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# FIG WORKING WEEK 2023

28 May - 1 June 2023 Orlando Florida USA

Protecting  
Our World,  
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New Frontiers

TS4C: Legal Regulations for Valuation and Transparency  
on the Real Estate Market In Countries and States [10551]

**Making Property Valuation and Taxation Work Better:**

## A BRIEF REVIEW OF POLICY AND PROGRAM INTERVENTIONS IN THE PHILIPPINES

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## Context within the LAM agenda...

1



**Enhancing the legal framework for property valuation and taxation**

2



**Developing new regulatory policies and guidelines, and capacity building**

3



**Compliance enforcement framework for valuation standards**

4



**Legislating the Proposed Real Property Valuation and Assessment Reform Act (RPVARA)**

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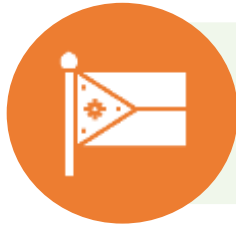


**Continuing the reforms through a comprehensive approach through the Land Governance Reform Project (LGRP)**

## Overview of Property Valuation and Taxation in the Philippines



**Land and real property-related taxes represent a major source of revenues** for national and local governments



In the Philippines, **property taxes are not fully optimized** due to inefficiencies in property valuation and tax administration



**Real property tax (RPT) accounts for only 28% of all LGU own-sourced revenues;** RPT to GDP ratio in 2019 at 0.47% only



**RPT's performance had been declining** and LGUs' own-sourced revenue-generating capacity is undermined



## Overview of Property Valuation and Taxation in the Philippines

### Property taxation by national and local governments: recurrent taxes vs transfer taxes

#### Local Government Impositions

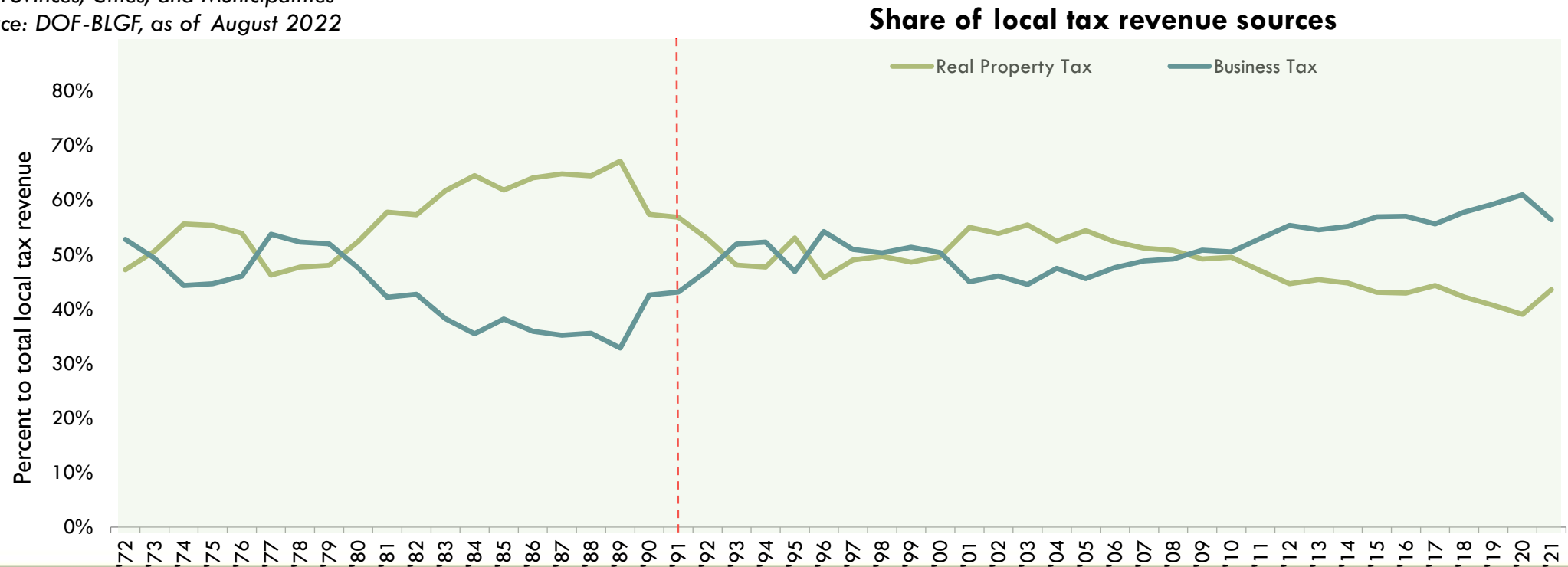
- Basic Real Property Tax (up to 1% or 2%) LGC
- Special Education Fund (up to 1%) LGC
- Idle Land Tax (up to 5%) LGC
- Socialized housing tax (0.5%) UDHA
- Special Levy (up to 60% of cost of local project) LGC
- Tax on Transfer of Property Ownership (0.5% to 0.75% of 1%) LGC

#### National Government Impositions

- Capital Gains Tax (6%)
- Documentary Stamp Tax (1.5%)
- Donor's Tax (6%)
- Estate Tax (6%)
- Creditable Withholding Tax (up to 6%)
- VAT (engaged in business) (12%)

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

All Provinces, Cities, and Municipalities  
Source: DOF-BLGF, as of August 2022



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

## Overview of Property Valuation and Taxation in the Philippines

### Tale of two outdated systems of property valuation used for national and local property taxation

*Zonal valuation by National Government; Schedule of Market Values by Local Governments; Different approving authorities*



#### **Bureau of Internal Revenue (BIR)**

53 out of 122 Revenue District Offices (RDOs) did not revise values in the last three years.

