapu-Lapu, Manila, Marawi, Masbate, Muntinlupa, Ozamis, San Pablo, Science City of Muñoz, Sorsogon,
 - Surigao, Tagum, Talisay (Cebu), Tangub, Victorias

An updated Schedule of Market Values leads to more revenues from real property tax. More revenues mean more LGU social services.

Check out the detailed analysis and copies of the existing SMV of your province at http://jmc.blgf.gov.ph. Do you know of any irregular practices in your LGU? Submit your anonymous tips at www.perangbayan.com.



BUREAU OF LOCAL **GOVERNMENT FINANCE** SOL www.blgf.gov.ph http://jmc.blgf.gov.ph

Republic of the Philippines DEPARTMENT OF FINANCE Rosan Doulevard Comm. Pation (teampr., Sr. Scient Minilia 1991

27 December 2016

MAYOR ANTHUR BURGES 和水 米米 医小麦黄素 彩冰 多小的法

米国网络海滨海峡港南美 ICO City Treasurer HENTHLA SANFALTE, City Assessor Thru:

Updating the Schedule of Market Values (SMV) of Real Property and Conducting a General Revision of Property Assessment and Subject:

Classifications

Dear Mayor Rivers:

Under Republic Act No. 7160 or the Local Government Code (LGC) of 1991, provinces,

cities, and the lone municipality in Metropolitan Manila are required to undertake the above subject once every three (3) years. This Department, however, notes that the last general

sungers unce every unce (3) years. This Department, nowever, newes and the way general revision of property assessments conducted i活動あ来来不成演者City was in 2011; hence, the current property tax base of the City is already outdated by three (3) years.

For FY 2015, the City was able to collect Php120.87¹ million on real property taxes (RPT), using the current SMV as basis of property assessments. The City could generate an

the 1, using use currents any as uses or property assessments. The city cours generate an additional revenue of at least **Php32.64** million if the SMV is updated. We note that the fourenvironment exercises on an environment of the City had been generally high from PF 2012 to FY 2015

at 116%. Annex A

scenarios in maxin In line with government units; and to conduct the

Following

regulations prescri

- Actual data supramod by ancitional love for apacial r 50° Dess (ment Order b Not Department Galer D Real Property Apprical an Machinery and Equipments of the IVSC Valuation Stored

Property Appraisa and Ass.

Scenario 2 - Optimized APT Collection Efficiency, + P970.99 million. In this scenario, the gap account a -- Nationand Mir - Long Line (1991) - a Market of Mir - Market of Mir - Mi between the City's num-year severage that outsection enciency monit in 2022 to 17 2023 and the maximum collection efficiency of 100% was computed. The current self-collection the maximum collection emotincy of 13074 was computed. The current low'r collection efficiency of the City is only 7656. The estimated BPT collection, if the City reached the emonecy of the Lify is only 70%. The estimated art coastion, if the Life reacred the madmen APT collection efficiency is **94,944,94 million**, which yields a potential revenue

incusting and assesser, respectively, the putternal carrier property tax are shown in the following five (5) scenarios:

interment of #970.59 million from the FY 2015 RFT collection.

REVENUE ESTIMATES

Based on the estimates of the BLGF, using the Statement of Receipts and Expenditures (SRE) and

survey on the summaries on the mum, storig one premisers on exception and experimentary parts and the Quarterly Report on Rual Property Assessment (QRRPA) reports submitted by the City

tim Lummer report on new reports Automatics (Lenne) reports submitted by the UP Treasurer and Automatic respectively, the patiential conservative revenue increases from real

Scenario 1 - Cateniand APT Brazy to Load Incenter (DAPTE: + #990.16 million. In this scenario,

the gap between the current Ref Gaure to the local income and the desired RPT share to local

on pro-onstronge and contrast, nor a some tal one occar moune and one occare contrast to rear to rear income among same largence class cities was measured, webcart opdating the SAV. The

income annung same income cass ones was mensiones, wannan uppaneng use saw, real comment RPT collection to total local locale of the CRy is 228. For Gareion CRy, the estimated

