



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

This is not an ADB material. The views expressed in this document are the views of the author/s and/or their organizations and do not necessarily reflect the views or policies of the Asian Development Bank, or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy and/or completeness of the material's contents, and accepts no responsibility for any direct or indirect consequence of their use or reliance, whether wholly or partially. Please feel free to contact the authors directly should you have queries.

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 <i>NIRC</i>
<ul style="list-style-type: none">• Basic Real Property Tax (up to 1% or 2%) <i>LGC</i>• Special Education Fund (up to 1%) <i>LGC</i>• Idle Land Tax (up to 5%) <i>LGC</i>• Socialized housing tax (0.5%) <i>UDHA</i>	<ul style="list-style-type: none">• Capital Gains Tax (6%)• Documentary Stamp Tax (1.5%)• Donor’s Tax (6%)• Estate Tax (6%)
<ul style="list-style-type: none">• Special Levy (up to 60% of cost of local project) <i>LGC</i>• Tax on Transfer of Property Ownership (0.5%) <i>LGC</i>	<ul style="list-style-type: none">• Creditable Withholding Tax (up to 6%)• 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 <i>(all lands, buildings, machineries, other improvements)</i>	
<i>Property Class</i>	<i>Max AL</i>	<i>Property Class</i>	<i>Max AL</i>	<i>Actual Use</i>	<i>Max AL</i>
• Residential	• 20%	• Agricultural	• 40%	• Cultural	• 15%
• Agricultural	• 40%	• Residential	• 50%	• Scientific	• 15%
• Commercial	• 50%	• Commercial	• 80%	• Hospital	• 15%
• Industrial	• 50%	• Industrial	• 80%	• Local Water Districts	• 10%
• Mineral	• 50%			• GOCCS (Water/Power)	• 10%
• Timberland	• 20%				

Assessment Levels for Buildings/Improvements

Schedule (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. Ownership. By: (i) the Republic, (ii) local governments (iii) registered cooperatives.
2. Character. (i) charitable institutions, (ii) houses and temples of prayer and (iii) nonprofit or religious cemeteries.
3. Usage. 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

