

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

LAND VALUATION STUDY 2004

SEPTEMBER 2004
(with QAP inputs)

REPORT B1



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FINAL DRAFT

LAND VALUATION STUDY 2004

STUDY REPORT

01 October 2004

Background

This study has been undertaken as part of the Philippines Australia Land Administration and Management Project (PA-LAMP) and is a continuation of the Land Valuation Policy Studies completed in 2002 and 2003.

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

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

The 2004 Study is part of the LAMP 1 Extension and is designed to further develop the conclusions and recommendations contained in the 2003 Study as well as work on consensus building workshops with major stakeholders. The Study will also maintain contact with the concerned DOF Agencies.

Land Valuation Study 2004 Terms of Reference

The TOR in general terms addresses the need to provide assistance and advice to the DOF through the Executive Director NTRC as the lead agency on matters pertaining to the following:

- Assisting with the drafting of a Bill creating the National Appraisal Authority and also assisting with legislation to regulate Assessors and Appraisers.
- Assisting with the development of Valuation Standards.
- Assisting with planning and implementing a valuation simulation study.
- Providing assistance with developing a national real property data base and an inventory of computer capacity in the LGU's.
- To progress early discussions with educational institutions concerning courses for appraisers.

A final Report will be prepared to cover the scope of the work completed and identifying the lessons learnt and provide recommendations for LAMP 2.

A copy of the Terms of Reference is attached as **ANNEX. H**.

Introduction

The NTRC was designated the lead DOF Agency on 24 February 2004 and in March a MOA between the DOF-NTRC and DENR was signed. The MOA contains a workplan and performance measures etc. A DOF Family meeting in March discussed and agreed on a program and on the workplan. The BLGF was given responsibility for investigations into the national real property database and the rest of the items became the responsibility of the NTRC. The work to date has progressed well on all NTRC based assignments.

The NTRC have organized consultative workshops in various locations where the issues under consideration have been discussed in detail. The feedback so far has been valuable and comments concerning the NAA structure and powers have been helpful in identifying local concerns.

A schedule of the workshops conducted is contained in **ANNEX D**

The Draft National Appraisal Authority Bill

A proposed Bill has been drafted by the staff of the NTRC with input and assistance from the Valuation Advisers. Work commenced on the draft Bill in March 2004 and a draft has been presented to 3 major workshops (a fourth workshop is planned for September). The TA's have continued to provide input and advice on revising the Draft Bill and the NTRC are expected to complete a full revision following the September workshop. The latest Draft Bill as at June 28 is attached at **ANNEX A**

At the workshops there have been a number of misunderstandings concerning the draft legislation and more explanatory comments are required. The NTRC have acknowledged this point and more written detail will be provided as background.

The draft legislation would now seem to be running contrary to the recent GOP announcements concerning a freeze on the creation of new GOP Agencies. However the Draft Bill should instead be seen as supporting the GOP objectives for improving tax equity, efficiency and tax collection for the RPT and BIR taxes.

It is therefore proposed that the draft legislation shall not focus on the organizational reform but more on the areas of appraisal and assessment reform to improve efficiencies in the assessment of the LGU real property tax and the BIR taxes. Also the appraisal reforms proposed in the draft legislation will also improve appraisal efficiency in the GOP agencies and potentially improve revenue collections from real property held by the Government. The NTRC could consider renaming the Draft Bill to fit better with GOP policy, for example the Real Property Appraisal & Assessment Reform Act (RPAARA) is a suggestion.

The NAA Bill as it stands proposes to put in place the powers and functions of the new authority as well as the central and regional structure. The statutory position of NAA Executive Director is created. The Bill addresses equity issues by separating functions, improving visibility and providing openness. The valuation sections contained in the Local Government Code shall in turn be transferred to the NAA legislation including sections to comply with valuation standards and appraisal best practice. The Bill's Implementing Rules & Regulations will contain the provisions needed to put in place the changes. As yet no work has been completed on this section although a proposed list of items for consideration has been submitted. For details see **ANNEX B**.

The consultative workshops have been successful in discussing the proposed NAA legislation and related matters. In general terms the LGU Assessors are supportive

of the Bill but the local executives (elected people) and the BLGF have reservations about certain powers and functions contained in the draft Bill. The main area of concern appears to be the appointment of the Assessors shifting to the NAA and the transfer of appraisal and assessment functions from the BLGF to the NAA. This situation will need to be resolved by the DOF at an early date. A flow chart showing the processes as well as the inputs and outputs involved makes separation of appraisal and assessment functions difficult. See details at **ANNEX C**.

The shift of authority from the LGU to the NAA in the area of approving the SMV and the General Revision program will be significant but is considered vital for the success of the overall appraisal and assessment reforms. Compliance issues have also been addressed in the Bill with the inclusion of a “sunset”¹ clause on the SMV and the time certain use of the Assessment Roll for RPT purposes. The need for compliance incentives is important because the NAA will not have the capacity to complete a General Revision and shall confine itself to providing technical assistance with the appraisal of Special Properties and Special Purpose Properties in the LGU’s.

It may be difficult to achieve International Valuation Standards for many property groups. The current methodology while sound and cost efficient, has limitations. If values are set to levels implied by the definition of Market Value, then there could be significant numbers of properties valued above market levels.

Many appeals could arise. A solution is to give the NAA power to adopt appropriate standards and discretion to accept lower levels of value provided equity is maintained, and if the cost of remedial action is high. The NAA role must be practical and lawful. The issues are fundamental and should be covered in the proposed NAA bill. See at Annex I

The NTRC will be reviewing the Draft Bill taking into account the feedback from the consultative workshops and the advice from the TA’s. The explanatory notes and background information will be written as preparation for further discussions.

The Regulation & Licensing of Assessors & Appraisers

In 2003 legislation was filed in the House (H.B. No. 5340) to professionalize the Real Estate Services Sector and this legislation included appraisers and although the Bill was passed by Congress it was not passed into law by the Senate. The 2003 Study considered the draft legislation in depth and proposed amendments to improve the requirements involving appraisers and in particular recommended that Assessors should be licensed and covered by the Bill.

Preliminary work was completed on reviewing the 2003 Bill last year. Similar regulatory legislation has been cited but more effort and consultation is required to support the inclusion of Assessors in any 2004 draft legislation before it is introduced to the new Congress.

The NTRC have agreed to review the findings of the 2003 Study and those of the NTRC memorandum dated 13 November 2003 and make submissions to the Bill’s sponsors and supporters.

¹ “A provision within a statute creating a law or agency and providing for the automatic termination of that law or agency at a fixed date in the future”. Page 22 Standard on Property Tax Policy 1997 International Association of Assessing Officers.

The Development of the Philippine Valuation Standards

The development of Valuation Standards to conform to international best practice has been a theme which has been constantly referred to in all the valuation study reports and background material in the past. Work commenced in March 2004 and 3 major workshops have considered the draft standards. In the first instance it has been agreed that the Philippine Valuation Standards should be tagged “for taxation purposes” although it has been acknowledged that in most cases the Valuation Standards will also fit the private sector model as well.

The private sector appraisers attending the workshops have been supportive of the draft Valuation Standards for Taxation Purposes and the regulatory environment proposed.

The workshops conducted have all involved LGU Assessors and private sector Appraisers and at the first workshop agreement was reached on a common definition of Market Value (a universal international definition which has been adopted by Asean countries). At subsequent workshops a draft Valuation Standard for a Code of Ethics has been discussed and adopted. Supporting comment has also been presented and a paper on the General Valuation Concepts & Principals has also been adopted. A draft Valuation Standard on Mass Appraisal has also been developed and presented. However the supporting draft “Mass Appraisal Advisory Note” has not yet been finalized for presentation

The draft Philippine Valuation Standards have been based on a range of international standards and have been written to suit the Philippines. The Mass Appraisal Advisory Note is still under discussion and awaits consideration in the Philippine context. Equity and fairness has been addressed in the Standards with the adoption of the Market Value Standard as well as a Code of Ethics Standard. The legal status of the land (titled or untitled) in the Philippines has been addressed in terms of Market Value and the adoption of the LGU base records and tax maps.

The Valuation Standards remain in Draft form and a process of adoption is necessary and should be considered next. In the future the Valuation Standards will need to be formally reviewed. A process for Standards Review should be developed and a scheduled timeframe including a consultation period agreed. It is usual to commence a Standards Review with concept papers followed by exposure drafts, final drafts and then the adoption time frame.

Further work will be necessary to finalize the Draft Standards, complete a review procedure and carryout amendments to the draft Assessors Manual and provide Advisory Notes.

A set of the Draft Philippine Valuation Standards for taxation purposes and supporting papers are attached at **ANNEX E**.

The Valuation Simulation Study

The 2003 Study recommended that several Valuation Simulation studies be performed to shadow the impact of the valuation changes proposed and to measure the possible tax impacts. In March 2004 the Simulation Study criteria for selecting an LGU to join the study was agreed upon and the issues to be considered were discussed. See details attached at **ANNEX F**.

The DOF agreed to approach the Municipality of Sta Rosa, Laguna to participate in the study. Agreement was reached and a partnership contract has been signed. The Mayor, Sanggunian and the Assessor are all supportive of the study.

The findings of the study so far support the observations and comments contained in the earlier Study Reports. Firstly the political intervention, in this case the Provincial Sanggunian, is very noticeable and contributes to the below market levels adopted. The BIR Zonal Value is also confirmed as being considerably below market levels.

The study has also confirmed the difficulty in sourcing, collecting and verifying transaction data. However considerable progress has been achieved in this area by engaging the Assessors staff, who with their local knowledge have carried out interviews and obtained the data required which has been further analyzed. Other data sources have also been identified and used to establish a reliable base of market information. These sources include market and cost information from private appraisers, staff local knowledge, Developers, asking prices from newspapers, information on Bank appraisals and very limited sales information from Real Estate Brokers. This material with certain reservations has been useful in ascertaining the state of the market and market levels at the relevant date adopted for the study.

It is anticipated that further work will be necessary to complete a full tax impact study resulting from the application of the valuation reforms and the shift to market levels in Sta Rosa. It should be noted that the results of the study overall and the possible tax impacts will be very sensitive information. The reporting of these results to the Sanggunian and at consultative workshops should be considered carefully and a publicity strategy developed. The results of the Valuation Simulation Study in Sta Rosa will be reported on in detail separately.

The future selection of LGU's for participation in a Valuation Simulation Study is most important. The selection criteria and process of agreement used for Sta Rosa has worked well and should be adopted as a model in the future.

The Development of a Real Property Data Base

The proposal has been consistently raised in previous studies as providing a store of transaction and cost information for use by all LGU Assessors. Only preliminary work has been possible during the 2004 Study because of limited input from the BLGF and the unavailability of assistance to develop the survey model and obtain necessary information on the various LGU computer systems.

A workshop was convened by the BLGF to consider the proposal with IT Managers and Assessors from three LGU's and to discuss a workplan and process to gather background information for a LGU survey on available computer systems. For example there are estimated to be at least 14 different LGU computer systems in place around the country and no knowledge on how these systems could be coordinated.

An AusAID funded project known as the Tax Recovery & Collection System (TRACS) has been successfully implemented in 6 Cities and this system could perhaps be adapted to record and store transaction and cost information. A survey of LGU's is still considered important to ascertain the extent of systems already in place.

Of considerable interest is an online database of transaction information held the Bankers Association of the Philippines and known as the Real Property Data System. Access to this data would be most useful and should be explored further.

Education of Appraisers & Assessors

The development of university based courses in real property appraisal has been raised in all previous studies and over the last 10 years various proposals have been considered but no action has been taken.

A meeting has been held with the Dean and representatives of the National College of Public Administration & Governance at the University of the Philippines to discuss various proposals for developing a degree course in real property appraisal. Other proposals were also considered at the meeting including a post graduate certificate course in appraisal. However the university requires more information including detailed figures on possible student numbers, estimated costs, and the future market for graduates and the possible support from LAMP 2 in the future.

The next priority is for the NTRC and the BLGF to work together with the university and research the information requested to support a business case for establishing a range of appraisal courses.

A course majoring in real property appraisal was proposed at the meeting and a discussion draft on the study areas involved has been submitted as well as a proposed course outline. See details at **ANNEX G**.

Conclusions & Lessons Learned

As previously discussed in the 2002 and 2003 Valuation Study Reports the reform of the valuation system in the Philippines requires a clear commitment to change and the creation of a National Appraisal Authority to implement the reform. The number one priority for this reform to be successful will be the transfer of powers to a statutory officer and thus remove the political influence which exists today. The findings so far from the valuation simulation study in Sta Rosa, Laguna confirms this need without doubt.

The separation of the valuation and assessment function from the tax rate setting function is an internationally recognized model. The independence of a professional valuation and assessment service is essential as it provides equity and fairness in the tax system. The tax policy and establishing the tax rate is for the politicians to finally decide.

The development of Valuation Standards, education and training programs together with the licensing for Assessors & Appraisers and the creation of a national database of real property transaction and costs all support the valuation reforms.

The valuation reforms will provide financial savings and revenue improvements for government at all levels by removing duplication of effort and by providing benefits from a wider taxation base which will lead to improved tax collections.

The development of better valuation standards in the GOP Agencies will in time also result in improved revenues from government owned and managed real property. Therefore the creation of an independent appraisal authority will have significant financial benefits to government at all levels.

Recommendations

1. The National Appraisal Authority Bill

- That a revision of the Draft Bill be completed following the planned final workshop.
- That the focus of the legislation be shifted from organizational reform to taxation efficiency to fit better with GOP policy.
- That consideration is given to changing the title of the Draft Bill.
- That more background and explanatory comment and details be provided on the Bill.

2. The Regulation & Licensing of Assessors & Appraisers

- That the NTRC consider the timetable for the possible re-filing of the Real Estate Services Bill with the departmental sponsors of the 2003 Bill.
- That the NTRC further review the 2003 legislation and make submissions for inclusion in the 2004 Bill.

3. The Development of the Philippine Valuation Standards

- That the Advisory Note on Mass Appraisal be agreed and finalized
- That work commence on amending the Assessors Manual to conform to the Valuation Standards for taxation purposes.
- That a process plan of review and adoption of the Valuation Standards be developed.

4. The Valuation Simulation Study

- That the “selection criteria” and the “process of agreement” for LGU participation follow the Sta Rosa model in the future.
- That the “issues for consideration” be reviewed following the Sta Rosa Study and amended where necessary.
- That a reporting and publicity strategy be developed to communicate the Simulation Study findings to the LGU, BIR and stakeholders.

5. The Development of a Real Property Data Base

- That work continues on preparing the LGU survey of computer systems.
- That consideration is given to investigating the capacity of the TRACS trial to accommodate a transactions data base.
- That formal contact is made with the Bankers Association of the Philippines to involve them in the development of a transactions database.

6. Education of Appraisers & Assessors

- That contact is maintained with the University of the Philippines to continue the development of appraisal courses.
- That the NTRC and the BLGF work with UP to prepare a business case to support the introduction of appraisal courses.
- That preparatory work commence on curriculum development for a series of university based real property appraisal courses.

THE END

ANNEXES

ANNEX A

Draft National Appraisal Authority Bill

ANNEX A

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

_____ CONGRESS

_____ Regular Session

HOUSE BILL NO. _____

Introduced by _____

EXPLANATORY NOTE

The current land and property valuation system is seen as one of the main issues contributing to an inefficient and inequitable land market in the Philippines. This in turn has constrained the country's economic development, reduced opportunities for the poor and discouraged the optimal management and use of land resources.

Since there is no single agency responsible for ensuring that valuations (or appraisals) are completed in accordance with internationally accepted standards, valuation in the Philippines is fragmented. There are at least 23 national government agencies (NGAs) undertaking real property appraisal of some kind, each using its own system and methodology. The same is noted in the appraisal practices of the local government units (LGUs). There being no adequate technical supervision on valuation matters, local assessors generally operate independently thereby spawning a lack of uniformity and equity in real property appraisal among different provinces and cities. The multiplicity of systems and methods of property appraisal has created confusion in the public mind and a lack of confidence in the system especially when different values are attributed to the same property. It is considered that the adoption of a single valuation base will remove confusion and provide a sound reliable basis for the assessment of real property taxes and reduce costs of duplications.

The schedule of market values (SMV) is the base for the assessment of the real property tax. To maintain equity and uniformity in the base record, it is important to keep it separated from the tax assessment process, which is carried out by the local treasurer as the taxing authority on behalf of the local council. While the grant of authority to LGUs to prepare, legislate and implement the SMVs has enhanced local autonomy, it has also introduced politics in property valuation. Political interference is manifested, among others, in local officials allowing only minor increases in property values over previous value levels; selective and subjective increases on valuations; frequent deferment of the general revision of

property assessments contrary to the Local Government Code's requirement of every three years, etc.

