Package 3: Real property valuation reform

Package 3 of the Comprehensive Tax Reform Program aims to introduce vital reforms to promote the development of a just, equitable, and efficient real property valuation system. The reforms will broaden the tax base used for property and property-related taxes of the national and local governments, thereby increasing government revenues without increasing the existing tax rates or devising new tax impositions.

The current real property valuation system is rife with multiple, overlapping property valuations, which complicate matters such as assessment and taxation. In particular, discrepancies in property valuation result in right-of-way compensation problems and lengthy valuation, both of which hamper the speedy and efficient construction of infrastructure projects. P3 aims to correct this situation by establishing a single real property valuation system. P3 aims to establish a comprehensive and up-to-date database of all real property transactions and prices of materials for buildings, machinery, and other structures. This database will be open to all local government units, national government agencies, and the private sector.

Real property valuation reform also benefits local government units (LGUs). Over the last three years, only 60% of Revenue District Offices (RDOs) under the Bureau of Internal Revenue have updated their zonal values. Meanwhile, only 37% of local government units (LGUs) have updated the schedule of market values (SMVs). Apart from outdated valuation, the complexity of the situation is further complicated by the fact that there are various agencies doing or requiring property valuation, with each agency using their own system and methodology for valuation.

Updating the SMVs and conducting the general revision of property assessments are necessary components of effective and efficient real property tax administration in any LGU to arrive at a fair and equitable real property tax (RPT). The RPT, being a recurrent tax, is dependent on three elements: (1) market value; (2) assessment level; and (3) tax rate. The adjustment of SMVs does not necessarily equate to increase in tax burden. The two elements, which are the tax rate and the assessment levels, are determined by LGUs through the enactment of ordinances.

Package 3 aims to address the following systemic problems:

1. Rampant outdated valuations used for governmental purposes, especially for national and local taxation;
2. Cost overruns and foregone revenues due to low valuations uses: overvaluation when government pays, undervaluation when government collects;
3. Multiple, overlapping valuations in different government agencies;
4. Absence of a single agency responsible for ensuring that valuations are in accordance with international standards; and
5. Absence of a comprehensive real property electronic database.
Package 3 proposes to:

1. Adopt international standards and rationalize the process of valuation;
2. Establish a single valuation base for taxation through the adoption of SMV of LGUs, and use the updated values as benchmarks for other purposes, such as lease, rental, and acquisition, among others;
3. Insulate valuation at the local level from undue politicization. However, LGUs shall continue to set, adjust, and regulate the tax rates and assessment levels;
4. Recentralize the approval of the SMVs by the local Sanggunian back to the Secretary of Finance, with review functions of the Bureau of Local Government Finance (BLGF), in coordination with the Bureau of Internal Revenue;
5. Improve the property valuation and assessment by the Department of Finance through the BLGF;
6. Establish an electronic comprehensive database to support valuation function; and
7. Establish the Real Property Valuation Service in the BLGF to oversee and manage valuation-related concerns of LGUs.

Package 3 has the following benefits:

1. **A single valuation** base eliminates wide disparities and therefore achieves consistency in real property valuation
2. **Uniform standards** lead to the harmonization of real property valuation among different government agencies
3. **A comprehensive database** yields greater transparency in land transactions and translates to confidence in the real estate market
4. **Enhanced LGU financial self-sufficiency** results in genuine and meaningful local autonomy, as guaranteed by the Constitution and the Local Government Code
5. **Higher investor confidence** achieved through the adoption of globally benchmarked valuation standards and a higher degree of professionalism in real property valuation
6. **Reduced government costs** arise from the reduction of unnecessary expense due to conflicting appraisals, which lead to court litigations, project delays, and court overruns

"The Rural Bankers Association of the Philippines (RBAP) is committed to developing rural economies and the Valuation Reform Bill will definitely improve real property valuation and benefit RBAP’s members in the appraisal of real property for mortgage, investment, and sale."

*Rural Bankers Association of the Philippines*

"ULAP and member leagues support the proposal to reform the land valuation and assessment system."

*Union of Local Authorities of the Philippines Executive Director Bernardino Sayo*