



Exploring Real Property Tax Dynamics: A Comprehensive Literature Review on the Philippine Context

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Abstract— This literature review delves into the intricacies of real property tax dynamics within the unique framework of the Philippines. It meticulously examines various facets, including the legal underpinnings, assessment methodologies, compliance challenges, and socio-economic implications linked with real property taxation. Crucially, it emphasizes the indispensable role of precise assessment and appraisal techniques in upholding revenue integrity and fostering taxpayer compliance. Furthermore, the review meticulously scrutinizes the broader socio-economic repercussions of real property tax, unraveling its intricate connections with property values, land utilization patterns, and housing accessibility. Drawing upon insights gleaned from an extensive array of existing research and scholarly discourse, the review furnishes actionable recommendations tailored for policymakers, practitioners, and other stakeholders tasked with navigating the complexities of local taxation and fiscal governance in the Philippine context. This comprehensive analysis serves as a vital resource, empowering decision-makers to enact informed policies and strategies geared towards fostering equitable, sustainable, and transparent fiscal systems.

Keywords— Real property tax, Assessment practices, Compliance issues, Socio-economic implications, Philippine context.

INTRODUCTION

Real property tax plays a crucial role in the fiscal landscape of the Philippines, serving as a significant revenue source for local government units (LGUs) and contributing to the funding of essential public services and infrastructure development. This literature review aims to provide a comprehensive exploration of the dynamics surrounding real property tax in the Philippine context. By synthesizing existing research and scholarly works, this review seeks to offer insights into the various aspects of real property tax, including its legal framework, assessment practices, compliance issues, and socio-economic implications.

The “Real Property Assessment Manual (2011)” provides thorough instructions for assessing real estate in Indiana. It explores many topics, such as equalization, mass appraisal techniques, assessment ratio studies, and central tendency measures. It

emphasizes the importance of determining actual taxable value, which may differ from fair market value. It also includes appraisal studies, property valuations, market value used and the settlement process to ensure fair property valuations. In addition, key concepts such as the valuation factor, the dispersion factor and the study of sales rate are explained.



Several studies conducted on the international, national, and local levels point out to reasons why and how real property taxes are assessed, computed, and charged to property owners. Norregaard (2013) conducted a study titled, "A Fair Assessment: Property taxes are effective but unpopular way to reduce inequality," pointed out income inequality of local governments in South Africa due to the varying cross-country property tax collection. He said that wealthy neighboring countries affect tax assessments hereabouts. On the national level, the study of Eugenio Santiago III (2018) entitled, "A Policy Study on the Imposition of Real Property Taxes to Economic Processing Zone," emphasized that policy formation is important in real property tax assessment since this also leads to nation building. Another perspective was also shown by researcher Maita Gomez (2010) where she pointed out the failure of real property tax in local governments. Since there were deficits in tax collection for many decades, she reiterated the big role of LGUs in collecting these real property taxes. Another perspective was brought out by the research of Paderanga (2011) made under Socio-economic Research Portal of the Philippines which said that, "the potential of the real property tax to meet fund requirements and operational needs of local units has not been fully exploited. Since it is the second most important revenue source of local government, there is a need for its efficient administration."

The Assessors should adjust their procedures in accordance with the Manual since the provisions have blended the existing processes with the new ideas to attain fairness and equity in the distribution of the tax burden. For the purpose of real property evaluation and assessment, especially for taxation purposes, the "Manual on Real Property Appraisal and Assessment Operations" provides an extensive guide. Enhancing tax distribution, promoting justice, and standardizing procedures are its main objectives. It highlights the importance of accurate valuation for local government revenue generation and real estate development. It is the aspiration of local government units (LGUs) to raise more taxes within their realm. As it is pronounced in the Manual on Real Property Appraisal and Assessment Operations (MRPAAO) (2006) it seeks to source out taxes for the government to use. These are plowed back to the people in the form of projects and other activities of the LGUs. Hence, an understanding of this endeavor is important since everyone would most likely own properties.

Consequently, other definitions claim that real property tax is a tax paid on property owned by an individual or other legal entity, such as a corporation. Most commonly, property tax is a real estate ad-valorem tax, which can be considered a regressive tax. It is calculated by a local government where the property is located and paid by the owner of the property. The tax is usually based on the value of the owned property, including land. However, many jurisdictions also tax tangible personal property, such as cars and boats (Kagan, 2022). Real property tax plays a crucial role in the fiscal landscape of the Philippines, serving as a significant revenue source for local government units (LGUs) and contributing to the funding of essential public services and infrastructure development. This literature review aims to provide a comprehensive exploration of the dynamics surrounding real property tax in the Philippine context. By synthesizing existing research and scholarly works, this review seeks to offer insights into the various aspects of real property tax, including its legal framework, assessment practices, compliance issues, and socio-economic implications.