**43% of zonal valuations are outdated**



#### **Local government units (LGUs)**

180 out of 227 LGUs did not revise values in the last three years (Provinces: 58, Cities: 121, Municipality: 1)

**79% of LGU valuations are outdated**

*There are also multiple national government agencies performing or requiring property valuation for their respective mandates or purposes: leasing, rental, disposition, expropriation, socialized housing, agrarian reform, etc.*

## Overview of Property Valuation and Taxation in the Philippines



**Multiple valuations for different purposes**



**Inefficient property valuation and tax administration**



**Outdated valuations result in costs/foregone revenues**



**No single agency responsible; weak capacity**

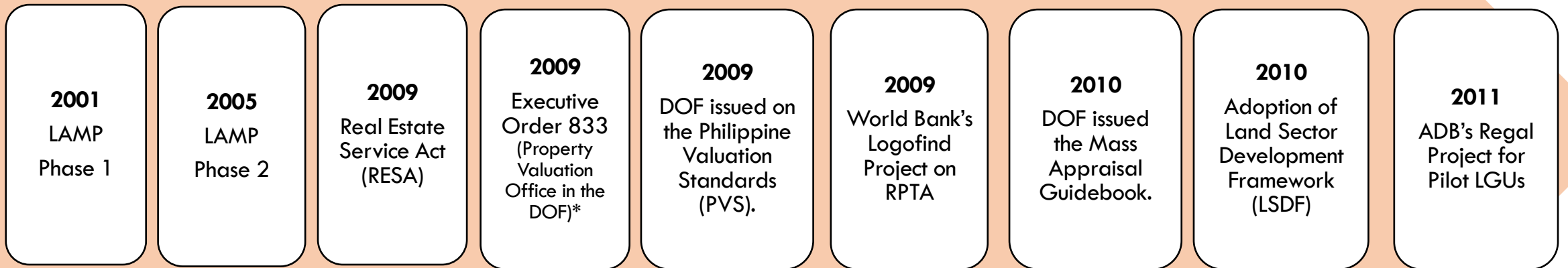


**Absence of a comprehensive real property electronic database**



## Policy and Program Interventions

Land Administration and Management Project and Related Program Interventions/Grants



\*PVO formation, however, was eventually deferred

### Post-LAMP2 Interventions

- Various other ADB Technical Assistance Grants; Support from UNFAO



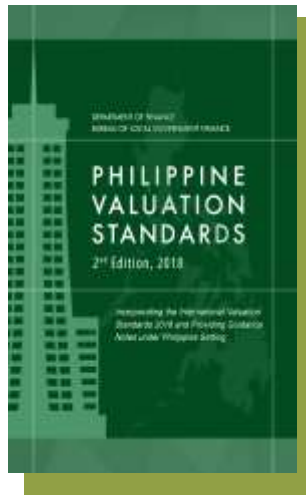
## Property Valuation Regulatory and Institutional Setup



- **Local Government Code of 1991 and National Internal Revenue Code of 1997, as amended in 2020** setting the bases of property valuation for taxation purposes
- **Real Estate Service Act (RESA) of 2009** setting the human resource regulatory regime for professionals engaged in real estate brokerage, appraisal and consultancy
- **Land Sector Development Framework (LSDF)** setting the overall policy framework to achieve an efficient LAM system by 2030
- **DOF Roadmap for Property Valuation and Taxation** scoping the 10-year timeline to scale up the reforms through phased, regional replication strategy of LAMP lessons
- **Executive Order No. 833 Creation of the Property Valuation Office (PVO) in the DOF** as an interim sustainability measure to prepare the organizational transition when the valuation reform legislation is passed

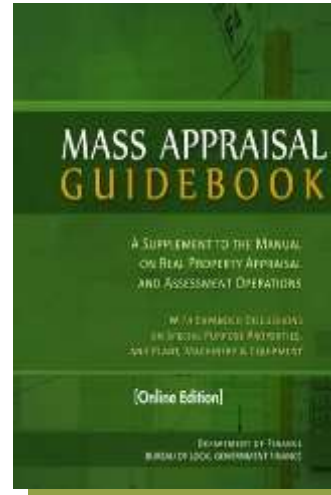
## Existing Valuation Standards and Guidelines

