

**Comments on TRAIN Package 3 entitled: “*Real Property Valuation and Assessment Act*” including Senate Bills No. 246 (Sen. Panfilo Lacson); No. 519 (Sen. Miguel Zubiri); No. 894 (Sen. Ramon Revilla Jr.) and House Bill No. 4664 (Cong. Mario Vittorio A. Marino, Joey S. Salceda and Isidro T. Ungab)**

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30 January 2020

TRAIN Package 3 the “Real Property Valuation and Assessment Act” proposes an important policy reform. The reform is in line with the recommendations of the Land Valuation Policy study conducted under the DENR Land Administration and Management Project (LAMP) in 2007. The said study noted the need for structural reforms to address major weaknesses in the land valuation system in the country. Among the key reforms recommended are: (1) the adoption of a single real property valuation base for the assessment of all *ad valorem* taxes in the Philippines; and (2) the professionalization of the valuation practice in the country. In particular, the professionalization of valuation practice has been adopted by government through the enactment in 2009 of RA 9646 or the “Real Estate Service Act of the Philippines”, which provided for the regulation and professionalization of real estate industry practices in the country.

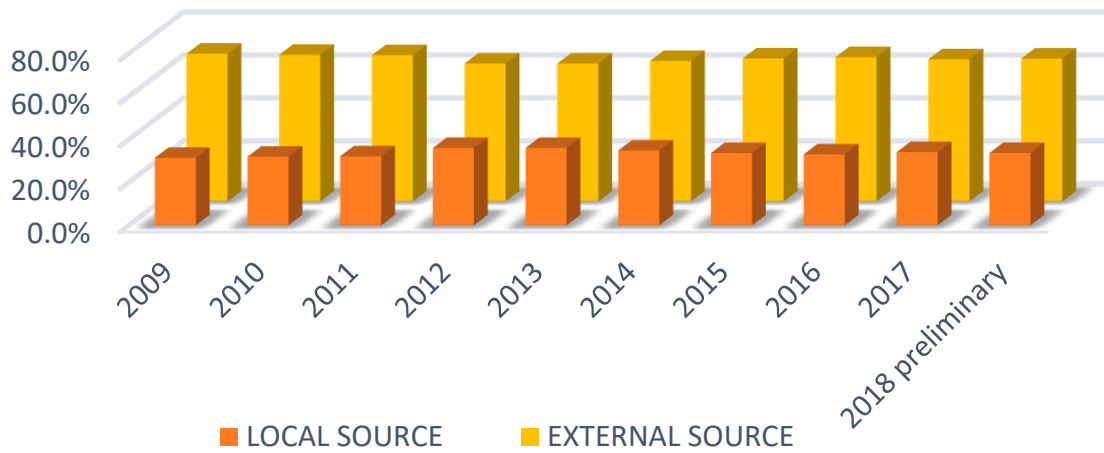
The TRAIN Package 3 intent to pursue further reforms in land valuation focusing on the establishment and maintenance of valuation standards and the adoption of a single real property valuation base for real property valuation is commendable. This reform will address the problem of unharmonized valuation system and the lack of clear national methods and standards for the assessment of real property. It will boost economic development, increase opportunities for the poor and encourage sustainable management of resources.

Moreover, TRAIN Package 3 will address the decades of low revenue effort on the part of local governments. Despite continuous efforts of oversight national government agencies to encourage LGU compliance to certain revenue raising provisions in the Local Government Code of 1991 and implement reforms in local tax administration, local government income comes mostly from external sources (e.g. the intergovernmental fiscal transfer called the Internal Revenue Allotment (IRA)) (Figure 1).