Lastly, stakeholders of this study stand to gain clarity and precision on real property tax assessment procedures, ensuring better compliance and understanding of mandates outlined in Standard Operating Procedures. By focusing solely on real property taxation, stakeholders can expect concentrated insights tailored to their specific concerns, facilitating more effective decision-making and policy formulation. The study's scope limitation ensures resources are efficiently allocated towards addressing critical issues, maximizing the relevance and applicability of findings for stakeholders involved in real property taxation.

REVIEW OF RELATED LITERATURE

One such idea, known as the “Dark Stone” theory, proposes that market rents can be fraudulently manipulated to reduce taxes, often by exploiting loopholes such as the comparable sales valuation gap and the sales coverage gap and the Walgreens lease loophole. According to Oates and Schwab (2009), land value taxation is another important hypothesis that property taxes have no influence on the timing of investments. In addition, economic concepts play a crucial role in determining the value of real estate, particularly in conjunction with methods such as the income value approach, which determines the value of a property primarily on the basis of income production. These ideas and practices contribute to a better understanding of property valuation procedures and have significant implications for property tax valuation.

Significantly, the theory underscores the importance of scrutinizing market rents within the realm of real property taxation, as it highlights potential avenues for tax evasion and manipulation. Understanding these loopholes, such as the comparable sales valuation gap and the Walgreens lease loophole, is crucial for policymakers and assessors to devise robust assessment methodologies that mitigate fraudulent practices and ensure fair and accurate tax assessments (O'brian, 2011).

The Philippine Property Tax Law, as embodied in Presidential Decree No. 464, regulates the assessment, collection and administration of property taxes in countries, cities, and municipalities. According to the Local Government Code of 1991, property tax rates in the Philippines generally range from 1% to 2% of the assessed value of the property and vary depending on the location of the property. The valuation of real estate is subject to regular assessment by local authorities and its level is determined by the

classification of the real estate (residential, industrial, commercial, agricultural). Tax liability in real estate matters is primarily the responsibility of the owner. However, if the property is rented or used by a tax payer, the beneficial owner may also be required to pay. Certain properties are exempt from property taxes, including properties owned by the government or its political subdivisions, nonprofit cemeteries, charitable institutions, and religious buildings used for worship or charitable activities. Homeowners must accurately report the value of their property to assessors every three years to ensure fair and accurate taxation.

RA 7160: Local Government Code

As it is embedded in the laws, specifically, the Local Government Code, in Section 232, it provides, to wit: POWER TO LEVY REAL PROPERTY TAX. A province or city or municipality within the Metropolitan Manila may levy an



annual ad valorem tax on real property such as land, building, machinery and other improvement not hereinafter specifically exempted. This could well serve as the legal basis of this taxation (RA 7160). The Food and Agricultural Organization of the United Nations (FAO) in its website, further expounded this as it reiterated that, "this Code establishes the system and defines powers of provincial, city, municipal and barangay governments in the Philippines. It provides for a more responsive local government structure instituted through a system of decentralization whereby Local Government Units are delegated more powers, authority, responsibilities and resources (FAOLEX, n.d.).

Manual on Real Property Appraisal and Assessment Operation

As a sort of guide to the compliance and implementation of the real property tax assessment, the Manual on Real Property Appraisal and Assessment Operations, is then a vital cog in this endeavor. The Manual on Real Property Appraisal and Assessment Operations, according to Presentacion Montesa, Executive Director of the Bureau of Local Government Finance, "is an attempt by the Bureau of Local Government Finance to compile and comprehensively translate the real property appraisal and assessment parameters defined under the Local Government Code into procedural details workable in a decentralized environment. It can be considered as the first genuine effort to bring to the Assessors and local assessment offices some clear and uniform guidelines in the classification, appraisal and assessment of real property for taxation purposes. With this in place, the Local Government Unit can expect a uniform, effective and consistent discharge by the Assessors of their functions. While there may be some abrupt changes in current assessment practices, these are temporary and will eventually produce better and explainable results. It will enlighten taxpayers and exact voluntary compliance. Its guidelines include the Guiding Principles Rules in Assessment of Real Property Tax Listing of Real Property for Imposition of Real Property tax Exemptions from the Real

DISCUSSIONS

In the Cordilleras, Bahit and Barcayan (2019), in their study about Cordillera lands, posited the asset accounts for lands and their monetary value. Since land is considered as real property that need to be assessed and valued, tax imposition is a possibility. In the centralized tax assessment system, the assessor determines the property tax by looking at particular property attributes and geographic location. The assessor establishes the taxable valuation of the property using a defined process, which is subsequently applied to the computation of property tax. This system ensures consistency and fairness in property tax assessment.