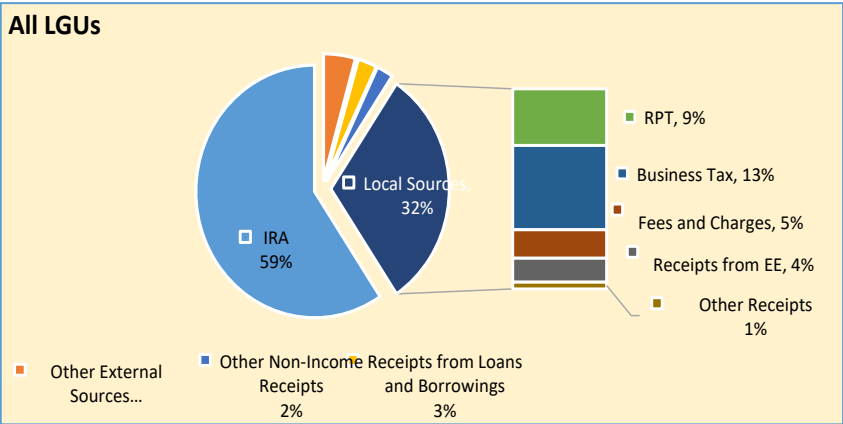
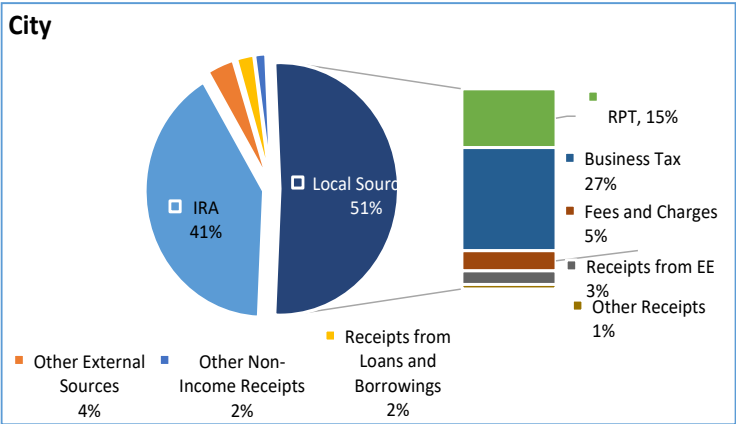
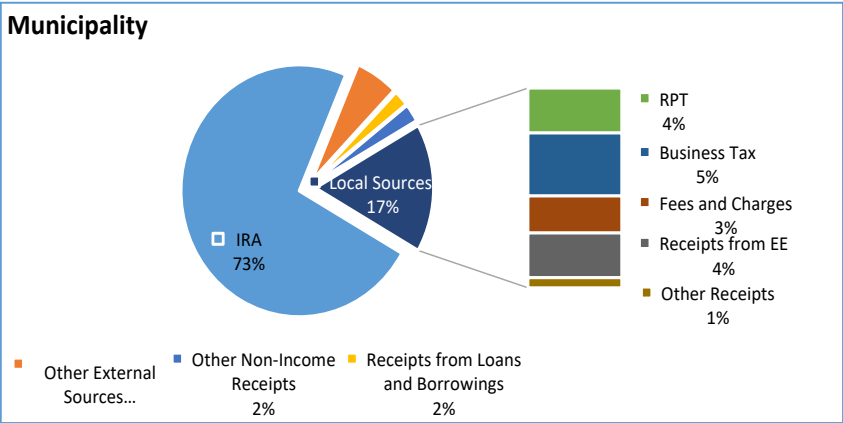
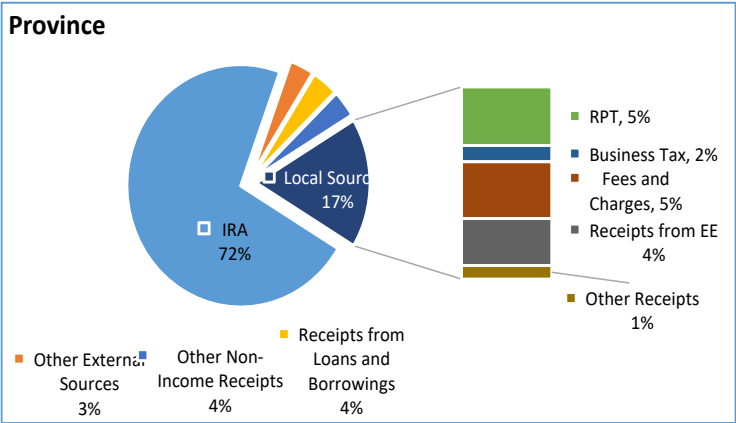
1. No sanction for non-compliance in the regular updating of the LGU Schedule of Fair Market Values and the BIR Zonal Values
 - *BIR*: Only 45% of BIR RDOs with updated Zonal Values within the last 5 years. 67 RDOs are in the process of revising.
 - *LGUs*: Only 36% of LGUs have updated SMVs. Around 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

