

***Philippines–Australia Land  
Administration and Management  
Project***

**LAND VALUATION STUDY 2003**

**INTERIM STUDY REPORT**

**31 JULY 2003**

**REPORT A12**



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**Note:** In this Report the term “Central Appraisal Agency” is used to denote the new statutory government organisation that is proposed to be created. The study team feels that this name should be reconsidered since the valuation function will be largely regionalized for compliance assessment purposes, and will remain a local LGU responsibility for appraisal operations.

# 1. INTRODUCTION

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**Philippines Australia Land Administration & Management Project**

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**LAND VALUATION STUDY 2003**

**INTERIM STUDY REPORT**

**INTRODUCTION**

31 July 2003

**Background**

This study has been undertaken as part of the Philippines Australia Land Administration and Management Project (PA-LAMP) and follows the Land Valuation Policy Study completed in June 2002 and the Policy Studies Integration Report of October 2002.

The strategic directions agreed for the Land Valuation reforms are listed as follows:

- Remove local government political intervention in processes for assessment of property values.
- Adopt a single valuation basis for all real property taxation.
- Develop, implement and enforce uniform best practice valuation standards within government.

The follow up study, the subject of this report is associated with the consensus building stage of LAMP. The Land Valuation Study has been requested to further develop some of the conclusions and findings contained in the June 2002 Report and the Integration Report. The study has commenced by addressing the needs and concerns of stakeholders generally and more specifically the Department of Finance in the areas of organizational arrangements and valuation systems.

**Land Valuation Study 2003 Terms of Reference**

The TOR in general terms addresses the need for details and proposals with respect to the creation of a Central Appraisal Agency, the roles and functions, the organizational arrangements, structure, a transition timetable etc associated with a new organization. In addition, the desirability of introducing a single valuation system for land transaction taxes and the real property tax.

A copy of the Terms of Reference is attached at **Annex. A**.

The TOR includes 2 assignments and this Interim Study Report covers the items in Assignment 1. A response and commitment from the DOF are needed concerning the proposals in the Interim Report before Assignment 2 can be completed. The Study goals are attached at **Annex. B**.

### **Timetable**

It is intended that the DOF will consider the findings and proposals contained in the Interim Study Report and make decisions on the matters raised and provide a detailed response to the Study Team by 1 September 2003. The matters raised in this report relate to Assignment 1. The DOF response will be considered and discussed before completing Assignment 2 after which a Final Report will be completed.

### **Study Methodology**

The study team consulted with the BLGF and BIR on the recommendations contained in the 2002 Reports and the memorandum dated 19 March 2003 from the Secretary of Finance. The contacts with the DOF have been facilitated by the NTRC. Meetings have also been conducted with the BLGF and more latterly the BIR to discuss the proposals set out in this Interim Study Report related to assignment one.

The study team has also visited a number of LGU's to gain a first hand understanding of the work undertaken by the Assessor's Office in a range of LGU's. A list of LGU's visited is contained at **ANNEX C**.

These meetings and contacts and the study of materials gathered have provided the basis for the observations, comments and proposals in this report.

### **Preface**

The Land Valuation Study 2003 addresses the issues raised by the DOF and the various matters considered important at consensus building workshops conducted over the past 12 months.

The Interim Report covers the areas of:

- The Establishment of a Central Appraisal Agency
- A Single Valuation Base for all Real Property Taxation

The Interim Study Report is intended to be a discussion document for consideration by the Department of Finance. The Report shall also allow further dialogue to proceed by seeking responses and decisions on the proposals contained in the Report.

Before any reform of the valuation system in the Philippines is considered further or the creation of a Central Appraisal Agency is contemplated there

needs to be a commitment to change. The linchpin of this change would be transferring the powers to approve the appointment of Assessors and to approve the Schedule of Fair Market Value (SFMV) from the LGU elected executives and council to a statutory officer.

## **THE CENTRAL APPRAISAL AGENCY**

The establishment of a CAA was a major recommendation in the 2002 Policy Study and this proposal has been well supported in the LAMP consensus-building phase. The DOF had agreed in principle to the establishment of a CAA subject to further details.

It is proposed that the CAA shall act as a regulator and be responsible for providing the GOP and the LGU's with standards and guidelines, technical assistance, compliance monitoring as well as training programs for Assessors and Appraisers. It is also proposed that the CAA shall approve all the appointments of Assessors and approve each LGU's Schedule of Market Values. The CAA shall also be charged with organizing and approving the annual program of LGU general revisions of the SMV's. The CAA would be expected to provide a leadership role in the appraisal of real property for taxation and for other statutory purposes.

The new organization proposed in this study shall be established as an agency reporting to a line department, operating independently and headed by a statutory officer. The role and functions proposed are detailed in the report together with the organization structure. The staffing pattern and costings will be considered in Assignment 2 and detailed in the final report when the DOF comments on the initial proposals contained in the Interim Report.

## **Proposals**

- 1. Establish a Central Appraisal Agency (CAA).** It is proposed that a specialist organization be created with offices at the national and regional levels to act as a regulator and to oversee the development and maintenance of the real property valuation model for the LGU's and the BIR administered real property taxes. The creation of this organization is critical to the successful introduction of the valuation reforms proposed in this report.
- 2. Institutional Arrangements for the CAA.** The placement of the CAA with the DOF is the recommended option in the short term and a review after 5 years is proposed so that the functional relationship with other GOP agencies could be considered.

- 3. Implement empowering legislation for the CAA to be established.**  
The CAA Act shall put in place the powers and functions of the CAA as well as create the statutory position of CAA Executive Director. In drafting the legislation a number of areas discussed in the 2002 Report could also be addressed such as the value definitions, which are internationally recognised.
- 4. The Power to Approve the Appointment of Assessors be transferred from the LGU elected executives to the Secretary of Finance and the power to approve the Schedules of Market Values (SMV) be transferred from the LGU council to the CAA Executive Director.** This matter was addressed previously and is still an obstacle to progress unless formally decided.
- 5. The Powers of the CAA Executive Director to include the approval of the annual National program for conducting general reviews of the SMV.** This would mean that the CAA could manage resources more efficiently and enable reviews to be undertaken on a regular basis.

## **A SINGLE VALUATION BASE FOR ALL REAL PROPERTY TAXATION**

It has been acknowledged on a number of occasions that reform of the valuation system for real property taxation is necessary and long overdue.

A single valuation base for the assessment of all real property taxation in the Philippines is fundamental to the valuation reforms proposed.

The reasons for this have been discussed at length in earlier reports and basically what is required is one valuation for each property, which must be fair and equitable with a provision for regular reviews of market values. The process must be transparent, easily understood and publically notified with a dispute process, which is also fair, simple and inexpensive.

The adoption of one valuation base will remove confusion and together with the associated proposals provide a sound reliable basis for the assessment of real property taxes by the LGU's and for the BIR administered taxes.

The LGU Assessor's SFMV can be improved to meet the needs of all users and the report covers the improvement process that will be needed.

### **Proposals**

- 6. Adopt a Single Valuation Base for all Real Property Taxation by Using the Improved LGU Assessors Schedule of Market Values.**  
The proposal to adopt a single valuation base has been acknowledged

but there has been uncertainty and credibility issues associated with the existing Assessor's SMV. An improved Assessor's valuation model is proposed together with training, improved processes, and quality assurance controls.

- 7. Review and Amend Valuation Legislation to Support the Single Valuation Base.** Legislation is required to phased implementation adopt recognized valuation definitions, which best conform to internationally recognized best practice.
- 8. In Reviewing and Amending the Local Government Code all Valuation related sections be transferred to the proposed CAA Act.** The LGC and related issuances contain the basis for the existing LGU valuation model which is proposed to be amended and would fit well in a CAA Act.
- 9. Ahead of the Adoption of the New Valuation Base in Each LGU Area Perform Valuation Simulations to Shadow the Impact of Valuation Changes.** The establishment of VSM's in LGU's subject to a general revision of the SMV will provide an early warning of the nature and extent of the change to values and provide sufficient notice for the real property tax rates to be adjusted and allow for a smooth implementation of the valuation reforms.
- 10. Establish a national property transactions database.** This proposal was considered previously and continues to be important for the successful introduction of a fair and equitable market value for the real property valuation base for ad valorem taxes.
- 11. Introduce appropriate education & training for assessors & appraisers.** It is proposed that the CAA shall take a lead in this important area of improvement, which is vital to the long-term success of all the valuation reforms. The lack of education and training has been a major problem in the past.

## Conclusions

The Land Valuation Policy Study 2002 and the Policy Studies Integration Report provided a strategic direction for Land Valuation.

The Interim Study Report follows on from that work with more specific details and proposals. The stage has been reached to move forward and make commitments to reform of the Land Valuation system as a base for real property taxation in the Philippines.

## **2. A CENTRAL APPRAISAL AGENCY CHAPTER 1**

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# Chapter 1

## A CENTRAL APPRAISAL AGENCY

### **Purpose**

This paper is presented as a discussion paper in line with the project Terms of Reference and covers the areas defined in 1 (a), 1 (b) & 1 (c) in the TOR (the role and functions of the proposed Central Appraisal Organization, a draft organization structure, a work plan for the first 2 years and the legislative amendment necessary).

### **(A) THE ROLE & FUNCTIONS OF A CENTRAL APPRAISAL AGENCY**

#### **1. Background**

The Land Valuation Policy Study Report<sup>1</sup> recommended the creation of a Central Appraisal Authority (CAA) at the national level to act as a regulator and to oversee the development and maintenance of a real property valuation system for all Local Government Units (LGU's) and the various national government agencies.

The 2002 Study Report briefly discussed the responsibilities of a CAA, which include the provision of appraisal standards and guidelines, technical assistance, compliance monitoring and reporting functions. The CAA would also provide a strong leadership role in the appraisal of real property for taxation and for other statutory purposes in the Philippines.

The Institutional Arrangements Policy Study (IAPS)<sup>2</sup> recommended that an autonomous single agency to be known as the Land Administration Authority (LAA) be created to take responsibility for land related matters including land valuation standards and procedures. However there is little in the IAPS Report to indicate how the function would be performed in a LAA. It appears that the tax mapping function and land information record keeping by the LGU's was a principal reason for the inclusion of valuation standards in the LAA.

The Policy Studies Integration Report<sup>3</sup> as the second recommendation proposed that a Central Appraisal Unit be established within a LAA for the regulation of valuation standards. The report further supported the need to remove LGU political interventions in the appraisal and assessment process and proposed for a single valuation basis for real property taxation as well as

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<sup>1</sup> PA-LAMP, Land Valuation Policy Study, Report A1, June 2002, Pages 23, 24 and Annex F & H.

<sup>2</sup> PA-LAMP, Institutional Arrangements Policy Study Report, June 2002 Page 74.

<sup>3</sup> PA-LAMP, Policy Studies Integration Report (with revisions), October 2002, Exec Summary page (iv), page 19 and page 31.

to develop, implement and enforce uniform, best practice, valuation standards within government. The Presidential Task Force for LAMP supported the strategic directions and policy recommendations contained in the Integration Report.

The Department of Finance (DOF) response<sup>4</sup> to the LAMP policy reform proposals supports in principle the creation of an Appraisal Authority but suggests that consideration be given to having a Regional structure. The DOF also agrees in principle with the proposal to remove the power at the LGU's to approve the Schedules of Fair Market Values and to appoint the LGU assessors.

The various LAMP consultation and consensus building meetings and workshops have supported the establishment of a CAA. The Civil Society Organization (CSO) workshops in August / November 2002 and the basic sectors meeting in February 2003<sup>5</sup> supported the proposed CAA but were concerned that the Agency may be too centralized and recommended that Regional offices must be considered. The LGU's workshop in March 2003<sup>6</sup> at the Heritage Hotel in early 2003 did not comment on the CAA proposal but agreed that LGU political intervention must be removed and that a committee should determine the fair market value.

A House Bill<sup>7</sup> has recently been introduced to Congress proposing the establishment of a LAA to integrate the land administration functions of the LRA / ROD, DENR / LMB, LMS and NAMRIA. It is noted that there has been reference to valuation in the explanatory notes and a reference in the General Provisions, Sec 3 (n) "work towards the establishment of one valuation system for all real property taxation purposes". However the Bill makes no provision for a valuation / appraisal function in the proposed LAA nor does it identify the agency or who should be responsible for establishing the one valuation system.

## **2. The Objectives for Establishing A Central Appraisal Agency**

A number of previous reports have documented the problems and obstacles associated with the appraisal of real property for property tax purposes. The Land Valuation Policy Study Report<sup>8</sup> provided the detailed analysis of the previous reports and the various problems.

The Report identified 3 key areas that need essential structural change to address the fundamental weaknesses and failures of the past as being:

- Remove Local Government political intervention and influence in the valuation process for the assessment of property taxes.

<sup>4</sup> DOF Sec Camacho memorandum dated 19 March 2003.

<sup>5</sup> Report on CSO and Basic Sectors meeting of 28 Feb 03, page 9 & 12.

<sup>6</sup> Report on Consensus – Building Workshop for LGU's on 21 March 2003, page 1.

<sup>7</sup> House Bill No. 6070, introduced on 3 June 2003.

<sup>8</sup> PA-LAMP, Land Valuation Policy Study, Report A1, June 2002, Pages 3, 4 & 5.

- Adopt a single real property valuation base for the assessment of all ad-valorem taxes in the Philippines.
- Establish a central appraisal authority to act as a national regulator and to provide the necessary standards and guidelines in appraisal practice.

The main objective for establishing a CAA is to improve, monitor and regulate the valuation base for the raising of real property taxes by the LGU's and the GOP. This can be achieved by establishing national valuation standards and rules, which can be monitored to provide quality assurance to the LGU's, GOP and the taxpayers that the tax assessment is based on an impartial and professional approach to the appraisal of real property.

### **3. Considerations & Options For a Central Appraisal Agency (CAA)**

A set of principles to be used in providing an ad valorem tax base is set in the Land Valuation Policy Study<sup>9</sup> and number one in the list of ten principles provides for "a process independent of political influence". Therefore it is very important that a clear distinction exists between the appraisal function and the tax assessment function so that independence of the tax base can be assured. In the Philippines this can be achieved with the creation of a special purpose real property appraisal organization with a clear statutory mandate to regulate and verify compliance while leaving the LGU's to carryout the tasks of valuation and tax collection. This will provide the process transparency to enable taxpayer scrutiny and confidence.

It is therefore recommended that a CAA be created as a specialist agency attached to a line department or GOP Authority because a CAA would be responsible for providing a regulatory, oversight and coordination function for all LGU's and GOP statutory appraisal activity. This option would meet the need for clear separation and independence of the Agency responsible for the integrity of the tax base.

The Policy Study Reports, the subsequent consensus building workshops, and comments by the DOF have supported in principle the establishment of a CAA. There have been various comments on how a CAA should be organized and in particular a proposal for a CAA to have a Regional presence.

Consideration shall also be given to an option for a CAA to provide a full range of appraisal services<sup>10</sup> to LGU's and GOP Agencies needing appraisal services for statutory purposes. Although no costings have been done for this option there could be cost advantages in the long term by reducing the duplication of existing appraisal services and provide some economies of scale. The cost of training and the provision of uniform methods and standards of appraisal practice could be achieved with the efficient application

<sup>9</sup> PA-LAMP, Land Valuation Policy Study, Report A1, June 2002, Annex F

<sup>10</sup> This means a CAA would do all the actual valuation & appraisal work for real property taxes administered by the LGU's and BIR.

of information technologies in the process. The cost of this model would fall totally on the GOP where as the recommended CAA model would see the LGU's paying for the cost of the actual appraisal work associated with the SFMV and the GOP paying for the regulation and monitoring as well as the basic training.

In considering the possibility of a CAA providing a full appraisal function for the LGU's and the GOP it must be remembered that such a proposal cuts across the government policy of devolving power to local levels and decentralizing generally. It is doubtful if the argument for full centralization is compelling because of government policy on devolving functions where possible as well as the high setup costs and the possible pay off being well in the future.

#### 4. Institutional Arrangements for a CAA

The institutional location of the CAA has been raised as an issue and is a matter for consideration in this study. The LAMP Integration Report<sup>11</sup> recommended that a CAA be attached to the proposed Land Administration Authority. House Bill No 6070 makes provision for establishing valuation standards. The Land Valuation Policy Study traversed various institutional arrangements<sup>12</sup> but did not make a firm recommendation.

The location of a CAA has been considered further and it is recommended that a CAA shall from commencement day be attached to the DOF and be subject to a location review after 5 years of operation. The recommendation is based on the study proposal (discussed later) to establish a special unit within the BLGF for the purpose of developing the CAA and drafting the legislation required. There are staff with LGU experience and background within the BLGF who could form the core of the special unit together with possible staffing from BIR with background in Zonal Value. It is therefore logical that the CAA be created as an agency of the DOF and staffed by personnel from the DOF bureaus. There are no similar synergies within the LAA or its previous structures. **The Functional Relationship Chart at ANNEX E** sets out the relationship the CAA will have with stakeholders.

An attachment to the DOF is not unusual internationally where a number of central valuation organizations are attached to a finance department or ministry. The functions are compatible as long as there is a demonstrated and legal separation, which will be the case with the proposed CAA.

The proposed review after 5 years will provide a better appreciation of the issues of institutional location and the functional relationships between the CAA and the LAA.

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<sup>11</sup> PA-LAMP, Policy Studies Integration Report (with revisions), October 2002, Exec Summary page (iv), page 19 and page 31.

<sup>12</sup> PA-LAMP, Land Valuation Policy Study, Report A1, June 2002, Pages 23 & 24

## 5. A Central Appraisal Agency: Functions & Activities

The goal of a CAA will be ensuring that a nationally consistent, equitable, and impartial valuation system for real property taxation<sup>13</sup> is put in place and that it maintains the integrity of real property appraisal as well as provides the taxpayers and the public with confidence in the real property tax system. The CAA shall also provide leadership in the GOP appraisal practice as well as to provide guidance in the education and regulation of the appraisal profession generally.

This goal can be achieved by:

- setting valuation standards, regulations and specifications for real property appraisals used for tax purposes;
- monitoring and reporting on the LGU Assessors' schedule of fair market values against the standards and specifications;
- providing an independent quality assurance procedure for real property appraisals used for real property taxation;
- formally certifying to the LGU's and through them the taxpayers, that the consequential Schedule of Fair Market Values meet the standards for a fair and consistent valuation system;
- providing the LGU's with occupational education and training standards for Assessors and Appraisers working in LGU's and approving the appointment of Assessors;
- providing the LGU's with a list of accredited Assessors for appointment to advertised positions;
- maintain a data base of property transactions and provide objective reports and material related to movements in the land market; and
- providing technical advice to the GOP on real property appraisal issues as well as having a leadership role in appraisal education and the regulation / licensing of the real property appraisers.

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<sup>13</sup> Real Property Taxation in this context includes the LGU collected Real Property Tax and the BIR administered Real Property Taxes (Capital Gains Tax and the Documentary Stamp Tax)

## 6. Detailed Functions.

- (a) The CAA shall be established by legislation and shall operate under a formal legislative framework with a statutory officer known as the Executive Director as head of the Agency.

