

Actual Benefits of Land Value Taxation in the Philippines

Case Study of selected Cities in Metro Manila

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Title and Content Layout

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Metro Manila

- **Composed of 16 cities and one town**
- **Administered by the Metro Manila Development Authority**
- **Also known as the National Capital Region**
- **Located in the heart of Luzon Island**

Historical background of Real Property Taxation in the Philippines

- **Spanish era – encomienda system**
 - ❖ Only male 16–60 years old – taxed (called tributes)
 - ❖ In the form of agricultural products – paid to encomienderos (trustees of land)
 - ❖ **Encomienda** – a labor system, rewarding conquerors with the labor of particular groups of ... The status of humans as wards of the trustees under the **encomienda** system served to "**define** the status of the Indian population": the natives of conquered places

History

- **American Rule Act Nos. 82 & 83 of the Philippine Commission – laid out the true beginnings of RPT in the Philippines**
 - ❖ organized the municipal and provincial treasurers to levy taxes on real properties.
 - ❖ these taxes became the primary source of locally-generated revenue
- **Administrative Code of 1916 under the Jones Law – incorporates RPT taxation in the Philippines**
- **Act No. 3995 – passed on December 5, 1932, compiled, revised and incorporated into a single body all existing laws relating to the assessment and the collection of real property taxes.**
 - ❖ repealed by the Assessment Law, or Commonwealth Act No. 470, which was passed by the National Assembly on July 16, 1939.

History

- **Presidential Decrees 25 & 76 (1972) by Ferdinand Marcos**
 - ❖ Real Property Tax Reform
- **The Special Education Fund Law (Republic Act No. 5447) 1968 - created the Special Education Fund (SEF) -constituted mainly by an additional 1% levy on real property.**
- **Presidential Decree No. 464 (May 20, 1974) - "THE REAL PROPERTY TAX CODE"**
 - ❖ promulgated under Republic Act 7160 otherwise known as the Local Government Code of 1991 which took effect in 1992 is currently the governing Real Property Tax Administration in the Philippines
 - ❖ LAND TAX -MANDATORY (national tax)

History

- Under the Local government Code (RA 7160) – taxation was devolved to LGUs – option to tax
- Pres. Cory Aquino – issued AO 261 – 1992 – ordered LGUs to impose RPT

Land Value Taxation in the Philippines

In the Philippine context

Land value tax (land Tax) - included in Real Property Tax

In the Philippine context, RPT:

- not imposed on the literal meaning of real properties (e.g. land and building) alone because it extends to
 - ❖ machineries and
 - ❖ improvements.

Real Property Tax Machinery

In the Philippines

- It embraces machines, equipment, mechanical contrivances, instruments, appliances or apparatus which may or may not be attached, permanently or temporarily, to the real property.

Real Property Tax Machinery

It includes:

- the physical facilities for production,
- the installations and appurtenant service facilities,
- those which are mobile, self-powered or self-propelled, and
- those not permanently attached to the real property which are actually, directly, and exclusively used to meet the needs of the particular industry, business or activity and which by their very nature and purpose are designed for, or necessary to its manufacturing, mining, logging, commercial, industrial or agricultural purposes.

Philippine Real Property Tax Imposed and Administered on two levels

A. National Level

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

Philippine Real Property Tax Imposed and Administered on two levels

B. 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

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
- Exemption of gains from sale of principal residence under certain conditions

National Level Taxes

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 (\$4,000) 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 (\$2,000) net gift is exempt; those exceeding it are subject to tax rates ranging from 2% to 15%

National Level Taxes

Documentary Stamp Tax (DST)

- Rate of DST is Php15 (\$0.30) per Php1,000 (\$20.00), 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

Local Level Taxes

❖ Special Education Fund Tax

- **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

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)

Local Level Taxes

❖ 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 (area greater than 1 hectare), half 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 m² 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 0.5% 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

Purpose: Source of funds for the urban development and housing program

Process of RPT

1. **Assessment** – involves listing of all real property owners

- assigns the (market) value of the property (only a percentage of land (market) value is taxed)

2. **Collection** – Treasurer

Land Value tax – tax based on the (market) value of land

Process of RPT

- RA 7160 – limits the value (The base of the tax, or the assessment level, is only a fraction or a percentage of the market value of the land)