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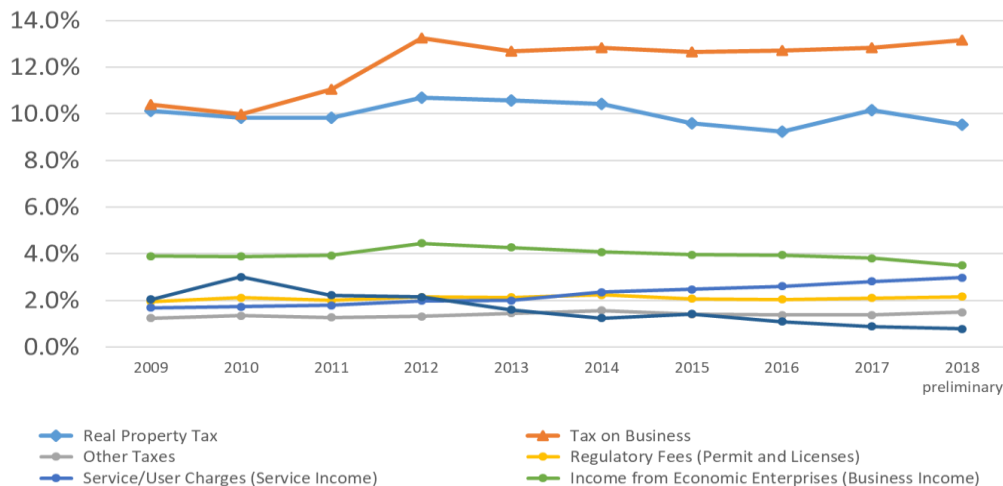
**Figure 1. Distribution of local and external sources of LGU income (2009-2018)**



Source of basic data: Bureau of Local Government Finance, author's computations

Turning to local sources of income, local governments have the mandate to collect real property and business taxes, impose regulatory and user fees as well as establish economic enterprises (Secs. 313 (c), 143, & 200, LGC<sup>2</sup>). Theoretically, real property tax is the more stable source of revenue for local governments compared to the rest (Bahl and Bird 2018). In the Philippines, real property tax was the primary source of local income up until 2011 when the share of local business tax collections overtook real property tax revenues (Figure 2). The proposed reforms in property valuation would hopefully boost real property tax collections.

**Figure 2. Distribution of Local Sources of LGU Income, 2009 to 2018**



Source of basic data: Bureau of Local Government Finance, author's computations

<sup>2</sup> Local Government Code or RA 7160

It should be noted that the 2019 and 2020 Fiscal Risks Statement of the Development Budget Coordination Committee point out that there have been foregone revenues from real property tax due to outdated schedule of market values (SMVs). Based on the 2019 Fiscal Risks Statement, “Local government units’ estimated foregone RPT revenues from non-updating of SMVs is at least PhP11.57 billion.

As of June 2017, a total of 142 or 63 percent of the provinces, cities and the lone municipality in Metropolitan Manila were still using outdated SMVs, thus undermining their potential to generate own-source revenues as mandated to them by law. The annual local revenue could increase by up to PhP25.75 billion if RPT collection efficiency is optimized using updated SMVs, which could be used to finance the basic services for local constituencies and reducing their dependence on national transfers.”

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The annual local revenue could increase by up to ₱25.8 billion if RPT collection efficiency is optimized using updated SMVs, which could be used to finance the basic services for local constituencies and reducing their dependence on national transfers.” The passage of the valuation and assessment reforms will address the fiscal risks by ensuring that SMVs are up-to-date as provided in the Article on valuation and appraisal of real properties. In particular, the valuation reforms require LGUs to prepare the SMVs regularly.

After the careful review of the proposed measures, the following are the comments on the salient provisions of the bills:

1. **Promoting fiscal autonomy of local governments to provide basic services to their constituency by enhancing their capacity to generate local revenues from real property (Sec. 2(a) SB 246; Sec. 2(b) SB 894 and HB 4664):** This is an important articulation and reminder to local governments to strive for fiscal autonomy and must be maintained in the final version of this law.
2. **Strengthening the Bureau of Local Government Finance (Art. II of SB 246; Sec. 2(b) SB 894 and HB 4664) & the Establishment of a Real Property Valuation Service within the BLGF (Sec. 5 of SB 246; Sec. 2(b) SB 894 and HB 4664):** The proposal in the said bills to strengthen the BLGF to operationalize the proposed property valuation reform is preferable than creating a new government agency since this function falls within the mandate of the BLGF and creating a new agency with overlapping functions/mandates as those of the BLGF would possibly be inconsistent with another priority of the Philippine Development Plan 2017-22 to rightsize the bureaucracy.

Furthermore, the strengthening of BLGF through the creation of Real Property Valuation Service unit and Central and Regional Consultative Committees is relevant given the

functions of the BLGF in the review and approval of the schedule of market values (SMV) provided by Provincial LGUs together with the municipalities and Chartered/ Independent Cities. The inclusion of BIR, other government agencies, local government and the private sector in the review process will strengthen and institutionalize the review process at the central and regional levels (SB 246, Art2; SB 894).