**Comment:** It is important that the CAA as an attached Agency is protected by legislation and is seen to be independent from political influence and also its appraisal function is clearly separate from the taxation setting function of the GOP and the LGU's. The person appointed to the position of Executive Director must be a qualified and experienced assessor or appraiser.

- (b) The CAA shall have an Advisory Board chaired by the Executive Director with representatives from the BLGF, BIR, DILG, LAA<sup>14</sup>, LGU's (Provincial and City), Assessors Assoc, Appraisers Assoc, CSO and commercial taxpayer representation (Chamber of Commerce). The Advisory Board shall also have a regional presence in the form of a Regional Consultative Committee.

**Comment:** The CAA Advisory Board and the CAA Regional Consultative Committees shall provide real property tax administrators, taxpayers and the appraisal professionals the opportunity to have input into the CAA policy development. The Board and Committees shall also provide the CAA with an important linkage with the users of real property appraisals completed for taxation purposes.

- (c) The CAA shall provide technical advice to the Government of the Philippines (GOP) on real property appraisal issues as well as provide for the regulation of the provision of real property appraisals for taxation purposes by Local Government Units (LGU's) and any other tax on real property, which the GOP may from time to time require.

**Comment:** The GOP has considerable real property assets and the appraisal of these assets is important. The improved public sector financial reporting requires that these assets are fully reported and the GOP needs ready access to independent advice on the valuation methodologies to be adopted. The 23 GOP Agencies with a requirement for statutory valuations also need advice and assistance in developing appraisal standards, which meet their individual needs. The regulatory role is an important function for the CAA and is discussed later.

<sup>14</sup> Before LAA is created it could be LRA of DOJ and/or LMB of DENR

- (d) The CAA shall provide a leadership role in the further development of the appraisal profession in the Philippines by facilitating programs to advance the education and training of appraisers and assessors as well as providing assistance in the regulation of the sector.

**Comment:** The provision of education and training for appraisers and assessors in the public sector is an important function to be supported by the GOP by providing leadership and resources to enable a steady stream of trained professionals to be engaged in performing the appraisal task. This will also involve the regulation of appraisers and assessors as well as the approval of competency based training and education courses. The taxpayers and the public need to be assured that the people performing the appraisal task are skilled and competent.

- (e) The CAA will set appraisal quality standards and specifications necessary for the regulation, maintenance and update of the (LGU's) Schedule of Fair Market Values (SFMV's) in the interest of ensuring a nationally consistent, impartial, independent, and equitable basis for the assessment of taxes on real property.

**Comment:** The regulatory function is the most important activity of the CAA and this will involve the establishment and maintenance of appraisal standards and rules as well as carryout Monitoring and provide Compliance Reports on each LGU's general revision. A quality assurance function is necessary to provide taxpayer confidence in the levying of the real property tax.

- (f) The CAA shall be mandated with receiving, recording, studying and dissemination of real property transaction sale prices and rental information.

**Comment:** The basis of a good real property appraisal system in both the public and private sectors is the timely supply of reliable data on real property transactions and the analysis of that data. The CAA is the logical repository for the data, which could then be recorded, studied etc and disseminated back to the Regions and to all LGU's and the private sector.

- (g) The CAA shall establish a special appraisals unit to provide appraisal service capability in the provision of appraisal assistance to LGU's on special purpose real property and to provide direction, for example on properties owned by network companies where they traverse LGU boundaries.

**Comment:** An appraisal service capability in the CAA is seen as being important to provide services to the LGU's and also to maintain uniformity in the valuation approach involving special property types not usually encountered by the LGU's. The special appraisals unit could also provide valuable technical assistance to the GOP in policy development relating to the financial reporting requirements on real property assets held by the various GOP Agencies.

- (h) The CAA shall establish a secretariat to support the Central and Local Boards of Assessment Appeals and to assist in the efficient processing of assessment appeals.

**Comment:** The processing of assessment appeals is an important function of the real property tax system to ensure a speedy resolution of complaints. A secretariat managed by the CAA will insure a focused approach to this important matter as well as provide equity and certainty for taxpayers.

## 7. Major Activities:

- (a) The CAA shall monitor and provide compliance reports on all work associated with a revision of the Schedules of Fair Market Values used for real property tax purposes against the minimum appraisal standards and specifications.

**Comment:** This is the quality assurance responsibility, which will form the major task for the agency. Compliance reporting on record keeping, the level of appeals and the appeal results plus the processing of discoveries shall also be subject to reporting as well as the general revision of the SFMV.

- (b) The CAA in the first round of general revisions of the SFMV after its inception, shall establish Valuation Simulation Models<sup>15</sup> in each LGU to shadow the existing Schedule of Market Values to show the changes in values which could be expected with the changes resulting from improved valuation methods.

**Comment:** The introduction of improved methods and approach to market value by Assessors for the SFMV will possibly change the level of values and possibly results in the increase in taxes. The Valuation Simulation Models will give early warning to tax policy makers to consider changes in tax rates. This could be a necessary step prior to implementation, especially for the LGU's RPT. Coordinated publicity will be important to keep taxpayers and the public informed of the impacts of change.

- (c) The CAA shall certify to each LGU that the SFMV meets or fails to meet the valuation standards. Failure to reach the standard could result in the LGU's inability to raise real property tax and the BIR being unable to raise the GOP taxes on real property. The SFMV shall be revised every 3 years in accordance with a CAA approved program for general revisions issues each year. The CAA could consider exceptions to the rule in "special circumstances".

**Comment:** The certification by the Executive Director will be required before the SFMV can be used for the real property tax assessment or the BIR administered real property taxes. The SFMV shall be revised every 3-years subject to a CAA approved program of general revisions. The CAA will control the general revision cycle. However there may be cases for "special circumstances" to extend the 3 year cycle where the CAA or the LGU have resource or logistical problems or in the case of a calamity situation. The case would be rare and subject to the Executive Directors approval. In the case of non-performance by a LGU Assessor for one reason or another the CAA would reserve the right to take over the general revision, carryout the work and recover costs.

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<sup>15</sup> The Valuation Simulation Model is based on market value & provides a shadow to the existing LGU and BIR Models (SFMV & ZV) and thus will provide evidence of the changes proposed and the impacts on the LGU Real Property Taxes and the BIR administered real property taxes (Capital Gains and the Documentary Stamp Tax).

- (d) The CAA shall set standards and rules in relation to real property appraisals and revision and maintenance of the Schedule of Fair Market Values.

**Comment:** The standards and rules shall have legislative standing and shall be binding on all Assessors and the LGU's. The standards and rules shall form the basis for the monitoring and compliance reports on each LGU. It is envisaged that the standards and rules will be reviewed and updated in consultation with assessors and appraisers. The Regional Consultative Committees would also be involved.

- (e) The CAA shall from time to time provide LGU's with an approved list of accredited Assessors suitable for appointment as City, Provincial and Municipal Assessor. The accredited assessors/appraisers shall be publicly notified and those appraisers suitably qualified may apply for inclusion in the list. There shall be appeal rights available to those who are aggrieved for any reason.

**Comment:** The appointment of Assessors is vital to the whole process of providing an impartial basis for levying any real property tax. The appointment of suitably qualified and experienced assessors in the LGU's will provide the leadership with improved standards of performance and acceptability of the system.

- (f) The CAA Executive Director shall recommend for appointment by the Secretary of Finance, Provincial and Assistant Provincial Assessors and City and Assistant City Assessors from the list of persons suitable and qualified for appointment within the Region and Municipal and Assistant Municipal Assessors from the list of suitable and qualified for appointment within the Province.

**Comment:** The appointment of Assessors needs to be free from political intervention. The appointment process will also need to provide protection to the Assessor to enable the work to be completed without fear or favor. Clear career opportunities should also be available to allow people to advance and also provide for good people to enter the profession and contribute without hindrance. The extension of the residential requirements will provide better career opportunities for all appraisers and at the same time improve the availability of quality applicants.

- (g) The CAA shall provide assistance and shall facilitate the adoption of national appraisal standards and guidelines for all GOP Agencies that require appraisals for statutory purposes.

**Comment:** The provision of assistance to the GOP Agencies concerned could become mandatory. The Policy Study<sup>16</sup> recommended that the CAA be mandated to provide a coordinated approach for the development of standards and guidelines to improve GOP Agency performance and improve revenues.

- (h) The CAA, where appropriate, shall convene workshops and seminars to gain feedback from the LGU's, Appraisers, Assessors and other stakeholders to enable a continuing improvement of the service provided in the area of real property appraisal for taxation purposes.

**Comment:** The proposed Advisory Board and Regional Committees are considered an opportunity to seek input from users. There is still a need to gain general public comment and feedback while at the same time will improve the general awareness of the issues impacting on the appraisal of real property for taxation purposes.

- (i) The CAA shall complete an annual report on the general revision program of LGU's in the Philippines and provide a schedule of the Compliance Reports undertaken together with a summary of major events. The Annual Report will also include a section covering the overall performance of the CAA against budget. A supplementary annual report shall be produced to cover a detailed break down on the assessment complaints and appeals and how they were dealt with.

**Comment:** The reporting process is an important component in the accountability cycle. The GOP and the various stakeholders need to be continually informed of the progress and performance of the CAA and the Monitoring and Compliance Reporting of the LGU's performance on meeting their obligations in relation to the statutory appraisal standards and rules. The public should also be informed on actions concerning assessment appeals and the length taken to process complaints and appeals.

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<sup>16</sup> PA-LAMP, Land Valuation Policy Study, Report A1& A2, June 2002, Pages 28 and 29

- (j) The CAA shall establish, maintain and operate a national real property database of sale and lease transactions. The market data will be collected and exchanged with the LGU's and LAA sources. The analyzed information from the LGU's will be further studied and categorized and collated by land use at the CAA Regional Office before being forwarded to the Central Office. The market information shall be the subject to market analysis and reported on nationally and regionally. The database of transactions shall be made available to all Assessors in the LGU's and could be sold to the public and private sector appraisers.

**Comment:** The establishment of a database on real property sale prices and rental information shall be vital to the appraisal and assessment process and the reporting of the analysis publically will assist the market and the understanding of market trends by the buying and selling public and taxpayers generally.

- (k) The CAA shall provide appraisal capability for the valuation of special purpose properties and utilities.

**Comment:** An appraisal capability at the central office and in some cases the regional offices will be provided to assist LGU's and GOP Agencies with the appraisal of unique property such as power stations, oil refineries and telecommunication networks etc. Specialist skills and experience is needed here to maintain the uniformity of approach in all LGU's for the tax assessment process.

- (l) The CAA shall provide basic appraisal training as well as training on property appraisal in terms of the legislation related to real property assessment for LGU Assessors and Appraisers. This training will improve the standard of appraisal practice generally and by maintaining a means of communicating the CAA standards and rules to Assessors.

**Comment:** The availability of training programs specifically for Assessors and Appraisers is limited and it is considered important to improve and maintain the level of appraisal skills in the LGU's. This training can also provide an opportunity to communicate the CAA valuation standards and rules and obtain feedback and input to changes. The training could also be integrated with the private.

## 8. Conclusions

The establishment of a CAA by legislative authority, with a statutory officer to head the agency and with the agency attached to a line department will provide a basis for establishing and monitoring performance of an independent and impartial appraisal system for the LGU's and the GOP. The reforms in this area would find favor with taxpayers and the public generally by providing market information and transparency in the important area of real property taxation and investment. However the final success of the CAA may well depend on other proposed legislative changes including the Local Government Code to improve the provision of appraisal services in the public sector.

The linkage with the GOP Agencies involved in appraisal is important as well as the linkage the CAA will have with the proposed LAA where land information including the titles, maps and property transactions are sourced and where the LGU's will be relying on the LAA linkage for assistance and information.

The CAA will essentially be a regulator of appraisal practice in the public sector and shall oversee the LGU's conduct of the general revision of the Schedules of Fair Market Values and real property assessments. The establishment of a Central Advisory Board and the various Regional Consultative Committees will enable the CAA to receive advice from stakeholders and also allow the CAA to communicate with users to improve the quality of the total service.

## **(B) A CENTRAL APPRAISAL AGENCY ORGANIZATION STRUCTURE**

### **1. Background**

The Land Valuation Policy Study Report<sup>17</sup> recommended the creation of a Central Appraisal Authority (CAA) at the national level to act as a regulator and to oversee the development and maintenance of a real property valuation system for all Local Government Units (LGU's) and the various national government agencies.

The section on the Roles & Functions of a CAA covers in some detail the features of the proposed organization. In general terms a CAA will be established to provide standards and rules on appraisal and assessment practice to improve, monitor and regulate a single valuation base for the raising of real property taxes by the LGU's and the GOP. Other functions will include a leadership role in the education, training and regulation of appraisers and assessors as well providing advice on real property appraisal matters to GOP Agencies and the government generally.

This section will discuss the structure of the CAA based on functional lines and will be followed by another paper covering the staffing pattern and an indicative budget for the first 2 years of operation.

### **2. The Structure of a CAA**

#### **The Key Features**

- A central and regional structure
- A flat structure for efficiency
- The central office policy and planning coordination unit will be the driver in the change management program.
- The CAA will be headed by a Executive Director, a statutory office responsible to a line department head.

The attached organization chart sets out a proposed structure for a CAA to meet the needs established in the Functions and Activities section.

The organization shall require legislation to be formally established and the legislation shall detail the functions to be performed and the powers to be exercised. Other legislation such as the Local Government Code will require amendment to support the creation and powers of the CAA.

The CAA as a separate organization shall be based in Metro Manila with a Regional Office in each Region. The main operational functions ( see organization chart) shall be performed in the Regional Offices with the Central Office coordinating and supporting the functions in the Regions as well as providing policy direction, leadership and contact with other GOP Agencies nationally.

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<sup>17</sup> PA-LAMP, Land Valuation Policy Study, Report A1, June 2002, Pages 23, 24 and Annex F & H.

The Executive Director shall in the establishment stage be responsible for providing statutory approval for the appointment of all Assessors, the approval of the national general revision program and the certification of each LGU Schedule of Fair Market Values. The Regional Directors will be responsible for providing submissions and recommendations in the three areas.

### **3. The CAA Relationships with the LGU's**

The CAA shall maintain close relationships with all LGU's. The CAA Regional Offices shall be the main point of contact where it is expected that the contact will involve the training needs of Assessors and Appraisers, the compliance reporting on the SFMV, assistance with appraising special properties and the collection and exchange of property transaction data. The other area of contact will be the approval of the LGU Assessors appointment, the approval of the general revision program and the certification of the SFMV.

The CAA contacts shall in the first instance involve the Assessors Office in the, Cities, Provinces and the Municipalities of Metro Manila. The contact with the Municipalities within the Province shall be through the Provincial Assessors Office.

The 2002 Report<sup>18</sup> proposed changes to the appointment of Municipal Assessors. This study has revisited the issue and is of the view that the status quo should prevail. However the concerns expressed in the 2002 Report are noted. The delegations from the Provincial Assessors to the Municipal Assessors as well as the resources available to the Municipal Assessor are still areas of concern.

A chart showing the CAA Functional Relationship is attached at **ANNEX E**

### **4. CAA Organizational Details**

The following broadly outlines the various units proposed and the type of activity involved as a guide to further development.

#### **The Central Office**

##### **(a) The Office of the Executive Director**

The Executive Director will be responsible to a line Department head for the efficient and effective delivery of services to be performed by the CAA as well as the statutory responsibilities set out in the CAA legislation. This will include recommending the appointment of all LGU Assessors, the LGU Timetable for General Revisions of the SFMV and the certification of each SFMV.

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<sup>18</sup> PA-LAMP, Land Valuation Policy Study, Report A1, June 2002, Pages 20 & 22

The Office of the Executive Director shall also be responsible for a Regional Coordination Unit which will be main point of contact between the Regional Offices and the Central Office.

A small secretariat shall service the Executive Director's office and there should be no deputies or assistant positions and those who may need to act in the absence of the Executive Director may be designated in that capacity from other units if and when required.

### **(b) The CAA Advisory Board**

The Advisory Board shall be appointed for a maximum 3-year term in ex-official capacity and or by invitation from the CAA Executive Director. The number of Board members should be restricted to a total of 9 plus the Executive Director as chair. Members of the Board should come from the following organizations, BLGF, BIR, DILG, LAA<sup>19</sup>, LGU's (Province or City), Assessors Assoc, CSO and major taxpayer representation (Chamber of Commerce).

It is expected that the CAAAB will meet bi monthly and be guided by terms of reference approved by the DOF Secretary to include such items as commenting on the CAA property market reports, the timetable for LGU General Revisions, the concerns of taxpayers civil society, and other stakeholders generally, the Compliance Reporting outcomes, the level of complaints and appeals the LGU training program, special projects, policy issues, and appraisal and assessment concerns generally.

### **(c) The Human Resources Management & Development Unit**

The unit shall be responsible for the CAA human resources policy in the particular areas of recruitment, promotion, development and compensation of staff. The unit shall be responsible for supervising the training principally for LGU Assessors & Appraisers<sup>20</sup> in the Regional Offices.

The training unit shall be responsible for developing training programs for Regional trainers to present the programs at the Regional Offices for Assessors and Appraisers from the LGU's. Please Note **Section E The CAA Training Requirement for Existing and Newly recruited Staff.**

The unit shall also be responsible for the training on compliance reporting for CAA staff in cooperation with the LGU Compliance Reporting & Control Unit. The HRM Unit in general would be

<sup>19</sup> Before LAA is created DENR

<sup>20</sup> The Assessors & Appraisers in this context and elsewhere in the paper are all employees of the LGU's.

responsible for advising and coordinating with the external teaching organizations and the universities teaching appraisal programs.

**(d) The LGU Compliance Reporting & Control Unit**

The Compliance Reporting Unit shall be responsible for managing nationally the process of reporting on the LGU's and for controlling the certification function of the SFMV in conjunction with each Regional Office. The Regional Director shall control the Regional process in conjunction with the central office to ensure that the overall logistics and resource capacity is available to complete the task. The central office shall direct the annual Compliance Reporting program based on the CAA approved program of general revisions and the needs of each Region. The training of CAA personnel in compliance reporting would be an additional responsibility of the unit in conjunction with the HRM training unit.

**(e) The Policy, Planning Coordination, Monitoring & Evaluation, Valuation Standards & Rules and Change Management Unit**

This unit covers the organizational control areas and policy development and planning. The development and maintenance of the national valuation standards and rules on assessment and appraisal practice for the real property tax base will be significant. The review and maintenance of the LGU Assessors Manual and guidelines will also be important.

The development of M & E procedures will be essential to provide a basis for information on performance and added quality assurance to the CAA processes and provide a basis for policy development.

This unit will be essentially the main driver for the reform of the valuation system for the first 5 years.

**(f) The Administrative Services Unit**

Administration Services shall be responsible for the efficient operation of the office and oversight and support for the Regions. In the main, the unit will be concerned with the areas of finance, budget, internal and external communications, accommodation and general supplies.

