Policy Brief

SENATE ECONOMIC PLANNING OFFICE

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Unlocking Revenue Potential: Enhancing Real Property Valuation Systems for Local Economic Growth

Real property taxation is a vital revenue source, yet the Philippines struggles to maximize its collection due to complex valuation systems and limited technical capacity. These challenges result in significant revenue discrepancies. Urgent reform is needed to address these issues in the country's current fiscal landscape.

Real property taxation is considered a highly effective source of revenue. Because of the immobile nature of real property, real property taxation is difficult to evade, thus ensuring a stable and predictable income source. Property taxation also aligns with the principle of progressivity, as property owners typically fall within the middle and high-income brackets, and property taxes naturally escalate with the increase in property values. (Rosengard 1998 as cited in Fung and McAuley, 2020, p. 1)

Real property tax (RPT) collection in the Philippines falls within the purview of the local government units (LGUs). Under the Local Government Code (LGC) of 1991 or Republic Act (RA) No. 7160, LGUs can impose a tax on real property based on its assessed value. On average, RPT collection accounts for a third of the locally sourced income of LGUs. Different factors prevent LGUs from maximizing their RPT collection. This includes problems associated with the system and mechanisms of real property valuation. For instance, most LGUs do not comply with the LGC-mandated general revision of property assessments for RPT every three years. Compounding this issue is the complexity of the valuation process, characterized by multiple government agencies engaging in overlapping assessments without a singular entity responsible for ensuring adherence to international standards. LGUs also face limited technical capacity on property valuation, exacerbated by the absence of a comprehensive real property electronic database. Such factors make the process non-transparent and make it difficult to study and analyze the valuation process effectively. Consequently, discrepancies between assessed and actual property values persist, leading to substantial financial losses in the form of foregone government revenues and cost overruns (arising from right-of-way issues).

Addressing these challenges requires concerted efforts to streamline the valuation process, enhance technical expertise within LGUs, and establish a centralized electronic database to ensure transparency and accuracy in real property assessments. Only through such reforms can LGUs fully harness the potential of real property taxation as a reliable source of revenue for local development and economic growth.

This Policy Brief aims to present an overview of the current real property valuation and taxation system, analyze the prevalent challenges, and assess the potential impact of the proposed Real Property Valuation and Assessment Reform Act (RPVARA) in addressing these issues.

The SEPO Policy Brief, a publication of the Senate Economic Planning Office, provides analysis and discussion on important socio-economic issues as inputs to the work of Senators and Senate Officials. The SEPO Policy Brief is also available at www.senate.gov.ph.

I. Overview of Real Property Taxation in the Philippines

Historical background. The history of real property taxation in the Philippines dates back to 1901 when the Philippine Commission introduced Act Nos. 82 and 83 which created the Municipal and Provincial Boards of Assessors, providing a structured approach to property taxation at the local level (Quezon City Assessor's Office, n.d.). Prior to this, during the *encomienda* system of the Spanish era, taxes on land were levied on the male tenant, aged 16 to 60 years old, as personal taxes or tributes in the form of agricultural products in exchange for their work in the land of the *encomiendas*.

On May 20, 1974, Presidential Decree (PD) No. 464 or the Real Property Tax Code was promulgated as the law governing the RPT administration in the Philippines which took effect on June 1, 1974. PD No. 464 was subsequently recognized under the Local Government Code of 1983 as provided under Section 8 of Batas Pambansa Blg. 337, which was approved on February 10, 1983 (Quezon City Assessor's Office, n.d.). The LGC of 1991 (RA No. 7160), superseded PD No. 464, incorporating therein the provisions governing RPT collection into its Book II under Title II. Since then, the LGC of 1991 has served as the legal basis for the taxation practices of LGUs in the Philippines.

Property valuation methodologies. There are two main sources of real property values for taxation purposes: (1) the schedule of zonal values (SZV) determined by the Bureau of Internal Revenue (BIR); and (2) the schedule of market values (SMV) prepared by the LGUs. Section 4 of RA No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) Law authorized the BIR Commissioner to divide the country into different zones and determine the fair market value of real properties located therein, upon consultation with both private and public appraisers. These zonal values are then used as basis for the computation of internal revenue taxes at the national level.

The SMV, on the other hand, is an approved schedule of unit-base market values for different classes of real property in the LGU. The SMV is determined by the local governments and is used by the provincial, city or municipal assessors as basis for the appraisal and assessment of real properties in their respective assessment territorial jurisdictions for real property taxation (DOF, 2019).

In determining the SMV, LGUs use three methodologies for appraisal, to wit: (1) Market Data Approach; (2) Income Capitalization Approach; and (3) Cost Approach. The market data approach is "an appraisal procedure in which the market value estimate is based on prices paid in actual market transactions and current listings". The income capitalization approach "uses an analysis of the income generated from the property to estimate the cost of investing in it" while the cost approach "makes use of information on guides and standards, based on data materials and labor costs". It is used solely for "man-made improvements such as buildings and other structures" (cited in DOF-BLGF, 2018, p. 131-132).

Other agencies use these methodologies also for purposes of acquisition, disposal, and rentals of public lands particularly being employed by the Land Management Bureau (LMB) of the Department of Environment and Natural Resources (DENR). For instance, the Department of Agriculture (DA) and the Bureau of Land Acquisition and Distribution (BLAD) of the Department of Agrarian Reform (DAR) make use of just compensation procedures or the market approach for acquisition and distribution of land for agrarian reform land conversion. Table 1 indicates the complete list of methodologies used by different government instrumentalities.

Table 1. Government Agencies Doing Valuation with the Corresponding Methodology Used and Purpose