The main objective of a general revision of real property assessments is to update real property values for taxation purposes as these change over time. Because of the frequent deferment of the general revisions, valuations used by LGUs are out of date and do not reflect the changes occurring within the market from time to time. The same can be said of the zonal values developed by the Bureau of Internal Revenue (BIR) for tax purposes. Because the zonal value system has no fixed statutory review period, the reviews of the zonal values are not conducted at regular intervals. Moreover, the four-step approval process is so time consuming that by the time the zonal values have been approved, changes had occurred in the property market. This has resulted in distortions in zonal values ranging from 25 percent to 70 percent of the prevailing land prices (LAMP, 2000). The records would show that generally, the distortions in the LGUs' market values are relatively higher. A comparison of the BIR zonal values of sampled properties in Metro Manila showed that the zonal values are on the average 262 percent higher than the LGU market values (NTRC, 2002). Below market value assessment of real property leads to a relatively low tax intake and undermines the generation of significant revenues from property ownership and transfers. To cite a case in Davao City, on five patrimonial properties alone, using current valuation practices, the government is incurring foregone revenues of P9 million to P35 million annually. (PEENRA, March 2000).

Another factor that has compromised the valuation process is the appointment of the assessor by the local chief executive. The issue raises concerns about the appointment of local assessors with inappropriate qualifications and experience considering the highly technical aspect of the appraisal function. The present set-up also makes the local assessors vulnerable to political interference in the effective discharge of their functions.

If fairness and equity in the taxation of real property are to be achieved, the separation of the valuation and assessment function from tax setting and political influence should be considered. The creation of a central appraisal agency to be known as the National Appraisal Authority (NAA), responsible for all LGUs and NGA appraisal activities will address this matter. The NAA will ensure that a nationally consistent, equitable and impartial valuation system for real property taxation is put in place and that it maintains the integrity of real property appraisal. This in turn will provide a wider taxation base resulting in improved and enhanced tax collection.

In view of the foregoing, the approval of this Bill is strongly recommended.

1 Valuation Standards developed under this Act and the internationally accepted valuation
2 principles. Towards this end, the State shall:

3 (a) Establish a National Appraisal Authority that will provide a strong leadership in the
4 appraisal of real property for taxation and for other purposes;

5 (b) Develop and maintain valuation standards and adopt market value as the single real
6 property valuation base for the assessment of all real property related taxes in the
7 country and for the valuation of real property by all government agencies and units
8 requiring real property valuation;

9 (c) Separate the function of valuing or appraising real properties from the function of
10 administering the taxes due thereon; and

11 (d) Develop and professionalize the valuation or appraisal practice in the country.

12 **Sec. 3. Definition of Terms.** - As used in this Act, the following terms mean:

13 (a) **Appraisal.**- the act of estimating the value of property. It is an estimate or opinion
14 of value, usually market value or value as defined by the appraiser. It is made as of a
15 specific date and is a conclusion which results from a logical and orderly analysis of
16 facts.

17 (b) **Appraiser.** – also known as Assessor; refers to a person who conducts appraisals;
18 specifically, one who possesses the necessary qualifications, ability, and experience
19 to execute or direct the appraisal of real or personal property;

20 (c) **Building.** – a man-made structure permanently attached to a land for residential,
21 commercial, industrial, recreational or other purposes.

1 **(d) Improvement.** – is a valuable addition made to a property or an amelioration in its
2 condition, amounting to more than a mere repair or replacement of parts involving
3 capital expenditures and labor, which is intended to enhance the property’s value,
4 beauty or utility or to adapt it for new or further purposes;

5 **(e) Land.** - **(e.1)** In an economic sense, one of the major factors of production
6 consisting sometimes of a free good, but usually of a material economic good which
7 is supplied by nature without the aid of man. Land may include not only the earth’s
8 surface, both land and water, but also anything that is attached to the earth’s surface.
9 Thus, all natural resources in their original state, such as mineral deposits, wildlife,
10 timber, and fish, are land within the technical meaning of the term; so also are sources
11 of energy, outside of man himself, such as water, coal deposits, and the natural
12 fertility of the soil.

13 **(e.2)** In a legal sense, the solid part of the surface of the earth, as distinguished from
14 water; any ground, soil or earth whatsoever, regarded as the subject of ownership, and
15 everything annexed to it, whether by nature, such as trees, and everything in or on it,
16 such as minerals and running water, or annexed to it by man, such as buildings and
17 fences.

18 **(e.3)** Property rights in land are established on the theory that the rights in fee simple
19 ownership in land normally include the wedge-shaped area downward from the
20 earth’s surface to the center of the earth (sub-surface rights) and the area upward from
21 the earth’s surface out into space (supra-surface or air rights). The latter is limited by
22 Acts of Congress concerning public use of navigable air space which is considered in
23 the public domain.

1 Authority shall be attached to the Department of Finance. This attachment, however, shall
2 be subject to review under Section 37 of this Act. The Authority shall have its central office
3 in Metro Manila.

4 **SEC. 5. Powers and Functions of the Authority.** - The Authority shall have the following
5 powers and functions:

- 6 (a) Set and maintain valuation standards consistent with internationally accepted
7 valuation standards, regulations and specifications for real property appraisal used for
8 tax and other purposes and ensure compliance therewith by local government units,
9 national government agencies, and other concerned parties in both government and
10 private sectors;
- 11 (b) Review and approve the Schedule of Market Values prepared by the provincial, city,
12 and municipal assessors of Metro Manila for tax purposes and coordinate, or conduct
13 when requested, the appraisal of special purpose properties;
- 14 (c) Provide technical assistance on real property appraisal matters to government
15 agencies and instrumentalities;
- 16 (d) Provide leadership and direction to local government units, national government
17 agencies, private sector institutions and individuals dealing with real property
18 appraisal on matters pertaining to appraisal including the promotion of appraisal
19 education and continuing educational development programs, development and
20 maintenance of valuation standards, and regulation of appraisal activities, and other
21 related matters;
- 22 (e) Recommend to the approving authority the appointment of qualified persons for local
23 government assessors;

- 1 (f) Develop and maintain a database of real property transactions and prices of materials
2 for buildings and other structures and machineries;
- 3 (g) Determine, fix, and collect reasonable amounts to be charged as administration fees,
4 fines, and penalties relative to the implementation of this Act; and
- 5 (h) Perform such other functions as are necessary, proper, and incidental to implement
6 the provisions of this Act.

7 **SEC. 6. *Head of Authority.*** - The Authority shall be headed by an Executive Director (or
8 Appraiser General) who shall be appointed by the President of the Philippines upon the
9 recommendation of the Secretary of Finance. The Executive Director (Appraiser General)
10 must be a Filipino citizen, of good moral character, a graduate in law, engineering, or
11 commerce and related degrees, and a licensed appraiser, or assessor, with at least ten (10)
12 years experience in appraisal or assessment of real properties. The Executive Director
13 Appraiser General) shall have the salary grade equivalent to the rank of a Director IV under
14 the Salary Standardization Law exclusive of allowances and other emoluments.

15 **SEC. 7. *Responsibilities of the Executive Director(Appraiser General).*** - The Executive
16 Director (Appraiser General) shall be responsible for the efficient and effective delivery of
17 services to be performed by the Authority as well as the statutory responsibilities set out in
18 this Act. For this purpose, the Executive Director (Appraiser General) shall:

- 19 (a) Advise and assist the Secretary of Finance on matters pertaining to real property
20 appraisal and assessments;
- 21 (b) Provide policy direction and leadership as well as coordinating and supporting the
22 functions of the regional offices;

- 1 (c) Develop policies, plans, programs, and operating standards for the attainment of the
- 2 objectives and mandate of the Authority;
- 3 (d) Act as the ex-officio chairperson of the Advisory Board created pursuant to this Act;
- 4 (e) Delegate authority over certain powers, functions, and responsibilities as the need
- 5 arises; and
- 6 (f) Perform such other functions as may be provided by law.

7 **SEC. 8. *Deputy Director (Appraiser).*** - In the performance of his/her duties and
8 responsibilities, the Executive Director (Appraiser General) shall be assisted by a Deputy
9 Director (Appraiser) who shall likewise be appointed by the President of the Philippines
10 upon the recommendation of the Secretary of Finance. The Deputy Director (Appraiser)
11 must be a Filipino citizen, of good moral character, a graduate in law, engineering, or
12 commerce and related degrees, and a licensed appraiser, or assessor, with at least five (5)
13 years experience in appraisal or assessment of real properties.

14 **SEC. 9. *Creation of an Advisory Board.*** - (a) There shall be created an Advisory Board,
15 hereinafter referred to as the Board, composed of seven (7) persons with the Executive
16 Director as ex-officio chairperson and the following as members :

- 17 (1) Representative from the Department of Finance;
- 18 (2) Representative from the Bureau of Local Government Finance;
- 19 (3) Representative from the Bureau of Internal Revenue;
- 20 (4) Representative from the Department of Environment and Natural Resources;
- 21 (5) Two (2) representatives from private appraisal organizations;

1 (b) **Private appraisal organization** refers to a professional organization of licensed real estate
2 appraisers which has been active in the promotion and pursuit of its objectives for the last
3 five (5) years.

4 (c) The representatives from the concerned government agencies shall be designated by their
5 respective agency heads while the representatives from the private appraisal organizations
6 shall be appointed by the Executive Director (Appraiser General) from among the list of
7 nominees submitted by their respective organizations. The members shall serve for a
8 maximum of three (3) years unless their designation or appointment is shortened or
9 terminated by the designating agency, private appraisal organization, or Executive Director
10 (Appraiser General), as the case may be. In case of vacancy in the Board, the person so
11 appointed or designated shall serve only for the unexpired term. The chairperson and
12 members of the Board shall not receive additional salary for the performance of their
13 functions but they shall be entitled to honoraria pursuant to existing laws and regulations.

14 (d) The Board shall meet every other month and shall have as many special meetings as it
15 may deem necessary for the performance of its functions. The Board may also formulate and
16 adopt its internal rules and regulations for the conduct of its meetings.

17 **SEC. 10. Functions of the Advisory Board.** - The Board shall advise the Executive
18 Director on matters pertaining to the following: (a) preparation, review and approval of the
19 Schedule of Market Values mentioned in Section 18 of this Act; and (b) setting,
20 maintenance, and compliance monitoring, of the valuation standards prepared and developed
21 pursuant to Section 16 of this Act.

22

23

1 **Chapter 2. - ORGANIZATION OF THE AUTHORITY’S REGIONAL OFFICES**

2 **SEC. 11. *Regional Offices.*** – There shall be established in every administrative region of
3 the country a Regional Office headed by a Regional Director who shall be appointed by the
4 Secretary of Finance upon the recommendation of the Authority’s Executive Director. The
5 Regional Director must be a Filipino citizen, of good moral character, a graduate in law,
6 engineering, or commerce and related degrees, a licensed appraiser, or assessor, with at
7 least five (5) years of experience in appraisal or assessment of real property and a resident of
8 the region where he is appointed. The Regional Director shall have a salary grade
9 equivalent to Director III under the Salary Standardization Law exclusive of allowances and
10 other emoluments.

11 **SEC. 12. *Functions of the Regional Director.***- The Authority’s Regional Director shall:

- 12 (a) Implement laws, policies, plans, programs, rules and regulations of the Authority in
13 the Region;
- 14 (b) Provide economical, efficient, and effective service relating to the Authority’s
15 mandate to local government units and government agencies within the region;
- 16 (c) Coordinate with regional offices of other government departments, bureaus, and
17 agencies within the region dealing with real property appraisal and assessment;
- 18 (d) Provide leadership and direction in the area of real property appraisal and assessment
19 to local government units in the region;
- 20 (e) Act as chairperson of the NAA Regional Consultative Committee; and
- 21 (f) Perform other functions as may be assigned by the Executive Director.

1 **SEC. 13. *Designation of Officer-in-Charge in Case of the Absence of the Regional***
2 ***Director.*** - In the event the Regional Director is temporarily unable to perform his/her duties
3 and responsibilities due to, but not limited to, suspension, leave of absence, attendance in
4 seminars, conventions, workshops, lectures, and other official activities locally or abroad, the
5 Executive Director (Appraiser General), prior to the absence of the Regional Director, shall
6 designate any of the Regional Office's division, unit, or department chiefs or heads as
7 Officer-in-Charge who shall assume and continue to perform the duties and responsibilities of
8 the Regional Director: *Provided*, however, That the person so designated as Officer-in-
9 Charge is not entitled to any additional salary attached to such position.

10 **SEC. 14. *The NAA Regional Consultative Committee.*** – (a) There shall be created in every
11 administrative region a NAA Regional Consultative Committee, hereinafter referred to as the
12 Committee, with the Regional Director as ex-officio chairperson and the following as
13 members:

- 14 (1) Representative from the Bureau of Local Government Finance- Regional Office;
- 15 (2) Representative from the Bureau of Internal Revenue- Region/District Office;
- 16 (3) Representative from the Department of Environment and Natural Resources-Regional
17 Office; and
- 18 (4) Representative from the private appraisal organization.

19 (b) ***Private appraisal organization*** refers to a professional organization of licensed real estate
20 appraisers within the region which has been active in the promotion and pursuit of its
21 profession for the last five (5) years.

22 (c) The representatives from the concerned government agencies shall be designated by their
23 respective agency heads while the representative from the private appraisal organization

1 shall be appointed by the Regional Director from among the list of nominees submitted by
2 their respective organizations. The members shall serve for a maximum of three (3) years
3 unless his/her designation or appointment is shortened or terminated by the designating
4 agency, private appraisal organization, or Regional Director. In case of vacancy in the
5 Committee, the person so appointed or designated shall serve only for the un-expired term.
6 The chairperson and members of the Committee shall not receive additional salary for the
7 performance of their functions but they shall be entitled to an honoraria pursuant to existing
8 laws and regulations.

9 (c) The Committee shall meet every other month and shall have as many special meetings
10 as it may deem necessary for the performance of its functions. Subject to the approval of the
11 Executive Director (Appraiser General), the Committee may also formulate and adopt its
12 internal rules and regulations for the conduct of its meetings.

13 **SEC. 15. *Functions of the Committee.*** - The Committee is the counterpart of the Board at
14 the regional level and shall advise the Regional Director on matters pertaining to the
15 following: (1) preparation and review of the Schedule of Market Values mentioned in Section
16 18 of this Act; and (2) setting, maintenance, and compliance monitoring, of the valuation
17 standards prepared and developed pursuant to Section 16 of this Act.

18 **ARTICLE III**

19 **Chapter 1. APPRAISAL AND ASSESSMENT OF PROPERTIES**

20 **SEC. 16. *Development of Valuation Standards.*** – Notwithstanding the provisions of existing
21 laws to the contrary, the Authority shall develop and implement uniform valuation standards
22 which shall be used as a guide by all appraisers and assessors of national and local
23 governments in appraising or valuing lands, buildings, machineries and other real properties

1 for taxation and other purposes. The valuation standards must conform with the generally
2 accepted valuation principles and internationally accepted standards.

3 **SEC. 17. *Appraisal of Real Property.*** - All real property, whether taxable or exempt, shall
4 be appraised at the market value prevailing in the locality where the property is situated in
5 conformity with the valuation standards prepared under this Act. The Authority shall
6 promulgate the rules and regulations for the classification and appraisal of real property
7 pursuant to the provisions of this Act.

8 **SEC. 18. *Preparation of Schedule of Market Values.*** - The Executive Director (Appraiser
9 General) shall determine the program of the general revisions of property values each year.
10 Before any general revision of property assessment is made pursuant to the provisions of
11 Republic Act No. 7160, as amended, otherwise known as the Local Government Code of
12 1991, there shall be prepared a Schedule of Market Values by the provincial, city and the
13 municipal assessors of the municipalities within the Metropolitan Manila Area for the
14 different classes of real property and special purpose property situated within their respective
15 local government units pursuant to the appraisal standards and specifications set by the
16 Authority. The said schedule shall be submitted by the assessor concerned to the Authority's
17 regional office for initial review and completion of the compliance report. The said schedule
18 shall then be submitted to the Authority's central office for approval. The Executive Director
19 (Appraiser General) shall act within ninety (90) days after receipt of the said schedule and
20 inform the Regional Director and Assessor concerned of any action thereon within the said
21 period, otherwise, the said schedule shall be deemed approved. The approved Schedule of
22 Market Values shall be published in a newspaper of general circulation in the province, city
23 or municipality concerned, or in the absence thereof, shall be posted in the provincial capitol,

1 city or municipal hall and in two other conspicuous public places therein and in the
2 Authority's official website.

3 **SEC. 19. *Amendment of Schedule of Market Values.*** - The provincial, city or municipal
4 assessor in Metropolitan Manila Area may recommend to the Authority amendments to the
5 Schedule of Market Values in case there is significant change in the value of the property
6 after the said Schedule has been approved and prior to its next revision. The assessors of
7 any municipality within the province may also recommend amendments to the Schedule of
8 Market Values through their provincial assessors.

9 **SEC. 20. *Use of Schedule of Market Values.*** - The market value of real property
10 appearing in the Schedule of Market Values approved by the Authority shall be used for
11 computing all real property taxes imposed by the national and local government units.