### **(g) The Special Property<sup>21</sup> Appraisal Unit**

A unit will be established at the Central Office to provide technical advice to the GOP on real property appraisal issues. The unit shall principally be involved in providing appraisal services and assistance on special or unusual real property for taxation purposes for the LGU's. The Central Office unit shall work closely with the Special Property Appraisal Units at the Regional Office. A lack of trained appraisers may prevent an early establishment of units in the Regions. The need to provide capacity building in this area will be important because the loss of staff to the private sector could be considerable.

The GOP has substantial real property assets and the appraisal of these assets will become more important as the improved public sector financial reporting standards require these assets be fully reported. The GOP needs ready access to independent advice on the valuation methodologies to be adopted. Access to appraisal expertise on special properties will be important for policy development and training.

### **(h) The National Property Transactions Database and Information Technology Strategy**

The unit shall be responsible for the development of procedures associated with the collection, recording, analysis and dissemination of real property transaction sale prices and rental information. The unit shall also be responsible for developing the CAA strategy on IT and for assisting the LGU Assessors in the development of suitable IT strategies as well as act as a coordinator and resource center for LGU's on IT systems for Assessors.

The availability of quality market data<sup>22</sup> and a proposal to establish a property market database has been reported on previously. The supply of quality market data is important to the appraisal process. The formal market data (the declared price) is generally available in the LGU Assessors Office. It is known that the Assessor also obtains some formally acquired transaction data, which correctly states the sale price. Establishing institutional linkages with the LGU's, Banks, LAA and BIR to obtain the transaction records, tax declarations, lease registrations and bank loans to collect the information would be useful in developing the database.

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<sup>21</sup> Special Property will vary but generally would include but not be restricted to, utilities, public buildings & institutions, hotels & resorts, shopping malls, fuel installations, port facilities, telecom networks, forestry, mines, etc.

<sup>22</sup> Land Valuation Policy Study 2002 page 13 and pages 24 & 25

The data will be collected in the main by the LGU's who will carry out a raw data analysis and the Regions shall evaluate and categorize (land use) the data before passing it to the Central Office. The Central Office unit will aggregate the data and develop procedures for compiling indexes and reporting results. The data will be disseminated and sent back to the Regions, as well as those contributors of the data supply including the LGU's and banks etc as well as the public.

An informed market will lead to a better informed public and lead to more investment security. The regular reporting on the market by the CAA both centrally and in the regions will assist the public understanding of the market and could lead to more recognition and acceptance of the Assessors SFMV and result in fewer complaints and greater taxation compliance.

**(i) The Legal Services, Internal Audit and Central Board of Assessment Appeals Secretariat**

The unit shall be responsible for providing legal services on appraisal and valuation related issues as well as legal matters generally. The internal audit function would be standard and cover administrative services in the main. The unit would also be responsible for providing secretariat services for the Central Board of Assessment Appeals. The processing of assessment appeals is an important action, which must be managed expeditiously to provide taxpayer access to a speedy resolution of complaints.

The secretariat would be tasked with working with the Central Board chair and members in arranging hearing dates venues, recording of evidence and dealing with the associated timetabling and paper work. The Regional unit would perform a similar function for the Local Boards of Assessment Appeals.

**The Regional Office**

**(j) The Office of CAA Regional Director**

The Director shall be responsible to the CAA Executive Director for the efficient and effective operations in the Region and in particular the field operations involving the compliance reporting on the LGU's as well as providing a training and technology transfer to the LGU Assessors and Appraisers.

**(k) The CAA Regional Consultative Committee**

Members of the Regional Consultative Committee shall be appointed for a maximum term of three (3) years in ex-officio capacity and / or by invitation of the CAA Director or the

Regional Director if so delegated. The committee numbers should be restricted to a total of eight (8) plus the Regional Director as chair. Members of the Committee shall come from BLGF, BIR, and LAA, and in addition shall be representatives of LGU Assessors' Associations, representative of Appraisers' Associations, Representative of Civil Society and major taxpayer representation (Chamber of Commerce).

It is expected that the RCC will be convened bi monthly and be guided by terms of reference approved by the CAA Executive Director to include such items as comments on the Regions' property market reports, the timetable of visits to LGU's and contacts with taxpayers and stakeholders, the outcome of Compliance Reporting, the level of complaints and appeals, the LGU training in the Regions' and appraisal and assessment concerns generally.

#### **(l) The Regional Training Unit for LGU Assessors & Appraisers**

The Regional training unit shall be responsible for delivering to the LGU's the various training programs developed by the national training unit for Assessors and Appraisers.

The importance of training for LGU field staff should not be underestimated as it is an important activity for the Regional Office. The need for capacity building associated with the valuation reforms will have to be addressed at an early stage. The skills base in the LGU's will need to be lifted from existing low levels to cope with the changes in the way property is appraised for taxation purposes. The impact of these changes will also attract considerable comment from property owners generally and this will need to be managed by the local Assessors. Therefore training and ongoing professional development of LGU Assessors and Appraisers in the Regions will be significant and ongoing. The CAA Regional Office is the best location for carrying out this capacity building to ensure that the LGU staffs are trained and that the valuation reforms are implemented and maintained as designed. The training programs will also enable the CAA Regional Office to develop ongoing staff contact with the LGU's and will be beneficial in developing information networks.

#### **(m) The Compliance Reporting Field Operations Unit**

The Regional Compliance unit shall be responsible for the field reporting on each LGU as they prepare and seek certification for the triennial SFMV. All other activities associated with the assessment process and the maintenance of the assessment roll and lists as well as complaints and appeals shall be subject to compliance reporting. The Regional Compliance team shall

work to a Central Office approved timetable for general revisions. A third of each Region will be valued each year for the FMV and careful planning will be required. The Central Office shall control the overall program, which will take into account the capacity and resource issues.

The Regional Unit through the Regional Director and the National Compliance Unit will make recommendations to the Executive Director on each LGU where a revision of the SFMV and assessments is scheduled as to possible certification approval.

**(n) Regional Special Properties Appraisal Unit**

The need for a special unit has been covered earlier and the need to have experienced appraisers for this work in the Regions becomes important. The capacity to train appraisers will be a limiting factor. It is expected that a Special Properties Appraisal Unit shall only be set up in some Regions but other Regions would have access to the expertise.

**(o) The Regional Administrative Services Unit**

The Regional Unit shall supply the same services as advised by the National unit and in terms of CAA policy and the directions of the Regional Director.

**(p) The Regional Monitoring & Evaluation Unit**

The Monitoring and Evaluation shall be an important Regional function to evaluate performance and monitor against the plan to enable management to make decisions on adjustments in procedures and plans.

**(q) The Regional Property Transactions Database Collections Center**

The Regional database collection center will be responsible for the collection of all transaction details from the LGU Assessors and other sources as well as the coding and categorization of the collected information. The center will also be available to the compliance unit for the supply and analysis of transaction data for the various LGU's. The unit shall be a major ongoing contact point with the LGU's and the local Land Administration Authority office for the supply of information. The lines of communication to facilitate the ready flow of transactional information will be very important.

The Regional Centers shall also act as a contact point for LGU's seeking advice on IT systems for the LGU Assessors in the Region.

**(r) The Regional Local Assessment Appeals Secretariat**

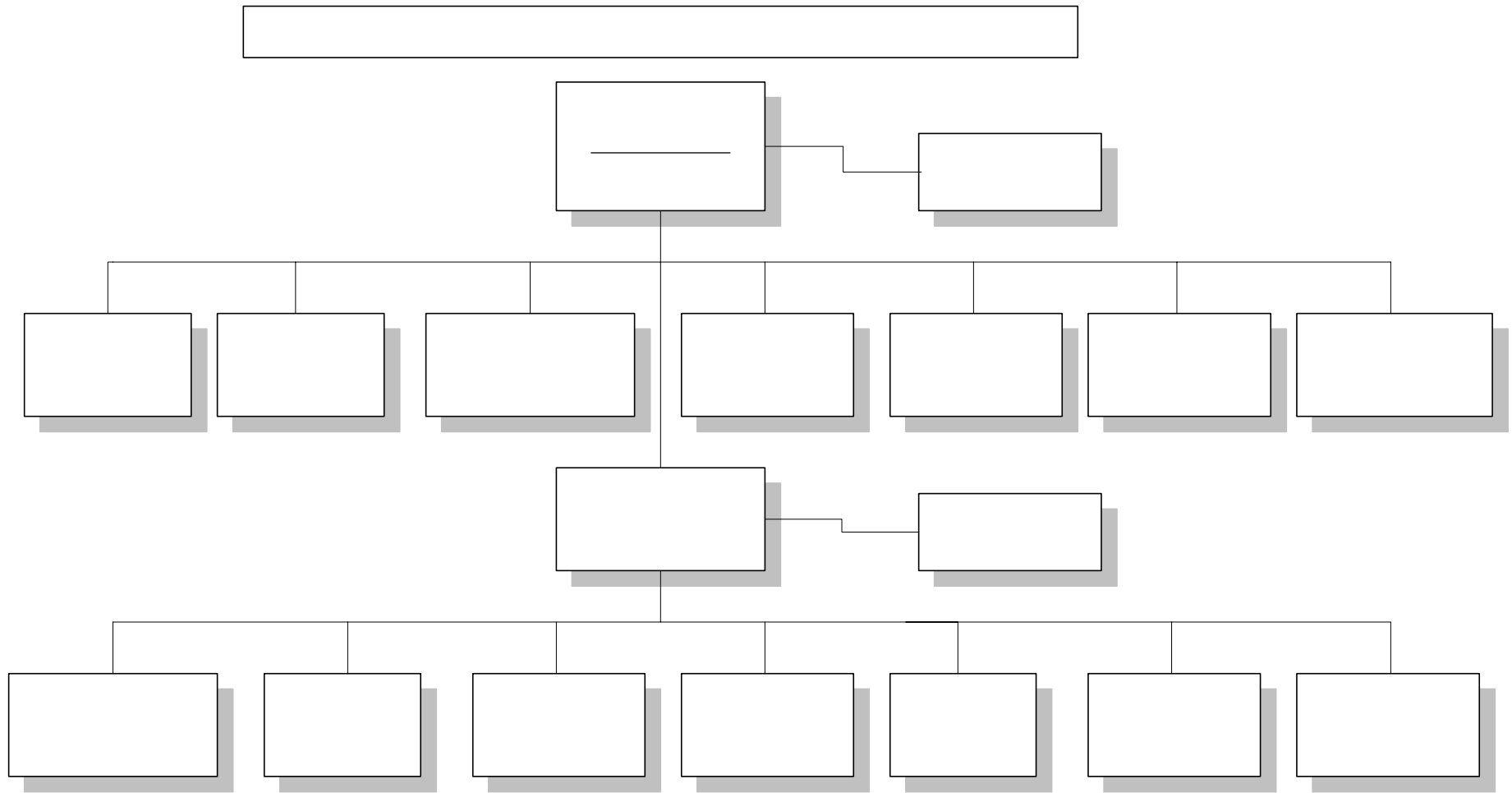
The Regional Office shall provide a secretarial service to each Local Board of Assessment Appeal in each Region by ensuring assessment appeals are heard by the Board expeditiously and without delay.

**3. Conclusions**

The proposed CAA organization as described above shall be further considered as the staffing pattern is developed.

There will be a strong need to build capacity at each level and considerable training resource will be required in the early years of the CAA.

The above describes each functional unit as set out in the attached Organization Chart as well as the powers and responsibilities at each level.



## **(C) THE CENTRAL APPRAISAL AGENCY WORK PLAN (the first 2 years)**

### **Background**

The work plan is based on the proposed CAA role and functions and the proposed structure as discussed above which has defined the powers and responsibilities at the various level and the time sequence over the 2 year establishment period is set out in the **Tables on pages 39 to 41 and Annex F**.

The tables assume that the legislation will be prepared in the period January 2004 to May 2004 and submitted in July 2004. During the period consensus building and stakeholder involvement will be necessary.

### **The CAA Work Plan (a road map)**

There are three phases of the work plan.

- Phase One, the pre legislation phase of 6 months.
- Phase One A, pre legislation with delays of 12 months.
- Phase Two, post legislation of 12 months.
- Phase Three, post legislation of 12 months.

#### **(a) Phase 1 Pre Legislation Period**

This phase principally involves the preparation of the empowering legislation to establish a CAA and the work plan will focus on this area. The time involved is estimated to be approximately six months. However Presidential Elections and Local Government Elections scheduled for May 2004 may delay the legislative process and a Phase 1A is proposed and should only be considered as a back up position, which could proceed during the possible delay period.

It should also be noted that the Land Administration Authority (LAA) legislation<sup>23</sup> makes reference to valuation in the explanatory notes and a reference in the General Provisions in Sec 3 (n) “work towards the establishment of one valuation system for all real property taxation purposes”. This reference will need to be explored further and a decision made concerning how the proposed CAA legislation is progressed.

A decision on the CAA legislation linking with the LAA House Bill 6070 will depend on the short-term future attachment of the CAA. For the purposes this paper it is recommended that the CAA be attached in the short term to the DOF as a Special Unit within the BLGF.

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<sup>23</sup> House Bill No. 6070, introduced to Congress on 3 June 2003.

## **The Main Activities Are:**

### **1) Memorandum of Agreement**

The establishment of a CAA will depend firstly on an agreement between the LAM Project (DENR) and the DOF. It is suggested that a MOA between the two agencies be put in place to form the basis of creating the CAA. The agreement should be detailed as to time frame, resources needed (financial and human resources) and reporting requirements. A clear mandate is needed for the establishment of the CAA commencing as a special unit within the BLGF and approved by the LAMP Task Force and the Secretary of Finance.

The MOA should also make provision for any delays in the passing of the CAA empowering legislation.

### **2) Oversight Committee**

This committee representing the main GOP stakeholders would be convened by DOF with ex-officio representatives from, BLGF, BIR, NTRC, LAMP, and DILG. The committee shall be responsible for setting a clear direction for phase one leading to the passing of the legislation and the phases two and three establishment period.

Any delay in passing the CAA empowering legislation would need to be addressed at an early stage.

### **3) Action Plans**

The Oversight Committee shall arrange for the action plans to be developed to progress the legislation during the first phase of preparation and the passage of the legislation. This will need to recognize the LAA legislation.

### **4) Establish a Special Unit Within BLGF**

It will be necessary to support the pre legislation stage in the drafting and managing the legislative process through the various stages and provide a communications linkage with stakeholders and the Oversight Committee. It is therefore proposed that a Special Unit be established in the BLGF reporting through the BLGF Executive Director. The Unit shall be responsible for drafting the legislation supply administrative services to the Oversight Committee and providing a base for the future establishment of the CAA.

## 5) Draft Legislation

The BLGF Special Unit shall complete the drafting of the CAA legislation. The LAA House Bill will need to be considered. It is recommended that the legislation creating the CAA will also include the basis for a valuation system with definitions and the consequential amendments proposed for the Local Government Code (LGC). These proposals and the legislation are covered in the discussion paper titled CAA Legislation Amendments. Consideration shall also be given to changes needed to the RPT on tax rates and classification levels to enhance the valuation reform program.

## 6) Draft Amending Legislation

The Local Government Code (LGC) contains considerable legislation concerning the valuation of real property that needs amendment to empower the CAA to carryout its role and functions. It is therefore proposed that these amendments be included specifically in the CAA legislation and thus avoiding a continuous review of the LGC. The transfer of the valuation components contained in the LGC to the CAA legislation should be seen as separating the valuation function from the taxation function which is the main focus of the LGC.

## 7) Introduction of the House Bill and the Passage of the Legislation

The BLGF Special Unit and the DOF should be responsible for the process of managing the passage of the CAA legislation if it is decided to provide a separate Bill.

### **(b) Phase 1A Delays in CAA Empowering Legislation**

The MOA will contain provisions in the event of delays in passing the CAA empowering legislation. It would be expected that work would commence towards the establishment of the CAA project components within the BLGF Special Unit. This proposal would not require empowering legislation to be commenced during the delay period. If the legislation to create the CAA is delayed beyond twelve (12) months then a number of tasks could still be progressed to the benefit of the reform package.

The special projects work could be covered under the general areas of the Local Government Code, which empowers the BLGF to carryout, a supervision role over the assessment function performed by the LGU's and the valuation of real property.

### **1. (b) Oversight Committee**

The Committee shall cover the eventuality of a delayed legislation program in the Committee's planning and these matters would be discussed with the BLGF and DOF. It is thought that any proposal to progress the longer-term goals of the CAA could be advanced by the Committee during the delay period. Any delay in the legislation will trigger a review of the MOA scope and the planning process.

### **2. (b) Legislation Development & Coordination**

During the delay period an opportunity exists to refine the draft legislation and arrange further consultation and coordination with other stakeholder interests. Consensus building would continue and the need to consult widely with stakeholders will be beneficial.

### **3. (b) BLGF Special Unit**

As result of the delays the role of the Special Unit will change as the scope of the unit enlarges to progress the various reform activities not requiring empowering legislation. This change in scope will require additional funding and other resources.

### **4. (b) Establishment of Assessor & Appraiser Training**

The education and training component would be started as well as the development of training models. A training needs analysis could be commenced and the information analyzed to form the planning base. The basic training of LGU Assessors and Appraisers could commence in the context of the LGC

### **5. (b) Establishment of Special Units**

In the context of the LGC, the BLGF have authority to conduct activities associated with assessment administration. Some proposed CAA special units associated with the appraisal could be established in advance of the CAA empowering legislation. The units that could be established include the following:

- Special Property Appraisals
- Appraisal Standards & Rules
- Valuation Simulation Models
- The Property Transactions Database

Staffing and financial resources could become an issue and approvals from DBM may be needed to progress the reform activities in the context of the CAA.

- **Special Property Appraisals**

The development of a unit for the appraisal of special property types and to provide the GOP with independent appraisal advice could proceed. Appraisal expertise (education and training) would need time to develop. Also a needs analysis would be required to establish the potential and size of the activity.

- **Appraisal Standards & Rules**

The development of LGU Appraisal Standards & Rules will be an important function of the proposed CAA and development work in this area could be commenced during the delay period to enable testing to be carried out.

- **Valuation Simulation Models**

The establishment of simulation models and studies to demonstrate the impacts of adopting the improved LGU Valuation Model as the single valuation base for all real property taxes.

The simulation models based on market value would provide a shadow to the existing LGU and BIR Models (SFMV & ZV) and thus provide evidence of the changes proposed and the impact on the LGU Real Property Taxes and the BIR administered real property taxes (Capital Gains and the Documentary Stamp Tax).

This evidence could be useful information for tax policy analysts' and the policy makers in the LGU's and the GOP and provide a guide for the eventual phasing in of possible tax changes and also demonstrate the changes proposed in the adoption of the improved LGU Valuation Model as the single valuation base for all real property taxes.

- **The Property Transactions Database**

The collection of transaction data is an important development to be undertaken by the proposed CAA. The creation of simulation models in various locations at an early stage would demonstrate the type and accuracy of the information in the market and the best way to improve the data quality and collection methods.

