PACKAGE 3

Property Valuation & Tax Reform
Outline of the Presentation

I What is wrong with the current system?
II Why the need for reform?
III What policy reform is needed?
IV Benefits of the Reform
I. What is wrong with the current system?

- Multiple, overlapping valuations
- Outdated valuations used for governmental purposes, especially for national and local taxation; LGUs comingle valuation with taxation. Only 38.8% LGUs and 50.4% RDOs have updated values.
- Costs incurred, revenues foregone: overvaluation when government pays, undervaluation when government collects
- No single agency responsible for ensuring that valuations are completed in accordance with international standards
- Absence of a comprehensive real property electronic database
II. Why the Need for Reform?

Low tax intake and undermines revenue generation

- RPT Collection Efficiency in FY 2016
  - All LGUs: 71%
  - Cities: 73%
  - Provinces & Municipalities: 68%

GDP Growth in FY 2017: 6.7%
Main contributors to the country’s economic growth:
1. Manufacturing – 19.45%
2. Trade Sector – 18.28%
3. Real Estate, Renting & Business Activities – 13.19%

BSP: Residential real estate prices rose by 5.7 percent year-on-year in Q4 2017

NG Real Property Transfer Tax Types:
CGT, CWT, FWT, DST, DN, ES

- Average (FYs 2014-2017) 30.73% RPT to Local Sources
- Average (FYs 2014-2017) 0.36% RPT to GDP
- FYs 2013 to 2016 71% RPT Collection Efficiency
- NCR: 87% Highest RPT Collection Efficiency
- For FY 2016 ₱102.16B NG Real Property Transfer Taxes
- For FY 2016 0.23% Property Transfer Taxes to GDP
Multiple, Overlapping Valuations

- 23 NGAs doing/requiring valuations
  - 1,715 local government units

- Each agency using own systems & methodologies:
  - wide disparities between the schedule of zonal values (SZV), schedule of market values (SMV), & private appraisers' values
  - varying values for the same piece of property
  - lack of confidence in the land valuation system

- Notable disparities noted in 19 sample cities*:
  - SMV < SZV by 13% - 94%
  - SZV < Private Valuation by 5% - 930%
  - SMV < Private Valuation by 187% - 7,474%

*Based on a 2004 Comparative Study of Land Values in Selected 19 Cities & Municipalities. Huge variance have been noted in urban areas.
Real Property Tax to GDP Ratio
FY1972 - FY2017

All Provinces, Cities, and Municipalities
Source: DOF-BLGF

Draft for discussion. Subject to change.
RPT-to-GDP of Other Asian Countries

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<th>Year</th>
<th>Japan</th>
<th>Korea</th>
<th>Malaysia</th>
<th>Philippines</th>
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<tr>
<td>2010</td>
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<tr>
<td>2012</td>
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<tr>
<td>2013</td>
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<tr>
<td>2014</td>
<td>2.0%</td>
<td>0.7%</td>
<td>0.5%</td>
<td>0.4%</td>
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</table>

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Sample of Huge Disparities in Valuations

Ayala Avenue, Makati City

- SMV: Php40,000/m² (1996)
- ZV: Php439,000 (CR)/m² (2017)
- MV: Php700,000/m²

18x

Legaspi Village, Makati City

- SMV: Php29,000/m² (1996)
- ZV: Php320,000/m² (2017)
- MV: Php390,000/m²

13x

E. Rod., C5, Quezon City

- SMV: Php35,000/m² (2017)*
- ZV: Php100,000 (CR)/m² (2012)
- MV: Php130,000/m²

4x

*Under TRO (April 2017)

Sales Listing gathered in the internet; value estimate on land based on abstraction/extraction method.
How outdated are government valuations?

Only 38.8% of LGUs have updated SMVs. There are 93 non-compliant cities and 46 provinces as of June 2018.

50.4% of RDOs with updated Zonal Values within the last 5 years. 65 RDOs are still in the process of revising.
Proven Effect of Outdated Values

1. Unrealized revenues and socio-economic benefits from delayed projects
2. Conflicting land values result in right-of-way compensation problems
3. Lengthy court litigations arising from valuation disputes
4. Projects are delayed
5. Cost overruns

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III. What Policy Reform Is Needed?

- Adopt international standards, rationalize the process
- Establish single valuation base for taxation, benchmark for other purposes
- Insulate valuation from undue politicization; LGUs shall continue to regulate tax rates and assessment levels.
- Recentralize the neglected function of LGUs; improve oversight by NG
- Establish comprehensive database to support valuation function
Separate Valuation from Taxation

TECHNICAL FUNCTION

VALUATION

POLITICAL FUNCTION

ASSESSMENT LEVEL

Maximun Levels
• Residential = 20%
• Agricultural = 40%
• Commercial = 50%
• Industrial = 50%
• Mineral = 50%

TAX RATE

Basic Tax
Maximum Levels
• 1% - Provinces/
  Municipalities
• 2% - Cities
  1% SEF

BUDGET

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IV. Benefits of the Reforms

1. Single Valuation Base
2. Uniform Standards
3. Comprehensive Database
4. Increased Revenues
5. Improve Local Autonomy
6. Higher Investor Confidence
7. Guaranteed Benefit of Education Sector
8. Reduced Government Costs
Thank You!

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