



## PHILIPPINES– January 2020

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### Ready for Tax Reform Package 3?

My first appraisal job brought me to Calapan, Oriental Mindoro, where I appraised three house and lot properties adjacent to each other. The real estate properties were located in the same block of a subdivision but had different lot numbers. My estimated value of the properties had a huge disparity with the local assessors' office's market value schedule, with the Bureau of Internal Revenue's zonal value and with the market value provided by the local banks of Calapan.

These multiple valuations are among the reasons why the House of Representatives committee on local government, the National Tax Research Center, former finance secretaries and eminent Filipino economists have expressed their support for the urgent passage of House Bill No. 4664, or the proposed Real Property Valuation and Assessment Reform Act.

The Act, popularly known as the Package 3 of the Comprehensive Tax Reform Program (CTRP), will subject all real properties, whether taxable or exempt, to valuation or appraisal based on the prevailing market value in the locality where the property is located. HB 4664 was certified urgent after President Duterte highlighted in his 2019 State of the Nation Address the need to prioritize reforming the real property valuation and assessment system.

Practicing registered appraisers all over the country are aware of the overlapping property valuations and how this situation has created outdated local government units valuations, with LGUs co-mingling valuation with taxation. The absence of a single agency overseeing valuations in accordance with international standards contributed to the lack of a national database. With these free-for-all valuations, the outdated schedule of market values created cost overruns and foregone revenues for LGUs, contributing to the cycle of continuous reliance on internal revenue allotments from the national government. How can LGUs correctly appraise or value real properties based on solid valuation approaches? LGUs should be reminded that there is currently no categorical definition of market value (Morri and Bernadetto, 2019). There are as many definitions as there are numerous international associations determining the standards for property valuation. The Appraisal Institute, the Royal Institute of Chartered Surveyors and the European Group of Valuers' Association only implicitly define market value as the estimated amount of money for which a property is to be sold or purchased as of appraisal date, and that most reflects the highest and best use of the real estate property.

Correct valuation methods based on international standards will play a critical role in the LGUs' preparation of a reliable schedule of market values that would be used for new computations of real property taxes all over the country. In the proposed Act, the Bureau of Local Government Finance of the Department of Finance will lead and manage the implementation of the Act; the bureau will have to see how Package 3 fits in with other local taxation measures such as the business tax, mayor's permit, garbage service charge and sanitary inspection fees, and how the local communities are able to pay the taxes.

Registered appraisers are crucial, then, to the implementation of the Act; hence they should be rigorously trained in business logic and should possess solid experience in various valuation approaches. Their appraisal reports will also be used as benchmarks for other purposes such as lease, rental and acquisitions. Appraisers should always bear in mind that they need to take an objective approach in seeking market value, and that their appraisal tasks should be free from any undue influence by any person or institution.

### International Property Tax Institute

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Package 3 of the CTRP will change the entire system and outlook on the market value of real estate properties in the country; the Senate will decide this year if we are ready for this change or not.

**International Property Tax Institute**

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