

# PROPERTY TAX REFORMS IN THE PHILIPPINES

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# Presentation Outline

I. Background

II. Issues and Challenges

III. Property Tax Reform Efforts



# Background

- ✓ Property-related taxes are imposed and administered at the national and local levels
- ✓ A minor source of government revenue but potentially can contribute more



## Collections from National Property-Related Taxes CY2007-2011 (In Billions of Pesos)

Year	CGT	VAT	EST	DON	DST	TOTAL	Percent Share of Total to	
							Total BIR Rev.	GDP
2007	3.95	2.41	0.60	0.31	1.29	8.56	1.20%	0.12%
2008	6.57	2.74	0.79	0.42	1.98	12.50	1.61%	0.16%
2009	6.11	1.52	0.93	0.44	1.72	10.72	1.43%	0.13%
2010	8.74	1.91	1.35	0.49	2.42	14.91	1.81%	0.17%
2011	10.77	2.14	1.53	0.71	2.96	18.11	1.96%	0.19%
<b>Total</b>	<b>36.14</b>	<b>10.72</b>	<b>5.20</b>	<b>2.39</b>	<b>10.37</b>	<b>64.82</b>	<b>1.62%</b>	<b>0.16%</b>

## Collections from Local Property- Related Taxes CY 2007-2011 (In Billions of Pesos)

Year	Basic RPT	SEF	Transfer Tax	Special Levy	Idle Land Tax	TOTAL	Percent Share of Total to	
							Total LGU Revenue	GDP
2007	13.77	13.65	1.74	0.00	0.02	29.18	12.74%	0.42%
2008	12.98	13.18	2.37	0.00	0.01	28.54	11.74%	0.37%
2009	13.20	14.24	2.06	0.01	0.02	29.53	10.65%	0.37%
2010	15.82	15.67	2.90	0.02	0.03	34.44	10.89%	0.38%
2011	17.57	16.91	2.77	0.05	0.14	37.44	10.67%	0.38%
<b>Total</b>	<b>73.34</b>	<b>73.65</b>	<b>11.84</b>	<b>0.08</b>	<b>0.22</b>	<b>159.13</b>	<b>11.24%</b>	<b>0.38%</b>

# Background

## Imposed and Administered at Two Levels

### ✓ National Level

1. Capital Gains Tax (CGT)
2. Value-Added Tax (VAT)
3. Estate Tax
4. Donor's Tax
5. Documentary Stamp Tax (DST)

### ✓ Local Level

1. Basic Real Property Tax (RPT)
2. Special Education Fund (SEF)
3. Transfer Tax
4. Special Levy (Optional)
5. Idle Land Tax (Optional)
6. Socialized Housing Tax (Optional)



# National Level Taxes

- **Capital Gains Tax**
  - Tax rate of 6% based on the gross selling price or current fair market value, whichever is higher
  - Exemption of gains from sale of principal residence under certain conditions
- **Value-Added Tax (VAT)**
  - Tax equivalent to 12% of gross selling price or gross value of money derived from the sale or lease of property in the ordinary course of trade or business
- **VAT Exemption**
  - Residential lot valued at Php1,919,500 and below (US\$47,000)
  - House and lot and other residential dwellings valued at Php3,199,200 and below (US\$78,000)



# National Level Taxes

- Estate Tax
  - First Php200,000 of net estate is exempt, and those exceeding it are subject to tax rates ranging from 5% to 20%
- Donor's Tax
  - First Php100,000 net gift is exempt; those exceeding it are subject to tax rates ranging from 2% to 15%
- Documentary Stamp Tax (DST)
  - Rate of DST is Php15 per Php1,000, based on the consideration contracted to be paid for such realty or on its fair market value, whichever is higher





# Local Level Taxes

- **Basic Real Property Tax (RPT)**
  - Annual tax imposed by cities (including a municipality in Metro Manila), at a maximum rate of 2%, and provinces, at a maximum rate of 1%, based on the assessed value of the property
  - Assessed Value- derived upon the application of the assessment levels (in percentage) based on actual use to the fair market value of the property
- **Special Education Fund Tax**
  - An annual tax imposed by the province or city, or a municipality within Metro Manila, at fixed rate of 1% on the assessed value of the real property
  - This is in addition to the basic RPT



# Local Level Taxes

- **Transfer Tax**

- Maximum rate of  $\frac{1}{2}$  of 1% based on the total consideration involved in the acquisition of the property or its fair market value, whichever is higher
- Tax is imposed upon the seller, donor, transferor, executor, or administrator and is similar to the transfer taxes (i.e. CGT and DST imposed by the national government)

- **Special Levy (Optional)**

- Imposition on lands benefited by public works projects that are financed by the local government
- Levy should not exceed 60% of the actual cost of the project and be apportioned among concerned landowners based on a formula to be established by the Local Legislative Council



# Local Level Taxes

- Idle Land Tax (Optional)
  - An additional levy on the assessed value of all lands classified as idle at the rate of not exceeding 5% per annum
  - Lands subject to tax are as follows:
    - a. Agricultural land with an area of more than 1 hectare, half of which remains uncultivated or unimproved by the owner of the property or person having legal interest therein (agricultural lands planted with permanent or perennial crops with at least 50 trees to a hectare shall not be considered idle lands);
    - b. Non-agricultural lands, located in a city or municipality, more than 1,000 m<sup>2</sup> in area, 1/2 of which remain unutilized or unimproved; and
    - c. Unimproved residential lots in subdivisions



