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Reforms in property valuation could net local govts P12.6B

LOCAL government units (LGUs) stand to earn P12.6 billion in real property taxes if they will all adopt a single valuation system that is on a par with international standards, according to the Department of Finance (DOF).

Finance Assistant Secretary Antonio Joselito G. Lambino told the BusinessMirror in an interview that the reforms proposed under Package 3 of the Comprehensive Tax Reform Program (CTRP) will benefit LGUs the most.

"Package 3 of the CTRP does not automatically raise real property taxes, it will only adjust it so it would [conform] to an international standard valuation system," said Lambino, who is also spokesman of the DOF.

Currently, the DOF noted that the country employs multiple property valuation systems and overlapping valuations.

"The tax rates are still under the direct control of the local government, so when we compute real property tax payments or due there are three elements in the formula, there's the valuation the schedule of market values, then you have the assessment level which is controlled by the LGU, then you have the tax rate which is also decided on by the LGU," said Lambino.

"So if you adjust one, you can adjust the other two in any way you'd like for the LGUs. They can decide to raise lower or maintain the tax rates and assessment levels. So I think that's an important consideration because we would like to preserve the mandate and powers of the LGUs over real property taxes," he added.

Based on a presentation of the DOF on Package 3 dated July 25, the current valuation system uses outdated valuation for governmental purposes, especially for national and local taxation. The LGUs comingle valuation with taxation.

"Only 38.8 percent of LGUs and 50.4 percent of RDOs [revenue district office] have updated values. Costs incurred, revenues foregone: overvaluation when government pays, undervaluation when government collects," the DOF said.

The DOF also said there is no one single agency that ensures that valuations are completed in accordance with international standards, which makes it more difficult to set up a comprehensive electronic real property database.

Metro Manila collects a real property tax of 2 percent on assessed value, while LGUs in the provinces slap 1 percent.

According to the DOF, the real property tax collection efficiency recorded in 2016 was at 71 percent for all LGUs, 73 percent for cities, and 68 percent for provinces and municipalities.

The DOF noted that only 38.8 percent of LGUs in the country have updated schedule market values. In June 2018, there were 93 noncompliant cities and 46 provinces.

Meanwhile, 50.4 percent of RDOs have updated zonal values within the last five years with 65 RDOs still in the process of revising their zonal values.

“There are, of course, areas such as capital gains taxes that would be affected by valuation,” Lambino said.

Capital gains tax is imposed on gains presumed by the seller from the sale or exchange of capital assets, according to the Bureau of Internal Revenue.

“We were told by our colleagues at the DOTr [Department of Transportation] that in some cases, right-of-way challenges in the courts take up to two decades, so the rail system that should have benefited the people is derailed by years and years and then the cost of the property also goes up because overtime the estimates also increase,” Lambino said.

“So there’s a lot of lost opportunities and wasted resources because of the lack of harmony in the valuation system,” he added.

According to the DOF, Package 3 of the CTRP is “revenue neutral” and is similar to Package 4 which aims to harmonize financial laws.