12 **SEC. 21. *Revision of Schedule of Market Values.*** - The provincial, city and municipal
13 assessors of Metro Manila shall undertake a general revision of Schedule of Market Values
14 every three (3) years. In the event the provincial, city or municipal assessor fails to undertake
15 the said revision, the Authority is authorized, after due consultation with the local
16 government unit concerned, to undertake the general revision and recover from the local
17 government unit concerned the expenses incurred thereto.

18 **SEC. 22. *Saving Clause.*** - The zonal values as determined by the Bureau of Internal
19 Revenue and approved by the Secretary of Finance and the Schedule of Market Values
20 prepared by the provincial, city assessors and municipal assessors of the Metropolitan Manila
21 Area that have been approved by their respective Sanggunians for taxation purposes shall
22 continue to be in force and effect until repealed, superseded, modified, revised, set aside, or

1 replaced by the values provided under the Schedule of Market Values approved in
2 accordance with Section 18 of this Act.

3 **Chapter 2. DEVELOPMENT AND MAINTENANCE OF**

4 **REAL PROPERTY DATABASE**

5
6 **SEC. 23. *Development of Real Property Database.*** - The Authority shall develop and
7 maintain an updated database on the sale, exchange, lease, mortgage, donation and all other
8 real property transactions in the country and on the prices of materials for the construction or
9 renovation of buildings and other structures, and on prices of machinery. For this purpose,
10 the Authority is hereby authorized to require the production of necessary documents or to
11 obtain information from the concerned officials or employees of national government offices
12 or instrumentalities, local government units, and private sectors. The updated database shall
13 be made available to the local government units, national government agencies, and the
14 private sector as well.

15 **SEC. 24. *Duty of Registrar of Deeds to Supply Assessors of Real Property Transactions***
16 ***Data.*** - The Registrar of Deeds shall prepare and submit to the provincial, city or municipal
17 assessor in Metropolitan Manila Area an abstract of his registry every six (6) months and
18 copies of all contracts selling, transferring or otherwise converting, leasing, or mortgaging
19 real property registered by him/her, within thirty (30) days from the date of registration. The
20 abstract shall include brief but sufficient description of the real properties entered therein,
21 their present owners, and the dates of their most recent transfer or alienation accompanied by
22 copies of corresponding deeds of sale, donation, or partition or other forms of alienation.

23 **SEC. 25. *Duty of Official Issuing Building Permits or Certificates of Registration of***
24 ***Machinery to Transmit Copy to the Assessor.*** - Any public official or employee who may

1 now or hereafter be required by law or regulation to issue to any person a permit for the
2 construction, addition, repair, or renovation of a building, or permanent improvement on
3 land, or a certificate of registration for any machinery, including machines, mechanical
4 contrivances, and apparatus attached or affixed on land or to another real property, shall
5 transmit a copy of such permit or certification within thirty (30) days of its issuance, to the
6 assessor of the province, city or municipality where the property is situated.

7 **SEC. 26. *Duty of Geodetic Engineers to Furnish Copy of Plans to Assessor.*** - It shall be
8 the duty of all geodetic engineers, public or private, to furnish free of charge to the assessor
9 of the province, city or municipality where the land is located with a white or blue print copy
10 of each of all approved original or subdivision plans or maps of surveys executed by them
11 within thirty (30) days from receipt of such approved plans from the Land Management
12 Bureau, the Land Registration Authority, or the Housing and Land Use Regulatory Board, (or
13 Land Administration Authority), as the case may be.

14 **SEC. 27. *Duty of Assessors to Transmit Documents to the Authority.*** - It shall be the duty
15 of the Assessors to transmit all real property transactions data from the Register of Deeds,
16 Official issuing building permit and Geodetic Engineers to the regional office of the
17 Authority within one (1) month after the receipt of such data. The Authority's regional office
18 shall record, process and make a summary report of the real property data and submit the
19 same to the Central office within one (1) month from receipt of such data.

20 **Chapter 3. APPOINTMENT AND QUALIFICATIONS OF LOCAL ASSESSORS**

21 **Sec. 28. *Appointment of Assessors.*** - The Executive Director (Appraiser General) shall
22 recommend to the Secretary of Finance the appointment of the following: (a) Provincial and
23 Assistant Provincial Assessors and City and Assistant City Assessors from the list of persons

1 suitable and qualified for appointment within the region; (b) Municipal and Assistant
2 Municipal Assessors from the list of suitable and qualified for appointment within the
3 Province; and (c) City and Assistant City Assessors and Municipal and Assistant Municipal
4 Assessors from the list of persons suitable and qualified for appointment within the
5 Metropolitan Manila Area. The assessor shall be under the administrative and technical
6 supervision of the Authority.

7 **SEC. 29. *Qualifications of Local Government Assessors.*** - No person shall be appointed
8 assessor unless such person is a citizen of the Philippines, a resident of the region for a
9 provincial or city assessor and of the province for a municipal assessor, a licensed appraiser,
10 of good moral character, a graduate in law, engineering, commerce or related degree, and
11 must have experience in real property assessment work or in any related field for at least five
12 (5) years in the case of the provincial or city assessor and three (3) years in the case of the
13 municipal assessor.

14 **ARTICLE IV**

15 **TRANSITORY PROVISIONS**

16 **SEC. 30. *Implementing Guidelines.*** - (a) Within one hundred eighty days (180) days after
17 the effectivity of this Act, the Authority's Central Office shall be organized. The President
18 shall appoint the Executive Director (Appraiser General) of the Authority upon the
19 recommendation of the Secretary of Finance.

20 (b) The personnel of the Real Property Assessment and Local Assessment Operations
21 Divisions of the Bureau of Local Government Finance (BLGF) including other personnel of
22 said office whose functions may be necessary in the organization of the Authority may be
23 absorbed as the Authority's core staff until such time when the organizational structure and

1 staffing pattern of the Authority shall have been approved. For this purpose, there is hereby
2 created an *Ad Hoc* Committee composed of the Executive Director (Appraiser General) as
3 *ex-officio* chairperson and representatives from the DOF, BLGF, BIR, National Tax Research
4 Center (NTRC) and Land Administration and Management Project (LAMP) as members.
5 The *Ad Hoc* Committee shall be responsible for the formulation of the Authority's
6 Organization and Implementation Plan: *Provided*, That the preparation and approval of the
7 Authority's Organization and Implementation Plan shall, as far as practicable, respect and
8 ensure the security of tenure, rank and salary of affected government employees;

9 (c) The personnel of the concerned divisions of BLGF composing the core staff who may not
10 be absorbed by the Authority shall be reassigned by the said office in any of its sections or
11 divisions without diminution of the employee's rank, position and salary.

12 (d) As early as possible, the Executive Director (Appraiser General) shall organize the Board
13 pursuant to Section 9 of this Act.

14 (e) After the organization of the Authority's Central Office, the Authority's regional offices
15 shall be organized taking into consideration the organizational criteria such as, but not
16 limited to, availability of qualified personnel, facilities, budgetary support and others.

17 **SEC. 31. *Transfer of Records and Assets.*** - All pertinent records, documents, office
18 equipment and other properties exclusively used by and/or assigned in, under the custody of,
19 the affected divisions of BLGF may be transferred to the Authority.

20 **SEC. 32. *Budgetary Requirements.*** - (a) The amount necessary to finance the initial
21 implementation of this Act shall be charged against the corresponding appropriations of the
22 BLGF's Real Property Assessment Division and Local Assessments Operations, and other
23 divisions of the said agency where the other core staff came from. Thereafter, such funds as

1 may be necessary for the continued implementation of this Act shall be included in the annual
2 General Appropriations Act.

3 (b) The sum of _____ is hereby appropriated for the expenses to be incurred by the Ad
4 Hoc Committee in carrying out its functions.

5 **ARTICLE V**

6 **PENAL PROVISIONS**

7 **SEC. 33. *Failure to Provide Information or Data.*** - Any government official or employee
8 who fails without justifiable reason or reasons to provide or furnish data or information
9 required by the Authority pursuant to Sections 23, 24, 25 and 26 of this Act shall be
10 punished by a maximum fine equivalent to the official's or employee's six (6) months basic
11 salary or suspension from service for a period not exceeding one (1) year, or both, at the
12 discretion of the Civil Service Commission (CSC).

13 **SEC. 34. *Failure to Comply With the Valuation Standards.*** - An assessor or appraiser who
14 fails to comply with the Valuation Standards prepared and adopted pursuant to this Act, or
15 deliberately concealed any deviations or departures from such Standards, shall be punished
16 by a maximum fine equivalent to the official's or employee's six (6) months basic salary, and
17 suspension from the government service or from the practice of profession for a period not
18 exceeding one (1) year, or permanent revocation of his/her license at the discretion of the
19 competent authority.

20 **SEC. 35. *Failure to Prepare Schedule of Market Values.*** - An assessor who intentionally
21 or deliberately refuses or fails to prepare the Schedule of Market Values within the period
22 required by the Authority shall be punished, upon conviction, by a maximum fine equivalent
23 to the official's or employee's six (6) months basic salary or by suspension from

1 government service for not more than one (1) year, or both, at the discretion of the
2 competent authority.

3 **SEC. 36. *Violations of Other Provisions.*** - Any person who violates any provision of this
4 Act other than those punishable under Sections 33, 34, and 35 hereof shall, when warranted,
5 be dealt with under the applicable existing laws.

6

7

ARTICLE VI

8

MISCELLANEOUS PROVISIONS

9 **SEC. 37. *Mandatory Review After Five Years of Authority's Organization.*** –After five (5)
10 years from the effectivity of this Act, an independent review panel composed of seven (7)
11 persons from the legislative and executive branches of the government shall be appointed by
12 the President to review the organizational and functional relationship of the Authority to
13 other government agencies and stakeholders and shall make recommendations, based on its
14 findings to the President and to both Houses of Congress.

15 **SEC. 38. *Implementing Rules and Regulations.*** – The Secretary of Finance, upon the
16 recommendation of the Executive Director (Appraiser General), shall issue, within ninety
17 (90) days after the organization of the Authority, the rules and regulations for the effective
18 implementation of this Act.

19 **SEC. 39. *Suppletory Application of Existing Legislations.*** – The provisions of Republic
20 Act No. 7160, otherwise known as the Local Government Code of 1991, and other laws not
21 inconsistent with this Act shall have suppletory effect.

22 **SEC. 40. *Repealing Clause.*** – (a) Section 6 (E) of Republic Act No. 8424, as amended,
23 otherwise known as the National Internal Revenue Code of 1997; Presidential Decree No.
24 921 dated April 12, 1976; Sections 199 (e), 199 (l), 199 (m), 199 (o), 201, 202, 203, 209

1 (a), 212, 214, 217, 219, 220, 224, 225, 443 (d), 444 (b) (1) (v), 454 (d), 455 (b) (1) (v),
2 463 (d), 465 (b) (1) (v), and 472 of Republic Act 7160, otherwise known as the “Local
3 Government Code of the Philippines,” including all other provisions of the said laws which
4 are inconsistent with any of the provisions of this Act are hereby repealed, amended,
5 superseded or modified accordingly.

6 (b) All laws, presidential decrees, executive orders, presidential proclamations, rules and
7 regulations or parts thereof contrary to or inconsistent with this Act are hereby repealed,
8 superseded or modified accordingly.

9 **SEC. 41. *Separability Clause.*** – Any portion or provision of this Act that may be declared
10 unconstitutional or invalid shall not have the effect of nullifying other portions or provisions
11 hereof as long as such remaining portions or provisions can still subsist and be given effect in
12 their entirety.

13 **SEC. 42. *Effectivity.*** – This Act shall take effect fifteen (15) days after its complete
14 publication in the Official Gazette or in a newspaper of general circulation.

15 APPROVED.

1 **Sec. ____.** *Definition of Terms.* - As used in this Act, the following term:

2 **(j) Appraisal**

3 **(k) Appraiser**

4 **(l) Assessment**

5 **(m) Assessor**

6 **(n) Building**

7 **(o) Equipment**

8 **(p) Generally Accepted Valuation Principles**

9 **(q) Improvements**

10 **(r) Internationally Accepted Valuation Standards**

11 **(s) Land**

12 **(t) Machineries**

13 **(u) Market Value**

14 **(v) Property Classification**

15 **(w) Real Property**

16 **(x) Schedule of Market Values**

17 **(y) Special Purpose Properties**

18 **(z) Valuation Standards**

19 **(aa) Zonal Value**

20 *SEC. ____.* *Appointment of Assessor.* - (a) *The assessor of the province, highly urbanized*
21 *city, or independent component city shall be appointed by the provincial governor or city*

1 *mayor, as the case may be, from among the list of persons recommended by the Authority's*
2 *Executive Director as qualified and suitable for appointment as assessor; (b) The assessor*
3 *of a municipality or component city shall be appointed by the municipal or city mayor from*
4 *among the list of persons recommended by the Authority's Regional Director as qualified*
5 *and suitable for appointment as assessor.*

6
7 **SEC. 36. *Violations of Other Provisions.*** - Any person who violates any provision of this
8 Act other than those punishable under the preceding Sections shall be punished, upon
9 conviction, by a fine of not less than P_____ nor more than P_____, or by imprisonment
10 for a period of not less than ____ days nor more than ____ days, or both, at the discretion of
11 the competent authority.

12
13
14 CHAPTER _____. REGULATION AND LICENSING OF APPRAISERS AND
15 ASSESSORS.

16
17 SEC. _____. The Authority shall have the authority to administer and regulate the
18 licensing of real estate appraisers and assessors. For this purpose, the Authority shall
19 prescribe the qualification requirements of persons qualified to take the licensure examination
20 to be given by the Authority pursuant to this Act.

21
22
23 ISSUES FOR CLARIFICATION:

24
25 Re: Propriety of the creation of the NAA: Is there really a need to create a NAA?

26
27 RE: Role of the Advisory Board and Regional Consultative Committee: Policy formulating
28 or what? Are their opinions really advisory as the title suggests or mandatory for the Exec.
29 Director to follow?

30
31 Re: Appointment of Assessors. - Who will shoulder their salary? Is it not unfair to LGUs to
32 shoulder their salaries when their appointment is vested with the DOF?

33
34 Re: Approval of the Schedule of Market Values. - Does the transfer of the authority to
35 approve SMV from the Sanggunian to the NAA contradicts the policy of local autonomy?

36
37 Re: Mandatory Review: Who will undertake the mandatory review after five years?

38
39 Re: Suspension- Who will designate the OIC in case the Executive Director is suspended?

40
41 Re: Amendments to the LGC. – Shall these be included in the proposed NAA bill or be
42 contained in a separate bill for this purpose?

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ANNEX B

Implementing Rules and Regulations

ANNEX B.

DISCUSSION DRAFT

IMPLEMENTING RULES & REGULATIONS
(National Appraisal Authority Bill)

Background

The following subject list is submitted for consideration in Article VI Section 38 of the Draft NAA Bill. The items will need to be considered in detail and drafted for inclusion.

The headings are appraisal and assessment process related and in the main have been based on the Local Government Code IRR. If the subject matter listed below is adopted the LGC may require amendment and or repeal to recognize the changes and transfer of functions to the NAA.