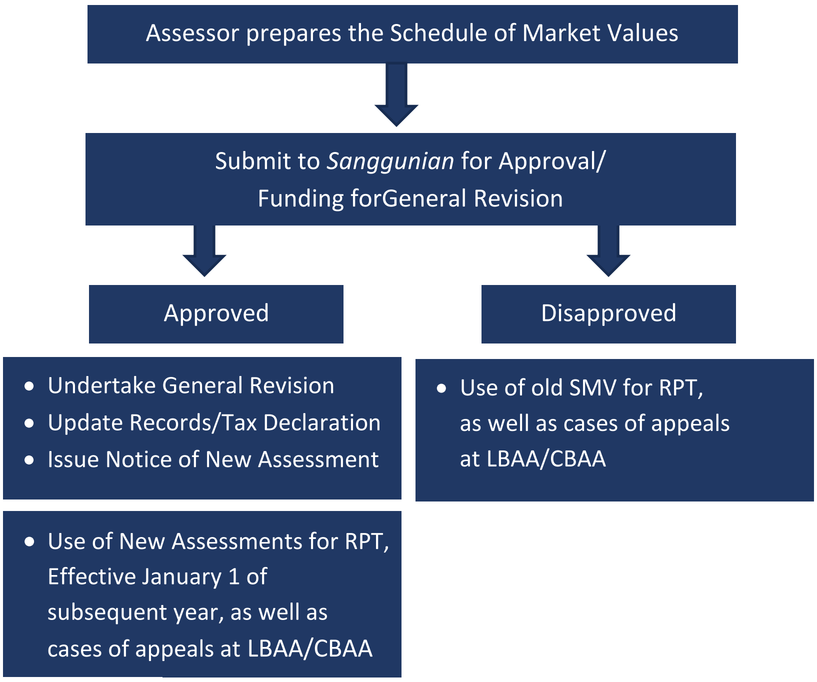
	Agency	Purpose	Basis/Methodology
1	Bureau of Internal Revenue	National Taxation	Zonal Valuation Committee: Gross Selling Price or SMV as basis + appraiser's opinion + BIR-Revenue District Office (RDO)
2	Local Government Units	Real Property Taxation, Acquisition, Disposal	SMV Mass Appraisal using Sales, Income Capitalization, Cost Approaches
3	Bureau of Local Government Finance	RPT Administration	Technical Assistance only
4	Land Management Bureau	Acquisition, Disposal, and Rentals of Public Lands	DENR Committee: Market, Cost, Income Approaches
5	Land Management Division		
6	Forest Management Bureau		
7	Department of Agrarian Reform	Acquisition and Distribution of Land for Agrarian Reform Land Conversion	Just Compensation Procedures, Market Approach
8	Bureau of Land Acquisition and Distribution		
9	Department of Agriculture		
10	Department of Public Works and Highways	Expropriation/Acquisition of Land for Right-of-Way and Expansion or Condemnation Proceedings	RA No. 8974 (Right-of-Way Law) Market Value Replacement Cost Method
11	Board of Investments	Project Feasibility Studies for Industrial Estates and Export Processing Zones	Market, Cost, Reproduction Cost, Income Cap Approaches
12	Bureau of Trade Regulation and Consumer Protection	Regulation and Licensing of Private Appraisers	Prescribes Uniform Standards of Professional Appraisal Practice/ International Valuation Standards (USPAP/IVS) for use by private appraisers
13	Land Registration Authority	Real Property Litigation and Garnishment Proceedings, Registration and Extraction of Fees	
14	Registry of Deeds		
15	Commission on Audit	Government Real Property Transactions	Similar to Private Appraisers; Land Rating Grid Method
16	National Power Corporation	Expropriation/Right-of-Way Acquisition/ Rentals	RA No. 8974 (Right-of-Way Law), Just Compensation, Market Value, Replacement Cost
17	Land Bank of the Philippines	Mortgage Lending/Securitization	Executive Order No. 405, DAR Administrative Order No. 5, Deeds of Sale, Sales Offering, Private Appraisers
18	Development Bank of the Philippines		
19	National Housing Authority	Acquisition, Disposition, and Mortgage Lending	Market Data/Economic Rent
20	National Home Mortgage Finance Corporation		Cost and Market Approaches on: (1) Rawland (2) House (3) Preliminary Appraisals
21	Home Guaranty Corporation		
22	Home Development Mutual Fund	Mortgage Lending	Market Data or Sales Comparison, Unit-in-Place, Cost Approaches
23	Social Security System		Market Date Approach with Value Adjustments
24	Government Service Insurance System		Collateral Valuation, Sales, Reproduction Cost, Income Capitalization, Private
25	Philippine Reclamation Authority	Property Development or Disposal	Valuation contracted out to private appraisers

Source: BLGF Presentation during the public hearing of the Senate Committee on Ways and Means on 09 March 2023

Figure 1 illustrates the SMV preparation flowchart wherein the Assessor's Office of the LGU prepares and submits it to the local *Sanggunian* for approval or funding for general revision.[1] Once approved, the local assessor will then undertake the general revision, update records/tax declaration, as well as issue the notice of new assessment of real properties. These new assessments will then be the basis of the local treasurer in determining the RPT and other property-related taxes at the local level, effective January 1 of the subsequent year.

When property owners do not agree with the assessment of their property, the case goes to the Local Board of Assessment Appeals (LBAA) which has the authority to hear and make decisions while the Central Board of Assessment Appeals (CBAA) has the appellate jurisdiction over all cases decided by the LBAA. From the side of the BIR, the SZV is prepared by the Technical Committees in the BIR including the Executive Committee, Technical Committee, and Sub-Technical Committee. The values are determined based on the assessors' and private appraisers' information. Unlike the SMV, zonal values are determined only for land, condominiums, and townhouses.

Figure 1. Flowchart on the Preparation of SMV by LGUs



Source: BLGF

How is the RPT computed? The computation of RPT is governed by specific provisions outlined in the LGC of 1991. Under its Chapter 4 in Section 232, provinces, cities, and municipalities within the Metropolitan Manila area are empowered to impose an annual *ad valorem* tax on real property, encompassing land, buildings, machinery, and improvements, unless exempted.

Moreover, the uniform rates of basic RPT applicable to different localities are delineated under Section 233 in the same Chapter 4 of the LGC of 1991. Provinces are authorized to levy rates not exceeding one percent of the assessed value of real property, while cities or municipalities within the Metropolitan Manila area may impose rates not exceeding two percent.

[1] Based on the presentation of the BLGF during the public hearing of the Senate Committee on Ways and Means on the proposed Real Property Valuation Reform on 09 March 2023.

The computation of assessed value begins with the determination of an appropriate assessment level (as shown in Tables 2, 3 and 4), which is contingent upon various factors including the type of property (e.g., lands, buildings, machineries), property class (e.g., residential, agricultural, commercial), fair market value, and actual use of the property (e.g., cultural, scientific, hospital).

For instance, under the provisions of the LGC of 1991, land classified as agricultural may have a maximum assessment level of 40 percent, resulting in a taxable value equivalent to 40 percent of its market value. Similarly, assessment levels for machineries range from 40 percent to 80 percent, depending on the property class.

Table 2. Assessment Levels for Lands and Machineries

Assessment Levels (AL)			
Lands		Machineries	
Property Class	Max AL	Property Class	Max AL
Residential	20%	Agricultural	40%
Agricultural	40%	Residential	50%
Commercial	50%	Commercial	80%
Industrial	50%	Industrial	80%
Mineral	50%		
Timberland	20%		

Source: LGC of 1991 (RA No. 7160)

Assessment levels for buildings and other structures are determined based on their fair market value and classification, with special considerations for properties used for specific purposes. The assessment levels of special classes of real property are contingent upon their actual use and are determined by local governments through ordinances passed by their respective councils or *Sanggunian*.

Table 3. Assessment Levels on Buildings and Other Structures

Type	Depending on the Fair Market Value
Residential	0% - 60%
Agricultural	25% - 50%
Commercial/Industrial	30% - 80%
Timberland	45% - 60%

Source: LGC of 1991 (RA No. 7160)

Table 4. Assessment Levels on Special Classes

Special Classes (all lands, buildings, machineries, other improvements)	
Actual Use	Max AL
Cultural	15%
Scientific	15%
Hospital	15%
Local Water Districts	10%
GOCCs (Water/Power)	10%

Source: LGC of 1991 (RA No. 7160)

Moreover, Section 235 of the LGC of 1991 authorizes provinces, cities, or municipalities to levy an additional one percent tax on the assessed value of real property, with the proceeds allocated to the Special Education Fund (SEF). This fund plays a crucial role in supporting the educational needs of public schools within the locality, emphasizing the government's commitment to education and human capital development.

Box 1 illustrates a sample actual RPT computation for a residential condominium unit located in Pasig City, Metro Manila as of 2022.

Box 1. Sample Actual Computation of RPT*

A 36-square meter residential condominium unit located in Pasig City, Metro Manila is said to have a market value of PhP812,190.00 as of 2022.

STEP 1: Determine the total assessed value of the property.

