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Property Tax and Assessment News from Around the World

Philipines - June 2019

The Philippine government is losing $589m to outdated property valuation

Labyrinthine, outmoded bureaucratic systems dog full potential of tax collection in real estate sector

Outdated real property values are causing provincial and city governments in the Philippines to lose PHP30.5 billion (USD589 million) in foregone revenues, the country's finance department revealed this week.

Such losses highlight the need for valuation reforms in real estate, being "the most valuable asset and biggest financial resource," said Finance Secretary Carlos Dominguez III in a statement.

"[Real estate's] contribution to government revenues, particularly for local governments, has remained dismal due to outdated SMVs (Schedule of Market Values), poor collection efficiency and tax administration and lack of uniformity in the valuation of real property," Dominguez said.

City governments stood to collect as much as PHP23.077 billion in incremental revenues from real property taxes while provincial governments stood to collect up to PHP7.379 billion more had their SMVs been reformed to meet international standards, according to estimates by Acting Deputy Executive Director Jose Arnold Tan of the Department of Finance's Bureau of Local Government Finance.

Only 36 percent of city and provincial governments in the Philippines have updated their SMVs, reported Tan. Around 97 cities and 48 provinces have not complied with the updates.

The Bureau of Internal Revenue, the tax-collecting wing of the Department of Finance, has seen only 60 percent of its regional offices update zonal values. Twenty-three national government agencies can do valuations with varying methods and systems, leading to overlaps.

Market values have been known to differ between 13 percent and 94 percent from zonal values in the Philippines, said Tan. The disparity between SMVs and private valuation can reach as much as 7,474 percent.

Under the Philippines' Local Government Code, government units are required to update their SMVs and zonal values every three years.

On outdated property valuations

IN PUBLISHED reports on June 4 in the Manila Bulletin and Philippine Star, the Department of Finance (DOF) has cited local government unit (LGUs) as having incurred an estimated P30.5 billion in foregone revenues due to their outdated valuation system for real properties.

This may also include undervaluation of real properties in cahoots with LGU employees.

The DOF estimated that local government units could have generated P30.5 billion in additional revenues annually if the taxable values of real estate are updated.

Package 3 of the comprehensive tax reform of the Duterte administration contains provisions which will further "invigorate the real estate market, bring in more investments and generate more revenues for the LGUs."

If the Schedule of Market Values (SMVs) were to be updated, cities could have collected as much as P23.077 billion in incremental revenues from real property taxes while provinces could have obtained some P7.379 more.

The City Government of Mabalacat, headed by Mayor Crisostomo C. Garbo and now incoming City Vice Mayor Geld Aquino could have information and the initiative to look into the updated valuation of real properties in the city and, by doing this, can generate additional revenues for the city.

But first, they have to task the City Assessor's Office to go over files on previous city zonal valuations, update them and identify the attaching taxes due thereon. If possible, the city's land valuation code should be reviewed, amended and overhauled to keep it in sync with today's system of valuations. Therefrom come the revenues from real estate taxes and the residents should be properly apprised and notified.

LGUs losing P30.5-B revenues to outdated real property valuation

Provinces and cities are losing an estimated P30.5 billion in total foregone revenues as a result of outdated real property values, underscoring the need for valuation reforms in the real property sector, according to the Department of Finance (DOF).

Acting Deputy Executive Director Jose Arnold Tan of the DOF’s Bureau of Local Government Finance (BLGF) said cities could have collected as much as P23.077 billion in incremental revenues from real property taxes, while provinces could have gotten as much as P7.379 billion more if their Schedule of Market Values (SMVs) were already updated and in sync with international standards.

Such reforms in the real property tax system constitute Package 3 of the Duterte administration’s comprehensive tax reform program (CTRP).

Finance Secretary Carlos Dominguez III said these reforms will further invigorate the real estate market, bring in more investments, and generate additional revenues for local government units (LGUs).

“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 SMVs, poor collection efficiency and tax administration and lack of uniformity in the valuation of real property,” Dominguez said.

Tan said for provinces alone, the P7.4 billion in foregone real property taxes could have built either of the following: 551 public markets, 771 kilometers of roads, 7,542 classrooms or 2,155 daycare centers.

The P23 billion in real property taxes that cities fail to collect could have built either 513 transport terminals, 339 landfills, 1,154 satellite health centers, or 3,330 low-cost resettlement projects, Tan added.

Tan noted that only 36 percent of LGUs have updated SMVs. The rest, which comprise 97 cities and 48 provinces, remain non-compliant on updating their SMVs, he said.

Moreover, only 60 percent of the regional district offices of the Bureau of Internal Revenue (BIR) have updated zonal values.

Tan said that under this outdated system, overvaluation usually happens when the government pays for a piece of real property, but undervaluation often occurs when it is the government's turn to collect.

The system is also riddled with multiple overlapping functions as 23 national government agencies can or are required to do valuations, with each using its own system and methodology, Tan said.

This has led to disparities between market values and zonal values by 13 percent to as wide as 94 percent. Between the SMVs and private valuation, the disparity is from 187 percent to 7,474 percent, Tan said.

He said LGUs often overlook the requirement under the Local Government Code to update their SMVs and zonal values every three years because there are no existing sanctions against local officials that would compel them to comply with the law.

Tan said the following reforms are being proposed by the DOF: 1) adoption of international standards in valuation, 2) establishment of a single valuation base for taxation and benchmarking, 3) the need to insulate valuation from politics, with LGUs continuing to regulate tax rates and assessment levels; 4) improvements in the oversight functions of the national government; and 5) setting up of a comprehensive electronic database to support valuation functions.

The DOF is also proposing that LGUs which fail to update their SMVs and conduct a general revision of property assessments every time the Secretary of Finance approves a new set of SMVs be barred from receiving any "conditional or performance-based grants or any form of credit financing from the national government."