Items for Inclusion in the IRR

1. Declaration of Policy
2. Scope
3. Fundamental Principles
4. Jurisdiction
5. Definition of terms
6. General Provisions
7. Powers, Duties and Functions of Assessors and Appraisers
8. Appraisal and Assessment of Real Property
9. Appraisal and Assessment of Plant, Machinery and Equipment
10. Development and Maintenance of Valuation Standards for Taxation Purposes.
11. Development and Maintenance of Valuation Standards for GOP Agencies
12. Development and Maintenance of Manuals and Advisory Notes on Real Property Appraisal & Assessment
13. The Date of Valuation and Effectivity date of Assessment Valuation Roll
14. The General Revision of the Schedule of Market Values

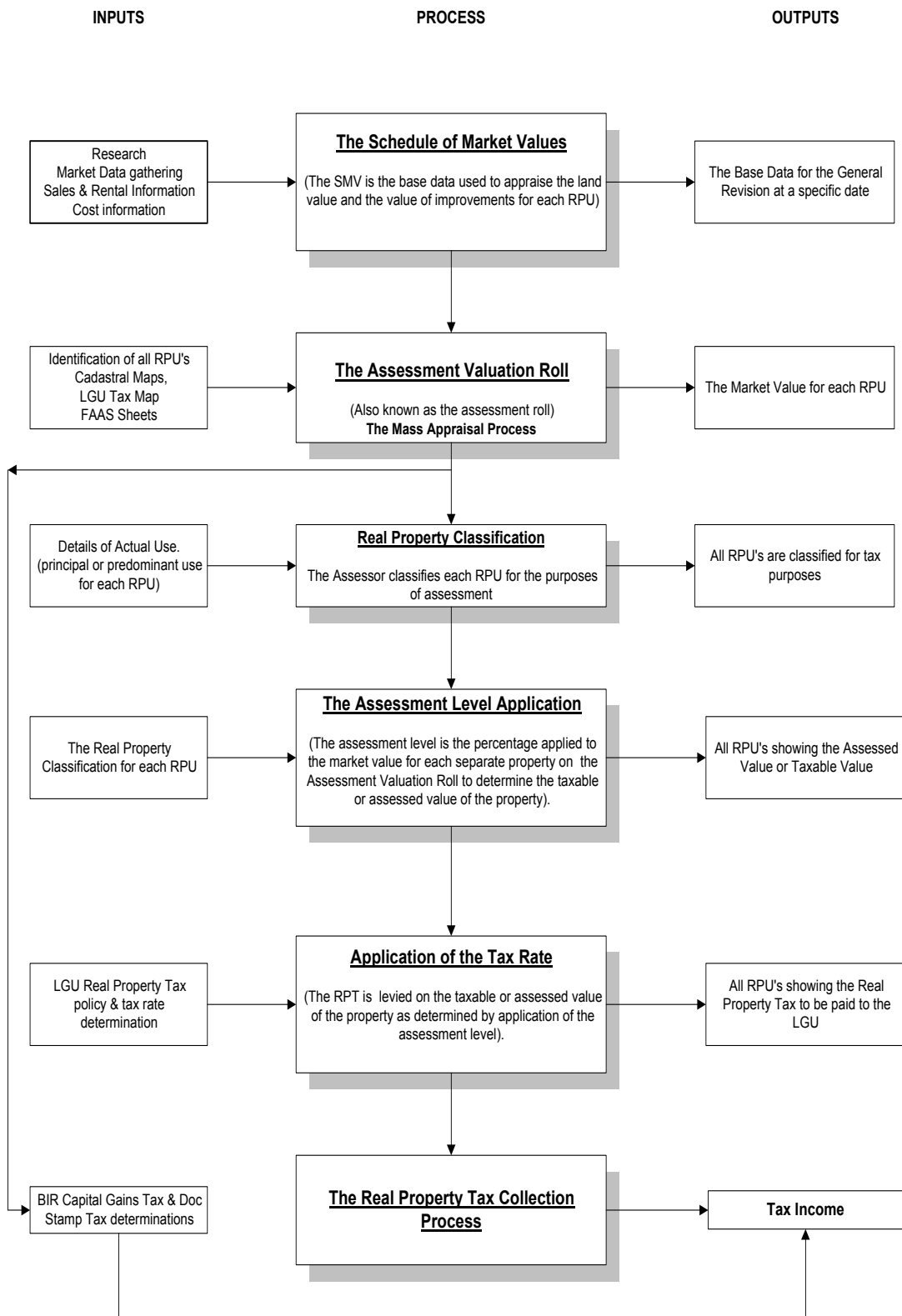
- 15.** The General Revision Timetable and Program Approval
- 16.** The preparation and maintenance of a list of the Licensed Assessors & Appraisers, qualified, and experienced to be appointed as LGU Assessors.
- 17.** Authority for Assessors and LGU Appraisal staff to Inspect Real Property and Request Information from Owners and or Occupiers
- 18.** The establishment and maintenance of real property records by the Assessors for each property on a nationally consistent form and basis
- 19.** Assessors to establish and maintain a real property identification system for each property based on a nationally consistent system.
- 20.** The Preparation of the Schedule of Market Values
- 21.** Authority to Amend the Schedule of Market Values
- 22.** General Revision of the Assessment Valuation Rolls and the Classification of each Property on the Roll.
- 23.** Requirements for Compliance Reporting by National Appraisal Authority
- 24.** Duties of Assessors and Appraisers Relating to Compliance Reporting
- 25.** Duties of Persons Acquiring or renting Real Property
- 26.** Duties of Persons Making Improvements to Real Property
- 27.** Listing of Real Property in Assessment Valuation Roll
- 28.** The development and maintenance of a national database for real property transactions and building and machinery costs
- 29.** The Notification of Real Property Transfers by all parties involved in the transfer.
- 30.** Assessor Required to Collect and Process Transaction Data and Cost Information
- 31.** Publication and Distribution of Reports on Local and National Real Property Market Movements, trends and Activities
- 32.** Duty of Registrar of Deeds to Inform the Assessors Office of Titles and other Entries.
- 33.** Duty of Notary Public to Inform Assessors Office of Real Property Transactions & Contracts

- 34.** Duty of Geodetic Engineers to Supply Details of Survey Maps to Assessors Office.
- 35.** Duty of Officials Issuing Building Permits or Registering Machinery to Inform the Assessors Office
- 36.** Assessors to Develop and Maintain Tax Maps
- 37.** Classes and Classification of Real Property for Assessment purposes
- 38.** Identify Special Classes of Real Property for Assessment purposes
- 39.** Public Notification of Assessment Valuation Roll
- 40.** Public Advertising & Publicity Relating to General Revisions
- 41.** Property Owners or Occupiers Rights to Appeal with timeframes
- 42.** Appeal Procedures
- 43.** Organization, Powers, Duties and Functions of the Local Board of Assessment Appeals.
- 44.** Organization, Powers, Duties and Functions of the Central Board of Assessment Appeals.
- 45.** Assessors to Provide Assessment Valuation Roll to the Local Treasurer
- 46.** Assessors to Provide Assessment Valuation Roll to the BIR
- 47.** Assessors to Provide Annual Market Index to the BIR
- 48.** Assessors to Provide a Schedule of Market Values and / or Assessment Valuation Rolls to GOP Agencies upon request.
- 49.** Public Access to Assessment Valuation Roll Information
- 50.** Provide Training programs for Assessors and Appraisers in LGU's
- 51.** Provide input and supervision of Education Programmes at the tertiary level and continuing professional development programs for Assessors and Appraisers
- 52.** Provide input and supervision for the Regulation and Licensing of Assessors and Appraisers
- 53.** Provide ongoing advice to the GOP on real property appraisal and related matters and respond to requests for information.

ANNEX C

Process Chart

Valuation for Taxation Purposes



ANNEX D

Schedule of Workshops

LAND VALUATION STUDY CONSULTATIVE WORKSHOPS 2004

DATE	EVENT TITLE	OBJECTIVE	VENUE
March 11, 2004	Workshop on Simulation Study and Criteria for LGU Selection	Internal Workshop	NTRC Social Hall Port Area, Manila
March 18, 2004	Workshop on Simulation Stud	Participated by Ms. Nelly Gomez, Municipal Assessor and Mayor of Sta. Rosa, Laguna, Hon. Leon Arcillas and the Technical Assistance Team	Municipal Government Conference Room Santa Rosa, Laguna
March 26, 2004	Consultative Workshop on the Valuation Standards	Internal Workshop	NTRC Social Hall Port Area, Manila
March 30 to April 1, 2004	Lecture on the Concept of Property Valuation / Appraisal	Internal Workshop	NTRC Social Hall Port Area, Manila
April 29, 2004	Workshop to Review of the Initial Draft Bill Creating the National Appraisal Authority	Review of the Initial Draft Bill Creating the NAA participated by the Technical Staff and DOF Steering Committee.	NTRC Social Hall Port Area, Manila
May 18, 2004	Overview of Valuation Standards and the Presentation of the Outline of the Proposed Philippine Valuation Standards	Exposure of Draft of Valuation Standards to Assessors, Private Appraisers, Officials/Representative of BIR, BLGF and other concerned government agencies for comments and reactions	NTRC Social Hall Port Area, Manila
May 28, 2004	Consultative Workshop on the Presentation of the First Draft of the Bill Creating the National Appraisal Authority (NAA)	Presentation of the first draft of the Bill creating the NAA to private and government sectors involved in valuation for tax purposes to get their comments and reactions.	Bayview Park Hotel Roxas Boulevard, Manila
June 1, 2004	Consultative Workshop on Valuation Standards & Valuation Simulation Study	To seek input and commitments from the participants for conducting the Valuation Simulation Study with Santa Rosa Simulation Group and other concerned government staff & officials	Municipal Government Conference Room Santa Rosa, Laguna

Consultative Workshops 2004

June 18, 2004	Consultative Workshop on the Philippine Valuation Standards for Taxation	To orient participants on the concepts of Mass Appraisal and to identify the requirements in conducting Mass Appraisal for taxation purposes participated by public and government sectors.	NTRC Social Hall Port Area, Manila
July 13, 2004	Consultative Workshop on the Proposed Valuation Standards for Taxation	To be aware of, understand and correctly employ recognized methods and techniques to produce and communicate credible mass appraisal participated by the government and private sectors.	Bayview Park Hotel Roxas Boulevard, Manila
3, 2004	Workshop on the Creation of a Transaction Database	Participated by BLGF Staff, NTRC Staff, LGUs of Sta. Rosa Laguna, Anitipolo, and Muntinlupa, IT Managers and Assessors	Bureau of Local Government Finance, Roxas Blvd., Manila
July 27, 2004	Consultative Workshop on the Recommendations on the Valuation Components of LAMP	Presentation of the draft Bill creating the NAA to local executives a few Vice-Governors and Vice-Mayors in Luzon involved in valuation for tax purposes to get their comments and reactions.	Holiday Inn Resort Mimosa Drive, Mimosa Leisure Park Clarkfield, Pampanga
August 16 & 17, 2004	Consultative Workshop on the Recommendations on the Valuation Components of LAMP	Presentation of the NAA draft bill and brief presentation of the Valuation Standards, Valuation Simulation Study and Database to Visayas local executives, city Vice-Mayors and Vice-Governors, Assessors, private appraisers and other involved agencies as the BIR (RDD) etc. to get their comments and reactions.	Golden Peak Hotel & Suites Gorordo St. cor. Escano St., Cebu City
September 2004	Proposed Consultative Workshop on the Recommendations on the Valuation Components of LAMP	Presentation of the NAA draft bill and brief presentation of the Valuation Standards, Valuation Simulation Study and Database to Mindanao local executives, city Vice-Mayors and Vice-Governors,	Proposed venue is in Davao City

		Assessors, private appraisers and other involved agencies as the BIR (RDD) etc. to get their comments and reactions.	
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ANNEX E

Draft Philippine Valuation Standards

ANNEX E1.1

**PHILIPPINE VALUATION STANDARDS
FOR TAXATION PURPOSES**

Standard 1

Market Value Basis of Valuation

This Standard should be read in the context of the background material and implementation guidance contained in General Valuation Concepts and Principles

Introduction

1. The objective of this Standard is to provide a common definition of Market Value. This Standard also explains the general criteria relating to this definition and to its application in the valuation of property when the purpose and intended use of the valuation calls for estimation of Market Value.
2. Market Value is a representation of value in exchange, or the amount a property would bring if offered for sale in the (open) market at the date of valuation under circumstances that meet the requirements of the Market Value definition
3. Market Value is estimated through application of valuation methods and procedures that reflect the nature of property and the circumstances under which given property would most likely trade in the (open) market. The most common methods used to estimate Market Value include the cost-approach, market data/ sales comparison approach, and the income capitalization approach, including discounted cash flow analysis.
4. All Market Value measurement methods, techniques, and procedures will, if applicable and if appropriately and correctly applied, lead to a common expression of Market Value when based on market-derived criteria. Construction costs and depreciation should be determined by reference to an analysis of market-based estimates of costs and accumulated depreciation. Sales comparisons or other market comparisons should evolve from market observations. The income capitalization approach, including discounted cash flow analysis, should be based on market-determined cash flows and market-derived rates of return. Although data availability and circumstances relating to the market or the property itself will determine which valuation methods are most relevant and appropriate, the outcome of using any of the foregoing procedures must be Market Value if each method is based on market-derived data.

Scope

This Standard applies to the Market Value of property, normally real estate and related elements. It requires that the property under consideration be viewed as if for sale on the (open) market, in contrast to being evaluated as a part of a going concern or for some other purpose.

Definition

Market Value is defined for the purpose of these Standards as follows:

Market Value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction (a transaction between independent, unrelated parties involving no irregularity) after proper marketing wherein the parties had each acted knowledgeable, prudently, and without compulsion.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated.
2. both parties are well informed or well advised, and each acting in what they consider their own best interest.
3. a reasonable time is allowed for exposure in the open market.
4. payment is made in cash or its equivalent.
5. financing, if any, is on terms generally available in the community at the specified date and typical for the property type in its locale.
6. the price represents a normal consideration for the property sold unaffected by special financing amounts and/ or terms, services, fees, costs, or credits incurred in the transaction.

Statement of Standard

To perform valuations that comply with these Standards and General Valuation Concepts and Principles (GVCP), it is mandatory that Assessors/Appraisers adhere to all the Code of Conduct pertaining to Ethics, Competence, Disclosure, and Reporting.

In performing and reporting a Market Value estimate, the Assessor/Appraiser shall:

1. completely and understandably set forth the valuation in a manner that will not be misleading;
2. ensure that the estimate of Market Value is based on market-derived data;
3. ensure that the estimate of Market Value is undertaken using appropriate methods (Coast Approach, market data / Sales Comparison approach and Income Capitalization Approach) and techniques; and
4. provide sufficient information to permit those who read and rely on the report to fully understand its data, reasoning, analyses, and conclusions. In this connection, the Assessor should:
 - (a) define the value being estimated and state the purpose and intended use of the valuation, and the date of the report;
 - (b) clearly identify and describe the property and property rights or interests being valued;
 - (c) describe the scope/ extent of the work undertaken and the extent to which the property was inspected;
 - (d) state any assumptions and limiting conditions upon which the valuation is based;
 - (e) fully and completely explain the methods applied and the reasons for their applications and conclusions; and
 - (f) include a signed Compliance Statement (Certification of Value) attesting to the Assessor/Appraiser's objectivity, professional contributions, non-bias, as well as Standards' applicability, and other disclosures.

Explanation

The concept of Market Value is not dependent on an actual transaction taking place on the date of valuation. Rather, Market Value is an estimate of the price that should be realized in a sale at the valuation date under conditions of the Market Value definition. Market Value is a representation of the price to which a buyer and seller would agree at that time under the Market Value definition, each previously having had time for investigation of other market opportunities and alternatives, and notwithstanding the fact that it may take some time to prepare formal contracts and related closing documentation.

The concept of Market Value presumes a price negotiated in an open and competitive market, a circumstance that occasionally gives rise to the use of the adjective open before the words Market Value. The words open and competitive have no absolute meaning. The market for one property could be an international market or a local market. The market could consist of numerous buyers and sellers, or could be one characterized

by a limited number of participants. The market in which the property is exposed for sale is not a definitionally restrictive or constricted market. Stated conversely, the omission of the word open does not indicate that a transaction would be private or closed.

Market valuations are generally based on information regarding comparable properties. The Valuation Process requires an Assessor/Appraiser to conduct adequate and relevant research, to perform competent analyses, and to draw informed and supportable judgments. In this process, Assessors/Appraisers do not accept data without question but should consider all pertinent market evidence, trends, comparable questions and other information. Where market data are limited, or essentially non-existent (as for example with certain specialized properties), the Assessor/Appraiser must make proper disclosure of the situation and must state whether the estimate is in any way limited by the inadequacy of data. All valuations require exercise of an Assessor/Appraiser's judgment, but reports should disclose whether the Assessor/Appraiser bases the Market Value estimate on market evidence, or whether the estimate is more heavily based upon the Assessor/Appraiser's judgment because of the nature of the property and lack of comparable market data.

Because changing conditions are characteristics of markets, Assessors/Appraisers must consider whether available data reflect and meet the criteria for Market Value.

- (a) Changes in market condition occur constantly and this may continue over a period of years. Economic change may give rise to erratic market data. If some sales are out of line with the market, the Assessor/Appraiser will generally give them less weight. It may still be possible for the Assessor/Appraiser to judge from available data where the realistic level of the market is. Individual transaction prices may not be evidence of Market Value, but analysis of such market data should be taken into consideration in the Valuation Process.
- (b) In poor or falling markets there may or may not be a large number of "willing sellers." Some, but not necessarily all, transactions may involve elements of financial (or other) duress or conditions that reduce or eliminate the practical willingness of certain owners to sell. Assessors/Appraisers must take into account all pertinent factors in such market conditions and attach such weight to individual transactions that they believe proper to reflect the market. Liquidators and receivers are normally under a duty to obtain the best price in asset disposals. Sales, however, may take place without proper marketing or a reasonable marketing period. The Assessor/Appraiser must judge such transactions to determine the degree to which they meet the requirements of the Market Value definition and the weight that such data should be given.
- (c) During periods of market transition characterized by rapidly rising or falling prices, there is a risk of over- or under-valuation if undue weight is given to historic information or if warranted assumptions are made regarding future

markets. In these circumstances, Assessors/Appraisers must carefully analyze and reflect actions and attitudes of the market and take care that they fully disclose the results of their investigations and findings in their reports.

The concept of Market Value also presumes that in a market value transaction a property will be freely and adequately exposed on the (open) market for a reasonable period of time and with reasonable publicity. This exposure is presumed to occur prior to the effective date of value. Markets for fixed assets typically differ from those available for stocks/shares, bonds, and other current assets. Fixed assets tend to be unique. They are usually sold to less frequently and in markets which are less formal and more inefficient than, for example, markets for listed securities. Further, fixed assets are less liquid. For these reasons, and because fixed assets do not commonly trade on a public exchange, the application of the concept of Market Value requires the use of assumptions such as adequate market exposure over a reasonable time period to allow for proper marketing, and completion of negotiations.