Assessed Value = Residential (Building) market value x Assessment Level

PhP243,660.00 = PhP812,190.00 x 30%

STEP 2: Determine the basic real property tax or tax due.

Basic RPT = Assessed Value x real property tax rate

PhP3,654.90 = PhP243,660.00 x 1.5%

STEP 3: Compute for the SEF, multiply the assessed value by the tax rate.

SEF = Assessed Value x 1.0%

PhP2,436.60 = PhP243,660.00 x 1.0%

STEP 4: Determine the annual RPT due.

Annual RPT = Basic RPT + SEF

PhP6,091.50 = PhP3,654.90 + PhP2,436.60

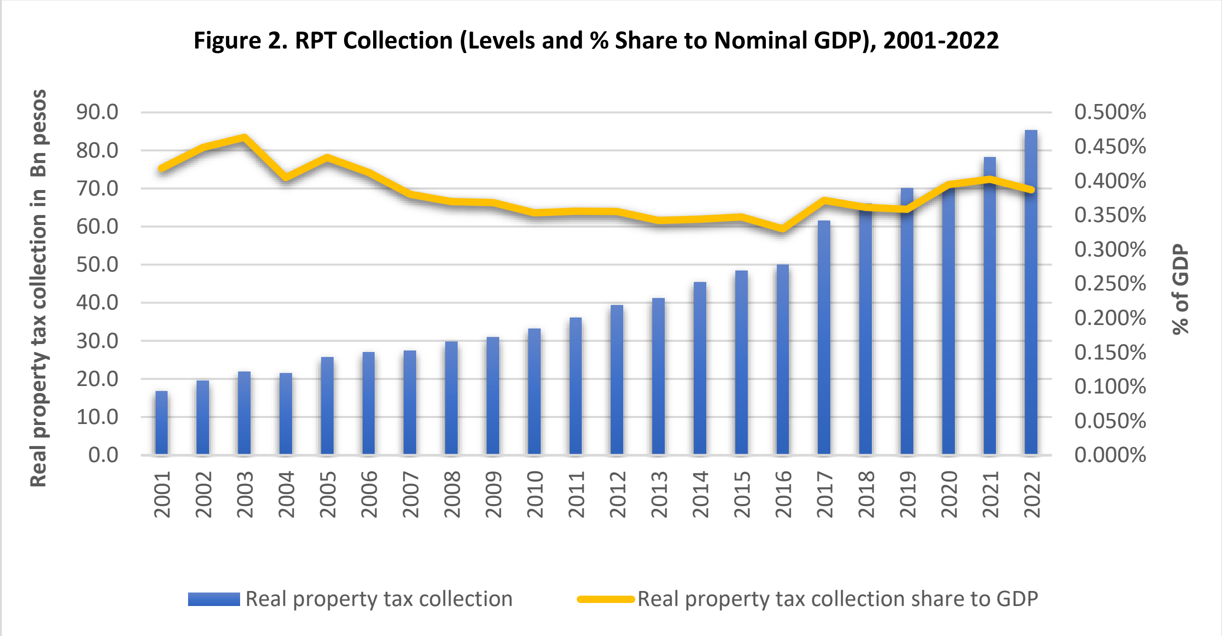
**Computation relied on the author's verified RPT payments.*

Section 234, Chapter 4 of the LGC of 1991 outlines the following exemptions from the payment of RPT:

(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 or 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 No. 6938; and
(e) Machinery and equipment used for pollution control and environmental protection.

RPT collection and gross domestic product (GDP). The analysis of RPT collection dynamics offers insights into its influence on the broader economic landscape, particularly GDP trends. According to data from the Department of Finance's Bureau of Local Government Finance (DOF-BLGF), RPT collection has exhibited a generally upward trajectory since 2000 (Figure 2). A noteworthy deviation occurred in 2004, marked by a decline in RPT collection. This was attributed to the inability of some 76 percent of LGUs to conduct the general revision of real property assessments. In fact, the compliance rate with the mandatory revision declined over the years reaching 24 percent in 2004 from 88 percent in 1994. The fact that some LGUs allowed RPT amnesties and condonations before an election exacerbated the problem (BLGF, 2007). This aberration raises questions about the underlying factors affecting revenue mobilization.

In tandem with the fluctuations in RPT collection, the ratio of RPT collection to GDP has stagnated at around 0.4 percent from 2005 to 2015. This suggests a mismatch between the growth rates of RPT collections and nominal GDP during this period. Despite the increasing trend in RPT collection levels, its proportional contribution to GDP remains relatively low, averaging 0.38 percent over the last two decades (2001-2022).



Source of basic data: BLGF and PSA

However, there are notable exceptions to this trend. For instance, the sharp uptick in RPT collections observed in 2017 can be attributed to the updating of SMVs in major urban centers such as Pasay City and Quezon City (Uy, M. 2021). This highlights the potential impact of policy interventions and administrative reforms on revenue mobilization efforts.

Data from the Philippine Statistics Authority (PSA) show that real estate and ownership of dwellings, one of the sub-components in the National Income Accounts (NIA), generally experienced positive growths since 2002 except for the years 2009 (fallout from the Global Financial Crisis of 2008) and 2020 (Coronavirus Disease 2019 (COVID-19) Pandemic).

Indeed, based on correlation analysis, Table 5 shows that real estate and ownership of dwellings (REOD) and RPT collections have a strong positive association. This means that the behavior of the RPT collection is largely influenced by the behavior of the real estate ownership and dwellings variable.[2] Thus, growth in REOD should translate to higher growth of RPT collection.[3]

Table 5. Correlation Analysis of Real Estate and Ownership of Dwellings with RPT*

	REOD	RPT
REOD	1	0.946952
RPT	0.946952	1

**SEPO estimates*

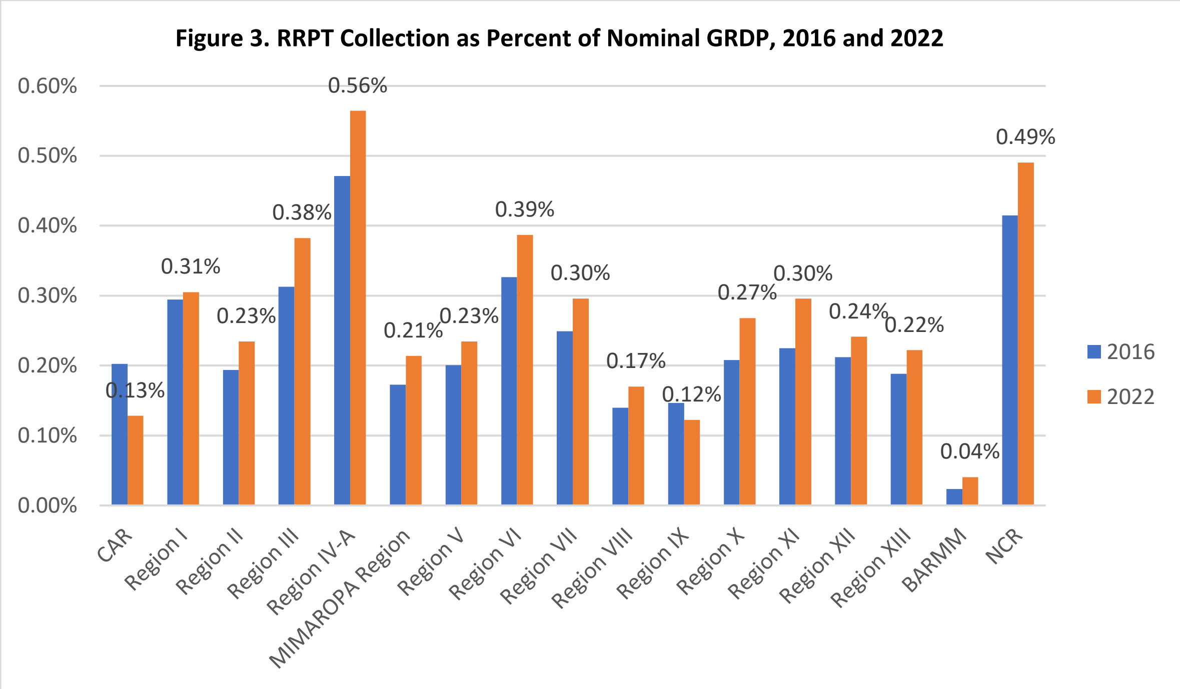
Figure 3 reveals a nuanced picture of the ratio of Real Regional Property Tax (RRPT) collection to Gross Regional Domestic Product (GRDP) across the regions for 2016 and 2022. Overall, there is a general uptrend in RPT ratios, indicating an increasing share of tax collection relative to regional economic output. Region IV-A (Cavite, Laguna, Batangas, Rizal, Quezon or CALABARZON) consistently demonstrates strong RPT collection

