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REFORMING THE REAL- PROPERTY VALUATION SYSTEM IN THE PHILIPPINES 1

Reforming the real- property valuation system in the Philippines

As we are again in the season of payment of real-property taxes, I hear several stories and concerns involving the proper valuation of real properties. Many are surprised with the sudden increase in real-property values as basis in the assessment of RPT without a clear legitimate reference as to the market value of the property being assessed.

Valuation of real property in the Philippines has become a perennial concern to many taxpayers and to tax administrators alike. This is a major concern many of us encounter not only during payments of real-property taxes, but also in time of payment of internal revenue taxes on transactions involving real property, the valuation of which, pursuant to the 1997 Tax Code, is the fair market value of the property as determined by the commissioner of Internal Revenue, or the fair market value as shown in the schedule of values of the provincial and city assessors. This is apparently because of the cumbersome determination of the fair market value of real property currently in place, which is a key determinant in RPT and other applicable taxes in the disposition of real property.

To date, no single agency is responsible in ensuring correct valuation of real property, yet in almost all transactions involving sale or disposition of real property, determination of fair market value of real property is almost always necessary, pursuant to existing laws.

Under the 1997 Tax Code, as amended by TRAIN law, the commissioner of Internal Revenue is authorized to divide the Philippines into different zones or areas, and shall determine the fair market value of real properties located in each zone or area, upon mandatory consultation with competent appraisers, both from the private and public sectors. Under the law, this is supposed to be subject to automatic adjustment once every three years. However, over the last three years, record of the Department of Finance shows that only 60 percent of Revenue District Offices under the Bureau of Internal Revenue (BIR) have updated their zonal values.

On the other hand, under the Local Government Code of 1991, provincial and city assessors across the country are mandated to prepare a schedule of fair market values for the different classes of real property situated in their respective jurisdictions for enactment by ordinance of the concerned Sanggunian. The assessors are mandated, by law, to prepare revisions of real-property assessment and classification every three years. However, this has not been transformed into reality. Study shows that only 37 percent of local government units (LGUs) have updated the schedule of market values.

The outdated real-property valuation references, both in the BIR and the LGUs, have led to a situation where taxpayers oftentimes employ their own system of property valuation while administrators, on the other hand, likewise, employ their own system and methodology, which is entirely different from the system adopted by the taxpayers. Hence, the squabble.

House Bill 4664, to be known as Real Property Valuation and Assessment Reform Act, aims to remedy the situation through the development and maintenance of a just, equitable, impartial and nationally consistent real-property valuation based on internationally accepted valuation standards, concepts, principles and practices. It aims to improve the quality of valuation of local governments and making the revisions frequent, efficient, transparent, reliable and attuned to market developments.

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A single valuation base for taxation, which is a principal feature of the bill, is, therefore, a welcome development that will hopefully end the dilemma that taxpayers have been facing for decades everytime they pay real-property taxes and other taxes on disposition of real properties, such as transfer taxes, capital gains tax/withholding tax, documentary stamp tax, value-added tax, among others. This will certainly speed up transactions involving real property as the single valuation base will also be used as benchmark for other purposes, such as right-of-way acquisition, lease, rental, etc.

Indeed, the reforms are expected to foster private investors' confidence and build the public's trust in the valuations of government.

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