Standard 2

Code of Ethics and Professional Conduct

Introduction

To promote and preserve the public trust inherent in professional appraisal practice, an assessor/ appraiser must observe the highest standards of professional ethics.

It is fundamental to the operation of this standard that valuations performed in compliance therewith should be provided by honest and competent Professional Assessors/ Appraisers, free of bias or self-interest, whose reports are clear, will not mislead, and will disclose all matters essential to the proper understanding of the valuation. Assessors/Appraisers should always promote and preserve public trust in the valuation profession.

Scope

Assessors/Appraisers must comply with these Standards. A valuation claiming to be prepared under this Standard binds the Assessor/Appraiser to follow this Code of Conduct.

This Code is intended complementary to the rules, by-laws, and regulations of national societies or organizations controlling or monitoring the activities of Assessors/Appraisers.

Ethics

Assessors/Appraisers should at all times maintain a high standard of honesty and integrity and conduct their activities in a manner not detrimental to government, the public, their profession, or their respective national professional valuation body.

Integrity

1. An Assessor/Appraiser must not act in a manner that is misleading or fraudulent.
2. An Assessor/Appraiser must not knowingly develop and communicate a report that contains false, inaccurate, or biased opinions and analysis.

3. An Assessor/Appraiser must not contribute to, or participate in, a valuation service that other Assessors/Appraisers would consider to be unreasonable or not justified.
4. An Assessor/Appraiser must act legally and comply with the laws and regulations of the Philippines
5. An Assessor/Appraiser must not claim, or knowingly let pass, erroneous interpretation of professional qualification that he or she does not possess.
6. An Assessor/Appraiser shall ensure that any staff person or subordinate assisting in any valuation service adhere to this Code of Conduct.

Record Keeping

An Assessor/Appraiser must prepare a complete file and working paper for each appraisal, appraisal review, or appraisal consulting assignment. The file must include:

1. the name of the owner and the identity, by name or type, of any other intended users;
2. true copies of any written reports, documented on any type of media;
3. summaries of any oral reports or testimony, or a transcript of testimony, including the appraiser's signed and dated certification; and
4. all other data, information, and documentation necessary to support the appraiser's opinions and conclusions and to show compliance with this Rule and all other applicable Standards, or references to the location(s) of such other documentation.

An Assessor/Appraiser must retain the file and working papers for a period of at least six (6) years after preparation or at least two (2) years after final disposition of any judicial proceeding in which the appraiser provided testimony related to the assignment, whichever period expires last.

An Assessor/Appraiser must have custody of his or her file, or make appropriate retention, access, and retrieval arrangements with the party having custody of the file working papers.

Standard 3

Mass Appraisal Development and Reporting

In developing a mass appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques necessary to produce and communicate credible mass appraisals.

A mass appraisal includes:

1. identifying properties to be appraised;
2. defining market area of consistent behavior that applies to properties;
3. identifying characteristics (supply and demand) that affect the creation of value in that market area;
4. developing a model structure that reflects the relationship among the characteristics affecting value in the market area;
5. calibrating the model structure to determine the contribution of the individual characteristics affecting value;
6. applying the conclusions reflected in the model to the characteristics of the property(ies) being appraised; and
7. reviewing the mass appraisal results.

Standard Rule 3-1

In developing a mass appraisal, an appraiser must:

- (a) be aware of, understand, and correctly employ those recognized methods and techniques necessary to produce a credible mass appraisal;

Mass appraisal provides for a systematic approach and uniform application of appraisal methods and techniques to obtain estimates of value that allow for statistical review and analysis of results.

This requirement recognizes that the principle of change continues to affect the manner in which appraiser perform mass appraisals. Changes and developments in the real property and personal property fields have a substantial impact on the appraisal profession.

- (b) Not commit a substantial error of omission or commission that significantly affects a mass appraisal; and

- (c) Not render a mass appraisal in a careless or negligent manner.

Standard Rule 3-2

In developing a mass appraisal, an appraiser must observe the following specific appraisal requirements:

- (a) identify intended users;
(b) identify the purpose and intended use of the appraisal;
(c) identify the scope of work necessary to complete the assignment, including any special limiting conditions;

The scope of work is acceptable when it is consistent with:

- the expectations of participants in the market for the same or similar appraisal services; and
 - what other appraiser's peers' actions would be in performing the same or a similar assignment.
- (d) identify any extraordinary assumptions and any hypothetical conditions necessary in the assignment;

An extraordinary assumption may be used in an assignment only if:

- it is required to properly develop credible opinions and conclusions;
 - the appraiser has a reasonable basis for the extraordinary assumption; and
 - use of the extraordinary assumption results in a credible analysis.
- (e) identify the effective date of the appraisal;
- (f) define the value being developed;
- (g) identify the characteristics of the properties that are relevant to the purpose and intended use of the mass appraisal, including:
- i. the group with which a property is identified according to similar market influence;
 - ii. the appropriate market area and time frame relative to the property being valued; and
 - iii. their location and physical, legal, and economic characteristics.

- (h) identify the characteristics of the market that are relevant to the purpose and intended use of the mass appraisal, including:
 - i. location of the market area;
 - ii. physical, legal, and economic attributes;
 - iii. time frame of market activity; and
 - iv. property interests reflected in the market.
- (i) in appraising real property, identify and analyze the effect on use and value of the following factors: existing land use regulations, reasonably probable modifications of such regulations, economic supply and demand, the physical adaptability of the real estate, neighborhood trends, and highest and best use of the real estate; and
- (j) recognize that land is appraised as though vacant and available for development to its highest and best use and that the appraisal of improvements is based on their actual contribution to the site;
- (k) analyze the relevant economic conditions at the time of the valuation, including market acceptability of the property and supply, demand, scarcity, or rarity.

Standard Rule 3-3

In developing a mass appraisal, an appraiser must:

- (a) identify the appropriate procedures and market information required to perform the appraisal, including all physical, functional, and external market factors as they may affect the appraisal;
- (b) employ recognized techniques for specifying property valuation models; and

Mass appraisers must develop mathematical models that, with reasonable accuracy, represent the relationship between property value and supply and demand factors, as represented by quantitative and qualitative property characteristics. The models may be specified using the cost, sales comparison, or income approaches to value.
- (c) employ recognized techniques for calibrating mass appraisal models. Calibration refers to the process of analyzing sets of property and market data to determine the specific parameters of a model.

Standard Rule 3-4

In developing a mass appraisal, an appraiser must observe the following specific requirements, when applicable:

- (a) collect, verify, and analyze such data as are necessary and appropriate to develop, when applicable:

- i. the cost new of the improvements;
- ii. accrued depreciation;
- iii. value of the land by sales of comparable properties
- iv. value of the property by sales of comparable properties;
- v. value by capitalization of income—i.e., rentals, expenses, interest rates, capitalization rates, and vacancy data;

This Rule requires appraisers engaged in mass appraisal to take reasonable steps to ensure that the quantity and quality of the factual data that are collected are sufficient to produce credible appraisals.

Geographic data must be contained in as complete a set of cadastral maps and tax maps as possible, compiled according to current standards of detail and accuracy. Sales data must be collected, confirmed, screened, adjusted, and filed according to current standards of practice. The sales file must contain, for each sale, property characteristics data that are contemporaneous with the date of sale.

- (b) identify the need for and extent of any physical inspection...

Standard Rule 3-5

In applying a calibrated mass appraisal model an appraiser must:

- (a) value land with improvements by recognized methods or techniques based on the cost approach, the sales comparison approach, and income approach, as applicable;
- (b) value sites by recognized methods or techniques; such techniques include but are not limited to the sales comparison approach, allocation method, abstraction method, capitalization of ground rent, and land residual technique;

Standard Rule 3-6

In reconciling a mass appraisal an appraiser must:

- (a) reconcile the quality and quantity of data available and analyzed within the approaches used and the applicability or suitability of the approaches used; and
- (b) employ recognized mass appraisal testing procedures and techniques to ensure that standards of accuracy are maintained.

It is implicit in mass appraisal that, even when properly specified and calibrated mass appraisal models are used, some individual value estimates will not meet standards of reasonableness, consistency, and accuracy. However, appraisers engaged in mass appraisal have a professional responsibility to ensure that, on an overall basis, models produce value estimates that meet attainable standards of accuracy.

Standard Rule 3-7

A written report of a mass appraisal must clearly communicate the elements, results, opinions, and value conclusions of the appraisal.

Each written report of a mass appraisal must:

- (a) clearly and accurately set forth the appraisal in a manner that will not be misleading;
- (b) contain sufficient information to enable the intended users of the appraisal to understand the report properly;

When any portion of the work involves significant mass appraisal assistance, the appraiser must describe the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant mass appraisal assistance in the certification.

Documentation for a mass appraisal for ad valorem taxation may be in the form of (1) property records, (2) sales ratios and other statistical studies, (3) appraisal manuals and documentation, (4) market studies, (5) model building documentation, (6) regulations, (7) statutes, and (8) other acceptable forms.

- (c) clearly and accurately disclose all extraordinary assumptions, hypothetical conditions, or limiting conditions that directly affect the appraisal and indicate its impact on value;

Examples of extraordinary assumptions or hypothetical conditions might include items such as the execution of a pending lease agreement, atypical financing, a known but not yet quantified environmental issue, or completion of onsite or offsite improvements. In a written report the disclosure is required in conjunction with statements of each opinion or conclusion that is affected.

- (d) state the purpose and intended use of the appraisal;
- (e) disclose any assumptions or limiting conditions that result in deviation from recognized methods and techniques or that affect analyses, opinions, and conclusions;

One limiting condition that must be disclosed is whether or not any physical inspection was made.

- (f) set forth the effective date of the appraisal and the date of the report;

In ad valorem taxation the effective date of the appraisal may be prescribed by law. If no effective date is prescribed by law, the effective date of the appraisal, if not stated, is presumed to be contemporaneous with the data and appraisal conclusions.

The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.

- (g) define the value, including the type and definition and its source;
- (h) identify the properties appraised including the property rights;

The report documents the sources for location, describing and listing the property. When applicable, include references to legal descriptions, addresses, parcel identifiers, photos, and building sketches. In mass appraisal this information is often included in property records.

- (i) describe the procedure for collecting, validating, and reporting data;

The summary report must describe the sources of data and the data collection and validation processes. Reference to detailed data collection manuals must be made, as appropriate, including where they may be found for inspection.

Philippine Valuation Standards (For Taxation Purposes)

ANNEX E1.2

GENERAL VALUATION CONCEPTS AND PRINCIPLES

1.0 INTRODUCTION

- 1.1 The underlying fundamentals of property valuation provide the basis in the development of the valuation standard for taxation purposes in the Philippines. The Philippine Valuation Standards are developed based on the generally accepted valuation concepts, principles and procedures which are similar throughout the world. The draft of the Philippine Valuation Standards for taxation purposes is based on these fundamentals.
- 1.2 Property Appraisers and Assessors are those who deal with the special discipline of economics associated with preparing and reporting valuations. As professionals, Assessors must meet rigorous tests of education, training, competence, and demonstrated skills. They must also exhibit and maintain a Code of Ethics and Conduct and follow the Standards of professional practice based on a set of General Valuation Concepts and Principles (GVCP).
- 1.3 The development of the Philippine Valuation Standards for taxation purposes is patterned after a number of international organizations and acknowledgement is made to these various international organizations¹.

2.0 LAND AND PROPERTY CONCEPT

- 2.1 **Land** is essential to our existence. In an economic sense, land is one of the major factors of production which is supplied by nature without the aid of man. Land may include not only the earth surface, both land and water, but also anything that is attached to earth's surface. Thus, all natural resources in their original state, such as mineral deposits, wildlife, timber and fish, are land within the technical meaning of the term; so also are sources of energy, outside of man himself, such as water, coal deposits, and the natural fertility of the soil².
- 2.2 In the legal sense, the solid part of the surface of the earth, as distinguished from water; any ground soil or earth whatsoever, regarded as the subject of ownership, and everything annexed to it, whether by nature as trees, and everything in or on it, such as minerals and running water, or annexed to it by man, such as building and fences³.
- 2.3. Property rights in land are established on the theory that the rights in fee simple ownership in land normally include the wedge shaped area downward from the earth's surface to the center of the earth (sub-surface rights) and the area upward from the earth's surface out into space (supra-surface or air rights). The latter is limited by Act of Congress concerning public use of navigable air space which is considered in the public domain⁴.
- 2.4 Valuation of land as if vacant or of land and improvements on or for the benefit of the land is an economic concept. Whether vacant or improved, land is also referred to as real estate. Value is created by the real estate's utility, or capacity to satisfy the needs and wants of the

¹ - International Valuation Standards Committee (IVCS), Valuation Standards
 - US Appraisal Foundation, Uniform Standards of Professional Appraisal Practice (USPAP)
 - Asean Valuers Association (AVA), Valuation Standards
 - Australian Property Institute & New Zealand Property Institute
 - International Association of Assessing Officers (IAAO), Standards

² - American Institute of Real Estate Appraisers (AIREA), & Society of Real Estate Appraisers (SREA), Real Estate Appraisal Terminology, Revised Edition (1982) p. 45

³ - Ibid

⁴ - Ibid

human societies. Contributing to value are the real estate's general uniqueness, durability, features of location, relatively limited supply, and the specific usefulness of a given site.

- 2.5 All appraisals are concerned with property. Property is the inherent rights of ownership and future benefits of tangible and intangible assets and is taken to mean any right or interest reflecting a source or attribute of wealth. The word property, used without further qualifications may refer to real property, personal property, or other types of property such as businesses and financial interests, or a combination thereof. Personal property pertains to movable physical assets. Anything that is not part of real estate is personal property. Realty consists of land and all improvements on and to the land. This term is synonymous with real estate. Real property consists of rights in realty.
- 2.6 The distinction between real property (rights in realty) and realty (the physical thing) is significant, in that it is the real property rights that are transferred and valued in the market and not real estate.
- 2.7 The basic rights of private ownership of property include possession, control, enjoyment, disposition or use, exclusion, plus the right not to exercise any of the above rights. The term used to describe the full set of private ownership rights is "bundle". The "bundle of rights theory" states that these rights are both divisible and separable, i.e. they may be exchanged in whole or in part. In every appraisal, it is necessary to identify what rights, or what part of the total bundle, are appraised, i.e., which property rights is to be appraised.
- 2.8 Estates are ownership rights and interest in property. The estate most commonly appraised is the fee simple estate, or the fee simple absolute estate which is the fullest type of private ownership possible. Fee simple is an estate without restrictions but subject to the limitation of eminent domain, escheat, police power, and taxation.
- 2.9 Many recognized principles are applied in valuing real estate. They include the principles of supply and demand; competition; substitution; anticipation; increasing and decreasing return, balance, conformity, change; contribution and others. Common to all these principles is their direct or indirect effect on the degree of utility and productivity of a property. Consequently, it may be stated that the utility of the real estate reflects the combined influence of all market forces that come to bear upon the value of property.

3.0 REAL ESTATE, PROPERTY, AND ASSET CONCEPTS

- 3.1 **Real estate** is defined as the physical land and all those items which are attached to the land. It is the physical, tangible entity which can be seen and touched, together with all the additions on, above, or below the ground. Philippine law⁵ prescribes the basis for distinguishing real estate from personal property. Although these legal concepts may not be recognized, they are adopted here to distinguish important terms and concepts.
- 3.2 **Real property** includes all the rights, interests, and benefits related to the ownership of real estate. Ownership of real estate is evidenced by a Certificate of Title, Free Patent or Tax Declaration in the absence of Certificate of Title.
- 3.3 **Personal property** includes interests in tangible and intangible items which are not real estate. Items of tangible personal property are not permanently affixed to real estate and are generally characterized by their own moveability.
- 3.4 Property such as plant, machinery and equipment are tangible or physical assets which are intended to be used on a continuing basis as part of an enterprise.

⁵ Republic Act No. 386 as amended (Civil Code of the Philippines)

3.5 **Depreciation** is loss in value brought about by physical deterioration and/or obsolescence. Physical deterioration is loss in value due to wear and tear and exposure to the elements. Obsolescence can either be functional or economic (environmental). Functional obsolescence is loss in value within the property as a result of the development of new technology, changes in design or market preferences. Economic obsolescence is the loss in value resulting from influences external to the property itself.

4.0 COST, PRICE AND VALUE

4.1 In appraisal terminology, the terms cost, price and value are distinct and not synonymous to each other. The specific meanings of these terms have to be distinguished as they are used in the valuation discipline.

4.2 Cost is the amount of money necessary to produce, create or manufacture an item of property. It includes material, labor, equipment, contractor's overhead and profits, and fees.

4.3 Price is the amount of money necessary to purchase the finished goods or item of property manufactured when offered for sale in the open market.