The simulation models would collect formally recorded data and then shadow this information with actual transaction data obtained from the market place. It is well appreciated in the market that the information available are inaccurate and the transaction prices are under reported. The information obtained from the studies will indicate the extent of the underreporting and provide valuable evidence to base policy proposals in the future.

The success or otherwise of the improved LGU Valuation Model as the single valuation base for all real property taxes depends on the availability of accurate and timely information of sale prices and related information from the market place.

The development of information technology will be important to the success of the valuation reforms therefore planning and the development of IT strategies will be significant and planning and training will be necessary.

### **(c) Phase 2 Post Legislation Establishment Period (Year One 2005)**

The establishment period for the CAA will be critical for the long-term success of the organization. The previous establishment of the Special Unit in the BLGF will provide the platform from which to launch the establishment phase. The priority in the first year will be to establish the CAA Central Office and the associated units. The Regional Offices will follow in Phase 3.

#### **6. Appointment of an Acting Director**

The acting director of the establishment unit will be responsible for establishing the CAA during phase one and will report to the Executive Director BLGF until a permanent appointment is made to the position of CAA Executive Director. It will be important to commence the operations of the CAA as soon as possible to ensure that the establishment program is commenced and managed.

#### **7. Establish Administrative Procedures**

A formal attachment of the CAA to the DOF will be required and this may only be short term subject to review at the end of the establishment period of 5 years. It will be necessary to put in place the formal legal administrative authorities for budget etc to allow the CAA to commence operations.

#### **8. Transfer the BLGF Special Unit as the CAA Establishment Unit**

The Special Unit shall be tasked with putting in place the necessary processes to establish the CAA. It is proposed that the Special Unit remain located in the BLGF in the mean time or until such time as permanent accommodation etc can be arranged.

#### **9. Appoint the CAA Executive Director**

The position is a statutory office as well as the chief executive of the CAA. Therefore the appointment shall be critical and the successful applicant must be well qualified, has experience as an Assessor and be an experienced manager.

#### **10. Establish a Human Resources Management & Development Unit**

The HRM unit will be important from the outset to enable the staffing policies to be developed and to support the advertising and recruitment

generally. The HRM unit shall also be responsible for the education, training and career development of staff. The training unit for LGU Assessors & Appraisers will be important in the Regions and will be set up at an early date.

### **11. Appoint the CAA Advisory Board**

The composition of the Advisory Board is described in the section on “CAA Organization”. The Board will provide real property tax administrators, taxpayers and the appraisal professionals the opportunity to have input into the CAA policy development. The Board and Committees will also provide the CAA with an important linkage with the users of real property appraisals completed for taxation purposes.

### **12. Confirm the CAA Mission Statement & Corporate Plan**

The Mission Statement and a 3yrs Corporate Plan will provide the guidance for the CAA through the establishment period. A “Statement of Corporate Intent” will be important for stakeholders and staff to see in advance what the CAA is about and what its plans are for the future.

### **13. Confirm the CAA Structure & Staffing Pattern**

The CAA Executive Director with advice from the HRM unit shall approve the CAA structure and staffing pattern for the establishment period. The involvement of DBM in the process of approval is also needed. The structure and staffing pattern will be subject to periodic review.

### **14. Commence Staff Appointments for the Central Office**

The permanent appointment process will follow normal public service procedures. However the recruitment of staff for key appraisal positions should be qualified in commerce or engineering and have experience in appraisal work.

### **15. Establish the CAA Administration Services Unit**

The Administration unit is necessary to establish the office systems, financial and accounting procedures etc.

### **16. Establish the CAA Policy & Planning Unit**

The policy unit will have been together in the BLGF Special Unit and have operated as a change management unit. The transfer to permanent CAA unit should be straightforward.

## **17. Commence Appraisal Training for Key CAA Staff**

This training will involve preparing appraisal staff for the appraisal of special properties and may need to be conducted off shore or by importing international experts or both.

## **18. Establish the CAA Valuation Simulation Models**

The proposal to establish the models has been described under Para. 5 (B) above. The selection of suitable project sites will be important and should include a range of LGU's from the Provinces and Cities as well as Metro Manila.

### **(d) Phase 3 Post Legislation Establishment Period (Year Two 2006)**

The second year of the establishment period will be directed towards establishing the CAA Regional Offices. The Central Office units will be supporting the process and the Regional presence will put in place the field operations with direct contact with the LGU's.

## **19. Appoint CAA Regional Directors**

This position will be a statutory officer position in terms of the CAA Act operating where appropriate under delegation from the CAA Executive Director. The successful applicants must be qualified and experienced as Assessors.

## **20. Commence Appointing CAA Staff in the Regions**

The Regional Office appraisal staff and those engaged in compliance reporting should have local knowledge and experience.

## **21. Appoint Regional Consultative Committees**

The appointment of these committees will be important to the success of the CAA field activities. The composition of the committees is described in the CAA Organization Paper. In general terms the Committees shall be composed of local stakeholder representatives who in most cases will have local knowledge of the property market and appraisal generally. By consulting with the committee the CAA will gain valuable feedback on the performance of the LGU's and field operations generally.

## **22. Commence Developing National Valuation Standards & Rules**

The development of valuation standards and rules will be a key function for the Central Office. Although the set up has been delayed the availability of suitably experience and trained staff may well be a problem. The CAA Advisory Board and the CAA Regional Consultative

Committees could well play a significant role in the consideration process.

### **23. Establish the CAA Property Transactions Database**

The formal establishment of the CAA Property Database will provide a service to the LGU Assessors and a strong linkage to the LAA through the land information and transaction recording. The transaction information will be basic to the Compliance Reporting function by providing information to measure valuation accuracy.

### **24. Commence Valuation Compliance Report Training**

The Compliance Reporting on the LGU's shall be a major function for the CAA in the Regions. The training and development of staff experience in LGU appraisal will be important.

### **25. Establish CAA Special Properties Appraisal Unit**

The Special Properties Unit will also operate in the Regions with staff posted to service a number of Regions. A very specialized appraisal unit staffed with appraisers who have received specialist training.

### **26. Establish the CAA Legal Services & Internal Audit Unit Plus the Board of Assessment Appeals Secretariat**

This unit is made up of control related functions and the secretariat will have responsibilities in the CAA Central and Regional Office.

### **27. Commence a Review of the Assessors Manual & Guidelines**

An Assessors Manual already exists but will need a major rewrite following the passing of the CAA Act. Also guidelines should be issued. The LGU Assessors should have considerable input to the review process.

### **28. Establish the CAA Monitoring & Evaluation Unit**

The M & E Unit will be established in both the Central and Regional Offices and will provide the important information on the effectiveness of the processes established by the units and provide valuable feedback for the continuous improvement program.

## **Conclusions**

At the end of the 5-year establishment period it will be time to review the progress achieved. An independent review should be carried out to evaluate if the CAA is performing its tasks as it was created to do.

Serial	Activity	Time	Details	Action	Remarks
<b>Phase One Pre Legislation</b>		(assumes all approvals to proceed)	2004		
1.0	Memorandum of Agreement for the establishment phase	First Quarter	Preparation of a MOA for the establishment phase of the CAA	DOF & LAMP	A clear mandate for the establishment of the CAA as a special unit within the BLGF will be needed together with approvals from the LAMP Task Force and the Sec of Finance.
2.0	Appoint an Oversight committee	First Quarter	An Oversight committee to be established to provide clear direction for phase one	DOF & LAMP	The oversight committee comprising representatives from LAMP as convener, DOF, BLGF, BIR, LAA, DILG. The committee reporting to the LAMP Task Force.
3.0	Establish Action Plans & Budget	First Quarter	The first task of the oversight committee will be to agree on action plans to provide provision for reporting and the measurement of progress.	OC	The action plans shall be discussed and approved by the LAMP Task Force
4.0	Establish a Special Unit within the BLGF	First Quarter	The special unit will be necessary to provide the admin support to the Oversight Committee	DOF & OC	The special unit reporting directly to the Exec Dir. BLGF. The Unit shall be responsible for drafting and supporting the passage of the legislation and the necessary amending legislation and provide a base for the future CAA.
5.0	Propose draft legislation & consensus building	Second Quarter	Draft Legislation for a CAA including the valuation components from the Local Government Code	OC	The legislation is a priority task to enable the CAA to be created.
6.0	Propose draft amending legislation impacting on a CAA	Second Quarter	The amending legislation could involve the Local Govt Code and the LAA as well as BIR legislation	OC	The amendments will be needed to enable the CAA to exercise its powers over the LGU's (e.g. appointment of assessors)
<b>Phase One (A) Delayed Legislation</b>		(assumes all approvals to proceed)	<b>Delayed Legislation</b>		
1.0 A	Oversight Committee	Second Quarter	In the event of a delay in the passage of legislation follow on action will be necessary	LAMP, DOF, BLGF & OC	Any delay in the passage of the CAA legislation will trigger a review of the MOA and the action plans. It is envisaged that a number of actions can be completed without the CAA empowering legislation.
2.0 A	Legislation Unit	Second Quarter	The CAA legislation further developed	BLGF & OC	An opportunity exists as a result of the timetable delay to refine the draft legislation and arrange to discuss and coordinate other stakeholder interests.
3.0 A	BLGF Special Unit Plan & Budget	Third Quarter	The BLGF Special Unit will now require a wider mandate to operate as such	BLGF & OC	As a result of the delay the role of the BLGF Special Unit shall change as the scope of the unit enlarges. This shall require additional funding and other resources.
4.0 A	Establishment of Assessor Training and Education	Third Quarter	The education & training of Assessors & Appraisers is considered an overall priority. New staff will be required.	BLGF & OC	The education and training component could be started. The development of training modules could be completed and rolled out in the context of the LGC. The education courses could be started but funding may be a problem.
5.0 A	Establishment of specialist units and start of work	Fourth Quarter	Specialist Units and simulation models could be commenced to assist the future CAA.	BLGF & OC	In the context of the LGC, the BLGF have authority to conduct various activities associated with the Assessment administration. The proposed units on special appraisals, manuals, standards, appraisal simulation models and gathering and testing property market data could proceed in advance of the CAA empowering legislation.

Serial	Activity	Time	Details	Action	Remarks
<b>Phase Two Post CAA Legislation Establishment Period (Year 1)</b>	(assumes all approvals to proceed)	2005			
6.0	Appoint/Designate an Acting Director	First Quarter	The Acting Director will be responsible for establishing the CAA and reporting to Exec Dir. BLGF	OC	It is important to commence the operations of the CAA as early as possible and the appointment/designation of an Acting Director will make sure the establishment program will commence.
7.0	Put in place all administrative procedures to enable the CAA to operate	First Quarter	The formal attachment of the CAA to the DOF and the reporting lines etc will need to be actioned	OC & DOF	The attachment of the CAA to the DOF may only be a short term arrangement and be subject to a review after 5 years of operation to assess the suitability of the attachment and allow the opportunity to consider further other options.
8.0	Transfer the Special Unit within the BLGF to become the CAA Establishment Unit.	First Quarter	The CAA Establishment Unit will be tasked with putting in place the necessary processes for setting up the CAA.	OC & DOF	It is suggested that the CAA Establishment Unit be located in BLGF accommodation.
9.0	Advertise and Appoint a CAA Executive Director	First Quarter	A statutory officer position	CSC	The position to be filled as per the CAA Act and the successful applicant must have substantial recent experience as an assessor
10.0	Establish a CAA Human Resources Management & Development Unit	Second Quarter	The Unit will develop the CAA Policies on HR	CAA Director	The development of HR Policies will be important at the outset to enable the advertising, staff transfers and recruitment generally to take place. The applicant interviews and compensation plans will need to be developed. The education, training and career development of staff will also be important.
11.0	Appoint a CAA Advisory Board	Second Quarter	The Advisory Board membership appointments are made in consultation with stakeholders.	The CAA Dir with the LAMP Task Force	CAA Director as convener and DOF, BLGF, BIR, LAA, DILG, Appraisers Rep, Assessors Rep, LGU Rep & Chamber of Commerce Rep. A total of 10 but ideally 8.
12.0	Develop and confirm the CAA Mission Statement and Corporate Plan	Second Quarter	The documents necessary to comply with GOP agency procedures.	CAA Director	These documents will put in place the necessary organizational goals, which should include short, medium and long-term action plans.
13.0	Confirm the CAA Structure & staffing levels etc.	Second Quarter	The structure and staffing levels will need to comply with Civil Service Commission rules & regs.	CAA Director	This exercise will be important and may need to be reviewed after the first round of appointments.

Serial	Activity	Time	Details	Action	Remarks
<b>Phase Two Post CAA Legislation Establishment Period (Year 1)</b>	(assumes all approvals to proceed)	2005			
<b>14.0</b>	Commence the advertising and appointment process for permanent CAA staff in the Central Office.	Second Quarter	The position descriptions should stress appraisal or assessor experience for professional staff.	CAA Director	If appraisal or assessor experience is unavailable then commerce graduates and or engineering graduates should be preferred.
<b>15.0</b>	Establish a CAA Administration Services Unit	Second Quarter	The Unit will be necessary to establish the financial & budget arrangements	CAA Director	The Administration Unit will be necessary to put in place the office infrastructure such accommodation, equipment and accounting systems etc.
<b>16.0</b>	Establish a CAA Policy & Planning Unit	Third Quarter	The Unit will be necessary to develop and coordinate policy	CAA Director	The Policy Unit will have previously been operating as the establishment group within the BLGF.
<b>17.0</b>	Commence appraisal training for key staff in the central office.	Third Quarter	Appraisal training in specialist properties	CAA Director	The up skilling of appraisal staff will be important in establishing a Special Projects Unit and this will require assistance from international expert(s).
<b>18.0</b>	Establish the CAA Valuation Simulation Models	Fourth Quarter	The simulations models will demonstrate the impact of the improved LGU valuation model in each LGU and is essential in the move to market value.	CAA Director	The creation of the valuation simulation models in a range of LGU's shall provide information to the LGU's and the tax policy experts to demonstrate the impact on taxes by shadowing the existing system and tax levels and provide a basis for the transition to the improved LGU valuation model as proposed with the minimum of disruption.

Serial	Activity	Time	Details	Action	Remarks
<b>Phase Three</b> (assumes all approvals to proceed)					
<b>Establishment Period (Year 2)</b> 2006					
19.0	Advertise and Appoint the CAA Regional Directors	First Quarter	A statutory officer position operating under delegation from the CAA Executive Director	DOF/Civil Service Commission	The position to be fill as per the CAA Act and the successful applicants must have substantial recent experience as an assessor
20.0	Commence the advertising and appointment process for permanent CAA staff in Regional Offices.	First Quarter	The Regional Office appraisal staff should have local knowledge and experience.	CAA Regional Director/The CSC	The Regional staff will need appraisal training and in particular audit valuation training.
21.0	Appoint the CAA Regional Consultative Committees	First Quarter	The Regional Consultative Committee membership appointments are made in consultation with stakeholders.	The CAA Dir in consultation with the CAA Advisory Board	CAA Regional Director as convener and, DOF, BLGF, BIR, LAA, Appraisers Rep, Assessors Rep, LGU Rep & Chamber of Commerce Rep. A total of 8.
22.0	Commence development of National Valuation Standards and Rules for Real Property Tax purposes	Second Quarter	A key area of activity which will involve wide consultation	CAA Director	The development of standards & rules is a key function for the central office. Considerable consultation will be needed with input from all stakeholders. The Advisory Board and the Regional Consultative Committees will play a key role in the consideration process.
23.0	Establishment of the CAA Property Sales & Rentals Database	Second Quarter	The Property Transactions Data Base of accurate information will be important to underpin the appraisal process.	CAA Director	The Property Database will provide services to the LGU's as well as obtaining transaction information from the LGU's and the LAA. The information will be basic to the Compliance reporting function by measuring valuation accuracy
24.0	Commence training for all staff involved in Valuation Compliance Reporting	Second Quarter	The Valuation Compliance Group will be the main interface with the LGU's	CAA Director	The Compliance Reporting of the LGU's shall be a major function of the CAA. The systems and processes will need to be developed and ongoing training will be needed particularly in the Regions.
25.0	Establish the CAA Special Properties Appraisal Unit	Third Quarter	The appraisal of special or unique properties to assist the LGU's and provide uniformity of approach	CAA Director	The special properties unit shall be based in the Central Office but in time will also be established in some Regional Offices to better serve the LGU's in the provinces. The uniformity of appraisal practice is important for the LGU's and the taxpayers particularly where some network properties traverse multiple LGU's.
26.0	Establish the Legal Services, Internal Audit Unit and plus the Boards of Assessment Appeals Secretariat	Third Quarter	These sections are important support services and in particular the assessment Appeals secretariat which would also be established in each Regional Office	CAA Director & Regional Director	The legal services section shall assist the other units and also be available in the Assessment Appeals area. The internal audit will concentrate in the Admin and finance areas. The Assessment Appeals secretariat will be established in the central office and in each regional office.
27.0	Commence a Complete Review of the Assessor's Manual	Fourth Quarter	The existing Assessor's Manual shall require amendments to take into account the changes.	CAA Director	The Assessor's Manual is an important reference and will need to be continually updated as changes in processes occur.
28.0	Establish the CAA Monitoring & Evaluation Unit	Fourth Quarter	The M & E Unit will established centrally and in the regions.	CAA Director & Regional Director	The M & E Unit will be established in the Central and Regional Offices and be responsible for collecting and analyzing the processes to ensure efficiencies can be achieved.

## **(D) THE CENTRAL APPRAISAL AGENCY LEGISLATION AMENDMENTS**

### **1. Background**

The Land Valuation Policy Study Report<sup>24</sup> in 2002 recommended the creation of a Central Appraisal Authority (CAA) to provide the GOP and LGU's with standards and guidelines, technical assistance, and compliance monitoring, and reporting functions. In order for the CAA to undertake such functions, certain provisions of Law mainly of the Local Government Code of 1991 need to be amended. The Land Valuation Policy Study<sup>25</sup> proposed the creation of a comprehensive Real Property Valuation Act and recommended the adoption of internationally recognized definitions.

### **2. Considerations**

The CAA to carryout the role and functions proposed in this study will need empowering legislation to put in place the powers and controls necessary to be effective.

#### **(a) The CAA Legislation**

The proposed legislation shall cover the role and functions, which have been identified. It is further recommended that the proposed amendments to the Local Government Code be included in the CAA legislation. These amendments are discussed in detail later.

The creation of the statutory position of CAA Executive Director will include certain powers, which will come from amending the LGC.

The creation of the statutory position of CAA Regional Director will also include certain powers delegated from time to time by the Executive Director.

The powers generally relate to the recommending appointments of Assessors<sup>26</sup>, the power to review and approve the Schedule of Fair Market Value (SFMV) completed each year as well as the power to program and schedule the conduct of the general revisions of real property assessments.

The power to conduct compliance reports on the LGU's and to access information and files held by the LGU's will need to be included.

Other powers will need to be considered in line with GOP policy such as the powers of entry<sup>27</sup> and the powers to question<sup>28</sup> individuals and

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<sup>24</sup> PA-LAMP Land Valuation Policy Study Report June 2002 page 23

<sup>25</sup> PA-LAMP Land Valuation Policy Study Report June 2002 page 27

<sup>26</sup> The powers to approve Assessor appointments and those related to the SFMV are now held by the LGU's.

