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Dominguez pushes bills to reform 'outdated' real property valuation

Finance Secretary Carlos Dominguez III pushed for the enactment of a bill to reform the country's outdated real property valuation system to bring in more investments, invigorate the property market and generate additional revenues for local government units.

Dominguez said in a statement Tuesday his department supported Senate Bill No. 44 filed by Senator Panfilo Lacson and its counterparts, House Bill No. 2207 introduced by Speaker Gloria Macapagal-Arroyo and HB No. 68 by Albay Second District Rep. Joey Salceda.

Dominguez said the fundamental valuation reforms being pushed by the government in the real property sector were outlined in both measures.

Dominguez said in separate letters to Lacson, Salceda, and Arroyo that they could count on the Finance Department's full support behind their bills' immediate enactment in Congress even as the DOF suggested several enhancement measures to their proposals to further strengthen the real property valuation and taxation system.

"Essentially, real estate is the most valuable asset and biggest financial resource. But its contribution to government revenues, particularly for local governments, has remained dismal due to outdated Schedule of Market Values, poor collection efficiency and tax administration and lack of uniformity in the valuation of real property," Dominguez said.

He said an "equitable, efficient and transparent valuation system has become even more urgent and necessary to stimulate the property market, attract investments, improve government's resource mobilization through property taxation and foster greater confidence in the real estate sector." The proposed reforms in the Salceda, Arroyo and Lacson bills aim to adopt international standards in real property valuation and strengthen local autonomy by "setting up a single valuation base for

taxation and benchmarking purposes, insulating the valuation process from politics as LGUs will continue to regulate tax rates and assessment levels, improving the oversight functions of the national government, and establishing an electronic database to support valuation."

Among the enhancements proposed by Dominguez to SB 44, HB 2207 and HB 68 are the establishment of a Real Property Valuation Service within the Bureau of Local Government Finance, an attached agency of the DOF.

Dominguez also proposed the inclusion of a provision designating counterpart BLGF personnel in the RPVS in the bureau's regional offices.

Insights on 'Build, Build, Build': harnessing land value capture

THE PHILIPPINES' landmark "Build, Build, Build" infrastructure agenda is critical to unlocking the remaining constraints to Philippine growth. As the government works to turn bold ambition into tangible results, it is imperative to consider fairer, and largely untapped, funding alternatives.

Wider use of land value capture (LVC), which draws on the increase in the value of land adjacent to new infrastructure developments, merits a place high on the list of revenue sources the government should explore as a supplement to taxes and user fees.

At present, the government relies primarily on taxes and fees to support infrastructure projects. Indeed, an important feature of the recently passed Tax Reform for Acceleration and Inclusion Act is that 70% of the additional revenue it generates will help pay for the P8-trillion "Build, Build, Build" program. Proceeds from the act will be added to the P1.097 trillion — about a third of the 2018 budget — previously allocated by Congress.

The common criticism against taxation as a funding source is that members of the public do not benefit equally from infrastructure projects. User fees may seem fairer, but they rarely produce enough revenue to cover operations and maintenance costs, let alone finance construction or debt obligations. And it goes without saying that fare increases are always a hard sell with the public.

Land value capture is attractive because of its fundamental fairness: LVC taps into the newly created wealth of higher property values rather than add to the financial burdens of taxpayers and users. The property-value windfall, created at government expense, should not go just to landowners. The government — and the people it represents — has a right to capture a portion of it to help pay for the construction, operation, and maintenance of public projects.

LVC, which has been used successfully in cities such as Hong Kong and Singapore, ensures that those who benefit the most from higher property values help pay the costs of development. Based on this single premise, it can be implemented in a variety of ways. Hong Kong's Rail+Property gives the railway operator exclusive development rights for land surrounding its lines. Profit from developing, selling, and leasing the land helps pay the cost of rail projects. Singapore's development charge system levies fees on new projects that are expected to increase the value of the underlying land.

The Philippines has had its own experience with LVC. Similar to the Hong Kong model, the cost of building, operating and maintaining the new Metro Rail Transit System Line 7 will be partially funded with tax and development proceeds from a mixed-used development around the station in Bulacan, north of Metro Manila. Two decades ago, the government raised more than P15 billion for infrastructure investments in Subic and Clark by selling a stake in former military base Fort Bonifacio.

Notwithstanding these examples of success, LVC is underused, implemented largely on an ad hoc basis. Given the Philippines' own experience with LVC and its success in many cities worldwide, the government could consider using LVC more. There's no better time than now, as we embark on the largest infrastructure campaign in our country's recent history.
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