4.4 Value exists when an item of property has utility, is relatively scarce, arouses the desire of potential buyer to buy and backed by purchasing power. Value is an economic concept referring to the amount most likely to be agreed upon by buyers and sellers in an open market transaction. The economic concept of value reflects the market's view of the benefits that accrue to one who owns the good or receives the services as of the effective date of valuation.

4.5 There are many types of value. In valuing property, it is of utmost importance that the appraisers and the assessors use the type of value appropriate in the particular appraisal engagement. Any change in the type and definition of the value can have material effect on the conclusion of value assigned to property for the specific purpose. For real estate appraisal the most common type of value is market value.

4.6 Market value estimate for replaceable property may be based on cost of reproduction new or replacement cost. Cost of Reproduction is the cost to construct or manufacture a replica property using the same design, materials and workmanship. A replacement cost estimate envisions constructing or manufacturing a similar structure having the same or comparable utility and using materials and design concept currently used in the market.

5.0 MARKET VALUE

5.1 The concept of market value reflects the collective actions and reactions of buyers and sellers in a typical open market. It is usually the basis for valuing real estate property particularly for taxation purpose.

5.2 Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction (a transaction between independent, unrelated parties involving no irregularity) after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

5.3 Market value may also be expressed as the amount at which ownership of the appraised property might be justified by a prudent investor or alternatively as the present worth of future benefits of ownership.

5.4 It is important to emphasize that market value is an objective estimate of the identified rights of ownership under the Bundle of Rights Theory and as of the specific date of appraisal. It is a market supported estimate developed in accordance with the Philippine Valuation Standards for Taxation.

6.0 HIGHEST AND BEST USE

- 6.1 Real Estate is valued on the basis of the rights inherent in the ownership (Bundle of Rights) rather than the physical land. Consequently, in the appraisal of land whether vacant or improved, the maximum benefits of ownership must be analyzed.
- 6.2 When improved land is valued separately from the improvement, economic principles require that the improvements be analyzed and valued based on whether they contribute to the total value of the property or detract from it (Principles of Contribution). Therefore, market value of land is analyzed as if the land is vacant and available for use and development in accordance with the “Highest and Best Use” concept.
- 6.3 When improved land is valued as a property unit (combination of land and improvements), market value is estimated by considering the highest and best use of the property as improved.

- 6.4 **Highest and Best Use** is defined as:

The most probable use of property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued.

- 6.5 A use that is not legally permissible or physically possible cannot be considered a highest and best use. A use that is both legally permissible and physically possible may nevertheless require an explanation by the Assessor justifying why that use is reasonably probable. Once analysis establishes that one or more uses are reasonably probable uses, they are then tested for financial feasibility. The use that results in the highest value, in keeping with the other tests, is the highest and best use.

7.0 UTILITY

- 7.1 The key criterion in the valuation of any real or personal property is its utility. Procedures employed in the valuation process have the common objective of defining and quantifying the degree of utility or usefulness of the property valued. This process calls for interpretation of the utility concept.
- 7.2 Utility is a relative or comparative term, rather than an absolute condition. For example, the utility of agricultural land is ordinarily measured by its productive capacity. Its value is a function of the quantity and quality of produce, which the land will yield in an agricultural sense, or of the quantity and quality of buildings essential to the agricultural operation. If the land has development potential, however, its productivity is measured by how productively it will support a residential, commercial, industrial, or mixed use. Consequently, land value is established by evaluating its utility in terms of the legal, physical, functional, economic, and environmental factors that govern its productive capacity
- 7.3 Fundamentally, property valuation is governed by the way specific property is used and/or how it would ordinarily be traded in the market. For some property, optimum utility is achieved if the property in question is operated on an individual basis. Other property has greater utility if operated as part of a group of properties, e.g., properties owned and managed by a business enterprise such as a chain of multiple retail outlets, fast food restaurants, or hotels. Therefore, a distinction must be made between a property’s utility viewed individually and when considered as a part of a group. The Assessor will regard the property as the market views it, whether as a discrete entity or as part of an aggregate or portfolio. Typically, the Assessor determines the value of the property as an individual entity. If the value of the

property, taken as part of an aggregate or portfolio is other than its individual value, such value should be considered.

- 7.4 A common effect of political or economic uncertainty is a change in utility, whether in terms of capacity or efficiency. The Assessor's responsibility in such situations is to assess the market expectancy of the time span for such events. Temporary shut-downs or closures may have little or no impact on property values, whereas prospects for long-term cessation of activities may result in a permanent diminution in value. The property valued must be viewed in the light of all internal and external factors bearing on its operating performance.

8.0 SPECIAL PURPOSE PROPERTY

- 8.1 Special purpose properties are properties which are designed, constructed and developed for a specific use or purpose. By its very nature this type of property is rarely offered for sale in the open market except as part of a going concern. Because of the special design and function, conversion of special purpose properties to other types of development or application is generally not economically feasible.
- 8.2 In valuing special purpose properties it is the Assessor's responsibility to gather pertinent data and information and develop sound reasoning from the market to support conclusions of value. While all the appraisal methods should be considered the Cost Approach to value is commonly applied in the appraisal of special purpose properties.

9.0 APPROACHES TO VALUE

- 9.1 Valuations of any type of property for ad valorem taxation purposes require that the Assessor apply one or more valuation approaches. The term valuation approach or methodology refers to generally accepted analytical methodologies that are in common use internationally.
- 9.2 There are three generally accepted methods of estimating fair market value-cost, market and income.

9.2.1 The *Cost Approach* to value considers the cost to reproduce the property appraised. From this amount is deducted an allowance for depreciation or obsolescence present, whether arising from physical, functional or economic causes. This approach in appraisal analysis is based on the proposition that an informed purchaser would pay no more for a property than the cost of producing a substitute property with same utility as the subject property.

Cost approach is particularly applicable to relatively new property and to unique or special purpose property.

9.2.2 The *Market Approach* considers prices recently paid for comparable assets. Appropriate adjustments are made in the indicated market prices of similar property to reflect the condition and utility of the appraised property relative to the actual or normal market comparative. This approach in appraisal analysis is based on the proposition that an informed purchaser would pay no more for a property than the cost acquiring an existing property with the same utility.

Market approach is particularly applicable when there is an active market with sufficient quantities of reliable data which are verifiable from authoritative sources. It is relatively unreliable when market is limited.

9.2.3 In the *Income Approach*, an estimate made on the prospective economic benefits of ownership. This approach is predicated on the proposition that an informed purchaser would

pay no more of a property than the cost of obtaining an income stream of the same size and embodying the same risk as that involved in the subject property.

Income approach is particularly applicable when the future benefits of ownership may reasonably be estimated in the light of related risk to be incurred.

- 9.3 The Assessor must consider application of each of the three approaches in every appraisal. The approaches selected must be supported by the facts and circumstances of the case on hand. The applicability of any approach in a given valuation problems depends on the character of the problem, the type of property involved, the nature of the market, and of course the availability of required data appropriate quality and in sufficient quantity.

10. SUMMARY

10.1 The Philippine Valuation Standards (for ad valorem taxation purposes) are intended to facilitate the use and adaptation of internationally recognized appraisal standards. The adoption of international best practice valuation standards will contribute to the acceptance and transparency of the ad valorem taxation system.

10.2 The taxation authorities, property owners and the general public need to have confidence in the work of Assessors. The Valuation Standards when supported by legislation and the regulation of Assessors will provide the confidence that public can rely upon.

ANNEX E1.3**DISCUSSION DRAFT*****Advisory Note*****Valuations for taxation purposes
(LGU Mass Appraisal)****1.0 INTRODUCTION****1.1 Purpose**

The purpose of this Advisory Note is to provide information to Assessors and Appraisers employed by Local Government Units (LGU's) and the Government of the Philippines (GOP) to complete valuations for use in the determination of ad valorem taxes and other statutory charges over land.

1.2 Status of Advisory Notes

Advisory Notes are intended to embody recognized 'good practice' and therefore may (although this should not be assumed) provide professional support if properly applied.

It is likely that the Advisory Note will serve as a comparative measure of the level of performance of an Assessor. They are an integral part of the Philippine Valuation Standards (for Taxation Purposes).

1.3 Scope of this Advisory Note

This Advisory Note does not cover the administration of Assessment Rolls or determine their use. That process is achieved by complementary legislation that prescribes the categories of properties to be valued and any exemptions or omissions from the Assessment Valuation Roll of property in public ownership.

1.4 Compliance

Assessors employed to determine valuations for taxation purposes must comply with statutes and precedents relevant to the type of valuations being made.

1.5 Statutory Responsibility

The professional responsibilities of Assessors engaged to make valuations for taxation purposes, are prescribed by regulatory jurisdiction in the Philippines. Under the relevant legislative authority, the Executive Director of the National Appraisal Authority (NAA) shall be responsible for the maintenance of the Philippine Valuation Standards for taxation purposes.

1.6 Authorities

For the purpose of this Advisory Note, taxation of real property is administered by the following authorities:

- Local Government Units (LGU's) the Real Property Tax
- The Bureau of Internal Revenue (BIR) for transfer taxes and other real property related taxes.
- Any other statutory authority in the Philippines which is financed from time to time by revenue from a tax on real property.

2.0 BASES OF VALUATION

2.1 Form of Taxation Basis for Real Property

The Philippines has legislation defining the valuation basis for the taxation of real property. Assessors and those Appraisers engaged by Assessors must ensure that they are familiar with the legislative definitions and supporting case law in the country. The basis comprises the types of valuation used to form the assessment valuation roll such as the Schedule of Market Values (SMV) which in turn will provide the Value of Improvements, Land Values and the value of Plant and Machinery as defined in the legislation. Such valuations shall be completed in accordance with the definition of Market Value as at a common date, generally referred to as the "Date of Valuation". Other information may also be required to be included in the Assessment Valuation Roll such as the actual use classification of the land for the application of the Assessment Level and the prescribed date for the effective use of the valuation for taxation purposes. Any qualification or reference to the legislation making such direction must be noted.

2.2 Determining the Value of Land

In determining the market value of land, Assessors may, amongst other valuation criteria, be required to take into account:

- The highest and best use to which the land might reasonably be expected to be put at the relevant date,
- The shape, size, topography, soil quality, situation and aspect of the land,
- The actual use to which the land is being put at the relevant date and any potential use,
- The effect of any legislation, regulation, local law, land classification, planning scheme, or any other such instrument which affects or may affect the use or development of such land,
- The situation of the land in respect to natural resources and to transport and other amenities, facilities and services,
- The extent, condition, and suitability of any improvements on or for the benefit of the land,
- The actual and potential capacity of the land to yield a monetary return.

2.3 Land Values

Land Values are used as a basis for the assessment of taxation on real property. They also provide one component for the assessment of taxes on real property on any particular property. e.g. improvements on or for the benefit of land shall also be subject to the tax as well as plant and machinery.

2.4 Determination

Land Values can be determined for most areas of the Philippines. Measures of land value are usually readily available by reference to sales of comparable land or analysis of improved land transactions.

2.5 Vacant Land

Legislation generally refers to vacant land as having merged improvements that is where merged improvements may add value beyond the undeveloped land. e.g. land development improvements such as land fill or land development on rural properties. The nature of the merged improvements may need to be prescribed in the applicable legislation.

2.6 Continuing Land Use

In all instances, the Assessor shall ignore the “existing use” or “actual use” in favor of the “highest and best use”, unless the former gives rise to a greater valuation than this as a result of considering the latter. This includes land that is reserved for public purpose. The provisions of particular legislation may bring about an exception to the highest and best use principle by prescription of existing use values for affected properties.

2.7 Value of Improvements

The value of improvements shall be the added value they give to the land. The value of improvements shall recognize that the improvements may be used, or may continue to be used or could have been used at the date of valuation. The type and description of improvements shall be identified in the law to differentiate between improvements included in the land value and those “structural improvements” to be valued separately.

2.8 Value of Plant & Machinery

The value of plant and machinery or other appliances that are part of the premises in a way that would justify inclusion in the real estate under the law and that may be used, or may continue to be used or could have been used at the date of valuation.

2.9 Capital / Improved Value

Capital Value is also referred to as Improved Value and applies to all parcels of land including vacant and improved real property. Such a value will normally include the land value, the value of improvements and any plant, machinery, or other appliances that are part of the premises at the date of valuation.

3.0 VALUATION ACCURACY AND UNIFORMITY

3.1 Accuracy and Uniformity

It is important that valuations in the Schedule of Market Values (SMV) and the Assessment Valuation Roll are both accurate and uniform, in order to display equity and to be supportable before the Local and or the Central Board of Assessment Appeals and the Supreme Court. The following describes methods of measuring accuracy and uniformity. The methods shown here use evidence of sales and rentals to compare and make judgments about the accuracy and uniformity of entries included in the SMV and the Assessment Valuation Roll.

3.2 Measurement of Accuracy and Uniformity

The parameters of valuation accuracy and uniformity expected of the SMV and the Assessment Valuation Roll shall be dictated by regulatory policy. These parameters are often expressed by reference to statistical tests and other means of comparing subsequent sales with the valuation data presented in the SMV and the Assessment Valuation Roll.

3.2.1 Accuracy

Accuracy is measured against the ideal percentage error of 0 or ideal ratio of 1. The evidence for accuracy and uniformity should be based on an aggregate sample of current market evidence relevant to the date of valuation.

The NAA Executive Director shall determine the appropriate base period for supporting the Schedule of Market Values and the Assessment Valuation Roll. The practice should be to use evidence occurring three months before and three months after the date of valuation and this should be used to test the values in the SMV and the AVR effectively. However because of a lack of sales and reliable market information in the LGU's it may be necessary to include sales outside the fixed time schedule and apply a time adjustment factor to obtain a reliable base of information for the measurement. The Assessor shall provide full details of any sales used with dates outside the agreed parameters and details of the adjustments made to the sales.

Listed below are some useful measures of valuation accuracy and uniformity. Each measure is described in words and interpretation of its values and conditions for its application are briefly discussed.

3.2.2 Value to Price Ratio

This is a common ratio which measures the level of value relative to the sale price and is calculated by dividing the assessed value by the sale price.

3.2.3 Median Value Price Ratio

This ratio is a more robust ratio and measures accuracy by calculating the median.

3.2.4 Median Percentage Error (MPE)

This is a simple and robust measure of accuracy and is formed as the median percentage error. The MPE can be applied when there is a broad range of actual prices in the aggregate sample and provides a meaningful basis for comparison of accuracy across diverse observations.

3.2.5 Coefficient Of Dispersion (COD)

This is a widely used and accepted measure that is based on the differences between individual ratios of valuations to actual prices and the median of all ratios in the aggregate sample. It is formed as the average of such differences (ignoring the signs of the differences) divided by the median ratio and expressed as a percentage.

The COD can be applied when there is a broad range of actual prices in the aggregate sample and provides a meaningful basis for comparison of accuracy across diverse observations.

4.0 DISCOVERIES AND SUPPLEMENTARY VALUATIONS

4.1 Requirement

Discoveries or Supplementary valuations are required in most Assessment Valuation Rolls as a result of changes that are advised or occur after the adoption of the SMV and the General Revision Assessment Valuation Roll. That is valuations required during the currency of the Roll.

4.2 Occurrence

Discoveries or Supplementary Valuations are new entries to the Assessment Valuation Roll or substitute for land in the original Roll.

Changes may result from;

- addition or removal of improvements.
- construction of, addition to, or removal of buildings.
- acquisition or resumption.
- physical changes to the land.
- errors and omissions.
- changes in value levels in relation to the balance of the properties recorded on the roll.
- zoning amendments.
- natural disasters.
- changes in property classification
- movement of LGU boundaries by statute or prescription.

4.3 Calculations

The values for discoveries and supplementary are assessed under definitions and in accordance with the methods described for the SMV and listed on the Assessment Valuation Roll. In nearly all instances the supplementary values are to be calculated at the valuation date of the current existing roll, taking into account all of the factors affecting value listed as for the SMV at that date.

5.0 REPORTING

5.1 Provisional General Revision Reports

The regulations as determined from time to time by the NAA Executive Director shall contain the requirements for the provision of a Report with which Assessors should be familiar. All valuations creating or amending the Assessment Valuation Roll for the LGU shall be accompanied by a report written by the Assessor creating or amending the Roll.

5.3 Report Contents when a Revision of the SMV is Completed

In the case of revision of a SMV for a Local Government Unit (LGU), the Assessor's report to the NAA Regional Director must contain the following information:

- Purpose of the SMV and the Assessment Valuation Roll including any other likely use of the valuations e.g. for GOP taxes.
- Details of each classification of property in the SMV and the valuation methodologies proposed to be adopted for each class of property.
- Details of all special purpose properties and the valuation methodologies proposed to be adopted for each class of special purpose property.