[2] Based on the correlation analysis, the correlation coefficient is equal to 0.946592 indicating a very strong positive association between the two variables.
[3] As the tax base grows, tax collection should likewise be growing.

efforts, while the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) consistently shows the lowest ratios, suggesting challenges in revenue mobilization.

Notable exceptions include the Cordillera Administrative Region (CAR) and Region IX (Zamboanga Peninsula), where ratios declined over the period, signaling potential issues in tax collection dynamics. Conversely, Region X (Northern Mindanao) and Region XI (Davao Region) exhibit significant increases, implying improved tax collection relative to economic growth.

This analysis underscores the importance of targeted interventions to enhance RPT collection efficiency in regions with lower ratios, ensuring equitable tax burdens and supporting sustainable local development initiatives.

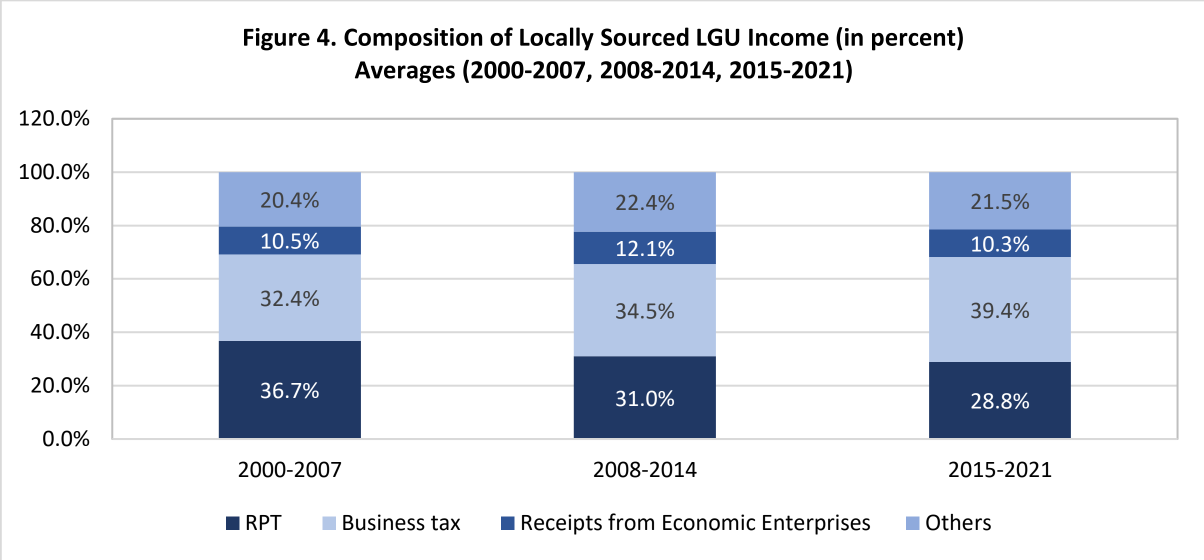


Source of basic data: BLGF and PSA

RPT and locally sourced income of LGUs. RPT collection has long been a significant component of LGUs' own-source revenue, providing essential funds for local development initiatives. However, recent trends indicate a notable shift in the composition of LGUs' revenue sources, particularly concerning RPT collection.

Figure 4 shows that RPT collection from 2000 to 2007 constituted a substantial portion of LGUs' own-source revenue, accounting for approximately 36.7 percent and peaking at 39.8 percent in 2003. Over the subsequent years, however, there has been a gradual decline in the share of RPT collection. Between 2008 and 2014, the average share dropped to 31 percent, further decreasing to 28.8 percent from 2015 to 2021. This decline underscores a significant change in the revenue landscape of LGUs.

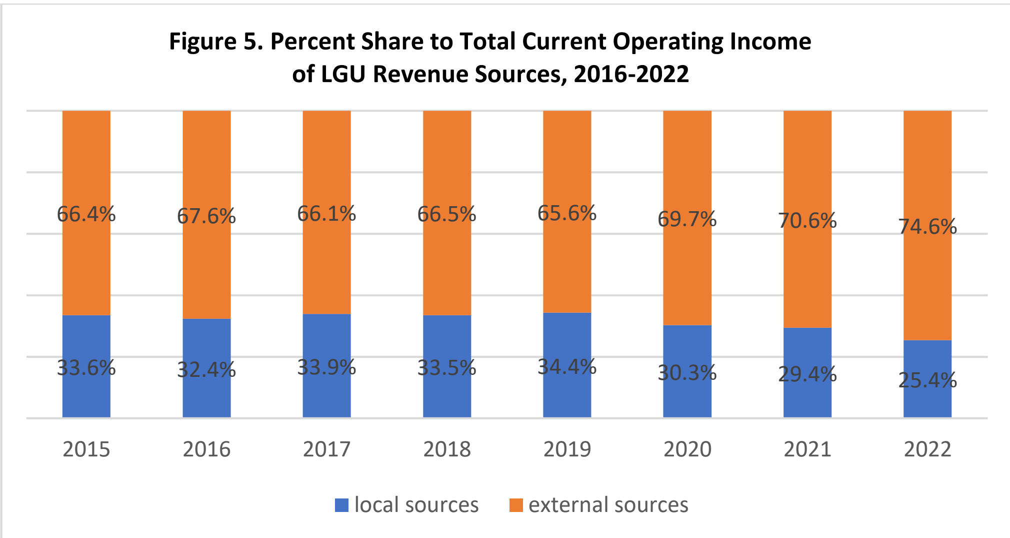
Interestingly, this decline in RPT collection share coincides with a noticeable increase in the contribution of business taxes to LGUs' revenue streams. During the period from 2015 to 2021, business taxes accounted for an average of 39.4 percent of LGUs' own-source revenue. This shift indicates a diversification of revenue sources among LGUs, possibly influenced by changing economic conditions and policy priorities.



Source of basic data: BLGF
Note: Others include regulatory fees, fees/charges, service/user charges, other receipts, toll fees, loans and borrowings and other taxes.

