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### The Real Property Tax

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# LOCAL GOVERNMENT FINANCE IN THE THIRD WORLD

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A Case Study of the Philippines

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Edited by Roy Bahl  
and Barbara D. Miller

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# 2

## The Real Property Tax

by ROY BAHL and LARRY SCHROEDER

As in many countries, the real property tax (RPT) in the Philippines is a principal revenue source for local governments and, as elsewhere, it is laden with administrative and structural problems. In this chapter, we consider the three major problem areas of property taxation: determination of the tax base, tax rate structure, and collection efficiency. Following this description is an analysis of the revenue performance of the property tax: the factors underlying its growth and the variation in its performance within the nation.

In the Philippines, some form of a tax on land or its products can be traced back to the Spanish era. The first property tax similar to today's was implemented in 1901, when Acts 82 and 83 were passed by the Philippine Commission. These acts provided for the organization of municipalities and provinces and allowed municipalities to levy a real property tax of not less than half of 1 percent, with provincial treasurers given the responsibility of supervising assessment and tax collection.<sup>1</sup>

The current system of real property taxation in the Philippines is documented in two major presidential decrees—PD 76, issued on December 6, 1972, and PD 464, issued May 20, 1974.<sup>2</sup> Under PD 76, owners of real property are required to file sworn statements of the current value of their property. Accurate reporting is to be aided by PD 1533, which specifies that the declared values will be used by the government in determining fair value of parcels involved in eminent domain proceedings. In addition, PD 76 stresses uniformity of assessment through requirements that provincial and city assessors prepare schedules of fair market values for different classes of property within their jurisdictions using rules issued by the Ministry of



Finance, and that they revise assessments every five years starting in 1979 (later amended under PD 1621 to every three years).

But it is PD 464, and its more recent amendments and Letters of Instruction (LOI), that constitute the Real Property Tax Code. It defines the base of the property tax, the methods by which assessors are to value property, the timing of reassessments, the rate structure, and how the property tax is to be collected and administered.<sup>3</sup>

## DETERMINATION OF THE TAX BASE

A number of steps are required in the determination of the property tax base: legal definition of the base, discovery and verification of property ownership, determination of assessed values, and revisions in property values. Problems in each of these areas have slowed the growth in the taxable property base and constrained it from reaching its potential yield.

### Definition of the Real Property Tax Base

Taxable property under the Real Property Tax Code includes all land, buildings, machinery, and other improvements (including such features as productive trees on forest land) except those lands, buildings, machinery, and improvements that are expressly exempt from the tax.<sup>4</sup> These are basically four categories of exemptions: government-owned property, "preferred investments," charitable and religious property, and property of low income persons.<sup>5</sup> Government property is often exempt from local taxation under the principle that government institutions should not tax one another. Nevertheless, local services are rendered to such installations and therefore some payment is justified. A payment in lieu of property taxes that helps to cover these costs is practiced in other developing countries.<sup>6</sup>

The central government has also exempted a long list of privately owned properties from the local property tax, including dairy farms, pasture and grazing lands acquired from the public domain, machinery of a "new and preferred industry" as certified by the Board of Investments, new investments in tourism-oriented industries (PD 535), and subsidized housing to employees of tax-exempt corporations and partnerships (PD 745). While localities may benefit from additional economic activity resulting from such tax holidays, the nature of the local tax system is such that it is unlikely that the local government will reap revenue benefits from this activity. A

payment in lieu of taxes made by the central government would be a reasonable solution to this tax base erosion.

Charitable and religious organization exemptions may be justified on grounds that they are providing certain services that benefit the community—services that would be decreased were taxes levied on their property. Still, care must be taken to ensure that the organizations are truly nonprofit and not competing with similar privately owned facilities.

Real property with a value less than 1,000 pesos belonging to a single owner in any one city or municipality is also exempt from the RPT. Such an exemption may be justifiable both on grounds of equity and administrative efficiency, as the record processing and collection costs associated with extremely low valued parcels may exceed the actual tax yields. On the other hand, one does not want to go too far with such exemptions because of the need to maximize the coverage of the tax roll and hence the involvement of the population in the governmental process.