- Definitions of the type of valuation to be recorded in the Assessment Roll and the enabling legislation and under which it is created.
- The date of valuation
- The date at which the valuations are to come into force.
- A schedule of all evidence used to support the SMV including market evidence and comments.
- A schedule of any evidence excluded and the associated qualification as to why this was necessary.
- A current cost schedule at the date of valuation and the type of valuations in the Roll which require to be supported by costs e.g. Plant & Machinery.
- The names of nominated staff to undertake the duties of supervision, field inspections and any sub-contractors to be employed.
- The level of inspection required for various property types.
- The provision of standardized data sets for the return of data in digital format.
- The provision of sales and rental information and statistical tests required for standards of accuracy and uniformity.

5.4 Report Contents when Amending a Roll

In the case of “discoveries” or creating a valuation or amending a valuation on the Assessment Valuation Roll the report must contain:

- Type of valuation to be recorded in the roll and the enabling legislation under which it is created.
- The reason for amending the roll (e.g. Addition or deletion of improvements, amended area etc.).
- The date the original valuation came into force.
- The date of valuation.
- The date at which the amended valuation is to come into force.

6.0 VALUATION PROCESS MONITORING & COMPLIANCE REPORTING.

6.1 The Assessor’s Provisional Report

The Assessors provisional report for the general revision of the SMV as described at 5.3 will form the basis for the NAA Regional Director to carry out the a Compliance Report and propose changes. When completed to the satisfaction of the Regional Director a recommendation shall be made to the NAA Executive Director for approval and subsequent adoption by the LGU.

6.2 Valuation Process Monitoring

A process of monitoring shall be carried out by the NAA who will supervise the valuation process as well as provide support and training for the LGU Assessors and Appraisers.

6.3 Compliance Reporting

The NAA shall complete a compliance report for each LGU's General Revision and the SMV will be subject to a formal approval process before adoption by the LGU.

7.0 APPEALS & COMPLAINTS

The appeals and complaints procedure as defined by law is an important segment of the SMV General Revision and must be handled fairly and expeditiously to allow taxpayers the opportunity to contest the Assessor's determination of value. The procedure may require the Assessor to review the valuation and may also result in the Assessor's appearance as a witness before the Local and or the Central Board of Assessment Appeals. The Assessor or Appraiser in all instances shall provide evidence and answer questions in a professional manner.

8.0 CONFORMITY AND PROFESSIONAL RESPONSIBILITY

8.1 Valuation Principles and Statutory Requirements

The Assessor employed by a LGU should be cautious in carrying out valuations if the direction given by the LGU is contrary to established valuation principles or statutory requirements. If such a direction is given a qualification should be provided and the NAA Regional Director informed in writing with details.

8.2 Professional Responsibility and Confidentiality

The Assessor for the LGU shall make a declaration of any pecuniary or other interest that may arise in performing his/her duties. In many instances there will also be established a position of confidentiality, either by contract or by law. It is the responsibility of the Assessor to honor any requirements contained in any employment arrangements.

8.3 Conformity and Professional Responsibility

The performance of valuations for LGU's shall conform to generally accepted valuation principles and the Valuation Standards for taxation purposes determined from time to time by the NAA Executive Director. Any departures shall require formal approval in writing from the NAA before implementation.

The End

Glossary of Terms

For purposes of these standards, the following definitions apply:

Abstraction Method - Method of land valuation in the absence of vacant land sales, whereby improvement values obtained from the cost model are subtracted from sales prices of improved parcels to yield residual land value estimates.

Actual Use - Present application or utilization of property by the person in control or possession of the property.

Appraisal - Systematic and analytic determination and recording of property facts, circumstances and investments and investigation of other relevant data resulting in a supportable estimate and opinion of value.

A professional conclusion based upon supporting data, logical analysis and judgment.

Appraisal date - the date as of which the conclusion or opinion rendered in an appraisal is applicable and valid. The date of appraisal identifies the market conditions that existed when the appraisal was made.

Appraiser - one who conducts appraisals; specifically, one who possesses the necessary qualifications, ability, and experience to execute or direct the appraisal of real or personal property.

Arm's length transaction - a transaction freely arrived at in the open market, unaffected by abnormal pressure or by the absence of normal competitive negotiation as might be true in the case of a transaction between related parties.

Bundle of Rights - Combination of rights associated with the ownership of real property. The bundle of rights concept likens property ownership to a bundle of sticks with each stick representing a distinct and separate right of the property owner, e.g., the right to use, to sell, to lease, to give away, or to exercise all or none of these rights

Computer Assisted Mass Appraisal - the application of computer technology and statistical techniques to the solution of appraisal problems; in assessment administration computer assisted mass appraisal programs are used to produce cost and market approach estimates of value, as well as to perform other functions such as assessment ratio analysis.

Cost - Amount of money necessary to produce, construct or manufacture an item of property which includes materials, labor, management, equipment and contractor's overhead and profits and fees.

Cost Approach - Also known as replacement or reproduction cost less depreciation. Under this approach to value, the land is appraised as vacant. The land value is then added to the depreciated cost of the improvements to arrive at an indicator of value by the cost approach.

It is based on the “Theory of Substitution” which states that no property is worth more than the replacement cost of a similar property having equal utility and equally desirable location which can be obtained without undue delay.

Depreciated Value - Cost of reproduction new or replacement cost less depreciation from all causes.

Depreciation - Loss in value of an object, relative to its, replacement cost new, reproduction cost new, or original cost. Depreciation is sometimes subdivided into three types:

- (1) Physical Deterioration - due to wear and tear
- (2) Functional Obsolescence - sub optional design in light of current technologies or tastes.
- (3) Economic Obsolescence - due to poor location or radically diminished demand for the product.

Economic Life - Estimated period over which a property is expected to give economic benefits to the owner.

Eminent Domain - The right of government or specified quasi-public bodies, such as public utilities, to acquire private property for public or quasi-public use upon payment of reasonable compensation.

Encumbrance - an interest or right on real property which may diminish the value of the fee, but does not prevent conveyance of the fee by the owner. Mortgages, taxes, and judgments are encumbrances known as liens. Restrictions, easements and reservations are encumbrances, though not liens.

Equipment - that portion of fixed assets other than real estate; usually qualified as office equipment, automotive equipment, etc. as distinguished from assets which are included under the category of fixtures by virtue of their attachment to real estate, either in a physical sense or by legal interpretation.

Fee Simple Title - One which vests the title in the owner and heirs forever. An absolute estate in land.

Highest and Best Use - The most probable use of an asset which is physically possible, appropriately justified, legally permissible, financially feasible and which results in the highest value of the property being valued.

Income Approach - An appraisal techniques used to estimate the market value of a property in the basis of the income it produces or is capable of producing. The value is estimated by capitalizing the estimated future income, either gross or net. This approach is based on the theory that a property is worth what it will earn. Value is the present worth of future benefits arising from ownership.

Institutional property - Property of a public character owned and operated by non-profit organization or the government, such as hospitals, orphanages, private and public educational facilities, correctional facilities, museums, etc. The term is frequently extended to include properties of private operations such as banks, insurance companies, etc.

Land -

1. In an economic sense, one of the major factors of production consisting sometimes of a free good, but usually of a material economic good which is supplied by nature without the aid of man, land may include not only the earth's surface, both land and water, but also anything that is attached to the earth's surface. Thus, all natural resources in their original state, such as mineral deposits, wildlife, timber, and fish, are land within the technical meaning of the term; so also are sources of energy, outside of man himself, such as water, coal deposits, and the natural fertility of the soil.
2. In a legal sense the solid part of the surface of the earth, as distinguished from water; any ground, soil or earth whatsoever, regarded as the subject of ownership, and everything annexed to it, whether by nature, such as trees, and everything in or on it, such as minerals and running water, or annexed to it by man, such as building and fences.
3. Property rights in land are established on the theory that the rights in fee simple ownership in land normally include the wedge-shaped area downward from the earth's surface to the center of the earth (sub-surface rights) and the area upward from the earth's surface out into space (supra-surface or air rights). The latter is limited by Acts of Congress concerning public use of navigable air space which is considered in the public domain.

Limiting Conditions - are constraints imposed on valuations. It may be imposed by:

- (1) Clients (e.g. where the appraiser/assessor is not permitted to investigate fully one or more of the significant factors likely to affect valuation.
- (2) The appraiser/assessor
- (3) The statutory law.

Machinery - Some mechanical contrivances which, by themselves or in combination with one or more other mechanical contrivances by the combined movement and interdependent operation of their respective parts generate power, or evoke, modify, apply or direct natural forces with the object in each case of effecting so definite or specific a result.

Market - A set of arrangements for bringing buyers and sellers together through the price mechanism. The real estate market reflects attitudes and opinions in the minds of buyers and sellers and their actions in the market create market data.

Market Data Approach - Also known as the Comparable Sales Approach. Traditionally, an appraisal procedure in which the market value estimate is predicated upon prices paid in actual market transactions and current listings, the former fixing the lower limit of value in a static or advancing market (price wise), and fixing the higher limit of value in a declining market; and the latter fixing the higher limit in any market. It is a process of analyzing sales of similar recently sold properties in order to derive an indication of the most probable sales price of the property being appraised. The reliability of this technique is dependent upon: a) the availability of comparable sales data; b) the verification of the sales data; c) the

degree of comparability or extent of adjustment necessary for time differences; and c) the absence of non-typical conditions affecting the sales price.

In essence, all approaches to value (particularly when the purpose of the appraisal is to establish market value) are market data approaches since the data inputs are presumably market derived.

Mass Appraisal - the process of valuing a universe of properties as of a given date in a uniform order, utilizing standard methodology, employing a common reference for data, and allowing for statistical testing.

Model Calibration - is the process of adjusting mass appraisal formulas, tables, and schedules to the current value.

Plant - is machinery, apparatus, fixtures, etc. employed in carrying on a business, trade or mechanical and other industrial business. The primary meaning of the word, therefore, has connection with mechanical or industrial business or manufacture of finished goods from raw products.

Price - is the amount asked, offered or paid for a property.

Real Estate - the physical land and those human-made items which attach to the land. It is the physical, tangible thing which can be seen and touched, together with all additions on, above or below the ground.

Real Property - the interests, benefits and rights inherent in the ownership of real estate.

Remaining Economic Life - The period of time expressed in years that a property is expected to give economic benefits to the owner.

Replacement Cost - The cost of construction at current prices of a similar building having the same utility.

Reproduction Cost - Cost to construct a replica property using the same design and construction materials.

Supply and demand principle - a valuation principle which states that market value is determined by the interaction of the forces of supply and demand in the appropriate market as of the date of the appraisal.

Tangible Property - Property that, by its nature, is perceptible by the senses. Generally the land, fixed improvements, furnishings, merchandise, cash and other items of working capital used in carrying on an enterprise.

Tax Map - A map drawn to scale, depicting the boundaries of individual lots and parcels and showing their location within an assessment jurisdiction. Synonymous with assessment map, cadastral map.

Useful life - the period of time over which the structure may reasonably be expected to perform the function for which it was designed or intended.

Valuation Model - is a representation in words or an equation of the relationship between value and variables representing factors of supply and demand.

ANNEX F

Selection Criteria for the Valuation Simulation Study

ANNEX F1.1

LGU Selection Criteria for the Valuation Simulation Study

The following criteria are proposed as relevant for the selection of the partner LGU:

1. A stated commitment of the LGU (Local Executives, Council and Staff) to undertake the proposed innovations;
2. An established track record of interest, enthusiasm and activity in land administration innovation;
3. A mix of property types covering urban and rural land uses (residential, commercial, industrial, agriculture, forestry and fisheries);
4. A medium to high area of economic activity with a strong land market including access to land transaction records, property related data, maps and computer technology.
5. An established good working relationship between the Provincial / City Assessor and the Treasurer and in the case of a municipality a good relationship with the Provincial Assessor;
6. A capacity to develop and implement appropriate valuation procedures in a limited time period and be prepared to accept appraisal training for Assessors and Appraisers.
7. Good financial management, computerized assessment records and a complete and fully maintained tax map.
8. A relatively good collection performance in land related taxes and fees.

ANNEX F1.2**LGU VALUATION SIMULATION STUDY****Issues to be considered**

1. Investigate the current levels of BIR and LGU appraisals in the LGU and the reasons why the current level of Assessors Market Value is low or below market levels.
2. Ascertain the valuation accuracy limitations of the existing formula approach (Schedule of Market Values).
3. Determine the availability and sources of real property transactions and rental information both formal and informal.
4. Quantify the extent that sale prices and rentals are formally declared and measure the extent if any of under declaration.
5. Study the level of assessment appeals, the reasons for appeals and how this may change if Assessors Market Values are raised to market levels.
6. Examine the required resources (time & cost) required by the LGU and the BIR to complete the existing procedures involving a periodic revision of the LGU Schedule of Market Values and the BIR Zonal values.
7. Quantify the resources (time & cost) required by the LGU to complete the improved valuation and assessment procedures.
8. Comment on the implications of setting a statutory valuation reference date in the context of the timetable and resources required to complete the task as well as discuss possible alternatives.
9. Comment of the market implications and equity issues of setting a statutory valuation reference date which is not closely aligned with the effectivity date.
10. Examine the extent of computerization considered necessary to efficiently introduce the improved valuation and assessment procedures.
11. Examine the existing tax map and record keeping and comment on the completeness and accuracy and currency (up to date) levels and also, determine what improvements if any would be required to introduce the improved valuation and assessment procedures.
12. Estimate by example the impact of the valuation assessment reforms on the existing RPT levels and how this could be changed to achieve equity and better collection efficiency.
13. Estimate by example the impact of the valuation reforms on the existing BIR real property tax collections and what changes that could be made to improve collection efficiency.
14. Possible tax policy response of the BIR and LGU to the single valuation base from the lessons of the simulation study.

ANNEX G

Appraiser Qualifications

DISCUSSION DRAFT

Real Property Appraiser Qualifications¹

1. Background

All previous reports on land valuation in the Philippines have made comment on the shortage of appraisal teaching and the need to have tertiary level qualifications in real property appraisal. The education and training shortage is a factor that has contributed to the “ineffective and inequitable land valuation system” in the Philippines which was identified as an issue by the Inter Agency Committee in 2002. This paper addresses the recommendation for improved education and the regulation of appraisers and assessors with the introduction of courses and education programs in real property appraisal.

2. University Degree Courses

Various courses could perhaps be credited toward the education requirement for appraisers and assessors in the Philippines. The need for a specialized degree qualification in real property appraisal is necessary. However applicants for licensing must demonstrate that their education included coverage of all topics listed below with particular emphasis on the appraisal of residential, non-residential and as well as rural property. The topics would include the following:

(a) Influences on Real Estate Value

- Physical and environmental
- Economic
- Governmental and legal
- Social

(b) Legal Considerations in Appraisal

- Real estate vs. real property
- Real property vs. personal property
- Limitations on real estate ownership
- Legal rights and interests including leases & licenses
- Forms of property ownership
- Legal descriptions
- Transfer of title
- The Law of Contract
- Land Surveying, Title Systems, Deeds & Indigenous Title

¹ This background paper has used material as example and reference from the US Appraisal Foundation, Appraisal Qualifications Board publication titled “The Real Property Appraiser Qualification Criteria & Interpretations of the Criteria” dated June 2004

(c) Types of Value

- Market Value or Value in Exchange
- Price
- Cost
- Investment Value
- Value in Use
- Assessed Value
- Insurable Value
- Going Concern Value

(d) Economic Principles

- Anticipation
- Balance
- Change
- Competition
- Conformity
- Contribution
- Increasing and decreasing returns
- Opportunity cost
- Substitution
- Supply and demand
- Surplus productivity

(e) Real Estate Markets and Analysis

- Characteristics of real estate markets
- Absorption analysis
- Role of money and capital markets
- Real estate financing

(f) Valuation Process

- Definition of the problem
- Collection and analysis of data
- Analysis of highest and best use
- Application and limitations of each
- Approach to value
- Reconciliation and final value estimate
- The appraisal report

(g) Property Description

- Site description, contour, shape & aspect
- Improvement description and functionality
- Basic construction, design and age
- Floor areas
- Location details and services

(h) Highest and Best Use Analysis

- Four tests (most probable use, legally permissible, financially feasible and physically possible)
- Vacant site or as if vacant
- As improved
- Interim use

(i) Appraisal Math and Statistics

- Compound interest concepts
- Statistical concepts used in appraisal

(j) Sales Comparison Approach

- Research and selection of comparables
- Elements of comparison
- Adjustment process
- Application of sales comparison approach

(k) Site Value

- Sales comparison
- Land residual
- Allocation
- Extraction
- Ground rent capitalization
- Subdivision analysis
- Pottage and assemblage

(l) Cost Approach

- Steps in Cost Approach
- Application of the Cost Approach
- Construction & Building Costs
- Replacement / Reproduction New
- Methods for estimating depreciation & functionality
- Building measurements and areas

(m) Income Approach

- Estimation of income and expenses
- Operating statement ratios
- Direct capitalization
- Cash flow estimates (before tax only)
- Measures of cash flow
- Discounted cash flow analysis (DCF)

(n) Valuation of Partial Interests

- Interests created by a lease
- Lease provisions
- Valuation considerations
- Other partial interests

(o) Statutory Valuations

- Valuation for ad valorem taxation purposes
- Valuation for expropriation & compensation
- Mass appraisal valuation & assessment practice
- Court procedures and appeals for valuation & assessment

(p) Valuation of Plant & Machinery & Equipment

- Inventory of physical description, type, age, condition, size etc
- Maintenance levels, Depreciation & Functionality
- Market analysis and trends

(q) Appraisal Standards and Ethics

(r) Narrative Report Writing

3. Proposed Experience for the Licensing of Appraisers & Assessors

A minimum of 3 years post graduation appraisal experience can be obtained within the Philippines during the preceding 10 years prior to making an application for licensing. Documentation of the appraisal experience in the form of reports or file memoranda shall be made available to support the experience claimed as well as supporting statements from approved supervising appraisers who shall also be licensed appraisers or assessors.

a. The applicant, for experience credit, must have accumulated a total of three years of appraisal experience of which at least one year must be in non-residential or rural appraisal work.

b. Acceptable appraisal experience includes, but is not limited to, the following:

Ad valorem tax appraisal, fee and staff appraisal, condemnation appraisal, technical review appraisal, appraisal analysis, real estate consulting, highest and best use analysis, and feasibility analysis/study. Only appraisal experience obtained in the Philippines shall be acceptable for licensing purposes.

c. The verification for experience credit claimed by an applicant shall be on forms prescribed by the Professional Regulation Commission (PRC) responsible for licensing which should include:

- (1) Type of property
- (2) Date of report
- (3) Address of appraised property
- (4) Description of work performed
- (5) Number of work hours

d. Applicants shall also be required to successfully complete a PRC accredited Licensure Examination after their appraisal experience has been recognized as complete.