Studies have explored the relationship between economic development and RPT collection, offering insights into the underlying dynamics. While some studies suggest a positive correlation, particularly in developed and urbanized areas like the National Capital Region (NCR), recent findings challenge this notion. Uy (2021) reveals a negative relationship between local economic development and RPT collection of LGUs in the NCR from 2014 to 2018. Similarly, studies conducted in other countries, such as Brazil, have identified a negative correlation between economic growth and RPT collection. Bahl (2002), as cited in Bird and Slack (2002), as well as in Uy (2021, pp. 117-118), mentioned that this phenomenon may be attributed to the inelastic nature of the tax base of RPT, which responds slowly to changes in economic activity compared to variables like income.

LGU revenue sources. The revenue landscape of LGUs in recent years has been marked by a significant reliance on external sources, including the internal revenue allotment (IRA) or the National Tax Allotment (NTA). This reliance has strengthened over time, with the share of external sources increasing from 65.6 percent in 2019 to 74.6 percent in 2022 (Figure 5). While these external funds provide crucial support for LGU operations and development projects, they also underscore the challenge of achieving fiscal autonomy at the local level.



Source of basic data: BLGF

Concurrently, locally sourced income, which encompasses revenue generated internally by LGUs, has exhibited a consistent downward trend. This decline is particularly notable considering that a portion of locally sourced income stems from RPT collections. The diminishing contribution of locally sourced income raises concerns about LGUs' capacity to finance their activities independently and underscores the need for strategic interventions to bolster revenue generation at the local level.

Recognizing the importance of enhancing LGUs' revenue-generating capacity, the Philippine Development Plan 2023-2028 outlines specific targets to address the issue. Central to these targets is the goal of maintaining the share of locally sourced income, or own-source revenue, above 30 percent until 2028. This objective reflects the government's commitment to promoting fiscal decentralization and empowering LGUs to become more self-reliant in financing their programs and projects.

RPT collection efficiency. Efficient RPT collection is vital for the financial health of LGUs. However, according to a concept note[4] by the Asian Development Bank (ADB), irregular updating of SMVs has contributed to low RPT collection efficiency among LGUs. The note highlights that in 2016, RPT collection efficiency stood at 71 percent for all LGUs, with cities achieving 73 percent and provinces and municipalities at 68 percent.

Recent data from the BLGF for the period of 2015 to 2018 indicate an improvement, with RPT collection efficiency averaging 70 percent for provinces and 73 percent for cities. This uptick suggests some progress in tax administration practices. However, despite improvements, there remains a significant gap in collection.

Table 6 shows the most recent data which indicate that approximately 30 percent of RPT collectibles are uncollected by provinces, with cities lagging slightly behind at 27 percent. Closing this gap is essential for enhancing revenue mobilization and ensuring the financial sustainability of LGUs.

Table 6. Collection Rate of Current Year for Basic RPT, 1989-2000

Year	All LGUs	Provinces	Cities
1989	58.0	55.6	61.0
1991	58.9	54.1	65.1
1994	60.7	54.0	66.3
1997	57.4	50.0	62.0
1999	54.1	52.4	54.9
2000	54.6	44.7	57.1
Average			
1989-1991	58.2	54.4	63.1
1992-2000	55.4	49.0	59.7
2015-2018*		70.0	73.0

Source: Cited in Manasan and Villanueva (2006, p. 4)
**Updated BLGF data (2023)*

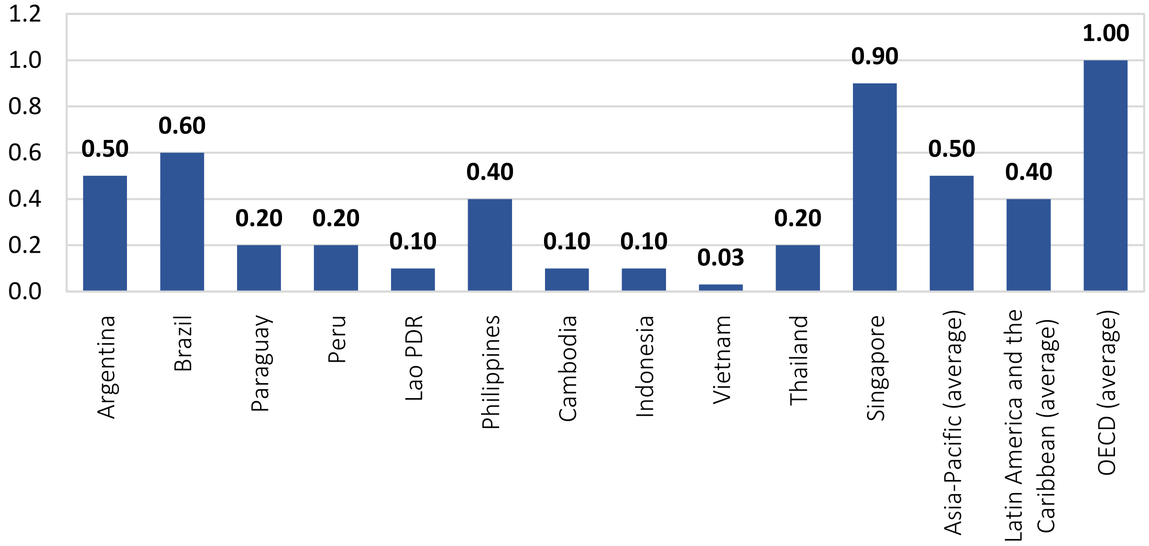
Cross-country comparison on RPT. RPT collection is an important aspect of fiscal policy, reflecting a country's ability to mobilize domestic resources for development. In the Philippines, RPT collection averaged 0.4 percent of GDP from 2016 to 2020. Compared to other economies in the Association of Southeast Asian

[4] Valuation Reform Project. ADB (n.d.)

Nations (ASEAN), the Philippines ranks second highest in immovable property tax revenue-to-GDP ratio, just after Singapore (Figure 6). While this ratio aligns with countries in Latin America and the Caribbean, where the average recurrent tax on immovable property also stands at 0.4 percent, it falls short of the one percent average observed in Organisation for Economic Co-operation and Development (OECD) countries.

Despite outperforming other lower-middle-income economies in RPT collection, the Philippines faces fiscal challenges, given its constrained fiscal space.

Figure 6. Average Recurrent Taxes on Immovable Property in Selected Countries* (% of GDP), 2016-2020



Source of data: OECD Global Revenue Statistics Database (various years) as cited in the Inputs of the NEDA to the 02 March 2023 RPVAR Public Hearing of the Senate Committee on Ways and Means, and per NEDA's submission to the Senate dated 13 March 2023.

**Covers taxes levied regularly in respect to the use or ownership of immovable property such as land and buildings.*

Recent fiscal data highlight the growing fiscal deficit and national debt, underscoring the need for enhanced revenue mobilization efforts. In 2023, the fiscal deficit widened significantly to PhP1.512 trillion, equivalent to 6.2 percent of nominal GDP, compared to just PhP660.2 billion in the pre-pandemic period (2019). Similarly, national debt has risen to PhP14.6 trillion, reaching 60.2 percent of nominal GDP by end-December 2023.

Increasing revenue from RPT holds potential benefits for both local and national governments. It not only supports the delivery of quality services by local governments to their constituents but also alleviates fiscal pressure on the national government to finance the country's growing development needs. Strengthening RPT collection mechanisms is therefore crucial for enhancing fiscal sustainability and promoting economic growth in the Philippines.