<sup>27</sup> The Powers of entry concern the right to enter private property to carry out inspections for valuation purposes.

<sup>28</sup> The power to question and demand the supply of information with sanctions for non cooperation.

corporate entities concerning valuation related information such as transaction prices, rentals, costs and production data.

It may be beneficial for the CAA to have the right to carryout a general revision of the Schedule of Fair Market Values (SFMV) in any LGU if the need ever arose concerning an Assessor's non-performance or where special circumstances prevail e.g. untimely death of an Assessor.

The proposed special properties appraisal unit will require recognition and the power to act and assist LGU Assessor as well as powers to access property and request information from owners or occupiers in addition to the LGU Assessor.

The ownership of data will also need to be addressed in the CAA legislation particularly the data held on the proposed Property Transactions Database. The ownership and utilization of the Schedule of Fair Market Values (SFMV) in relation to its use by GOP Agencies and in particular the use made by the BIR for its administered taxes on real property.

Liability issues may also need to be addressed for CAA employees and LGU Assessors when questions that may arise in the future concerning professional negligence.

### **(b) The Single Valuation Base**

The adoption of an Improved LGU Assessors Valuation by the BIR and the LGU's will need to be covered in the CAA legislation and or the amendments to the LGC and the BIR Code which should all be incorporated into the CAA Act.

The date of valuation or the valuation reference date is an area, which requires attention because it is not well defined in existing legislation or the LGC. There is a date which relates to the approval of the SFMV (1 January) and there is reference to the effectivity date (1 January following the SFMV approval) which is a date when the real property tax becomes payable. The work done to create the SFMV is completed prior to the 31 December deadline and therefore the valuation date must be sometime in the previous six months or more prior to 31 December. It is considered very important to have a specific reference date and it is proposed to adopt 1 July in the year prior to the 31 December approval date for the SFMV.

The definition of improvements also needs attention and the 2002 study report also pointed out the problem. In general the value of land has been defined as ***“the value of the land as if no improvements had been made”*** and then a defined list of what improvements shall and shall not be included (mainly land development improvements) in the Land Value. Then the value of improvements is separately defined

(buildings and structures) as the **“added value the improvements (as defined) give to the land”**.

The definition of Market Value in particular requires amendment and the suggested definition in the Land Valuation Policy Study Report 2002 should be considered.

**“The estimated amount for which the land and improvements as defined (and unencumbered by any mortgage or charge thereon) should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion.”**

### **(c) The Central and Local Boards of Assessment Appeals**

A question has arisen concerning the Boards and if the CAA should have jurisdiction over appeals.

The right to appeal an assessment and have that appeal heard by an independent Board or Tribunal is a fundamental right of property owners, occupiers and taxpayers. It would therefore be inappropriate for the CAA to have jurisdiction over appeals because of the CAA’s role in approving the SFMV and providing compliance-reporting services to the LGU’s. It is therefore recommended that the status quo remain but with improvements to the composition of the Boards and the need to introduce members who have real property appraisal knowledge and experience which is not available under the existing structure.

The servicing of the Boards of Assessment Appeal is considered vital to the speedy resolution of appeals and it is proposed that the servicing of the Boards be transferred to the CAA to improve the situation and provide a focus to this important area of assessment administration.

### **(d) The Local Government Code Amendments**

As discussed previously there are a number of amendments to the provisions contained in the LGC which could be best dealt with if they were transferred to the CAA Act. The proposal to transfer the valuation related provisions of the LGC to the CAA Act would further improve the principle of the separation of the valuation function from the taxation function.

Such provisions are as follows:

**SEC. 200. Administration of the Real Property Tax.** – The provinces and cities including municipalities within the Metropolitan Manila Area, shall be primarily responsible for the proper, efficient and effective administration of

the real property tax **\*SUBJECT TO THE RULES AND REGULATIONS GOVERNING THE CLASSIFICATION, APPRAISAL AND ASSESSMENT OF REAL PROPERTY ISSUED BY THE DEPARTMENT OF FINANCE AND/OR THE CENTRAL APPRAISAL AUTHORITY.**

**ACCORDINGLY, THE CENTRAL APPRAISAL AUTHORITY AND THE PROVINCIAL GOVERNMENTS SHALL EXERCISE THE AUTHORITY TO REVIEW AND EXAMINE ON A CONTINUING BASIS, PROPERTY ASSESSMENT AND THE REAL PROPERTY TAX RECORDS TO ENSURE THE PROPER IMPLEMENTATION OF THIS RULE AND DETERMINE COMPLIANCE WITH EXISTING LAWS AND REGULATION.**

**SEC. 201. Appraisal of Real Property.** – All real property, whether taxable or exempt, shall be appraised at the current **[and]** **\*[fair]** market value prevailing in the locality where the property is situated. The **[Department of Finance] CENTRAL APPRAISAL AUTHORITY** shall promulgate additional necessary rules and regulations for the classification, appraisal, and assessment of real property pursuant to the provisions of this Code.

**SEC. 205. Listing of Real Property in the Assessment Rolls. –**

(a) In every province and city, including the municipalities within Metropolitan Manila Area, there shall be prepared and maintained by the provincial, city or municipal assessor **OF METROPOLITAN MANILA AREA** an assessment roll wherein shall be listed all real property, whether taxable or exempt, located within the territorial jurisdiction of the local government unit concerned. Real property shall be listed, valued and assessed in the name of the owner or administrator, or anyone having legal interest in the property.

(b) The undivided real property of a deceased person may be listed, valued and assessed in the name of the estate or of the heirs and devisees without designating them individually; and undivided real property **OTHER** than that owned by a deceased person may be listed, valued and assessed in the name of one or more co-owners: Provided, however, that such heir, devisee, or co-owner shall be liable severally and proportionately for all obligations imposed by this Title and the payment of the real property tax with respect to the undivided property.

(c) The real property of a corporation, partnership, or association shall be listed, valued and assessed in the same manner as that of an individual.

(d) Real property owned by the Republic of the Philippines, its instrumentalities and political subdivisions, the beneficial use of which has been granted, for consideration or otherwise, to a taxable person, shall be listed, valued and assessed in the name of the possessor, grantee or of the public entity if such property has been acquired or held for resale or lease.

**SEC. 206. Proof of Exemption of Real Property from Taxation. –**

Every person by or for whom real property is declared, who shall claim tax exemption for such property under this Title shall file with the provincial, city or

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\* The bold text in capital italics represents additions

♦ The bold text in normal italics and brackets represents deletions

municipal assessor **OF METROPOLITAN MANILA AREA** within thirty (30) days from the date of the declaration of real property sufficient documentary evidence in support of such claim including corporate charters, title of ownership, articles of incorporation, by laws, contracts, affidavits, certifications and mortgage deeds, and similar documents, **FURNISHING THE CENTRAL APPRAISAL AUTHORITY REGIONAL OFFICE WITH COPIES OF THE TAX DECLARATION AND DOCUMENTARY EVIDENCE.**

If the required evidence is not submitted within the period herein prescribed, the property shall be listed as taxable in the assessment roll. However, if the property shall be proven to be tax exempt, the same shall be dropped from the assessment roll.

**SEC. 209. Duty of Registrar of Deeds to Appraise Assessors of Real Property Listed in Registry.** – (a) To ascertain whether or not any real property entered in the Registry of Property has escaped discovery and listing for the purpose of taxation, the Registrar of Deeds shall prepare and submit to the provincial, city or municipal assessor [*within six (6) months from the date of and effectivity of this Code and every year thereafter,*] an abstract of his registry every year, **FURNISHING COPIES THEREOF THE CENTRAL APPRAISAL AUTHORITY REGIONAL OFFICE, ATTACHED TO THE DEPARTMENT OF FINANCE.** The abstract shall include brief but sufficient description of the real properties entered therein, their present owners, and the dates of their most recent transfer or alienation accompanied by copies of corresponding deeds of sale, donation, or partition or other forms of alienation.

(b) It shall also be the duty of the Registrar of Deeds to require every person who shall present for registration a document of transfer, alienation, or encumbrance of real property to accompany the same with a certificate to the effect that the real property subject of the transfer, alienation, or encumbrance, as the case may be, has been fully paid of all real property taxes due thereon.

Failure to provide such certificate shall be a valid cause for the Registrar of Deeds to refuse the registration of the document.

(c) **THE REGISTRAR OF DEEDS AND NOTARIES PUBLIC SHALL FURNISH THE PROVINCIAL, CITY AND MUNICIPAL ASSESSOR CONCERNED AND THE CENTRAL APPRAISAL AUTHORITY REGIONAL OFFICE WITH COPIES OF ALL CONTRACTS, SELLING, TRANSFERING OR OTHERWISE CONVERTING, LEASING, OR MORTGAGING REAL PROPERTY REGISTERED BY OR ACKNOWLEDGED BEFORE THEM, WITHIN THIRTY (30) DAYS FROM THE DATE OF REGISTRATION OR ACKNOWLEDGEMENT.**

**SEC. 210. Duty of Official Issuing Building Permit or Certificate of Registration of Machinery to Transmit Copy to THE Assessor AND TO FURNISH COPY THEREOF THE CENTRAL APPRAISAL AUTHORITY REGIONAL OFFICE.** – Any public official or employee who may now or hereafter be required by law or regulation to issue to any person a permit for the construction, addition, repair, or renovation of a building, or permanent

improvement of land, or a certificate of registration for any machinery, including machines, mechanical, machines contrivances, and apparatus attached or affixed on land or to another real property, shall transmit within thirty (30) days of its issuance, to the assessor of the province, city or municipality where the property is situated **AND TO FURNISH COPIES THEREOF THE CENTRAL APPRAISAL AUTHORITY REGIONAL OFFICE.**

**SEC. 211. Duty of Geodetic Engineers to Furnish Copy of Plans to Assessor AND TO THE CENTRAL APPRAISAL AUTHORITY REGIONAL OFFICE.** – It shall be the duty of all geodetic engineers, public or private, to furnish free of charge to the assessor of the province, city or municipality where the land is located with a white or blue print copy of each of all approved original or subdivision plans or maps of surveys executed by them within thirty (30) days from receipt of such plans from the Lands Management Bureau, the Land Registration Authority, or the Housing and Land Use Regulatory Board, as the case may be **AND FURNISH COPIES THEREOF THE CENTRAL APPRAISAL AUTHORITY REGIONAL OFFICE.**

**SEC. 212. Preparation of Schedule of [Fair] Market Values.** – Before any general revision of property assessment is made pursuant to the provisions of this Title, there shall be prepared a schedule of [fair] market values by the provincial, city or municipal assessors of the municipalities within the Metropolitan Manila Area for the different classes of real property situated in their respective local government units **[for enactment by the ordinance of the Sanggunian concerned.]** The Schedule of [fair] market values shall be published in a newspaper of general circulation in the province, city or municipality concerned, or in the absence thereof, shall be posted in the provincial capitol, city or municipal hall and in two other conspicuous public places therein.

**THE SCHEDULE SHALL BE SUBMITTED BY THE ASSESSOR CONCERNED TO THE CENTRAL APPRAISAL AUTHORITY REGIONAL OFFICE FOR THE COMPLETION OF THE COMPLIANCE REPORT. THE SAME SHALL THEN BE SUBMITTED TO THE CENTRAL APPRAISAL AUTHORITY CENTRAL OFFICE FOR APPROVAL.**

**SEC. 214. Amendment of Schedule of [Fair] Market Values.** – The provincial, city or municipal assessor **OF METROPOLITAN MANILA AREA** may recommend to the **[Sanggunian concerned] CENTRAL APPRAISAL AUTHORITY** amendments to **[correct errors in valuation in]** the schedule of [fair] market values. **[The Sanggunian concerned shall, by ordinance, act upon the recommendation within ninety (90) days from receipt thereof]**

**SEC. 216. Special Classes of Real Property.** – All lands, buildings, and other improvements thereon actually, directly and exclusively used for hospitals, cultural, or scientific purposes, and those owned and used by local water districts, and government-owned or controlled corporations rendering essential public services in the supply and distribution of water and/or generation and transmission of electric power shall be classified as special **AND SHALL BE ASSESSED BY THE CENTRAL APPRAISAL AUTHORITY THROUGH ITS REGIONAL OFFICE.**

**SEC.219. General Revision of Assessments and Property Classification.** – The provincial, city or municipal assessor shall undertake a general revision of real property assessments *[within two (2) years after the effectivity of this Code and] every three (3) years [thereafter].*

**SEC. 227. Organization, Powers, Duties, and Functions, of the Local Board of Assessment Appeals.** – (a) The Board of Assessment Appeals of the province or city shall be composed of the Registrar of Deeds, as Chairman, the province or city prosecutor and the provincial, or city engineer as members, who shall serve as such in an ex-officio capacity without additional compensation **AND AN APPRAISER FROM THE PRIVATE SECTOR. IN CASES OF MUNICIPALITIES WITHIN METRO MANILA AUTHORITY, THE LOCAL BOARD OF ASSESSMENT APPEALS IS COMPOSED OF THE REGISTRAR OF DEEDS OF THE MUNICIPALITY OR OF THE AREA HAVING THE CUSTODY AND JURISDICTION OVER TITLES OF LANDS WITHIN THE JURISDICTION OF THE MUNICIPALITY AS CHAIRMAN, DESIGNATED OR ASSIGNED PROSECUTOR TO THE MUNICIPALITY, AND MUNICIPAL ENGINEER WHO SHALL SERVE IN AN EX-OFFICIO CAPACITY WITHOUT ADDITIONAL COMPENSATION AND AN APPRAISER FROM THE PRIVATE SECTOR.**

**THE CENTRAL APPRAISAL AUTHORITY REGIONAL OFFICE SHALL BE THE SECRETARIAT.**

(b) ***The chairman of the Board shall have the power to designate any employee of the province or city to serve as secretary to the Board also without additional compensation.]***

(c) The chairman and members of the Board of Assessment Appeals of the province or city shall assume their respective positions without need of further appointment or special designation ***(immediately upon effectivity of this Code)***. They shall take an oath or affirmation of Office in the prescribed form.

(d) In provinces and cities without a provincial or city engineer, the district engineer shall serve as member of the Board. In the absence of the Registrar of Deeds, or the provincial or city prosecutor, or provincial or city engineer or the district engineer, the persons performing their duties, whether in an acting capacity or as a duly designated officer-in-charge, shall automatically become the chairman or member, respectively of the said Board, as the case may be.

**SEC. 229. Action by the Local Board of Assessment Appeals.** –

(a) The Board shall decide the appeal within one hundred twenty (120) days from the date of receipt of such appeal. The Board, after hearing, shall render its decision based on substantial evidence or such relevant evidence on record as a reasonable mind might accept as adequate to support the conclusion.

(b) In the exercise of its appellate jurisdiction, the Board shall have the power to summon witnesses, administer oaths, conduct ocular inspection, take depositions, and issue subpoena and subpoena duces tecum. The

proceedings of the Board shall be conducted solely for the purpose of ascertaining the facts without necessarily adhering to technical rules applicable in judicial proceedings.

(c) The secretary of the Board shall furnish the owner of the property or the person having legal interest therein and the provincial *[or]* city ***OR MUNICIPAL ASSESSOR OF METRO MANILA AUTHORITY AND THE CENTRAL APPRAISAL AUTHORITY CENTRAL OFFICE WITH A COPY OF THE DECISION OF THE BOARD.*** In case the provincial or city assessor concurs in the revision or the assessment, it shall be his duty to notify the owner of the property or the person having legal interest therein of such fact using the form prescribed for the purpose. The owner of the property or the person having legal interest therein or the assessor who is not satisfied with the decision of the Board may, within thirty (30) days after receipt of the decision of the Board, appeal to the Central Board of Assessment Appeals (CBAA) as herein provided. The decision of the CBAA shall be final and executory.

**SEC. 230. Central Board of Assessment Appeals.** – The Central Board of Assessment Appeals shall be composed of a chairman and two (2) members to be appointed by the President, who shall serve for a term of seven (7) years, without reappointment. Of those first appointed, the chairman shall hold office for seven (7) years, one member for five (5) years, and the other member for three (3) years. Appointment to any vacancy shall be only for the unexpired portion of the term of the predecessor. In no case shall any member be appointed or designated in a temporary or acting capacity. The chairman and the members of the Board shall be Filipino citizens, at least forty (40) years old at the time of their appointment, and members of the Bar or Certified Public Accountants for at least ten (10) years immediately preceding their appointment. The chairman of the Board of Assessment Appeals shall have the salary grade equivalent to the rank of Director III under the Salary Standardization Law exclusive of allowances and other emoluments. The Board shall have appellate jurisdiction over all assessment cases decided by the Local Board of Assessment Appeals.

There shall be Hearing Officers to be appointed by the Central Board of Assessment Appeals pursuant to civil service laws, rules and regulations, one each for Luzon, Visayas and Mindanao, who shall hold office in Manila, Cebu city and Cagayan de Oro City, respectively, and who shall serve for a term of six (6) years, without reappointment until their successors have been appointed and qualified. The Hearing Officers shall have the same qualifications as that of the Judges of the Municipal Trial Courts.

The Hearing Officers shall each have the salary grade equivalent to the rank of Director I under the Salary Standardization Law exclusive of allowances and other emoluments. The Hearing Officers shall try and receive evidences on the appealed assessment cases as may be directed by the Board.

The Central Board of Assessment Appeals, in the performance of its powers and duties, may establish and organize staff, offices, units, prescribe the titles,

functions and duties of their members and adopt its own rules and regulations.

Unless otherwise provided by law, the annual appropriations for the Central Board Assessment Appeals shall be included in the annual budget of the Department of Finance in the corresponding General Appropriations Act.

***THE CENTRAL APPRAISAL AUTHORITY SHALL BE THE SECRETARIAT.***

**SEC. 239. Listing of Idle Lands by the Assessor.** – The Provincial, City, **AND** Municipal Assessor shall make and keep an updated record of all idle lands located within his area of jurisdiction, **AND FURNISH COPIES THEREOF THE CENTRAL APPRAISAL AUTHORITY REGIONAL OFFICE.** For purposes of collection, the provincial city or municipal assessor who shall notify, on the basis of such record, the owner of the property or person having legal interest therein of the imposition of the additional tax.

**SEC. 248. Assessor to Furnish Local Treasurer with Assessment Roll.** - The provincial, city or municipal assessor **OF METROPOLITAN MANILA AREA** shall prepare and submit to the treasurer of the local government unit, on or before the thirty-first (31<sup>st</sup>) day of December each year, an assessment roll containing a list of all persons whose real properties have been newly assessed or reassessed and the values of such properties.

**SEC. 279. Insurance Companies to Furnish Information.** – Insurance companies are hereby required to furnish the provincial, city or municipal assessor **AND THE CENTRAL APPRAISAL AUTHORITY REGIONAL OFFICE** copies of all contract or policy insurance on buildings, structures, and improvements insured by them or such other documents which may be necessary for the proper assessment thereof.

