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ATTY. JOSE C. SISON
Columnist
Philippine Star

Dear Atty. Sison,

We appreciate your column "Burden or necessity?" last December 5, 2011 as it put the issue of real property valuation and taxation in a public forum. Public information is indeed necessary to make real property owners understand the importance and benefits of using updated schedule of market values (SMVs) for real property tax (RPT) purposes, and to educate constituents about their right to partake in governance by offering possible solutions to problems with their local leaders.

The Parañaque and San Pablo constituents' reactions against the ordinances implementing the new schedules of values of lands, buildings and improvements are expected, given the context of an ordinary citizen's perception on real property tax (RPT) and all forms of taxes. As the former Chair of the Committee on Ways and Means of the Sangguniang Panglunsod in Naga, I witnessed the same reactions when the city revised its decade-old SMV. The city council, with its then Mayor Jesse Robredo (now DILG Secretary), painstakingly explained to our constituents the need to revise our SMV for the benefit of both the LGU and its constituents.

Thus, allow me to clarify some points on the issue:

- 1) The 1991 Local Government Code (LGC) requires all provinces, cities and municipalities of Metro Manila to conduct a general revision of property assessments and classifications for real property tax purposes **by updating the LGUs' SMVs once every three years**. This should have been a continuing process, but most LGUs have failed to comply with this requirement mainly due to our local elective officials' fear of a political backlash from constituents.

As of the last general revision in 2008, only 28% of the provinces and 22% of the cities in the country have revised their SMVs. In fact, there are even a number of LGUs whose SMVs are based on values going back to 1993 when the law was first implemented. These same LGUs with oldest schedule of values will have significant increases in property values when they update their SMVs, which could have been avoided if they were updated regularly.

- 2) The outdated SMVs do not reflect the changes in the properties over time, creating inequity among taxpayers if used for RPT purposes. If the LGU uses outdated values, properties which have depreciated overtime would still be taxed based on higher values, **penalizing property owners as they would still be taxed higher than what they should really be taxed with.**

This practice has also resulted to huge foregone revenues for LGUs, which could have been used to fund development programs and improve basic social services in the LGU. This happens when the tax due for property owners is much lower than their properties' actual market value, especially when developments have been made on the property overtime.

Business leader and chairperson of the Philippine Chamber of Commerce and Industry tax committee Tammy H. Lipana explained it best during an interview with *BusinessWorld* when she said, "It is high time to adjust the SMVs since most properties have appreciated in value... On the other hand, there are some properties which, due to some serious events like the typhoon Ondoy in 2009, could have also depreciated in value." She furthered that "the government and private sector efforts have mainly focused on national revenue collections but there is a lot of room for improvement in local taxes."

This is one of the reasons why valuation and taxation reforms have been introduced by the Second Land Administration and Management Project (LAMP2) and the Joint Memorandum Circular 2010-01 was issued by the DOF and DILG in October 2010 to enjoin LGUs to comply with the statutory requirement of updating the SMVs.

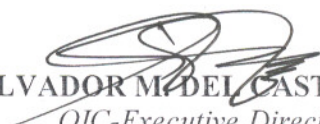
- 3) **Lastly, property owners must know that even if the LGU's SMV is made current, it does not automatically mean that the RPT due will shoot up** – the prevalent misconception that must be cleared. The law prescribes safeguards which the LGU and its constituents can negotiate on in order to mitigate the impact of the potential tax increases. **The assessment level or the tax rate, the two other factors used to compute for real property taxes, can be adjusted to soften the increase in the RPT tax due.** Other policy options can also be applied such as capping the tax increase, gradual or staggered implementation of the tax hike, and by taking advantage of discounts for early tax payments.

This has been successfully done in Naga City, during the pilot implementation of the DOF's valuation and taxation reforms, and in some other LGUs.

The looming decrease in local governments' IRA share in 2012 emphasizes the need for LGUs to maximize fiscal and financial autonomy. This can be done by pursuing valuation and taxation reforms that will strengthen the local revenue base. In this respect, participative governance is important wherein the constituents are involved in all aspects of governance, including budget-related deliberations and finance-related measures and programs, to ensure transparency and accountability.

Our experience in Naga City has told us that valuation and taxation reforms can be done. The community would accept increases in real property values resulting from a revision provided that they are fully informed, are presented with tax policy options to mitigate the impact of the tax burden, and are made to understand where the increase in property taxes will go.

Sincerely,


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