Issues Affecting RPT Collection in the Philippines. Different factors influence the collection of RPT in various localities and countries, encompassing the tax system's design and the institutional capacity of tax administrators. In the Philippines, the majority of LGUs have not adhered to the mandated revision and updating of SMVs as required by the LGC of 1991 and the TRAIN Law. Based on BLGF data, as of June 2023, approximately 80.7 percent of provinces and cities have outdated SMVs based on either the implementation or approval year (Table 7). It is important to note that in some instances, SMVs are updated without accurately reflecting the actual market value of properties, defeating the purpose of the revision.

Table 7. Breakdown on the Number of LGUs with Updated and Outdated SMVs (as of 2nd Quarter 2023)

LGU	On Approval		On Implementation	
	Updated	Outdated	Updated	Outdated
Province	**25**	**56**	**26**	**55**
1st	16	28	14	30
2nd	3	13	5	11
3rd	5	7	5	7
4th	1	5	1	5
5th	0	3	1	2
City	**17**	**130**	**18**	**129**
1st	5	42	4	43
2nd	1	15	2	14
3rd	3	29	3	29
4th	6	21	6	21
5th	1	8	2	7
6th	1	5	0	6
Special	0	2	0	2
1st (Municipality)	0	8	1	7
Total	42	186	44	184
% to Total LGUs	**18.4%**	**81.6%**	**19.3%**	**80.7%**

Source: BLGF

Note: Data are based on a survey conducted by the BLGF-Local Assessment Operations Division (LAOD) as of Q2 2023; Total number of LGUs (provinces, cities, and the lone municipality of Pateros) used is 228.

The low compliance with SMV revision can be attributed to several factors. First, existing legislation lacks specific penalties for non-compliance, leading to a lack of accountability. Second, political concerns about potential backlash from property owners hinder revisions due to the likelihood of increased tax dues, which may catch property owners off-guard and lead to financial strain. Third, LGUs face challenges due to limited technical capacity, aggravated by the absence of an accessible and comprehensive centralized electronic property database. This issue is particularly acute in smaller cities and municipalities outside Metro Manila. While the BLGF provides technical assistance as mandated by Executive Order No. 292, Series of 1987, inadequate support persists, hindering effective property appraisal and database management. Fourth, various property appraisal systems utilized by multiple entities result in conflicting market values assigned to the same property. Additionally, the absence of a single oversight agency to ensure conformity with international standards exacerbates this issue. While the BLGF provides technical advice and assistance, its functions are limited primarily to providing guidance to the DOF.

The failure to comply with the required SMV revision has resulted in significant revenue losses for the government. According to a 2019 DOF report, provinces and cities are losing as much as PhP30.5 billion in total foregone revenues due to outdated real property values. Recent estimates suggest even higher losses, reaching up to PhP38 billion.

Additionally, stakeholders highlight that right-of-way (ROW) issues stemming from valuation disputes often delay the government's acquisition of private lands, affecting infrastructure project progress in the country.

II. The Proposed Real Property Valuation and Assessment Reform Act (RPVARA)

The proposal to reform the country's real property valuation system has been in discussion as early as 2007 during the 14th Congress. It was refiled during the 15th, 16th, and 17th Congresses, where the bills were referred to the appropriate Committees for consideration and public hearings. Reintroduced in the 18th Congress, it was highlighted as the Package 3 of the Comprehensive Tax Reform Program (CTRP) under President Rodrigo Duterte's Administration. However, the legislative proposal failed to pass the legislative mill in the last Congress.

In the 19th Congress, the proposed measure was refiled and emphasized as one of the priority legislative bills announced by President Ferdinand Marcos Jr. in his first State of the Nation Address (SONA) in 2022. The Real Property Valuation and Assessment Reform (RPVAR) is also a key component of the 2022-2028 Medium-Term Fiscal Framework (MTFF), which aims to align economic recovery programs and legislative measures to ensure fiscal sustainability and long-term growth. Both Houses of Congress endorsed and approved a concurrent resolution in support of the MTFF.

On 12 December 2022, the House of Representatives approved House Bill No. (HBN) 6558 on Third Reading. Meanwhile, Senate Bill No. (SBN) 2386, serving as the substitute bill for all RPVAR proposals in the Senate for plenary deliberation, is currently pending on Second Reading under the Period of Amendments.

Salient features of the proposed RPVARA. The RPVAR Bill aims to promote the development of a just, equitable, and efficient real property valuation system. It introduces measures that will address the long-standing problems in the real property valuation system as discussed in the succeeding sections.

<u>Strengthening the functions of the BLGF.</u> The BLGF will be granted additional mandates beyond those conferred by Executive Order No. 292 or the Administrative Code of 1987. It will be tasked with developing and maintaining regulations for valuation standards, real property appraisal specifications, and a comprehensive, updated electronic database of real property transactions and relevant information. Furthermore, the BLGF will review SMVs and recommend their approval to the DOF Secretary. It will conduct continuous studies and research on property valuation and provide technical supervision over all assessors. Additionally, it will determine fees, fines, and penalties for non-compliance. These expanded duties aim to address the absence of a single oversight agency ensuring valuations conform to international standards.

<u>Establishment of the Real Property Valuation Service (RPVS).</u> The RPVS will be established within the BLGF and will have counterpart personnel in the BLGF Regional Offices to fulfill the Bureau's additional mandates. The proposal includes defining the personnel requirements and listing additional positions needed. The estimated budget for creating this unit is PhP66.6 million.[5]

<u>Establishment of a Real Property Valuation Unit (RPVU).</u> An RPVU will be created under the Office of the Local Assessor in every LGU. Its organizational structure and staffing pattern will be included in the annual budget of the Office of the Assessor duly approved by the *Sanggunian* concerned.

[5] The budgetary requirements for the RPVS were submitted by the BLGF to the Technical Working Group (TWG) of the Senate Committee on Ways and Means. This amount did not assume the new direction to rationalize the salary grade of third-level positions in the BLGF in light of the provision in the RPVAR Bill giving additional mandates to the agency.

Creation of Central and Regional Consultative Committees. Central and Regional Consultative Committees will be established to facilitate discussions on real property market developments, adoption of internationally accepted valuation standards, and related concerns. The Central Committee, chaired by the BLGF Executive Director, will comprise representatives from the BIR, DENR, Bangko Sentral ng Pilipinas (BSP), national organization of government assessors, Union of Local Authorities of the Philippines (ULAP), Land Registration Authority (LRA), and from the private appraisal sector. Similarly, the Regional Committee, chaired by the BLGF Regional Director, will include representatives from regional offices of relevant agencies, LGUs, and sectoral organizations.

Development of valuation standards and preparation and approval of SMVs. Uniform valuation standards will be developed, adopted, maintained, and implemented by the BLGF. These standards will be used by all appraisers, assessors in LGUs, and other concerned parties conducting property valuations for taxation and other purposes. Subsequently, assessors will prepare SMVs for various classes of real property within their LGUs, following the valuation standards, rules, and regulations set by the DOF. If the recommended SMV is not approved, it will be returned to the assessor for revision along with a written statement of disapproval. These measures aim to streamline valuation processes and eliminate overlapping valuations used by different government agencies.

Conduct of capacity building interventions. The BLGF, in coordination with the Philippine Tax Academy, will conduct capacity building interventions for local assessors, officials, and staff involved in SMV preparation. These interventions aim to enhance the capacities of personnel engaged in SMV preparation.