**SEC. 444. The Chief Executive: Powers, Duties, Functions and Compensation.** – (a) The municipal mayor, as the chief executive of the municipal government, shall exercise such powers and perform such duties and functions as provided by this Code and other laws.

(b) For efficient, effective and economical governance the purpose of which is the general welfare of the municipality and its inhabitants pursuant to Section 16 of this Code, the municipal mayor shall:

(b)(V) Appoint all officials and employees whose salaries and wages are wholly or mainly paid out of municipal funds whose appointments are not otherwise provided for in this Code, as well as those he may be authorized by law to appoint; **EXCEPT THE ASSESSOR WHO SHALL BE APPOINTED BY THE SECRETARY OF FINANCE UPON RECOMMENDATION OF THE EXECUTIVE DIRECTOR OF CAA.**

**SEC. 455. Chief Executive: Powers, Duties and Compensation.** – (a) The city mayor, as chief executive of the city government, shall exercise

such powers and perform such duties and functions as provided by this Code and other laws.

(b) For efficient, effective and economical governance the purpose of which is the general welfare of the city and its inhabitants pursuant to Section 16 of this Code, the city mayor shall:

(b)(V) Appoint all officials and employees whose salaries and wages are wholly or mainly paid out of city funds and whose appointments are not otherwise provided for in this Code, as well as those he may be authorized by law to appoint; **EXCEPT THE CITY ASSESSOR AND ASSISTANT CITY ASSESSOR WHO SHALL BE APPOINTED BY THE SECRETARY OF FINANCE UPON RECOMMENDATION OF THE EXECUTIVE DIRECTOR OF CAA.**

**SEC. 465. The Chief Executive; Powers, Duties, Functions and Compensation.** – (a) The provincial governor, as chief executive of the provincial government, shall exercise such powers and perform such duties and functions as provided by this Code and other laws.

(b) For efficient, effective and economical governance the purpose of which is the general welfare of the province and its inhabitants pursuant to Section 16 of this Code, the provincial governor shall;

(b)(V) Appoint all officials and employees whose salaries and wages are wholly or mainly paid out of provincial funds, and those whose appointments are not otherwise provided for in this Code, as well as those he may be authorized by law to appoint; **EXCEPT THE PROVINCIAL ASSESSOR AND ASSISTANT PROVINCIAL ASSESSOR WHO SHALL BE APPOINTED BY THE SECRETARY OF FINANCE UPON RECOMMENDATION OF THE EXECUTIVE DIRECTOR OF CAA.**

**SEC. 472. Qualifications, Powers, and Duties.** – (a) No person shall be appointed assessor unless he is a citizen of the Philippines, a resident of the **REGION FOR A PROVINCIAL OR CITY ASSESSOR AND OF THE PROVINCE FOR A MUNICIPAL ASSESSOR, [of the local government unit concerned,]** of good moral character, a holder of a college degree, preferably in civil or mechanical engineering, commerce, or any other related course from a recognized college or university, and a holder of **REAL ESTATE APPRAISER ELIGIBILITY, REAL PROPERTY ASSESSING OFFICER ELIGIBILITY** or a first grade civil service **ELIGIBILITY [or its equivalent]**. He must have acquired experience in real property assessment work or in any related field for at least five (5) years in the case of the provincial or city assessor and three (3) years in case of the municipal assessor.

The appointment of an assessor shall be mandatory for provincial, city and municipal governments.

- (b) The assessor shall take charge of the assessor's office, perform the duties provided for under Book II of this Code, and shall:

(b)(12) In the case of the provincial assessor, exercise technical supervision and visitorial functions over all component city and municipal assessors, coordinate with component city or municipal assessors in the conduct of tax mapping operations and all other assessment activities, and provide all forms of assistance therefore: Provided, however, That upon full provision by the component city or municipality concerned to its assessor's office of the minimum personnel, equipment, and funding requirements as may be prescribed by the Secretary of Finance **OR THE CENTRAL APPRAISAL AUTHORITY EXECUTIVE DIRECTOR.**

- (c) Exercise such other powers and perform such other duties and functions as may be prescribed by law or ordinance.

**SEC. 473. Assistant Assessor.** – No person shall be appointed assistant assessor unless he is a citizen of the Philippines, a resident of the **REGION FOR AN ASSISTANT PROVINCIAL OR CITY ASSESSOR AND OF THE PROVINCE FOR ASSISTANT MUNICIPAL ASSESSOR, [local government unit concerned,]** of good moral character, a holder of a college degree preferably in civil or mechanical engineering, commerce, or any related course from a recognized college or university, and a holder of **REAL ESTATE APPRAISER ELIGIBILITY, REAL PROPERTY ASSESSING OFFICER ELIGIBILITY** or a first grade civil service eligible **[or its equivalent]**. He must have acquired experience in assessment or in any related field for at least three (3) years in the case of the assistant provincial or city assessor and one (1) year in case of the municipal assessor.

## Conclusions

The study has called for the identification of existing legislation and the amendments necessary to enable the CAA to carry out its proposed roles and functions. However it is considered appropriate to reference additional legislative authority needed to be considered and the powers to be vested in the CAA and the Executive Director.

## (E) THE CAA TRAINING REQUIREMENT FOR EXISTING AND NEWLY RECRUITED STAFF

### (a) Introduction

The Land Valuation Study 2002 proposed the creation of a central appraisal agency to act as a regulator and to oversee the development and maintenance of the real property valuation system at the LGU's and in the national government.

In the proposed organization of the CAA, both at the central and regional levels, each major function is assigned to a unit as follows:

1. Special properties appraisal;
2. Policy and Planning, Monitoring and Evaluation, and Valuation Standard and Rules;
3. Human Resource Management, and Training (for Assessors and Appraisers);
4. National Property Transactions Database and IT Strategy;
5. Legal, Internal Audit and Central Board of Assessment Appeals Secretariat;
6. LGU Compliance Reporting Control; and
7. Administration Services (Finance and Budget)

While the appointees to these units shall be qualified assessors and appraisers, the absence of formal valuation education in the Philippines necessitates specialists trainings.

The current education qualification for assessors/appraisers in the LGU's is a degree in engineering, law, agriculture, architecture, commerce or any related course. This is so because no educational institution in the Philippines offers any degree in real estate valuation/appraisal. For the civil service eligibility requirement, it is simply a first grade eligibility. It was only in recent years that Assessors qualified to take the Real Estate Appraisal examinations without the required five (5) years experience as Brokers and the Real Property Assessment Officer Examination was given only once. Considering that the civil service qualification requirement is only first grade eligibility, the examination which many have taken, very few bothered to take the appraisers' examination.

Clearly, there is a need for specialists training for the personnel who shall be assigned to the units in the CAA (Central and Regional levels) considering the complexity in the valuation of special properties and the necessary skills and capability in the performance of the functions of the CAA. These personnel must be skilled enough to be able to conduct trainings for assessors and appraisers in order to have a group of better-informed and more competent property valuers.

The Bureau of Local Government Finance has been conducting trainings for assessors and treasurers and their staff, most of which were funded by foreign-assisted Real Property Tax Administration (RPTA) projects such as the USAID-assisted RPTA projects, the RPTA Component of the World Bank-assisted Program for Essential Municipal Infrastructure, Utilities, Maintenance and Engineering Development (PREMIUMED), and the RPTA

subcomponent of the Land Administration component of the Australian–assisted National Resources and Management Development Program (NRMDP). Basically however, the trainings were on Project implementation and were of short duration.

The said Projects and the Philippine Government sent Assessors from LGU's and the national government from time to time to other countries for valuation training or to take short courses in valuation in countries as the United States, Australia, Thailand, Singapore, Taiwan, Germany and a few others.

The constant change of assessors however, in view of their being appointed by local executives and the fact that personnel of Assessors' Offices especially in municipalities are "casual" or "contractual" employees (short term temporary employees) or employees detailed in Assessors' Offices from other Offices, necessitate continuing trainings/seminars or workshops.

## **(b) Training For CAA Personnel at the Central and Regional Levels**

To strengthen the management and technical capability of the CAA central and regional offices, the personnel assigned to as well as those appointed to positions in the functional units shall undergo training.

A proposed work plan or activities and approaches to be employed shall be as follows:

**1. Conduct of management needs assessment in determining the training needs of the CAA central and regional offices. This task involves a number of related activities among which are:**

- Analysis of existing policy directives and regulations regarding responsibilities at central and regional levels including responsibilities relative to external agencies. Among the sources of these policies are the Local Government Code of 1991, (Republic Act 7160), The National Internal Revenue Code of the Philippines as amended and The Real Property Tax Assessment Manual of BLGF.

The implications of Department of Finance/Commission on Audit/Office of the Budget and Management Joint Circular No. 3–84 on funding mechanisms and approval authorities will also be looked into as it provides the guidelines implementing Presidential Degree 1914 entitled “Creating a Special Revolving Fund for purposes of Foreign–assisted Projects Applicable to Local Governments”. Such projects are RPTA projects and repayments of LGU loans from this Fund are a good source of General Revision of Assessment funding.

- Analysis of existing CAA organization structure and management system, taking into account the objectives of the Agency and addressing among others the distribution of functions appropriate for effective management. The analysis will review and evaluate among others the following:
  - I. The appropriate functions and responsibilities of the CAA organization and the various units in both central and regional offices as well as the responsibilities of the Executive Director, the Advisory Board and the Regional Consultative Committees;
  - II. The authorities/areas for decision–making at the various levels of the organization and the relationships coordinating mechanisms with respect to their functions and the responsibilities; and
  - III. The organizational responsibilities and corresponding unit functions whether technical or administrative.
- Analysis of operating activities and processes associated with the functions and responsibilities at the various units in both CAA central

and regional offices. The analysis shall also include being familiar with those at the Assessors'/Appraisers' Offices. This may require field visits.

- Evaluation of existing management systems and controls, related to this is the monitoring and evaluation system.

Management systems and controls shall be analyzed relative to the nature and flow of operations and processes.

- Analysis of existing staffing patterns at various levels. The analysis will take into consideration the functions, responsibilities and authorities at each level of the organization and the flow of operations and processes. Job descriptions of the senior and intermediate level management and technical staff will be developed and the requisite qualifications/expertise associated with those qualifications shall be reviewed.

**2.** Having identified the needs, the training requirements shall be assessed and the training plan and corresponding cost proposal shall be made. The training plan shall include the –

- selection criteria for participants;
- determination of the appropriate number of participants. The specific training program shall vary across types of functions, and levels in the organization;
- identification of trainers;
- plan for physical arrangement, time schedule, and detailed costings;
- plan for follow–on workshops and seminars to reinforce management concepts and to resolve problems.

**3.** Develop training packages and undertake related activities such as selective testing of training materials and developing a program to assess the impact of training on the operations of the local government units.

- The training packages shall be developed with their corresponding Trainer's Manual.
- Trainers training shall be mainly “on–the–job” training but under the supervision of the Training Specialist.
- The training packages shall be selectively tested. The testing shall also serve as a part of the Trainer's training.

- A program shall be designed to assess the impact of training on operations of local government units.

#### **4. Conduct of the Training**

- The training actually starts with the testing of a selected training package.
- A general training plan shall be developed after the testing.
- After approval of the training plan the training is conducted.

**5.** The assessment of the impact of the training on the operation of the LGU's shall be conducted in accordance with the Training plan.

### **(C) Conclusions**

A training needs analysis for all CAA staff is a priority for the new organization and in particular the training of trainers in the area of Assessor and Appraiser training in the Regions. The development of training packages and with the application and use of technology and distant teaching techniques will improve the coverage and timeframes to complete the task.

Management training will be a priority as well as skills in financial planning and project management. The CAA training needs will cover a wide range of expertise necessary in a variety of professional areas. It will therefore be necessary to plan carefully to obtain the best results.

**END CHAPTER 1.**

**3. A SINGLE VALUATION BASE  
CHAPTER 2**

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## Chapter 2

### A SINGLE VALUATION BASE FOR ALL REAL PROPERTY TAXATION

#### 1. Purpose

This paper is presented as a discussion paper in line with the project Terms of Reference 1 (d) to define a single valuation system for taxation purpose, the valuation methods assumed, a transition timetable, the impact on affected organizations, the role of technologies and the training necessary to successfully achieve the proposed reforms.

#### 2. Background

Previous Reports<sup>1234</sup> and comments have supported a move towards a single valuation base for the assessment of the Local Government Unit (LGU) Real Property Tax (RPT) and the GOP taxes (Capital Gains Tax and Documentary Stamp Tax) on real property.

The main reasons given for the confusion among taxpayers relates to the various valuations used in the assessment of taxes on real property. The valuation of a piece of land arrived at by a LGU Assessor using the Schedule of Fair Market Value (SFMV) differs in most cases from the value arrived at by BIR using the Zonal Value.

The reasons why there are two systems have also been identified and discussed in previous Reports. In summary, the SFMV used by the LGU's have not been revised for many years or the Schedules have been revised but do not represent fair market value or the Schedules could also have been subjected to local political influence. The ZV only assesses the land value and relies on the SFMV for the value of improvements and although the ZV may not suffer from the same political influence, it does have a review process that is lengthy and there is little or no appeal process. The ZV does not represent fair market value<sup>5</sup>.

The main issues raised by taxpayers and stakeholders generally concern the huge difference in most cases between the two valuations<sup>6</sup> on the same property and that neither valuation system represents market value. The NTRC paper concluded that the average difference in the values between the SFMV and the ZV was 262.33%.

<sup>1</sup> Inter-Agency Coordinating Committee (IACC) Land Administration & Management Report, February 2000

<sup>2</sup> IACC Report February 2000 Annex 17

<sup>3</sup> NRMDP Report March 1993

<sup>4</sup> Land Valuation Policy Study Report June 2002 page 5&6

<sup>5</sup> Land Valuation Policy Study Report June 2002 Annex E

<sup>6</sup> NTRC Discussion Paper on LAMP dated 17 October 2002

### 3. Introduction

The 2002 Land Valuation Policy Study<sup>7</sup> recommended that one land valuation system be adopted for all ad valorem taxation purposes and that the system should be an improved LGU Real Property Valuation. The improved LGU Assessors' valuation system, the Schedule of Fair Market Value (SFMV) was discussed in the Report and will be further discussed in this study.

No comment was made in that Report concerning the possible transition from the ZV to the improved SFMV or when that should take place with the least disruption to the BIR tax revenue received from the Capital Gains Tax (CGT) and the Documentary Stamp Duty (DSD) based on the ZV.

The Department of Finance (DOF)<sup>8</sup> has expressed concerns with the adoption of a single valuation base and the impact this could have on the assessment of CGT and DSD. Although there is agreement in principle to adopt a single system an issue has been raised concerning the appropriate "approach to value" to be adopted in any new system being contemplated.

### 4. Approaches to Value

In discussing any approach to value there should be a clear appreciation of the meaning of the terms, value, highest and best use and market value in the context of real property and the appraisal process.

The following sets out the meanings of these expressions in the context of real property:

- **Value**

The monetary relationship between properties and those who buy, sell, or use those properties. Value expresses an economic concept and as such, it is never a fact but always an opinion as to the worth of a property at a given time in accordance with a specific definition of value.

- **Highest and Best Use**

This concept is fundamental to the appraisal of real property and can be described as the most probable use of real property, which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the real property being valued.

The actual use or predominant use of a property is usually taken into account by the application of the LGU assessment classification level for the application of the LGU's real property tax.

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<sup>77</sup> Land Valuation Policy Study Report June 2002 Annex H Number 5

<sup>8</sup> Memorandum from DOF Sec Camacho dated 19 March 2003 Para. 2

- **Market Value**

In general terms, market value is the price expected if a reasonable amount of time is allowed to find a purchaser and if both seller and prospective buyer are fully informed. For real property appraisal purposes, market value is the most probable price that an unencumbered property would sell for on the open market on a defined date.

- **A Definition of Market Value**

Market Value, means the amount, which might be expected to be paid on the Review Date for the Land (which includes the value of improvement in or on the land) by a willing buyer to a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

- **Valuation Methodologies**

There are three fundamental approaches to value, which appraisers and assessors use to develop market value estimates.

A summary of each approach follows.

- **The Sales Comparison Approach**

The Sales Comparison Approach to value is based on the assumption that an informed purchaser would pay no more for a given property than the cost of acquiring a comparable property.

Therefore, the sale price of comparable properties are first adjusted to reflect value trends in the market. For example, if the sale of a comparable property took place on 30 June and the Review or Valuation date for the subject property is 1 January following, then the sale price should be adjusted. The adjustment is based on market movement if any occurring between 30 June and 1 January.

Since no two properties are exactly alike (either in terms of location or physical characteristics), adjustments to the sale price for each comparable property is required to account for their differences.

Once the sale price of a comparable property is adjusted, the reconstructed value reflects the "probable selling price" of the property being appraised. This process is repeated for all comparable sales and produces a range of values against which the subject property can be compared.

Using the Sales Comparison Approach to value is most appropriate when the market is active and many properties with similar characteristics are selling. This approach could well apply in most residential areas.

- **The Cost Approach**

The Cost Approach to value is based on the assumption that an informed purchaser would pay no more for a property (land and buildings) than it would cost to buy a similar piece of land on which a building is constructed with characteristics comparable to the property to be purchased.

The appraiser estimates the land value only, and then adds to this value the cost of replacing the building(s) and other improvements.

Value of Land + Cost of Improvements (i.e., Building) less Depreciation = Total Value of Property

When applying this approach to value, costs must be adjusted to the review date, reflect market values in the property's geographic location, and include all indirect costs (such as the developer or owner's profits and the cost of financing during construction).

Once the costs of constructing the subject building have been determined, the appraiser estimates a deduction for the following factors:

Physical Depreciation	loss in value due to normal wear.
Functional Depreciation	loss in value due to the structure's inability to function effectively due to obsolescence.
Economic Depreciation	loss in value due to location.

The Cost Approach to Value is used most often when the property being appraised is relatively unique or specialized or where there are no comparable sales, rentals or reliable market data.

- **The Income Approach**

The Income Approach to value is based on the assumption that the value of a property is directly related to the income it will generate over its economic lifetime.

When applying this approach, net operating income is estimated:

Potential Gross Income less Vacancy/Bad Debt = Effective Gross Income less Operating Expenses = Net Operating Income

The appraiser determines the potential gross rental income the property could produce by analyzing rents paid for the subject property, as well as those paid for comparable properties located in the same geographic area. An allowance is then made for vacancy and collection loss (which varies depending on the type and location of property).

From effective gross income, operating expenses are deducted which determines the annual net operating income.

Based on the expectations a typical investor would have for the property, the annual net income is converted to a capital value using a market-derived capitalization rate:

$$\text{Value} = \text{Net Operating Income} / \text{Capitalization Rate}$$

The appraiser analyzes sales that have occurred in the market place to determine what rate of return investors are seeking for the various types of properties. The capitalization rate increases proportionately with any risk.

The Income Approach to Value is applied when appraising income-producing properties such as commercial and industrial properties.