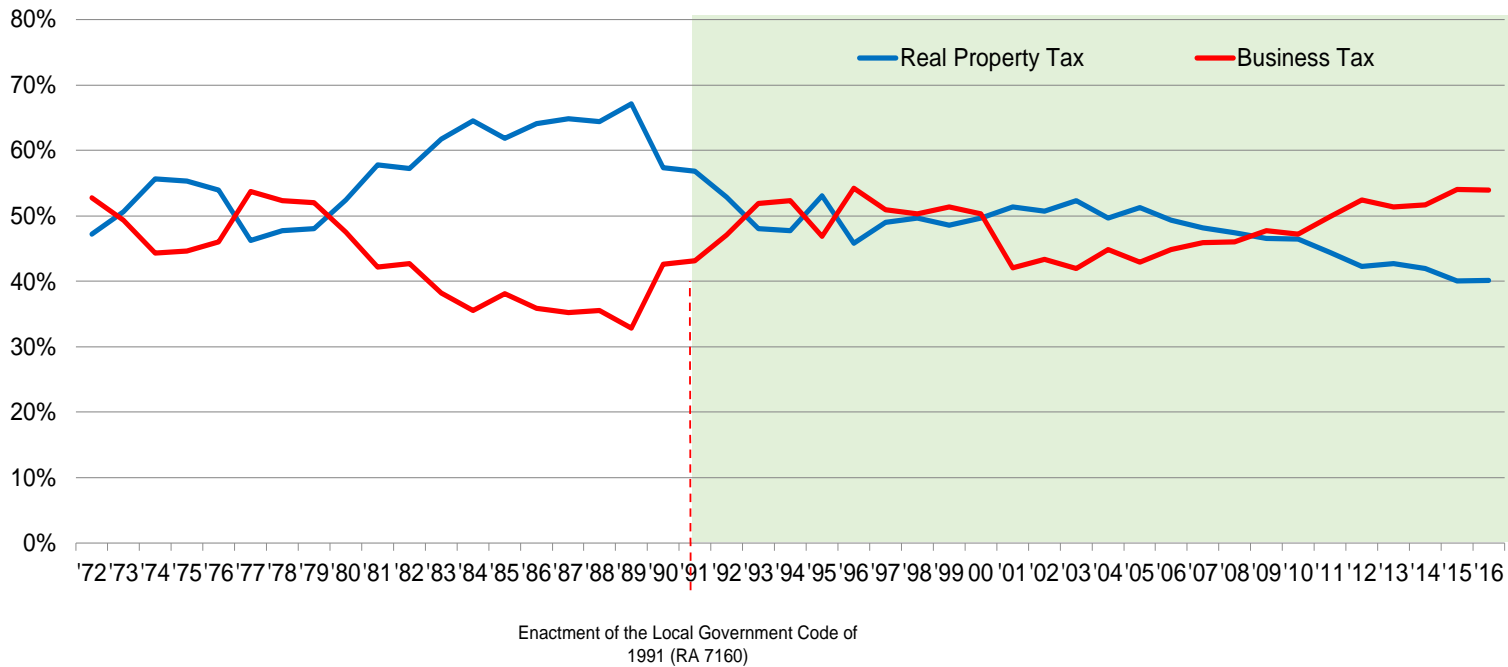


Weak local revenue performance



Property tax as a source of local income

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



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

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

18x

Legaspi Village, Makati City

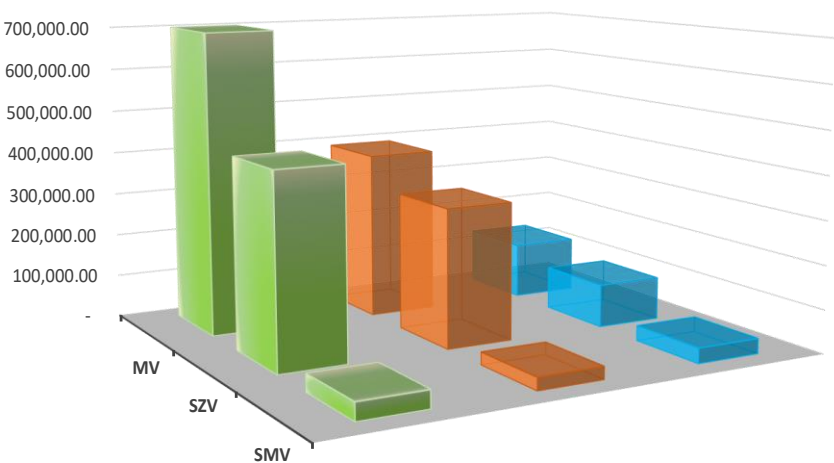
- ✓ SMV: Php29,000 per square meter (FY 1994/1996)
- ✓ SZV: Php320,000 per square meter (2017)
- ✓ MV: Php390,000 per square meter

13x

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



■ Ayala Avenue ■ Legaspi Village ■ E. Rodriguez Ave Jr. – C5

Sample from available listing; estimate on land based on abstraction/extraction method.