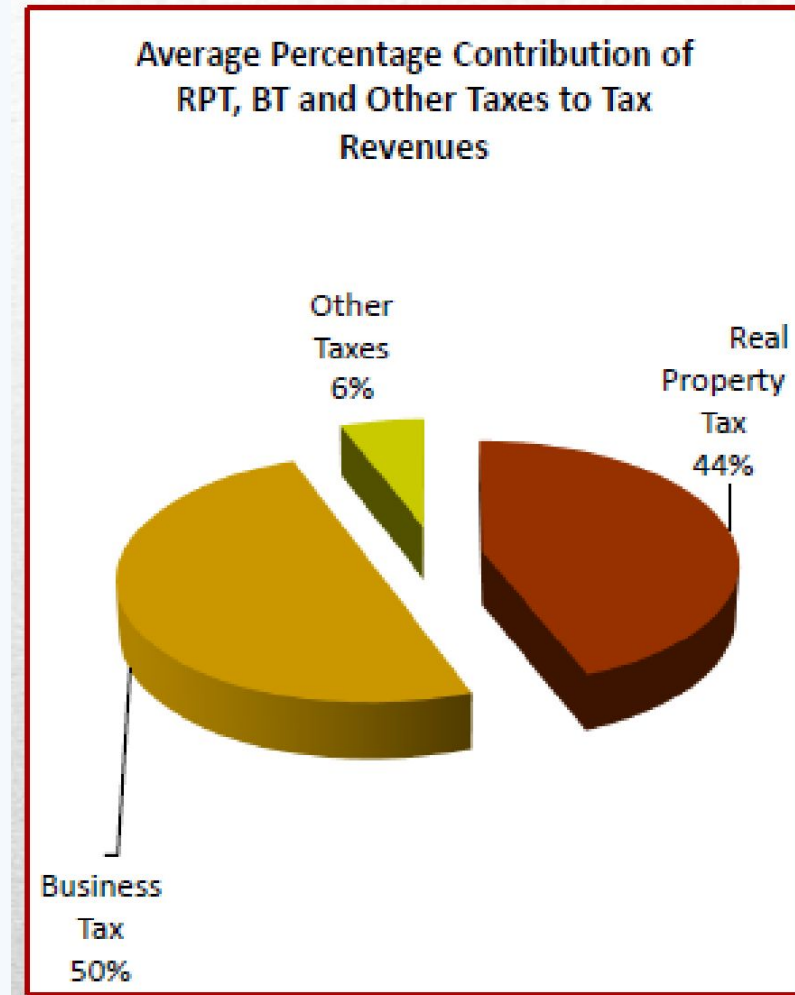
<u>Land use</u>	<u>Assessment levels</u>
Residential	20%
Agricultural	40%
Commercial, Industrial and Mineral	50%
Timberland	20%
Special classes: cultural, scientific	15%
Hospital, and water districts	10%

BENEFITS OF LAND TAX



General Benefits

- ❖ An important source of LGU revenues
 - Major source of revenues



General Benefits

- ❖ SEF provides the source of funds for public education (created through **REPUBLIC ACT No. 5447**)
- ❖ Idle land tax – discourage land speculations and for optimal land use considerations

MARIKINA CITY

REAL PROPERTY TAX

Imposes 2.5%

- 1.5% basic tax on the actual value of the property (whether land/lot only)
 - 65% - general funds
 - 30% - Barangays (smallest political unit)
 - 5% - Metro Manila Development Authority
- 1% SEF
- 2.5% - Idle land tax

Marikina City

- **Land – fixed rate of taxation**
- Buildings – depend on type of classification

 Type 1A – High Class (big
businesses)

 Type 3E – Lowest class –
businesses of poor entrepreneurs
(vulcanizing shop, etc.

Quezon City

Imposes 2.5% tax rate

- 65% – goes to general funds
- 30% – goes to Barangays (15% distributed to all barangays; 15% given to barangays where the property is located)
- 5% – MMDA
- SEF – goes to the needs of city's public schools
- 2.5% – idle land tax

Delinquency in tax payment – results in auction of properties (3 years for commercial, 5 years for residential)

Recently imposed a higher tax rate (but SC issued a TRO)



**THANK YOU FOR YOUR
ATTENTION!**