# Local Level Taxes

- **Socialized Housing Tax (Optional)**
  - An additional levy on land, which may be imposed by all LGUs at a rate of  $\frac{1}{2}$  of 1% of the assessed value of all lands in urban areas in excess of Php50,000, pursuant to Section 43 of Republic Act (RA) No. 7279, otherwise known as the Urban Development and Housing Act of 1992



# Issues and Challenges

- ✓ Multiple taxes on property ownership and transfers
- ✓ Relatively high transfer taxes, which discourage formal transactions
- ✓ Weak enforcement of property-related taxes
- ✓ Lack of uniform property valuation systems and methodologies



# Issues and Challenges

- ✓ Outdated real property values
- ✓ Political intervention in property valuation
- ✓ Limited use of information technologies in the appraisal process
- ✓ No provision for formal education and training of assessors/appraisers



# Reform Efforts

## Development and Adoption of the International Valuation Standards (IVS)

- DOF Department Order No. 37-09—Philippines Valuation Standards (1<sup>st</sup> Edition, issued on October 19, 2009)
- Aims to: (i) raise the quality of public and private sector valuations; (ii) provide consistency and understanding between providers and users of valuations; (iii) promote transparency and reliability of valuations; and (iv) reduce financial risk for users of valuation
- For annual RPT purposes, Guidance Note No. 13—Mass Appraisal for Property Taxation is required to be followed by all LGUs



# Reform Efforts

## Development and Adoption of Mass Appraisal Guidebook (MAG)

- DOF Order No. 10-2010—Mass Appraisal Guidebook (MAG) for LGUs
- Operationalizes the PVS: Details the step-by-step procedures in achieving market-based values through mass appraisal
- Provides background guide on valuation of special purpose properties, plants, machinery, and equipment
- Basic Course on Mass Appraisal: Training format of the MAG to capacitate assessors





# Reform Efforts

## Directive on Schedule of Market Value (SMV) Updating and General Revision of Property Assessments for 2011- 2013

- DOF-DILG Joint Memorandum Circular No. 2010-01 reiterates the requirement of the Local Government Code for regular revaluation
- BLGF Memorandum Circular No. 16-2011
  - SMVs of all LGUs are now downloadable online



# Reform Efforts

## Valuation Database and Information System (VDIS) and Electronic Field Appraisal and Assessment Sheet (eFAAS)

- VDIS as data storage facility for capturing sales transactions in the LGUs
- eFAAS as a start-up computerized RPT administration and records management for low-income class LGUs to back up and manage all assessment records presently in manual form and to generate computer-based reports: tax declarations, assessment rolls, notices, etc.
- Initially deployed in the pilot cities of Naga, Iloilo, Mandaue; eFAAS in Naga, the province of Benguet, and the municipality of Bakun
- Prototype versions are currently being enhanced



# Reform Efforts

## Guidelines on the Imposition of Idle Land Tax

- DOF-DILG Joint Memorandum Circular No. 2010-02 (Idle Land Taxation)
- More detailed, step-by-step procedures required– to ensure uniform implementation: adoption of clear, operational definition of idle land, classification, and systematic inventory
- Additional technical guidelines in process



# Reform Efforts

## Conduct of Tax Compliance Studies Among Partner LGUs

- Real property tax compliance study templates developed for LGUs—necessary to support LGU fiscal policy setting
- Helps determine the level of tax compliance and the potential revenue and tax impact of revaluation to the LGU and to the property owners
- Recommend reform measures to improve the taxpayers' compliance and improve collections



# Reform Efforts

## Plugging of VAT Loopholes in the Sale of Real Property

- To curb the practice of splitting the residential properties into smaller units, so as not to exceed the threshold amount exempted from the VAT
- Addressed through BIR RR Nos. 16-2005, 6-2011, and 13-2012
- Adjacent lots counted as one and those exceeding threshold amounts are subject to VAT



# Reform Efforts

## On Estate Taxes

- Strengthened monitoring and coordination of efforts of the BIR with other government agencies
- Launching of BIR's Project Rest in Peace (RIP) via RMO No. 10-2010
- Focus on estate tax collections in 2013-2014



# Reform Efforts

## Professionalization of the Appraisal Practice

- Republic Act No. 9646 (approved June 29, 2009)
  - Ensures that only technically competent, responsible, and respected real estate service professionals perform the technical function of property appraisal in the country
  - Positions in government service performing appraisal functions to be filled only by licensed appraisers
  - Creates the Professional Real Estate Service Board to exercise regulation, supervision, and oversight of real estate service
  - As of December 2012, there are 3,902 licensed appraisers, half of whom come from the government sector



# Reform Efforts

## Valuation Reform Act (VRA) Bill

- Seeks to depoliticize property valuation in the LGUs by transferring the approval of the SMV from the LGU to the DOF Secretary
- Mandatory regular revision of the LGU SMV, with ‘sunset clause’ for noncompliance
- Aims to enhance the statutory procedures in SMV revision and to develop an effective transactions database to support appraisal work
- Improves the selection/appointment of assessors and assistant assessors
- Use of single valuation base for all real property taxes
- Strengthening of the BLGF to supervise LGU valuations
- Approved in the House of Representatives as HB No. 6044 on May 21, 2012; pending in the Senate





THANK YOU!