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.

PHP 9.4 BILLION CAN FUND



700 PUBLIC MARKETS



979 KM OF ROADS



2,738 DAYCARE CENTERS



9,580 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 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.

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

PHP 20.3 BILLION CAN FUND



298 SANITARY LANDFILLS



451 TRANSPORT TERMINALS



1,015 SATELLITE HEALTH CENTERS



2,929 LOW-COST RESETTLEMENT PROJECTS

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

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 SMV as of 2014
50 provinces are already overdue for general revision
property assessments and classification
30 provinces are compliant in conducting a general
revision once every three years

THE YEAR OF THE PRODUCTIONS

1985 Magandang
1986 Tinian
1993 Marinduque
1994 Pangpanga
1997 Camarines Sur
1998 Negros Oriental
1999 Guimaras, Tarlac, Zambales
2000 Benguet
2001 Bataan
2002 Albay, Bukidnon, Cinaraga Islands, Iloilo
2003 Aurora, Cagayan, Cagayan Delta, Iloilo
2004 Cebu, Bulacan, Palawan, Sulu, Western
2006 Misamis Oriental, Occidental Mindoro
2007 Agusan Del Norte, Antique, Bohol, Ilocos
2008 Biliran, Camiguin, Davao Del Norte, Ilocos
2009 Romblon, Sulu, Cagayan, Tawi-Tawi, Zamboanga
2010 Arayao, Batanes, Batangas, Cavite, Da
Vicenza, Southern Leyte
2010 Abay, North Cebu, Pangasinan,

Check out the detailed analysis and copies. Do you know of any irregular practices in your

DEPARTMENT OF FINANCE
www.dfi.gov.za
www.gamanyatham.com



The cities of Lamitan, Malabon, Navotas, and Tanauan are outdated by 19 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 (Mandaua)
19 the longest number of years a city has not done any reassessment or reclassification (Lamitan, Malabon, Navotas, Tanauan)

1981 **Mandaua**

1992 **Lanang, Malabon, Malaybalay, Navotas, San Fernando (La Union), Tanaanan, Tuguegarao, Valencia, Vanzuelna**

1993 **Dumaguete, Gapan, Mandalayong, San Jose**

1994 **Mabalacat**

1995 **Agueño, Baguio, General Santos, Ozonon, Toledo**

1996 **Alaminos, Makati, Oroquieta, Parangale, Pasig, San Juan, Tarlac**

1997 **Kidapawan, Puerto Princesa, San Jose del Monte**

1998 **Guhilingan, Malolos, Tarlac**

1999 **Cibayog, Danao, Orlmoc, Sipalay, Tabaco, Tacloban**

2000 **Bago, Carcar, Lucena, Naga (Cebu)**

2001 **Marikina, Pasay**

2002 **Bais, Cebu, Dagupan, Dasmariñas, Las Piñas, Mati, Olongapo, Roxas, San Carlos (Pangasinan), Tayabas**

2003 **Cabidbaran, Legazpi**

2004 **Bacolod, Calocan, Iloilo, Iriga, Sagay, Tagbilaran**

2005 **Batag, Cabanatuan, Dapitan, Lipa, Meycauayan**

2006 **Bayan, Bayugan, Cagayan De Oro, Cankoon, Dipolog, El Salvador, Masin, Urdaneta**

2007 **Baguio, Catobato, Davao, Isabela, Laoag, Santiago, Tandag**

2008 **Bacoor, Bayawan, Borongan, Butuan, Cabuyao, Catherlagan, Gingoog, Iligan, Imus, Island Garden City of Samal, Liloa, Naga (Camrines 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, Talsay (Negros Occidental), Vigan, Zamboanga**

Balanga, Batangas, Biñan, Biting, Calamba, Candaba, Candelaria, Ozamis, Escalante, Hinamayan, Iriga, Koronadal, La Carlota, Lapa-Lapu, Manila, Marikina, Marikina, Mountbute, Muntinlupa, Cuzco, San Pablo, Science City of Muñoz, Sorsogon