However, the Support to Parcelization of Lands to Individual Titling (SPLIT) Project of the Department of Agrarian Reform (DAR) works with the assessor to ensure fair and consistent property tax assessment. Assessors assess property taxes based on the property's characteristic and location, while the Support to Parcelization of Lands to Individual Titling (SPLIT) Project offers guidelines on analyzing and resolving potential involuntary relocation implications. This collaboration ensures that the project will be carried out in a way that it benefits all parties involved, including affected communities and property owners (World Bank, 2021).



The dearth of studies regarding real property tax and how they should be assessed and carried out requires us then to continue looking for researchable topics. The studies along this area are few and far between. It is for this reason that this researcher chose this topic. As mentioned earlier, there is a lack of research along this topic. Conducting additional researches on real property tax assessment could help create awareness of issues needing clarifications. Moreover, it will help policy makers craft meaningful laws that will help raise collection of taxes for the Local Government Unit. Meanwhile, other provinces will learn from our experience and adopt our best practices. This article delves into the real property tax assessment practices in Benguet and their broader implications on the local government unit (LGU) tax framework. It endeavors to shed light on the degree of compliance and execution of Benguet's real property tax assessment in accordance with various regulatory standards, encompassing guiding principles, rules governing the assessment of real property tax, the compilation of real property for tax imposition, and exemptions from real property tax obligations. Through a comprehensive examination of these dimensions, the research aims to offer valuable insights into the efficacy and operational efficiency of the existing tax assessment mechanism in Benguet, thereby elucidating its ramifications on the overall tax scheme within the LGU.

The legal framework governing real property tax in the Philippines is primarily anchored in the Local Government Code of 1991, which grants LGUs the authority to impose and collect taxes on real property within their jurisdiction. This section of the literature review delves into the key provisions of the Local Government Code pertaining to real property tax, as well as relevant statutes, regulations, and jurisprudence that shape the implementation and administration of this tax.

Assessment Practices and Procedures

Effective real property tax administration hinges on accurate and fair assessment practices. This segment of the review examines the methodologies and procedures employed by LGUs in the valuation and assessment of real properties for taxation purposes. It explores various assessment techniques, such as the market approach, cost approach, and income approach, highlighting their strengths, limitations, and practical implications in the Philippine context. Furthermore, this section discusses the role of assessors, appraisal standards, and mechanisms for resolving assessment disputes.

Compliance Issues and Challenges

Ensuring compliance with real property tax obligations is essential for maintaining revenue integrity and sustainability. However, the Philippine context presents several challenges related to compliance, including tax evasion, under-declaration of property values, and informal property transactions. This part of the literature review examines the factors contributing to non-compliance with real property tax laws and regulations, as well as the strategies employed by LGUs to address these challenges, such as tax information campaigns, enforcement measures, and technology-driven solutions.

Socio-economic Implications and Equity Considerations

The imposition of real property tax has far-reaching socio-economic implications, affecting property owners, communities, and the broader economy. This section of the review investigates the equity dimensions of real property tax, considering its impact on property values, land use patterns, housing affordability, and wealth distribution. It also explores the role of real property tax in promoting social equity and sustainable development, with a focus on initiatives aimed at mitigating tax burdens on vulnerable sectors and fostering inclusive growth.

CONCLUSION

In conclusion, this comprehensive literature review provides a nuanced understanding of the multifaceted dynamics surrounding real property tax in the Philippine context. By synthesizing existing research and scholarly discourse, it illuminates various critical aspects, including the legal framework governing real property tax, assessment practices, compliance challenges, and the socio-economic implications of its implementation.

Notably, the review underscores the pivotal role of real property tax assessment and appraisal in shaping the effectiveness and equity of tax collection efforts. Through an examination of assessment methodologies, appraisal standards, and compliance mechanisms, it becomes evident that the accuracy and fairness of property valuation directly influence revenue generation and taxpayer compliance. Moreover, the socio-economic ramifications of real property tax, such as its impact on property values, land use patterns, and housing affordability, underscore the importance of informed policymaking and proactive measures to address equity concerns and promote sustainable development.

By offering valuable insights into these complex dynamics, this review serves as a valuable resource for policymakers, practitioners, researchers, and other stakeholders engaged in local taxation and fiscal governance in the Philippines. It provides a foundation for informed decision-making, facilitates the development of effective tax policies and administration strategies, and fosters dialogue on ways to enhance the efficiency, equity, and accountability of the real property tax system. Ultimately, the findings and recommendations presented in this review contribute to the ongoing discourse on enhancing fiscal sustainability and promoting inclusive growth in the Philippine context.

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