- ✓ All these issued by DOF/BLGF
- ✓ BLGF as Institutional Member of IVSC



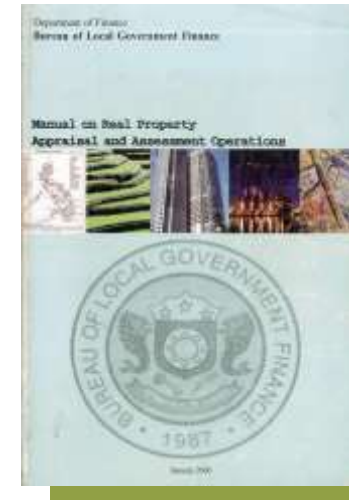
### Philippine Valuation Standards

- Adopting the International Valuation Standards Council (IVSC).
- Essential addition to the rules and regulations on valuation and assessment



### Mass Appraisal Guidebook

- Official rules and regulations on property appraisal and assessment
- Guidance on the market-based valuation for LGUs



### Assessor's Manual

- Provides the statutory, administrative, appraisal and assessment aspects of real property taxation

### Other Issuances and Strategies in addressing low compliance in updating the schedule of market values

- DOF-DILG Joint Memorandum Circular (JMC) No. 2010-01 enjoining LGUs to update property valuations
- Publishing in the national dailies the list of non-compliant LGUs and the foregone revenues in RPT to inform the public
- Letters to the local chief executives by the Secretary of Finance/BLGF Executive Director

## Changing the Landscape through Long-term Reforms



**Multiple valuation bases used by government**



**Single valuation base for taxation, and reference/benchmark for other governmental purposes**



**Outdated property values used by government**



**Depoliticization of valuation by recentralizing the approval of SMVs and regular updating thereof**



**No integrated information database: Unreliable and non-transparent valuation**



**Comprehensive electronic database through investments in ICT systems to ensure transparency and reliability**



## How will recentralizing SMV approval from LGUs back to the Secretary of Finance work?

*The reform will ensure that the technical function of valuation in preparing the SMVs will not be comingled with the political functions and considerations at the local level, and the valuation methods are in accordance with internationally accepted valuation standards.*



## Local Governance Reform Project (LGRP) as Enabling Mechanism

### WHAT THE LGRP WILL DO

We want to increase the revenues from property tax, do the right valuations, put in the right systems and database, train the assessors, and develop new policies on property tax administration.

#### OUTCOME LEVEL

- At least 1,458 or 80% of LGUs achieving 100% collection efficiency
- An increase of 30% of total own-source revenues of LGUs by FY2024



At the outcome level of LGRP:

By FY2024, the target RPT of LGUs is **Php113.4 B (US\$2.1 B)** or an increase in the RPT collections by **Php26.7 B (US\$50M)** from 2017 level

## Local Governance Reform Project (LGRP) as Enabling Mechanism

### WHAT THE LGRP WILL DO

OUTPUT AREAS

#### ***Institutional development and policy support for property valuation strengthened***

- 1 • Update existing guidelines aligned with the international valuation standards; Establish PVO and Training Centers  
• Pursue legislative reforms under the proposed Real Property Valuation and Assessment Reform Act (RPVARA)

#### ***Property tax valuation database and information systems implemented***

- 2 • Develop and rollout the Real Property Valuation Information System (RPVIS)  
• Implement and operationalize Computer-Assisted Mass Appraisal (CAMA) with GIS, Real Property Information System (RPIS), Billing and Collection System in the LGUs

#### ***Real property taxation of selected LGUs enhanced***

- 3 • Update property assessment records of the participating LGUs (20 pilot sites)  
• Assist LGUs update their SMVs towards approval and implementation; Capacitate LGUs on Tax Compliance Review

#### ***Local assessors professionalized and capacity of LGUs strengthened***

- 4 • Capacitate at least 858 or 50% of the 1,715 assessors on the use of the e-learning management system  
• Develop formal valuation education programs with partner academic institutions



***The reform will ensure that the SMVs are accurately updated every three years.***



**Creation of an electronic database**



**Formation of central and regional consultative committees**



**Sanctions for noncompliance**



**Taxpayer's remedy to appeals**

## Conclusion/ Recommendation



- ✓ Pending legislative reforms, **a critical mass of LGUs taking on the reforms and sustaining them**, especially in urban and peri-urban areas, helps build trust and confidence in the property valuation and taxation system
- ✓ **High-level commitment of the government and leadership need to be sustained**, with support from stakeholders who co-own the reforms and provided feedback in the process to
- ✓ **Well-designed and scalable projects are important interventions to continue capacity development and competency build up for LGUs**

## Conclusion/ Recommendation

### Beyond the promise of the LGRP interventions...

- ✓ Measures of success must not rest alone on more generating more revenues but should also...
  - ✓ Lead to transformative governance of the real estate sector
  - ✓ Reduced disputes, faster transactions, robust property market
  - ✓ Increased LGUs' revenue autonomy and public spending on capital investments
  - ✓ Greater trust in the overall land and fiscal governance in the Philippines
- ✓ The LGRP should also help chart the critical next steps and cast a new reform roadmap to help achieve the country's growth and economic development agenda in the long-term







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