Centres toris constant to usual room income of one Leg to 24%. For suprame case, the economics CRFTS is **94,584.32 million**, which means a potential inverse increment of **P590.15 million**

Scenario 2 - impact of 2MV Updating and General Residents + 91,678.37 million, Updating the accounts a - manner, or annex suppliering annex sensation of account of a sense of annexes, variant of the SMV and conducting a general revision of property assessments and classifications will yield SMV and conducting a general revision or property assessments and casonications we are a conservative 27%² intrasive in RPT collection, taking into account tax policy options to

a conservative 2/3" receiver in art casecouri, uanty into account tax power options to balance the spike is property values. If the Oty will update its 38-year old SAM, at least bounce the space of property values. If the Ury wet update its 10-year out sony, at seast **95,072.32 million** is expected to be collected. This means additional revenues of **91,078.37** *Art*dz misson is sequenced to be consected, itrus means adoptional receives of *Jar#ds? million. This estimate, however, may differ from the actual tax policy that the City million. This essentite, nowever, may done from the actual tax poncy was use usy deversionent would consider, such as reduction of tax rates and assessment levels, phased

Scenario 4. impact of SMY Belows, with Optimized BPT Contribution to Local Income?. PLME.33 mitten. With the continuous of scenario 3 area 3, tri revenues town events to 1> PLME.34 mitten if the City will update its SMV and at the same time reach the desired No 15 Y MARA-Ne MARION IS INC. UNIT WHITE WEARE IN 3 MYY AND IK WE SAME DIME FROM THE ABOUND NOT CONTRIBUTION TO ICCL INCOME. THE WILL YIELD ADDITIONAL INCOMES IN THE APPT REVENUE

Second 5 - Impact of LMV Before with Optimized APT Collection (Filtrance) + #2,048.35 ACCURED 2... INSPECT OF JAMP INTERNMENTING AND CONTROL OF CONTROL OF PROPERTY # PLANESS Million. The combination of scatarios 2 and 3 and recult to an increase in RPT revenues by up minuos, the constitution or scenarios 2 and 3 waves as an increase in environment of two to **F6,043.31** million if the CNVs SMV will be updated and improve its collection efficiency.

to Physics A match is use units and we be uppeded. The additional yield is estimated at **P2,049.35** million. School W. Stern (MPD). - PD And House, Month Alexand, et al. (2015) in the Add House Count Agent (2), a 55, 355 for all the of the ADA Count Agent (2) and

VECONSTRUCTION OF A DECEMPTION OF A DECEMPT

puld prepare the SMV for compliance review by the Bureau of

it can be shared by the City with the barangeys and the City's

ing the Oty Government's service delivery to the public.

the provision of basic services and education needs to your

this matter, please coordinate directly with the BLGF Central

vistared, real property tax offers a progressive and

Very truly yours,

GACARLOS G. DOMINGUEZ

Secretary of Finance

() of float Property and Conduct

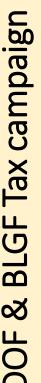
terty Assessment and Classification

Aunt

pound propage the size for compliance review by the bureau or LGFL purpuant to Local Assessment Regulation No. 1-2002, and

unian for approval and enactment.

Annex A



Key Legislative Reform Proposals

- 1. Adopt international valuation standards
- 2. Adopt a single valuation base: Schedule of Market Values (SMV) as basis for local and national taxes, and as reference for other purposes such as for lease, ROW, socialized housing, etc.
- 3. Set the mandatory updating of SMV every 3-5 years
- 4. Depoliticize and recentralize the approval of SMVs from the Sanggunian to the Secretary of Finance (vetted by BLGF & BIR)
- 5. Set up and maintain a comprehensive database on property transactions and valuation.
- 6. Consider other tax related reforms: *introduction of luxury tax, betterment tax for national projects, simpler tax structure, adjust brackets for assessment levels, rationalization of RPT incentives/exemptions, etc.*



Thank you!