Development of the Real Property Information System (RPIS). The BLGF will develop and maintain an up-to-date electronic database called the RPIS, containing information on real property transactions and declarations, construction costs, and equipment prices. Concerned national and local government officials are required to submit relevant documents to the RPIS. RPT administration operations at all levels of government will be computerized under BLGF's guidance and in coordination with the Department of Information and Communications Technology (DICT).

Publication of assessment levels and tax rates. LGUs will be required to publish approved ordinances on assessment levels and tax rates in their official websites or in local newspapers for transparency. The information will also be posted in public places within the LGUs.

Transmission of real property transactions data to the BLGF. The registers of deeds, BIR, notaries public, officials issuing building permits, and geodetic engineers conducting surveys will electronically transmit relevant real property transactions data to the BLGF every quarter free of charge.

Penal provisions. Sanctions will be imposed on BLGF officials or employees, as well as other government officials or employees, who fail to comply with valuation standards or prepare SMVs without justifiable reasons. Assessors intentionally refusing to prepare SMVs may face administrative and criminal liabilities under the Real Estate Service Act of the Philippines (RA No. 9646). Private individuals, such as geodetic engineers and notaries public, will also be subject to penalties under applicable existing laws for non-compliance.

Budgetary requirements for the updating of SMVs and general revision. The DOF Secretary through the BLGF and each local *Sanggunian* will appropriate the necessary funds from locally generated revenues, the NTA, or such other sources every fiscal year to constitute the RPT Administration Fund (RPTAF), which will be established and used for the proper implementation of the updating of the SMVs and general revision of real property assessments, and the administration of RPT in all LGUs.

III. Comments and Recommendations

Public consultations held by the Senate Committee on Ways and Means, jointly with the Committees on Local Government, and Finance, highlighted various concerns related to the design, impact, and features of the RPVAR initiative. This section serves to both summarize these concerns and offer recommendations aimed at improving the policy's design and ensuring its seamless implementation.

On the impact of the RPVAR on taxpayers. One concern revolves around the anticipated increase in RPT for property owners. It is important to note that local governments have the authority to adjust assessment levels and tax rates to alleviate this burden. However, to address the immediate impact on property owners, implementing staggered increases in RPT could mitigate financial strain and facilitate better preparedness for adjustments. For a detailed illustration of the impact on basic RPT, refer to Annex 1.

On the establishment of uniform valuation standards. Since the RPVAR proposes the development, adoption, and implementation of uniform valuation standards, the implications on the abolition of the SZVs which are currently the bases for the computations of the internal revenue taxes should be clarified. Likewise, the existing manuals on Philippine Valuation Standards and Real Property Appraisal and Assessment and other related publications should be regularly revised and updated to conform to the new standards and be made publicly available for purposes of transparency.

On the impact of the proposed adjustments on equity. While the need to reform the system of valuation is understandable, clarity must be sought as to how such reform ensures equity in the tax system. If assessment levels and tax rates were to differ amongst LGUs for the same type of property, confusion might arise amongst property owners and might disenfranchise some from holding a particular type of property.

On the indirect economic effects. According to the National Economic and Development Authority (NEDA), as land serves as a vital input in the production of goods and services, the RPVAR may potentially influence rental prices and other commodities through a spillover effect. However, a study conducted by the BSP on 16 September 2019, suggests that the proposed reform is expected to have a minimal impact on inflation, estimated at an additional 0.03 percentage point (ppt). It is important to acknowledge that this study was conducted in September 2019, when the inflation rate stood at 2.5 percent. Given that the average inflation rate for 2023 settled at 6 percent, significantly higher than the 2.5 percent recorded in 2019, there may be a need for an updated estimation of the inflation impact to account for the latest economic developments.

On maximizing the impact of property tax increases through effective SEF Utilization. Amidst the backdrop of rising property values, concerns have surfaced regarding the utilization of the Special Education Fund (SEF), which could potentially bolster SEF collection and contribute to increased tax revenues for local government units (LGUs). According to EDCOM 2 analysis spanning from 2018 to 2022, there has been significant underutilization of SEF, amounting to PhP16.3 billion in 2022 alone. This underutilization is stark, with 11% of LGUs utilizing a mere 10% or less of their SEF income, while 45% manage to utilize 67% or more.

It is imperative to address the underutilization of the Special Education Fund (SEF) to ensure fairness for the taxpaying public, especially through potential adjustments to the SEF levy rates. Introducing a performance measure linked to the SEF levy rates could prove instrumental in this endeavor. Therefore, within the framework of property valuation and assessment reform, addressing SEF utilization becomes pivotal. By ensuring the efficient allocation of SEF funds alongside property tax increases, policymakers can advocate for equitable education funding and bolster transparency, fairness, and effectiveness in tax collection and allocation processes. This integrated approach not only maximizes the impact of augmented property taxes but also facilitates a more efficient utilization of public funds, ultimately contributing to enhanced educational outcomes.

On the sustainability and operationalization. Safeguard mechanisms must be put in place to ensure a smooth transition towards the adoption of the proposed valuation standards. Measures to avoid the use of undue discretion in the setting of assessment levels and/or tax rates may likewise be considered to minimize the possibility of undue advantage or disadvantage given to specific persons and/or parties.

On possible violations of data privacy. Upon operationalization of the RPIS, the registers of deeds, BIR, notaries public, officials issuing building permits, and geodetic engineers conducting surveys within a locality are mandated to electronically transmit to the BLGF, cost-free, relevant real property transactions data. Other necessary documents are also mandated to be submitted by concerned entities such as the LGUs, concerned officials or employees of national government agencies (NGAs). A concern was raised regarding the confidentiality of information being shared by varied agents. The BLGF argued that Section 11 of the legislative measure states that the "processing of personal information shall be allowed subject to compliance with the requirements of the law and other laws allowing disclosure of information to the public and adherence to the principles of transparency, legitimate purpose, and proportionality." It was clarified that "the RPVAR establishes a legitimate purpose for the processing of information relating to real property transactions." Furthermore, it includes a provision in Section 21 on the development of the RPIS that "the mandatory submission of documents and information shall be subject to the prohibition of disclosure, and security of certain information under the Data Privacy Act of 2012 (RA No. 10173), particularly Sections 20 and 21 thereof, and other existing laws."

On the need to adopt digital technology to improve tax collection efficiency. Improving the efficiency in the collection of RPT requires an improvement in the use of digital technology in property identification (e.g., tax mapping, computerization, and geographic information system), and/or tax payments (e.g., mobile applications, online payments). The technological preparedness and readiness of LGUs, particularly on the mandatory publication of the approved ordinance for the assessment levels and tax rates and the setting up of the electronic property database, need to be put in place to ensure the swift implementation of the said requirement.

On the need for regular monitoring and evaluation (M&E). It is recommended that an M&E plan be prepared by the appropriate agency to allow for the easy monitoring and evaluation of the policy. There should be complete enumeration of outcomes and impacts that the reform intends to achieve. Apparently, the updated SMVs or the number of LGUs with updated SMVs is one of the intended outputs/outcomes of the policy. Clear and measurable targets (e.g., RPT to GDP % by x year) should likewise be set.[6] For instance, Fung and McAuley (2020) recommend increasing the RPT collection to one percent of the GDP and that setting a goal, for say, 5 years to 10 years could provide a framework for the constant improvement of the system. Other possible outcomes (e.g., reduced ROW problems) need to be monitored and tagged with corresponding indicators.