## **5 The Existing “Approaches to Value”, Valuation Methodologies and Processes Adopted for the Assessment of Ad Valorem Taxes**

### **• The LGU Schedule of Fair Market Values**

The LGU Assessors, in terms of the Local Government Code (LGC), are required to prepare the schedule of current and fair market values every three years, which are then publicly advertised and finally approved by the local Council. The LGU then applies the Assessment Level to each individual property and the real property tax is assessed and a notice sent to the property owner who has a right of appeal.

The LGU Assessor, in determining the Schedule of Fair Market Values (SFMV), uses all three (3) “approaches to value” and various methodologies in the process of arriving at a final determination for the SFMV. However it appears that the “cost approach to value” in the main dominates the market value “approach to value” adopted by the Assessors. The Assessors determine land value and the value of the building(s) and other improvements separately. The absence of sufficient reliable market data and rental information is seen as a serious impediment in the determination of market value.

The LGC is very specific as to what the Assessor is required to do and the timing of the various tasks in the determination of the SFMV. However improvements can be made to enhance the process.

The Bureau of Local Government Finance (BLGF) provides assistance to the LGU Assessors and this support involves training for the Assessors and their staff and a comprehensive guide to Assessors known as the Manual of Real Property Appraisal and Assessment Administration is produced and maintained by the BLGF.

It should be noted however that since the effectivity of the LGC of 1991, the assistance provided by the BLGF has been reduced.

- **The BIR Zonal Values**

The BIR in terms of legislation completes a process known as the Zonal Value (ZV). Specific zones for each local area are set by a committee known as the Executive Technical Committee on Real Property Value, which also determines the value of the land in each zone. Another technical committee and sub committees at the local level support this high level committee. The membership of these committees comprise the BIR, the LGU Assessor, Local Appraisers and at the national level representation from the BLGF and the National Tax Research Center (NTRC).

It appears that the committee value determination relates to the land only and the value of improvements (buildings etc) is taken from the LGU Assessor's Schedule of Construction Costs. This then determines the capital value of the property for transfer tax purposes.

The BIR Committee appears to be using the "sales comparison approach to value" for the land and then adopting the LGU value for the improvements.

The BIR Committee Appraisal, the ZV, has limited appeal rights and is not subject to a regular review. However the determination is available on the BIR web site. The process of committee meetings, hearings, recommendations and the final approval can take several years to complete and therefore the effective date of the ZV is not realistic i.e. an approved ZV in 2000 could have a base date of 1997.

## **6. The Adoption of a Single Valuation Base for Taxation**

The concept of a single system of valuation as referred to in various reports, publications and comments by groups and departments needs further clarification.

It is not a single valuation approach or methodology that was recommended in the 2002 Land Valuation Policy Study but rather a single valuation base for the assessment of all ad valorem taxation in the Philippines.

All LGU Assessors in considering the "approach to value" will involve all three, valuation methodologies as described previously providing an opinion of market value for the SFMV but this will depend on the type of property and the availability of market data. It would be wrong to direct the Assessors by restricting them to one single approach to valuation and ignore the other approaches. International best practice and standards direct Assessors and Appraisers in the public and private sectors to consider all three approaches to value in arriving at an opinion of value.

- The LGU Assessors SFMV is subject to political influence and the process of appraisal has not been well supported or updated in recent years although the system process is generally in place and is capable of being upgraded and improved.
- The BIR Committee on ZV has evolved by utilizing local inputs and experience and there is a minimum of political influence. The shortcomings in the BIR process have been noted and in particular the treatment of the value of improvements in arriving at the total improved capital value.

Neither the existing LGU nor the BIR model provides an equitable tax base. In particular there have been various reports and studies over the past few years, that have criticized the below - market - level valuations produced by the LGU's and the BIR and the unexplained gap between the two appraisals for the same property.

## **7. Other Valuation Models**

- **Self-assessment Model**

This model has been used in a number of developing countries and in countries with economies in transition. The lack of land information, market data and appraisal resources are the main reasons for the adoption of the model. A low cost option, which can invite property owners to undervalue their properties and this, would normally lead to inequities between taxpayers. Considered a short-term solution, which can bring the real property tax into public disrepute. The Philippines has a requirement, in terms of the Local Government Code (LGC)<sup>9</sup>, for the property owner to submit to the Assessor's Office a sworn statement declaring the true value of their real property assets every 3 years. It is difficult to see how the LGU Assessors use the information collected and it appears to be of interest value only.

- **Zonal Model**

This model is similar to the BIR Committee ZV model but only applies to land and does not include the value of improvements. The formula model in its simplest form is based on the determination of specific areas or Zones and applying a "value" factor (usually dominated by location) to each Zone. The factor is then applied to the property area to provide a value for the assessment of the property tax.

- **Banding Property Model**

Similar to the Zonal model and is generally used for the appraisal of large volumes of residential property. The banded system places each property in

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<sup>9</sup> LGC Section 202 "Declaration of Real Property by the Owner or Administrator"

a value band, which has been established by reference to the local property market. The number of bands and the width between bands can be changed fairly easily. A relatively cheap and easy system to implement and revise.

- **Computer Assisted Mass Appraisal Model**

This system relies on a complete and accurate property database for each property, as well as the database must be capable of being maintained from a regular source of information flows. The system relies on access to information technology and experienced appraisers to create and operate the computer models. Also the field appraisers require training in CAMA techniques. In the long term a very cost effective system but expensive in the short term in data gathering, technology and training. However there are variations of the system, which can be adopted in a very cost effective way over time.

- **Manual Single Appraisal Model**

This system involves the physical appraisal (using any of the 3 valuation approaches) of each property and includes the measuring of buildings and improvements. In the first instance a very time consuming and expensive process but results in a comprehensive property database, which could be used for future general revisions. The system is very expensive in the early years and even after many years of operation and the use of semi skilled staff in data gathering the model on its own still remains expensive in personnel resources.

- **The Land Value Model**

This system provides for a land value base only and ignores the value of improvements. The system is attractive in areas where no database of information on improvements is available and which would be expensive to collect and maintain. The system can be adapted to the zonal model and computer assisted applications and is cost effective to introduce and maintain.

- **The Annual Rental Value Model**

The system relies on the continuous collection of rental data on all property types. The rental data is analyzed and the comparability of the data is then applied to the subject property to produce the assessed annual rental value, which is the base for the property tax. The system is applicable in areas with a predominance of rental accommodation and investment type commercial and industrial properties. The system depends on an assured flow of accurate rental transactions.

## 8. A Preferred Valuation Model for the Philippines

Most of the models described above could have some application in the Philippines as a single base for taxation purposes. The cost of introduction would favor the less desirable models (Self Assessment, Zonal and Banding), but these models have considerable equity distortions in application. The alternatives would be costly to introduce except for the Land Value model, which would not capture the value of improvements necessary for the BIR administered taxes.

The LGU Assessors SFMV model is considered to provide a good basic valuation model, which could over time become the single valuation base for all real property taxation in the Philippines.

However there will need to be an upgrading of the SFMV model e.g. the date of valuation, the definition of market value and the relevance of the costs used in the valuation of buildings. The use of information technology and other tools will be necessary in the upgrading. This will also mean the removal of all political involvement in the process and this includes changing the way Assessors are appointed and the process of approving the SFMV.

Assuming all political interventions can be removed from the process of determining the SFMV then the LGU model can be upgraded and modified over time to meet the legal requirements of the LGU and the BIR and be used confidently as a basis for all real property taxes.

## 9. Other Considerations

The current LGU model relies on the “cost approach to value” as a basis, which is acceptable if the methodology as used in the Philippines is updated and improved e.g. the cost schedules used need to be current costs.

Of particular concern is the existing approach to what is known as the “date of appraisal” or the “date of effectivity”<sup>10</sup> and described in the DOF Issuance<sup>11</sup> and the draft Manual of Real Property Appraisal and Assessment Administration<sup>12</sup>. It would appear from discussions and general enquiries that there is no specific date to which the SFMV relates. The question was raised does it mean 1 January of the year the assessment takes effect or is the reference date 1 January of the proceeding year? The actual date is important because of market movements and the corresponding value movements that can occur in a 12-month period. The same principle applies to the date of building costs.

The practice of averaging sale prices for 3 years prior to the revision can also cause inequities where the market is moving.

<sup>10</sup> Local Government Code 1991 RA 7160 Section 221

<sup>11</sup> DOF Issuance “Local Assessment Regulations” dated 6 October 1992 No. 1-92 Section 5

<sup>12</sup> Draft Assessors Manual, Chapter II section 1 Para 7 page 31

Any improved LGU model may not however cover all the requirements of the BIR as a base for its taxes. This would particularly apply to the frequency of revision.

It may be appropriate for the BIR tax base to be revised more frequently to fit closer to the actual date of a property transfer. Therefore the property owner would not be unduly penalized with a transaction tax related to a different time period with different market conditions.

If this were the case then the BIR would require the SFMV to be annually adjusted to recognize market movements. Obviously there would be a cost involved and the BIR may need to consider this if the policy option was preferred. There are various ways the annual adjustment could be achieved. A cheap means of recognizing market movement is with the use of indexes. In the first instant an adjustment using the Consumer Price Index (CPI) or the Construction Price Index or a combination of both may be satisfactory. It should be pointed out that the CPI and other indices do not relate well to the real property market and are more indicative of movements in the economy.

Another possibility could involve the SFMV factors being revised by the Assessor annually for the BIR taxes only. The cost would need to be estimated and the methodology agreed. Initial indications suggest annual adjustments could be carried out by the Assessor based on market movements and the SFMV factors applied to the sale property to provide the tax base for the BIR.

In discussions with Assessors on the subject of the known differences of value on the same property for the SMFV and the BIR Zonal Value it appears that some Assessors believe that because the Zonal Value is used for a one off transfer tax it should be higher because there is supposedly a greater ability for the taxpayer to pay the tax having just sold the property. Whereas it is considered that the Real Property Tax (RPT) is an annual tax on every property and the valuation base (SFMV) should be lower to take into account this annual application of the tax and the ability of the taxpayer to pay the RPT. Those who favor this theory stress the concept of "fair" in the fair market value associated with the SFMV but ignore the principles of fairness and equity as well as the recognized theory that the taxpayer with the more valuable property should also have the ability to pay. There is of course the flexibility in the application of the RPT itself as well as the property classifications and the tax rates adopted.

With the universal adoption of the single valuation base for all real property taxation purposes it will need to be recognized by all Assessors of what "fair" means in the context of the SFMV and that the proposed valuation audit function of the CAA will quickly identify where market values have not been adopted.

The BLGF in consultation with the LGU Assessors have been reviewing the Manual on Real Property Appraisal and Assessment Administration, which

sets out in detail the legal and practical requirements in the appraisal of real property for tax assessment purposes.

The Manual is still in draft form and should be finalized in 2003 however it should be noted that a draft manual has been in use for some years. The BLGF are responsible for the supervision of the LGU Assessors but since the Local Government Code amendments in 1991 the BLGF has not had the same control over the Assessors and the SFMV as they previously had prior to 1991.

An appraisal and assessment process is already being utilized and although this process has been run down to some extent since 1991 it could be brought up to date and improved to better meet the needs of the LGU's and the BIR.

The creation of a Central Appraisal Agency (CAA) would be totally focused on improving the single valuation model by developing standards and rules to address the appraisal issues raised and also provide a regulatory function by way of auditing and compliance reporting based on the standards and rules.

However an improvement in the LGU model could have significant impact on tax liability and this is discussed later. The move to fully reflect market value in the SFMV will mean that the real property taxation implications must be reconsidered.

### **10. Valuation Simulation Models**

It is recommended that valuation simulation models be established to demonstrate the impact of adopting the improved LGU Valuation Model as the single valuation base for all real property taxes should be considered.

The simulation models based on market value would provide a shadow to the existing LGU and BIR Models (SFMV & ZV) and thus provide evidence of the changes proposed and the impact on the LGU Real Property Taxes and the BIR administered real property taxes (Capital Gains and the Documentary Stamp Tax).

This evidence would provide information for tax policy analysts and the policy makers in the LGU's and the GOP. The analyzed information would provide a guide for the eventual phasing in of possible tax changes. It will also be necessary to alert stakeholders and demonstrate to property owners and taxpayers the changes in taxes proposed in the adoption of the improved LGU Valuation Model as the single valuation base for all real property taxes.

### 11.A Transition Timetable for a Single Valuation Base for Taxation Purposes

A transition strategy to enable the introduction of the improved LGU Valuation Model as the single valuation base for all real property taxes will be vital to the success of the whole project.

The establishment of valuation simulation models in a range of LGU's would enable policy makers time to consider adjustments if any to the existing tax policies. It should be noted that if the SFMV's are approved / certified at least twelve (12) months before the effectivity date of the RPT the LGU's have sufficient time to adjust the tax rates.

Education and training of LGU Assessors and Appraisers will be important to achieve the desired outcome. The application of the results from the simulation models will provide the guidance and evidence of the changes likely to take place in any one LGU.

The application of the improved LGU Valuation Model will need to be phased in together with the tax changes that will follow. The impacts must be demonstrated to stakeholders before the changes will impact on taxpayers.

The following **Table 1**. proposes a transition timetable based on the results of the valuation simulation models. The timetable indicates it could take 12 months to carryout the transition but this assumes the availability of staff and resources and the implementation would require legislation.

**Table 1.**

<b>ACTIVITY</b>	<b>2005 TIME</b>	<b>REMARKS</b>
Establish Valuation Simulation Models (VSM's)	First Quarter	Establish VSM's in a cross section of LGU's to cover Provinces, Cities & Metro Manila
Establish the CAA Property Transactions Data Base & commence gathering data.	First Quarter	It will be important to gather the market data first in the sample LGU's where the VSM's have been established.
Obtain early information from the property market	End of First Quarter	The property transaction data will be important to analyze and communicate to stakeholders as a precursor to any results from the VSM's.
Analyze & Report Results on the VSM's	End of Second Quarter	It should only take 6 months to obtain preliminary results from the Models.
Consult with Tax Policy Analysts	Third Quarter	It will be important to consult with policy analysts and for detailed work to be completed on the tax implications for the LGU's and BIR.
Consult with the LGU's (officials & elected Reps) and BIR (officials & DOF Sec)	End of Third Quarter	The consultation process should be based on the analysis of the property market data, the results from the VSM and the possible tax changes that could flow.
Seek a Conditional Agreement for the adoption of the Improved LGU Valuation Model	Fourth Quarter	It is to be expected that only a conditional agreement would be available and only on sample LGU's where the VSM studies have been conducted.
Obtain a conditional agreement to proceed from the LGU's and the BIR.	Fourth Quarter	On the basis of the VSM's and the market data analysis a conditional agreement will allow the implementation of the Improved LGU Valuation Model to be adopted.
Develop & Implement a communication strategy in conjunction with the LGU's & BIR	End of Fourth Quarter	It will be important to communicate the changes as widely as possible but particularly in the sample LGU's.
Conduct VSM's in all LGU's before a General Revision.	The next Year	From the experiences of the sample LGU's it will be possible to roll out the single valuation model in the remaining LGU's in a planned and systematic way.

## 12. Impacts on Affected Organizations

The 167 Provinces and Cities including the Metro Manila LGU's and the 1520 Municipalities acting under partial delegation from the Provinces will be responsible for implementing the single valuation base and the changes to the proposed improved Schedule of Fair Market Value.

The changes will mainly impact on the procedures adopted by the Provincial and City Assessors, the application of fair market value and the revision of the SFMV every three years. The cost of completing the 3-year revisions may not change greatly where they are being conducted now but the move to a closer relationship to market value will increase the number of complaints and appeals. The compliance with CAA audit requirements and the need to act on new entries (discoveries) in the list could well increase the cost of revising and maintaining the SFMV.

The major impact on the LGU's will be the consequences of the increase in market value levels on the SFMV and the effect this could have on the RPT, the RPT collections, possible increased delinquencies and adverse political reactions to the changes. It is therefore highly recommended that the introduction of the proposed reforms be forewarned and that each LGU be requested to undertake a review of the RPT tax rates and be alerted to the possible consequences and tax impacts. It may well be necessary to consider phasing in the change in value levels over say a 3 – 6 year period depending on the existing SFMV levels. For example some SFMV have not been reviewed since 1994 or earlier and even then the schedules were not anywhere near market levels. This phasing procedure will be difficult to implement particularly if the current market level is falling.

The BIR Zonal Value is widely regarded as being set at a much higher "market" level than the SFMV. A National Tax Research Center (NTRC) study in 2002 showed that the ZV on a random sample of properties were on average 262% higher than the SFMV. The Land Valuation Policy Study also completed a random sample, which showed the ZV to be on average 144% below the current market level. These two studies show the extent to which the SFMV is below the current market and the impact that a shift to correct the situation will have on the tax liability if no tax reform package is contemplated.

The immediate adoption of the SFMV as the single valuation basis for the BIR taxes would result in lower revenue collection because of the lower value level of the current SFMV. This situation is highlighted in the NTRC study. It was not the recommendation of the Land Valuation Policy Study to move to the SFMV without a change to the system of valuation resulting in the improved SFMV. Even with the proposed changes to the SFMV there will probably need to be a phase in period and this may take from 3 to 9 years. The BIR would therefore not be in a position to adopt the SFMV until full implementation has occurred because of the loss of revenue likely to result. The BIR may also need to consider the CAA compliance procedure as a requirement for the final adoption of the SFMV as a basis for the transfer

taxes. Therefore the likely shift to the new value basis by the BIR may be some years away however consideration could be given to a phased in approach as each LGU reaches the required level of quality assurance. The formula for the CGT includes the SFMV and “which ever is higher” could provide the means of conversion to the LGU model at an earlier date, which could be acceptable to BIR. A question of cost sharing may be raised by the LGU’s in the future when the BIR moves to formal adoption of the basis.

The issue of ownership of the valuation base will also need to be considered and the BIR may also need to consider requesting additional services from the LGU’s for example, annual updates and physical inspections of sale properties could improve the quality of the base for the CGT.

Other GOP Agencies use the SFMV in various valuation formulas when carrying out investigations and making appraisals in various government programs. The agrarian reform program known as CARP uses the SFMV in the formula for assessing compensation and there are many other programs which have a use for the Assessors SFMV. The proposed reform of GOP appraisal procedures by adopting appraisal standards and rules could well minimize the impact of the improved Assessors SFMV on the GOP Agencies who use the SFMV in their formula approach to value. This together with the possible phasing in of the improved SFMV will allow adjustments to be made over time.

The taxpayers, politicians and the public will all need to be kept informed of the possible impacts following the proposed changes. The implementation timetable of the reform program should become known to minimize the surprises and impact, which will possibly reduce the complaints and appeals at the time of introduction.

### **13. The Technology Requirements for a Single Valuation Base for Taxation**

As discussed, the introduction of the improved SFMV model as the single valuation base will take time and the reform may need to be spread over a 3 – 9 year period. The introduction of information technology will be a vital component in the successful implementation of the reform package

A comprehensive national information technology strategy for LGU’s, as outlined and recommended in the Land Valuation Policy Study<sup>13</sup> will need to be undertaken.