4. Continuing Professional Education of Appraisers & Assessors

The purpose of continuing education is to ensure that the appraiser or assessor participates in a program that maintains and increases his/her skill, knowledge and competency in real property appraisal.

It shall be mandatory for appraisers and assessors to complete a program of continuing education each year to maintain their Licence and failure to do so could be reason to terminate an individuals right to be Licence.

The License of each appraiser and assessor shall be reviewed every 3 years to establish compliance with the approved Continuing Professional Education (CPE) program as established by the PRC.

The program of CPE approved by the PRC could involve courses of study conducted by PRC approved institutions.

It would not be unreasonable to expect appraisers and assessors to complete the equivalent of 10 classroom hours of instruction in accredited courses or seminars for each year during the period preceding the license renewal as a requirement (For example, a three year CPE term would require thirty hours).

5. Conclusions.

The development of appraisal education in the Philippines has been identified as an important development to improve the valuation process in both the public and private sectors. A need exists to provide tertiary level education as well as continuing professional education for appraisers and assessors to comply with licensing regulations and professionalizing of real property appraisal.

THE END

ANNEX G1.2

DISCUSSION DRAFT

Appraisal Education Program

EXAMPLE

Bachelor of Real Property Appraisal

Course (4 year undergraduate degree)

Year 1

Introductory Studies

Property Law 1

Economics 1

Building Construction & Engineering Studies 1

Economics 2

Property Law 2

Principles of Property Valuation

Introductory Mathematics & Statistics

Year2

Building Construction & Engineering Studies 2

Urban Economics

Property Investment Valuation

Real Estate Accounting & Taxation

Finance 1

Real Estate Agency & Marketing

Planning Theory & Processes

Research Methods

Year 3

Contemporary Issues

Professional Practice

Statutory & Applied Valuation

Finance 2

Valuation of Plant & Machineries

Property Investment Analysis

Property Asset Management

Year 4

Portfolio & Security Analysis

Advanced Market Research Analysis

Rural Valuation

Valuation of Special Purpose Properties

Business Valuation

Advanced Property Valuation & Analysis

ANNEX H

Terms of Reference

ANNEX H

TERMS OF REFERENCE

INTERNATIONAL LAND VALUATION ADVISER
(2004 Assignment)

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. In 2003 a follow on study was conducted at NTRC of DOF together with technical assistance under LAMP. This report (A13) was completed in November 2003 and it outlines a roadmap for implementation of reform in valuation for the Philippines. This valuation reform includes developing standards and institutional changes to ensure compliance of LGU schedules of market values with the goal of one single valuation base for taxation purposes. The report outlines a four year work plan and budget, and a legislative agenda. Year 1 is 2004 and is a development year for valuation with the first pilot testing of new valuation approaches at a pilot LGU.

The DOF has decided that Year 1 of the valuation reform implementation will be managed by the NTRC. LAMP will provide operating costs from the GOP counterpart and World Bank loan. The Australian Government funded TA will provide two national advisers (one long term and one short term) and two short term international advisers.

The design of the 5 year project of LAMP 2 occurred also in the second half of 2003. It includes a component on property valuation and is expected to begin in January 2005.

The international valuation adviser to the LAMP Project will be based in the NTRC. The adviser may be required to make visits to the provinces. He will report to the TA team leader.

The adviser will work together with a number of Project counterparts from the NTRC, BIR and BLGF, TA team and LGU representatives, private sector and other stakeholders as required.

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 International Valuation adviser will be responsible for completing the following work in three one month assignments with a gap between assignments, totalling 3 months (reference is the PDD and the work to be completed is described as Deliverable 50 in the AusAid – LEI contract):

1. Provide high level advice to the Director NTRC on the plan, operations and stakeholder involvement of the 2004 valuation reform programme;
2. Define the scope and approach to the development of standards. Together with the national adviser on valuation standards, assist the DOF to develop and draft a standard on valuation for taxation purposes which is suitable for both the needs of real property taxation and property transfer taxes.
3. Define the approach and task work plan for the drafting of a Bill to create the National Appraisals Agency (NAA). Together with the primary national valuation adviser, make a first draft of the Bill and refine through stakeholder consensus building workshops in close collaboration with the DOF agencies concerned. Also, provide advice to DOF on the Bill on licencing of real estate practitioners.
4. Assist DOF to perform a national inventory of computerisation capacity, compatibility and effectiveness of computerisation in LGU's. The report would form an input to the planned IT strategic planning during the LAMP 2.
5. Assist the DOF to plan the valuation pilot in a selected LGU. Prepare the work plan, simulation model and methodology, including performance measures. Brief the international adviser responsible for the conduct of the simulation pilot.
6. Assist the DOF to progress the early discussions with the educational institutions on the establishment of new courses in property appraisal and inclusion of subjects in existing related courses.
7. Make a brief final report (maximum 5 pages) on the scope of work completed as above, issues and lessons, and any recommendations for LAMP2 that need elaboration or expansion to those contained in the 2003 Valuation Report.

ANNEX I

Policy Issues Relating to the Level & Dispersion of Market Values

ANNEX I

POLICY ISSUES RELATING TO THE LEVEL & DISPERSION OF MARKET VALUES

SUMMARY

The level of Real Property Tax Valuation is low. One study showed assessments at 27% of market level. The proposed reform introduces new standards that have the objective of bringing real property tax values to market levels. The approach also establishes an oversight authority National Appraisal Authority (NAA) to enforce the new standards.

The present formula based system is cost effective but may not always be accurate.

It is important that the GoP appreciates the risks and problems that might arise if strict International Standards are pursued i.e. valuation at a minimum 90% of market value level is mandated. One risk is a large number of appeals. Another risk is that the current level of resources may not be adequate to support an improved system.

The accompany analysis illustrates that if a mean ratio of 100% is pursued then groups with moderate dispersion (COD = 15%) could experience 30% of assessments assessed at 10% or more over prevailing sales prices.

These problems can be mitigated if the focus is “appropriate” rather than a particular international standard, and if “equity between groups and assessments” is more important than achieving individual correctness, or strict compliance with the definition of market value.

Significant resources are required to set up the oversight body (NAA), and it is critical that it has a mandate that is practical and can be enforced. The draft bill should empower the NAA to take equity and cost into the consideration when approving the SMV. The NAA can then have grounds to lawfully approve a proposed revision basis below the 90% level. Suggested amendments to the draft bill are set at the end of the paper.

ISSUES SURROUNDING THE PROPOSED APPROACH

BACKGROUND

Accurate sales data are difficult to obtain. Resources are constrained. There is considerable investment in the existing approach, and while the schedule of market values is basically sound, it may not produce highly accurate values. It appears that assessors may solve the overall problem by setting low values, thus avoiding the lodgment of appeals.

One study indicated that the Market Values derived from the Schedule of Market Values¹ (Formula Approach) were at 27% of market levels.

VALUATION REFORM

The current policy focus is to implement a valuation system that assesses market values at true market levels. The proposed reform measures surround de-politicizing the assessment process, and establishing an independent, national authority to set and enforce standards. Another objective is that, if the Real Property Tax (RPT) values are at full market levels, these can be a proxy for market values and used for other purposes, such as the basis for transfer taxes.

LINKING TAX LEVELS CHANGES TO VALUATION REFORM

The GoP expectation is that if the current assessment level is, say, 25% of true market valuation, reform measures will raise this to 100%. The tax rate can then be correspondingly reduced, say, to ¼ of present levels. Tax demands will not change, and the tax payer will accept the new levels of value without appealing.

HONG KONG EXPERIENCE

From 1997 to early 2004, property values and rentals fell during the “Asian Crisis”. Under annual revaluation, the equivalent of market values was progressively reduced. The tax rate remained unchanged, and most tax bills were correspondingly reduced. A concession scheme further reduced each tax bill.

Yet Hong Kong experienced over 70,000 objections, relative to its 2 million assessments. The objections are dealt with in an in-house review. And while perhaps only 500 may end in formal appeals, the process of reviewing the objections and dealing with the formal appeals

¹ In the Philippine context, Market Values are derived from the schedule of Market Value. The assessed value (Taxable Value) arises from the application of the assessment ratio to the Market Value.

is time-consuming and costly. Some private appraisers specialize in identifying and conducting appeals. In Hong Kong, politicians are sometimes active in distributing appeal forms.

LEVELS AND IMPACT OF APPEALS

The conclusion is that the tax payer will seek reductions in property tax if the opportunity presents itself, and as the level of assessment rises, the number of appeals will increase.

Initial objections to value can be as high as 10% of total assessments. While the resulting appeals that go to court are relatively low, the time and cost of defending the values can be extensive.

RISK OF APPEALS IN PHILIPPINES

A basic concern is that the SMV formula system is a crude valuation methodology, and there could be high levels of appeals if the proposed NAA enforces the definition of market value and makes local government unit (LGU) assessors set market value at 100% true market levels.

IAAO Standards

MODERN VALUATION AUDIT STANDARDS

The IAAO standards focus on:

- Level of values (Mean Assessed Value / Sale Price Ratio)
- Dispersion ($COD_{A/S}$)
- Equity between classes of property (relationship of property group Mean A/S ratios to the overall A/S ratio)

Under the International Association of Assessing Officers (IAAO) standards the overall valuation level should be above 90% of sale prices.

There is a generally permitted maximum of 15% for the $COD_{A/S}$. This can be loosely interpreted such that 50% of the assessed values are within $\pm 15\%$ of the sale price. A maximum COD of 20% is permitted for groups with a high variance in property types (and values).

In the Philippines it may be possible to produce accurate assessments for new residential developments. But in older transitional use areas, the replacement cost approach may overvalue economically obsolescent properties and produce a high level of dispersion.

INTERPRETATION OF DISPERSION

The analysis in Table 1 & 2 uses IAAO assumptions on the relationship between coefficients of dispersion and variation, to estimate the cumulative distribution of values that are assessed over market levels.

The table below shows the distribution of over valued assessments for two cases (100% and 90% Assessment Level), with 3 property groups: Group 1 COD .10, Group 2 COD .15, Group 3 COD .20. In broad terms Group 1 (100%) could be a homogenous housing development and Group 3 a industrial property group with a wide variation in property types.

Typically if a mean assessment/sales ratio of 100% (Table 1) is achieved, then for property groups with a 10% COD, some 21% of properties will be assessed at 10% or more over the prevailing sales. This rises to 34% of properties assessed over prevailing sales levels for groups with COD's at 20%.

TABLE 1

LGU- Overall Assessment at **100%** (Weighted ratio)
Distribution of Over -Valued Assessments

Dispersion COD	Over Valuation %			
	>0%	>5%	>10%	>15%
0.10	50%	34%	21%	12%
0.15	50%	39%	30%	21%
0.20	50%	42%	34%	27%

Groups Assessed at 105%

COD	>0%	>5%	>10%	>15%
0.10	69%	50%	35%	22%
0.15	63%	50%	40%	31%
0.20	60%	50%	42%	35%

Within jurisdictions if the general or overall level of assessment is 100%, then some groups can be 5% above the average (assessed at 105%). For such groups with a mean ratio of 105

%, subgroups within these with dispersions of COD of 20% would see 42% of properties with values more than 10% above sale prices.

One way to deal with this and avoid appeals is to lower the level of assessment.

Table 2
 LGU-Overall Assessment at **90%** (Weighted ratio)
 Distribution of Over –Valued Assessments

Dispersion	Over Valuation %			
	>0%	>5%	>10%	>15%
COD				
0.10	16%	9%	4%	1%
0.15	25%	19%	12%	7%
0.20	31%	25%	19%	13%

Groups Assessed at 94.5%

COD	>0%	>5%	>10%	>15%
	0.10	29%	19%	9%
0.15	36%	28%	19%	12%
0.20	39%	33%	26%	19%

ESTABLISHING PRACTICAL LIMITS

Acceptance of a valuation or valuation approach is generally assured up to a 10% error level. Some courts have taken the view that negligence exists when individual property valuations are more than $\pm 15\%$ in error.

Reducing the level of values is a solution to appeals, as it effectively denies the main grounds of appeal. The difficulty is how far can the average level be reduced and the LGU still comply with the fundamental definition of market value? Internationally, revisions are carried out, particularly on falling markets, with values broadly set at 90% of market. Perhaps 85% is the limit of tolerance that an auditor could accept.

LIMITING APPEALS

There may be ways of partially limiting appeals.

- Confining appeal rights to registered property owners

- Only allowing a change in value if the assessed value is more than, say, 5%, in error.
- Charge a fee for making appeals.

TAX POLICY VERSUS ASSESSMENT EQUITY

It is to be stressed that the subject is assessment equity. Tax policy may also seek to favour one class of property, e.g. ensure lower tax levels for, say, Agriculture, but this is achieved through tax rates or assessment ratios, not by accepting lower primary levels of assessment.

Another aspect is that in a strict statistical sense the measure of proof is set at the 95% level. If the minimum assessment level was 90% of market value levels then, say, a ratio of 85% of market may still be statistically within the acceptable zone.

EQUITY VERSUS “CORRECTNESS”

In the June 18th Workshop on Valuation Standards, it was clear that participants, including the President of the Court of Appeals, placed a great deal of weight on valuation equity compared to correctness of an individual valuation. Workshop participants’ opinion was that, even if a property was not over-assessed in terms of the definition of market value, but over-assessed relative to similar properties, there may be grounds for appeal.

WAY FORWARD

GoP is progressively improving its property tax systems, and this is a long-term initiative which requires resources, improved levels of participation, disclosure and transparency by market participants.

SETTING AN ACHIEVABLE GOAL FOR THE NAA

The current draft of the act adopts International Standards as the basis. However, these standards are set for jurisdictions with significant resources and a largely transparent property market, where property market evidence is generally available.

A rigorous definition of market value, coupled to adherence to international standards for valuation accuracy, may cause the new NAA difficulties. The draft bill should make equity between classes of property a responsibility for the NAA. The oversight authority should also be required to consider the cost of taking remedial action.

CONCLUSION ON NAA ROLE

The NAA is a statutory oversight authority and it must not be put in a position of either mandating levels of accuracy that LGU's cannot achieve. Or approving a revision without a legal basis. The NAA should have the flexibility to approve lower assessment levels if a level of equity has been achieved and if the cost of taking corrective action is high.

SUGGESTED LEGISLATION AMENDMENTS

The following amendments to Section 5 of the draft bill will address these issues.

FIRST AMENDMENTS

Sec 5 Powers and Functions

b) review and approve the Schedule of Market Values prepared by the provincial, city, and municipal assessors of Metro Manila for tax purposes ~~and coordinate, or conduct when requested~~, the appraisal of special purpose properties: with regard to ensuring equity between groups of property, and also considering the cost of rejecting the proposed schedule of values;

c) Provide technical assistance on real property appraisal matters to government agencies and instrumentalities, ~~and coordinate, or conduct when requested~~, the appraisal of special purpose properties for real property tax purposes;

The reference to international standards in Sec 5 (a) encompasses property tax, government and private sector. It needs to be modified or removed to avoid property tax compliance being tied to the 90% minimum overall assessment level that is set in the international property tax standards.

SECOND AMENDMENTS

Sec (5 a) Set and maintain valuation standards, and where appropriate make these consistent with internationally accepted valuation standards.

Or alternatively

Sec (5 a) Set and maintain valuation standards consistent with ~~internationally accepted valuation standards~~ generally accepted valuation principles, regulations.