[6] During the Senate deliberations, three scenarios outlining incremental revenue estimates for the RPVAR were presented. SEPO subsequently estimated that RPT collection, as a percentage of GDP, could range from 0.4 percent to 0.5 percent over the next four years.

Concerns over local autonomy. There was a concern raised that this legislative measure infringes on local government autonomy because the approval by the DOF Secretary is needed in the prepared SMVs. The BLGF argues that the preparation and updating of SMVs, are undertaken by local assessors, whose technical expertise covers exigencies of their respective LGUs. The required approval by the DOF Secretary "is a form of a delegation of the power of Congress to set guidelines and limitations on the power of the LGUs to create their own revenues" (BLGF, 2023). Also, by seeking the approval of the DOF Secretary, the technical function of LGUs on valuation is separated from their political functions on setting the assessment levels, tax rates, and budgets which is expected to shield LGUs from undue politicization.

Harmonization of capacity building interventions and representation of other relevant entities in the Consultative Committees. It was noted that some private organizations conduct trainings to assessors, concerned BIR personnel, and government appraisers on the needed real property appraisal skills and knowledge. It is observed that the trainings conducted by private organizations deviate from government appraisal techniques and practices. For uniformity and to avoid ambiguity, there is a need to harmonize the private appraisal practices with that of the government's and also clarify whether the trainings conducted by private organizations can indeed continue. Moreover, the membership of other concerned appropriate entities (e.g., other relevant private and/or government institutions) to the Consultative Committees should not be disregarded to ensure that all necessary entities will be represented.

IV. Conclusion

An assessment of the current real property valuation system reveals a multitude of issues that adversely affect government operations. These issues encompass weak enforcement, outdated SMVs, limited capacity among LGUs, system complexity, absence of a single oversight agency, and the lack of a comprehensive electronic database for real property. Consequently, these problems contribute to low RPT collection, inaccuracies in property valuation, opacity in the system, and delays in infrastructure development, among other challenges.

The reform of the real property valuation system holds immense potential benefits for both national and local governments. It is anticipated to lead to increased RPT revenues, enhanced efficiency in tax administration, heightened investor confidence, improved public trust in government, and smoother implementation of infrastructure projects by minimizing valuation disputes.

To ensure the successful implementation of the RPVAR, institutional readiness and effective communication are paramount. All ambiguities and concerns must be thoroughly addressed prior to the enactment of the measure. Furthermore, the inclusion of a provision in the measure for the development of an M&E Plan would facilitate the assessment of the policy's impact and effectiveness. External factors influencing RPT collection should also be taken into account to align with the objectives of the proposed RPVARA, including the financial capacity of taxpayers and other financial constraints that reduce their ability to pay the property tax (Orijola and Aure, 2019). Lastly, adherence to good governance principles should underpin both the implementation and design of the reform measure.

Annex 1. Scenario Analysis on the Tax Due with Adjustments in Tax Rate and/or Assessment Level vis-à-vis Current, and Proposed with no Adjustment on the RPT

Illustration 1 (10% increase in RPT)

Type of Property: Land
Actual Use: Commercial
Current Assessment Level: 40%
Current Tax Rate: 2%
Land Area (in sqm.): 2,000
Current Unit Market Value: PhP40,000.00
Proposed Unit Market Value: PhP940,000.00

Scenario 1 w/Tax Impact Study: Only the assessment level was changed.
Scenario 2 w/Tax Impact Study: Only the tax rate was changed.
Scenario 3 w/Tax Impact Study: Both the tax rate and the assessment level were changed.

	Current	Proposed w/o Tax Impact Study	Scenario 1	Scenario 2	Scenario 3
Assessment Level	40%	40%	1.8723%	40%	2.1277%
Tax Rate	2%	2%	2%	0.0936%	1.76%
Market Value (in PhP)	80,000,000	1,880,000,000	1,880,000,000	1,880,000,000	1,880,000,000
RPT (Tax Due in PhP)	640,000	15,040,000	704,000	704,000	704,000

The above-described property has a current market value of PhP40,000.00 per sqm. Based on the given property details in illustration 1, the current RPT is computed to be equal to PhP640,000 [(assessed value = PhP80 million (PhP40,000 x 2,000) x 40% = PhP32 million) x tax rate = 2%].

Under Scenario 1, the assessment level is adjusted downward while the tax rate is maintained at two percent. Under Scenario 2, the assessment level remained the same which is 40 percent and the tax rate is adjusted downward to 0.0936 percent. Lastly, under Scenario 3, both the assessment level and the tax rate are adjusted downwards. Illustration 1 depicts a situation wherein the tax on RPT will increase by PhP64,000.00 or 10 percent to PhP704,000 if the market value of the property is updated to PhP940,000.00 per sqm. and the tax rate and/or the assessment level is adjusted. Note that without adjusting the assessment level and the tax rate, the RPT could increase significantly to PhP15 million from PhP640,000.

Illustration 2 (0% increase in RPT)

Current Assessment Level: 40%
Current Tax Rate: 2%
Land Area (in sqm.): 1,000
Current Unit Market Value: PhP1,000.00
Proposed Unit Market Value: PhP2,000.00

	Current	Proposed w/o Tax Impact Study	Scenario 1 w/ Tax Impact Study	Scenario 2 w/ Tax Impact Study	Scenario 3 w/ Tax Impact Study
Assessment Level	40%	40%	20%	40%	22.7273%
Tax Rate	2%	2%	2%	1%	1.76%
Market Value (in PhP)	1,000,000	2,000,000	2,000,000	2,000,000	2,000,000
RPT (Tax Due in PhP)	8,000	16,000	8,000	8,000	8,000

Illustration 2 refers to a situation wherein there will be no increase in the tax due on RPT for a given property as described above. A land area of 1,000 sqm. with a current market value of PhP1,000.00 per sqm. has a tax due of PhP8,000.00 on RPT. If the property's market value is updated to PhP2 million (PhP2,000.00 per sqm.), the resulting tax due on RPT will be PhP16,000.00. Note that even if the market value is updated, the tax due on RPT will remain the same by adjusting the assessment level and the tax rate.

Illustration 3 (5% increase in RPT)

Current Assessment Level: 40%
Current Tax Rate: 2%
Land Area (in sqm.): 1,000
Current Unit Market Value: PhP1,000.00
Proposed Unit Market Value: PhP2,000.00

	Current	Proposed w/o Tax Impact Study	Scenario 1 w/ Tax Impact Study	Scenario 2 w/ Tax Impact Study	Scenario 3 w/ Tax Impact Study
Assessment Level	40%	40%	21%	40%	23.8636%
Tax Rate	2%	2%	2%	1.05%	1.76%
Market Value (in PhP)	1,000,000	2,000,000	2,000,000	2,000,000	2,000,000
RPT (Tax Due in PhP)	8,000	16,000	8,400	8,400	8,400

Note that an LGU can adjust accordingly the tax rate and/or assessment level based on its desired expected revenue. In this case, Illustration 3 refers to the situation where the tax due on RPT will increase by 5 percent equivalent to PhP400.00 (from PhP8,000.00 to PhP8,400.00).

Source of illustrations: Presentation of BLGF during the RPVAR Public Hearing of the Senate Committee on Ways and Means on 09 March 2023.

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