The study team has visited a small number of LGU’s where computerization systems have been successfully introduced and the results have been significant. In each case the computerization program has also involved the Office of the Treasurer, where property assessment information has been transferred electronically which has improved the RPT administration process.

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<sup>13</sup> Land Valuation Policy Study 2002 page 31 and Annex H No. 11

In most cases the computerization of the Assessors property records has enabled a general revision to be completed more efficiently and in one area some work has commenced on computer assisted mass appraisal techniques.

It would appear the LGU's seek proposals from information technology vendors and then obtain funding from various sources including the Real Property Tax Administration (RPTA) project <sup>14</sup> and local funding. There appears to be no coordination of IT projects or a national information technology strategy for LGU's.

The overall proposal to improve the SFMV as the single valuation base for real property taxes to be efficient and cost effective and the establishment of a national real property data base for sales and rental transactions will largely be dependent on the orderly development of IT systems which are compatible. It is therefore vital that a coordinated approach to IT systems be introduced and an overall national IT strategy for LGU's be developed in conjunction with Local Government and communicated widely.

#### **14 Conclusions**

The adoption of a single valuation base for real property taxation in the Philippines has been recognized for some years and is fundamental to the overall valuation reforms.

The acceptance of an improved LGU Assessors valuation will be critical because of the impact the system has on other organizations. The CAA paper discusses the need for LGU Assessor and Appraiser training.

The proposal to use the Valuation Simulation Models to prepare tax policy makers to changes that may or may not occur is seen as very important. An early warning system and adopting a philosophy of "no surprises" will reduce the resistance to change.

#### **THE END CHAPTER TWO**

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<sup>14</sup> RPTA is a countrywide program administered by the Department of Finance through the Bureau of Local Government Finance in cooperation with the USAID, World Bank and all the LGU's. It is a program involved in the upgrading of assessment services by updating of assessment techniques, procedures and practices.

## **ANNEXES**

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## **ANNEX A**

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### ***Terms of Reference***

ANNEX A

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**TERMS OF REFERENCE**

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**INTERNATIONAL LAND VALUATION ADVISER**  
(2003 Assignment)

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The PA-LAMP foreshadows a potential 15-20 year program to improve land administration in the Philippines. It is a strategic GOP initiative which aims to support an efficient land market and alleviate the present low level of confidence in the system of formal land registration and the lack of tenure security.

The **Goal** of AusAID assistance, through support of the TA program, is *to assist the GOP to improve the effectiveness, transparency and efficiency of land administration to achieve the resultant flow of economic and social benefits in the Philippines.*

The **Purpose** of the TA program is *to assist the GOP to establish structures and operating procedures for a long term program to reform the land administration system in the Philippines.*

The AusAID funded Policy Studies were completed in July 2002 and the Integration report finished in August 2002. A draft EO to set the reform agenda and a draft Bill to create the one single agency were completed in December 2002. The Government decided not to pursue the EO. The Project is continuing to submit two Bills to the next Congress (July 2003); one to create the Land Administration Agency and one Bill to make amendments to land related laws, such amendments being essential for efficient mass titling.

The international valuation adviser to the LAMP Project will be based in the NTRC. The adviser may be required to make visits to project sites at Prototype 1 (Leyte) and Prototype 2 and PMO (Quezon City). He will report to the TA team leader.

The adviser will work together with a number of Project counterparts from the NTRC and BLGF, and link with the international organisation adviser.

The approach at all times will provide the Project with best practice, a safe working situation and be Gender sensitive. The adviser will cooperate with the members of the Quality Assurance Panel whose job it is to verify that TA outputs are of a suitable standard and completeness. To this end, the adviser shall maintain an up to date work plan and have regular review meetings with counterparts on progress, issues and changes to the plan. A monthly report will be submitted to the team leader.

The Secretary of Finance has responded in writing to the recommendations in the two policy studies under the DOF. The main emphasis for further immediate work is with the valuation directions. This TOR addresses these matters. In general terms the scope of work includes:

- Addressing the needs of the DOF for further details on the proposals, especially in respect to the organisational arrangements and in consideration of the fact that the Project is pursuing the creation of one single land agency through the passage of a Bill;
- Providing explanation documents for use by the Congress in considering the draft Bill;

- Addressing the comments and questions arising from the various stakeholder consultations and consensus building since August 2002, especially the concerns of the LGUs and civil society;
- Addressing the views of the BLGF of DOF
- Provide a road map for possible implementation of a reformed valuation system during the phase 2 LAMP, addressing the desirability of one valuation system for land transaction taxes and the RPT and the possible phasing of the introduction of the new system. Include reference to a longer term vision for the valuation function.
- Assess the expected benefits and obstacles to implementation.
- Assess the impact on the main agencies affected.

The International Valuation adviser will be responsible for completing the following work in two assignments with a gap between assignments, totalling 3 months (reference is the PDD and the work to be completed is described as Deliverable 24 in the AusAid – LEI contract; also see Annex 2 of the Inception report):

**Assignment 1.**

1. Provide documents addressing the scope of work above and the specific topics below after stakeholder consultations:
  - a) Define the role and functions of the proposed Central Appraisal Organisation and formulate its work plan for the first two years;
  - b) Identify specific amendments to existing legislation that would be required to enable the CAO to undertake the role and functions at above;
  - c) Design a draft organisation structure and staffing pattern for the first two years, identifying the respective powers at the central, regional (if any), local levels (province, municipal / city);
  - d) Design a transition timetable, phasing and long term approach for the adoption of a single valuation system for taxation purposes. Clearly identify the main assumptions underpinning the above organisation design, the impact on the affected organisations and the model of how the whole valuation system will work. Broadly outline the valuation methods assumed to be applied and the role of new technology in operations. Outline the approach to the training of existing and newly recruited staff.
2. Investigate and make written recommendations on the following matters:
  - a) How can the powers and functions of a national valuation organisation best be exercised in an impartial and professional manner free of inappropriate influence or conflict of interest?
  - b) Having regard to the views of the DOF, the recommendations in the Policy Studies Integration report and the decisions of the Task Force Under, what department or agency should the proposed CAO be located? Should it be a part of the proposed LAA? Should CAO be a single headed agency or a collegial body?

- c) Will the CAO have jurisdiction over appeals? (Note, there is an existing Central Board of Assessment Appeals under the DOF).
- d) What would be the impact of a market based valuation system for taxation purposes on other government programs, including the agrarian reform program and government expropriation of private lands and properties for other purposes?
- e) How would the large gap in values between the existing BIR zonal values and local government market values be addressed during the implementation considering the fact that government cannot afford to lose revenue?
- f) What valuation methods would be most appropriate?

**Assignment 2.**

1. Provide documents addressing the specific topics below after stakeholder consultations:
  - a) Prepare an indicative budget for the first two years of operation of the CAO, based on the agreed organisational development path from the first assignment and drawing on the existing staff and resources of the BLGF and local government to the maximum extent, and considering the potential gains in efficiency from the re-organisation and re-engineering of the valuation and other LAA processes and access to land information;
  - b) Outline the best approach for developing and implementing appraisal standards of international quality and the registration of assessors and appraisers (self regulation or government licence or other), and estimate costs associated with the ongoing operation;
  - c) Outline the strategic framework for development, maintenance and operation of a national real property database and property market indicators information service.

## **ANNEX B**

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### ***Study Goals***

PA LAMP

LAND VALUATION STUDY 2003

Goals & Objectives

**Study Goals**

- Address the desirability of one land valuation system for real property taxes.
- Examine the proposal for a Central Appraisal Organization.
- Address the views of the DOF, BLGF & stakeholders on the Land Valuation Policy Study and the Integration Report of 2002.

**Study Objectives**

- Define the roles & functions for the proposed Central Appraisal Organization and design a draft organization structure plus a 2 year work plan.
- Prepare an indicative budget for the first 2 years.
- Identify the legislation involved and the amendments necessary.
- Identify the proposed single land valuation system and design a transition timetable for its introduction.
- Clearly identify the assumptions underpinning the organization structure and the single system of land valuation.
- Comment on the new technologies involved and the education and training required for the CAA.
- Provide comment on the assessment appeals process and the impact of the single valuation system on other GOP programs.
- Explain how the gap that exists between the BIR and the LGU valuations can be addressed during the implementation process.
- Outline an approach for developing and implementing appraisal standards and the regulation of Assessors & Appraisers.
- Outline a strategic framework for developing a national real property database.
- Address the views of the main stakeholders on the options for change.

**Outputs**

- Provide a report and recommendations.

## **ANNEX C**

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### ***LGU Visits***

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**Philippines Australia Land Administration & Management Project**


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**SCHEDULE OF LOCAL GOVERNMENT UNITS VISITED**

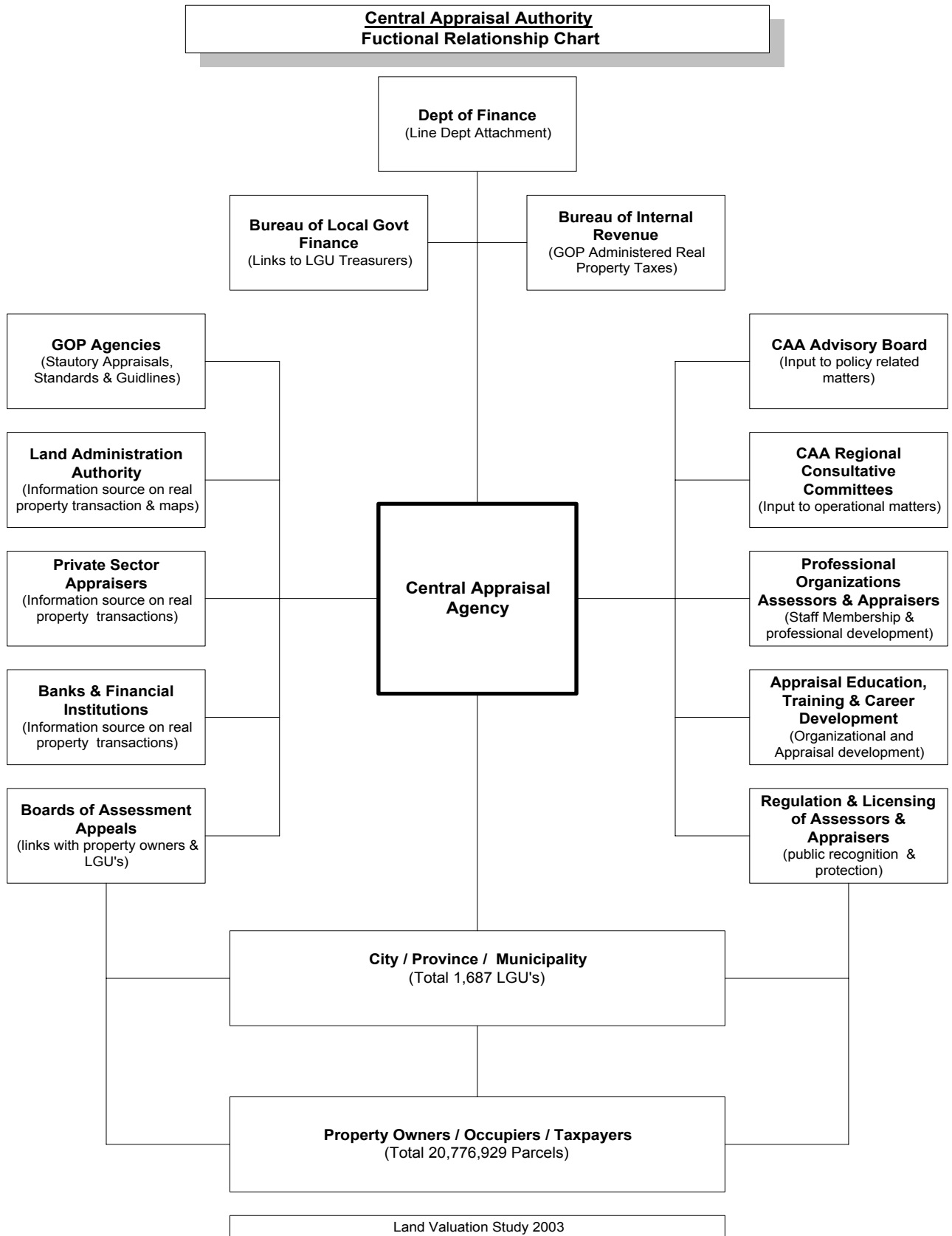
<b>DATE 2003</b>	<b>LOCAL GOVERNMENT UNIT</b>	<b>NAMES</b>	<b>COMMENTS</b>
27 June	Quezon City (Class 1)	Ms Teresita Pajara Officer In Charge of City Assessors Office	Meeting with OIC and appraisers and discussed issues concerning the revision of the SFMV.
1 July	Antipolo City (Class 1)	Mr Cesar Reyes City Assessor	Meeting with the Assessor and discussed the revision of the SFMV and the IT developments in the office.
1 July	Cainta Municipality (Class 1) Rizal Province	Mr. Catalino Cruz Jr. Officer in Charge Assessors Office	Meeting with OIC and appraisers and discussed revision of the SFMV and the IT developments in the office.
9 July	Bataan Province (Class 1)	Mr Pastor Vichuaco Provincial Treasurer Bataan Province	Mr Amado Jimenez Asst Provincial Treasurer provided guidance for the study team.
9 July	Abucay Municipality (Class 4) Bataan Province	Mr Ronald Dacion Municipal Assessor	Meeting with the Assessor and discussed the revision of the SFMV.
9 July	Samal Municipality (Class 4) Bataan Province	Ms Elizabeth Cruz Municipal Assessor	Meeting with the Assessor and discussed the revision of the SFMV.
9 July	Bacolor Municipality (Class 3) Pampanga Province	Ms Clarita Arcega Municipal Assessor	Meeting with the Assessor and discussed the revision of the SFMV.
11 July	Cavite Province (Class 1)	Mr Lamberto C. Para Provincial Assessor	Discussed the revision of the SFMV. Mr Raymundo Salazar Asst. Provincial Assessor provided guidance to the study team.
11 July	Magallanes Municipality (Class 5) Cavite Province	Mr Simplicio A. De Raya Municipal Assessor	Introduced to Hon. Filomeno C. Maligaya Mayor. Meeting with the Assessor and discussed the revision of the SFMV
11 July	Gen. Emilio Aguinaldo Municipality. (Class 5) Cavite Province	Mr Rodolfo A. Loyola Municipal Assessor	Introduced to Hon. Danilo Dimapilis Vice Mayor. Meeting with the Assessor and discussed the revision of the SFMV.

## **ANNEX D**

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### ***CAA Functional Relationships***

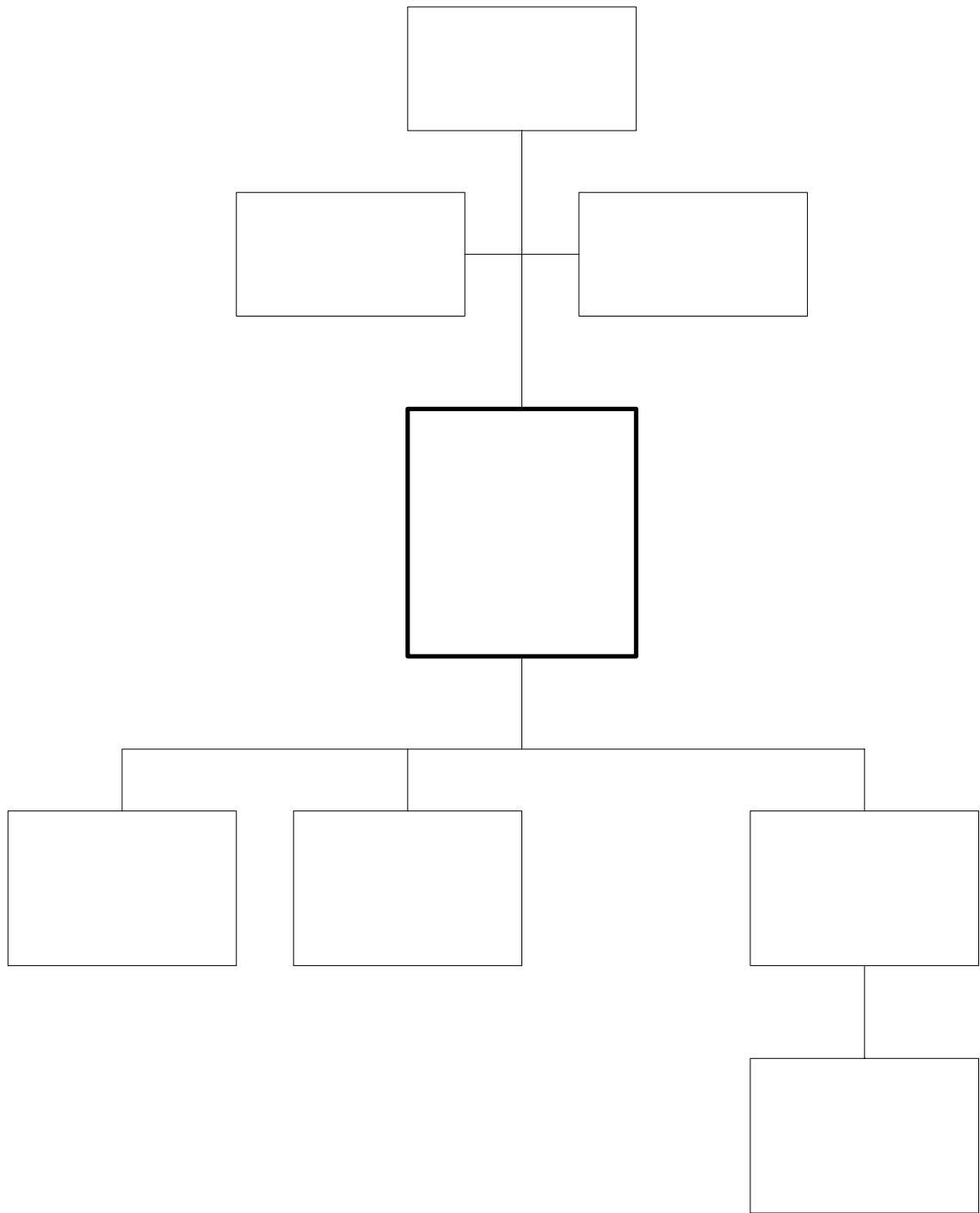
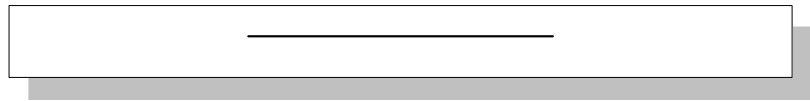
**ANNEX D**



## **ANNEX E**

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### ***CAA Functional Relationships with LGU's***



## **ANNEX F**

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### ***CAA Work Plan Timeline***

**CAA WORK PLAN TIMELINE**

LAMP 2  
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Activity	2004				2005				2006			
	1	2	3	4	1	2	3	4	1	2	3	4
Phase One Pre Legislation			→ →	→ →								
Phase One A Pre Legislation					→ → →							
Phase Two Post Legislation												
Phase Three Post Legislation												