Surigao, Taguig, Talisay, Talibig, Talibig, Cebu, Victoria

Updated

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

DEPARTMENT OF FINANCE
www.dof.gov.ph
www.pera.net.bayam.com



BUREAU OF LOCAL
GOVERNMENT FINANCE
www.blgf.gov.ph
<http://ilmc.blgf.gov.ph>



Republic of the Philippines
DEPARTMENT OF FINANCE
Roxas Boulevard Corner Value Center, No. 500
Manila 1001

27 December 2016

MAYOR 李卓人

Thru: ~~XXXXXXXXXX~~, ICO City Treasurer
~~XXXXXXXXXX~~, City Assessor

Thru: *~~XXXXXXXXXX~~, City Assessor
Subject: Updating the Schedule of Market Values (SMV) of Real Property and Conducting a General Revision of Property Assessment and Classifications

Dear Mayor ~~XXXX~~:

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 revision of property assessments conducted in ~~the City of Manila~~ the 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 based on the current property tax base of the City is already outdated.

For FY 2015, (RPT), using the current additional revenue and year average RPT cost at 116%. Annex A scenarios in maximum

In line with government units, and to conduct the

Following
regulations presc

- Actual data measured additional loss for stock
- DOJ Department of Real Property Acquisition Machinery and Equipment of the RUC valuation

REVENUE ESTIMATES

Scenario 3 - Optimized RPT Share to Local Income* (CRPTs): • **\$930.16 million.** In this scenario, the gap between the current RPT share to the local income and the desired RPT share to local income among same income class cities was measured, without updating the SMV. The current RPT collection to total local income of the City is 22%. For Quercen City, the estimated CRPTs is **\$4,584.32 million**, which means a potential revenue increment of **\$930.16 million** over the FY 2015 RPT collection.

Scenario 2 - Optimized RPT Collection Efficiency: + \$970.99 million. In this scenario, the gap between the City's four-year average RPT collection efficiency from FY 2012 to FY 2015 and the maximum collection efficiency of 100% was completed. The current RPT collection efficiency of the City is only 76%. The estimated RPT collection, if the City reached the maximum RPT collection efficiency is **\$4,964.94 million**, which yields a potential revenue increment of **\$970.99 million** from the FY 2015 RPT collection.

Scenario 3—Impact of SHW Updating and General Revision: **\$1,078.37 million.** Updating SHW and conducting a general revision of property assessments and classifications will yield a conservative 27% increase in RPT collection, taking into account tax policy options that balance the spike in property values. If the City will update its 18-year old SHW, at least **\$1,078.32 million** is expected to be collected. This means additional revenues of **\$1,078.37 million**. This estimate, however, may differ from the actual tax policy that the City Government would consider, such as reduction of tax rates and assessment levels, phased implementation of increase, etc.

Scenario 4 - Impact of SRAV Reform, with Optimized RPT Contribution to Local Income¹
Government would consider, such as the implementation of increase, etc.

Scenario 4 - Impact of SRAV Reform, with Optimized RPT Contribution to Local Income¹
With the combination of scenarios 1 and 3, RPT revenues could increase
+P1,668.53 million. With the combination of scenarios 1 and 3 at the same time reach the desired
+P5,662.48 million if the City will update its SRAV and at the same time reach the desired
RPT contribution to local income. This will yield a potential annual increase in the RPT revenue
of P1,668.53 million.

¹ Optimized RPT Collection Efficiency² + P2,049.31 million

Scenario 5 - Impact of SMV Reform with Optimized RPT Collection Efficiency: **+P2,048.35 million.** The combination of scenarios 2 and 3 will result to an increase in RPT revenues by up to **P6,043.31 million** if the City's SMV will be updated and improve its collection efficiency. The additional yield is estimated at **P2,049.35 million**.

Very truly yours,


CARLOS G. DOMINGUEZ
Secretary of Finance

ANNEX A

(MVA) of Real Property and Cash
 Property Assessment and Classification

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!