3. **Single property valuation base (Sec. 2(b) in HB 4664 and SBs 519 & 894; Sec. 2(c) in SB 246):** The current practice is to adopt different valuation basis depending on purposes. Moreover, the standards for market value is not based on acceptable international standards. The proposed adoption of standard market value as the single basis to appraise real properties, whether taxable or tax exempt or for whatever purpose, will reduce confusion, reduce the costs of duplication and discourage corrupt practices. (SB 219 Art 3 Sec 13; SB 894). The appraisal based on market value can also provide a reliable benchmark for real property appraisal for other purposes.

In addition, proposing a single property valuation base for the assessment of real property related taxes and for the valuation of real property for various transactions by all government agencies addresses two ideal characteristics of the tax system, administrative simplicity and political responsibility (Stiglitz and Rosengard, 2015). By having single property valuation policy for computation of tax liability for local and other government transactions it will be easier to compute tax due and make tax liability transparent for taxpayers.

4. **Preparation and Revision of the Schedule of Market Values (SB 219 Art 3 Sec 15,16):** The proposed bills will authorize the periodic preparation of SMV and period of approval/adoption of SMVs as well as the involvement of Regional Consultative Committees in the regular revisions of the SMVs. These provisions will give stronger basis for compliance by the LGUs since the SMV will be deemed approved within a specified period regardless of the failure of the Local Chief executives to act on the revised SMVs and assessment levels. Moreover, the institutionalization of the revisions at the level of the Regional Consultative Committee will lessen the politicization of the real estate valuation.

Moreover, **identifying the Secretary of the Department of Finance as the approving authority for the revised Schedule of Market Values (Sec. 14 of HB 4664 and SB 894; Sec. 15 of SB 246)** removes the political aspect of local elected officials not wanting to revise SMVs for fear of political backlash. This is also an important proposal and must be maintained in the final version of the law.

5. **Development of Real Estate Property Database (SB219 Sec 21; SB894 Sec 20):** The proposed establishment of an up-to-date electronic database of the sale, exchange, lease, mortgage, donation and all other real property transactions in BLGF will provide transparency in real property transactions. The database will give government a tool to assess valuation standards and impact of changes in valuation and enable sound recommendations for land valuation policy
6. **Review the regulation for licensing appraisers and adopt qualification standards for local assessors (SB 219 Ch3; SB 894 Ch3):** it is important to put in place an improved

procedure to provide a higher level of accountability and at the same time give the public confidence on local assessors and in engaging the services of a Licensed Appraiser in the areas of mortgage lending, financial reporting and appraising real property for property tax, compensation etc. in the public sector.

- 7. Penal provisions for non-compliance or failing to update the Schedule of Market Values (Article IV of SBs 246, 519, 894 and HB 4664):** Though Sec. 219 of the Local Government Code of 1991 mandates local governments to revise their Schedule of Market Values (SMV) every three (3) years, the most recent data shows that the average age of provincial SMVs is 8 years and for cities, 10 years. This means that provinces, on average, failed to revise their SMVs for 2 periods while cities failed for 3 periods. The problem in enforcing this mandate is that there was no corresponding penalty which is why the proposed penal provisions for non-compliance of all relevant government officials must be maintained in the final version of this law.
- 8. Failure to conduct a general revision of assessment and property classification, and use of the approved SMV shall render an LGU ineligible for any conditional or performance-based grant or to contract any form of credit financing (Sec. 17 SB 894 and HB 4664):** Though this provision may or may not continue to be applicable or its applicability may change upon the implementation of the Mandanas ruling (this effectively broadens the tax base to compute IRA) or have to be aligned with the implementation of the Seal of Good Local Governance Act (R.A. 11292) it is important to keep this or a similarly worded provision to further strengthen compliance with the updating of the SMV.
- 9. Budgetary requirements for the updating of the schedule of market values (Sec. 36 HB 4664 and SB 249, 246, 894):** Though all of the bills validly articulate the need for allocating funds for the “proper implementation of the updating of the SMVs and general revision of real property assessments, and the administration of real property taxes in all LGUs,” the manner by which this is stated in Sec. 36 of the cited bills provides a more general framing. Earmarking a portion of the Special Education Fund for use in the revision of the SMV may not be aligned with the original purpose of the fund (Sec. 34 SB 519).
- 10. Repealing clause:** Though lawmakers would be the best to decide on this, Sec. 219 of the Local Government Code of 1991 is altered/strengthened by TRAIN 3 bill so it must be decided whether or not to include it in the repealing clauses (only SB 894 and 246 include this provision).