The taxable base of the real property tax is the capital value of land and improvements with provision for assessment at fractions of current market value. The classes of property to which different assessment ratios are applied are set forth in PD 76. Under this scheme all nonexempt land is classified and assessed according to the following schedule (as amended in PD 1383):

Land Use	Assessed Value as a Percent of Current Market Value
Residential	30
Agricultural	40
Timber and forest	40
Commercial and industrial	50
Mineral	50

Furthermore, all land is to be valued according to its actual use, rather than according to its best use. This classification may initially be based on the use class indicated on the Declaration of Real Property form submitted by the taxpayer. Inspections made by assessors are used as well. When there is a conflict with the use indicated by the owner, the land-use class is usually changed to reflect that determined by the assessor.



Reliance upon actual rather than best use, together with fractional assessments, has potential economic effects that should be recognized in an evaluation of the property tax system. As is the case for nearly all taxes, property taxes can alter choices that individuals would, in the absence of the tax, have made. These distortions of economic choices are not necessarily a disadvantage; for example, some forms of property taxation may be used to discourage land speculation. Unfortunately, the distortions induced by the Philippine system probably do not serve important social goals. Property tax assessments based upon actual rather than best use have the effect of discouraging conversion of the use of property from its current use to an alternative that, at least as judged by the market, is more productive.<sup>7</sup> For example, a parcel of rice land near the edge of an urbanized area may more productively be used as a commercial plot. In this case the potential market price will reflect that fact. Under actual use assessment, however, the land would be assessed the same as a parcel of rice land far from the urban area. If the owner were assessed on the basis of the price the parcel would fetch in the market, there would be an incentive to convert the land to its more productive use.

Fractional assessments also have built-in incentives and disincentives. While the higher fractional assessment of agricultural lands provides an incentive for conversion to residential usage, the higher fractional assessment for commercial or industrial properties discourages conversion to these uses.<sup>8</sup> The fractions noted above were probably applied to promote equity, perhaps under the assumption that ability to pay was greatest for commercial and industrial landowners and least for residential property owners. Nevertheless, the potential inefficiencies similar to the previous example must be recognized.

Buildings, machinery,<sup>9</sup> and other improvements are also assessed at fractional rates. For buildings and other improvements, the fractional values depend both upon use and market value. Once again, there is an apparent attempt to adjust assessments according to the ability of the taxpayer and once again a potential inefficiency results. Here the tax introduces a bias against investing in improvements because the fractional assessment ratio associated with land is less than the ratio applied to nearly all commercial, industrial, and agricultural improvements and less than the ratio applied to a large portion of residential improvements.

Under the current property tax system, total tax liability ( $T$ ) on a parcel of land and its improvements will be:

$$T = r_L^a V_L + r_I^a V_I \quad (2.1)$$

where  $a$  = fractional assessment ratio;  $V$  = market value;  $r$  = tax rate; and  $L$  and  $I$  = land and improvements, respectively.

In any investment decision involving land and improvements, there will be a bias in favor of projects that rely more heavily upon land as long as the value of the improvement is such that the assessment ratio on improvements exceeds that for land. For example, consider a commercial venture where the land is valued at P1 million. The investor is trying to determine the type of improvement to place on the land. If he chooses an improvement with a market value of anything more than P250,000 (almost a certainty), we can write his tax liability as

$$T = .5r_L V_L + .8r_I V_I \quad (2.2)$$

If  $r_L = r_I = 0.01$ , then

$$T = .005 V_L + .008 V_I \quad (2.3)$$

and the improvement will be taxed more heavily than the land. Indeed, in the case of commercial and industrial properties, it is only for the very smallest of improvements, that is, those valued less than P30,000, for which the effective tax rate on improvements is not greater than that on land.

A related problem with fractional assessments on improvements is that in order to be placed in a lower assessment bracket, a property owner will attempt to pressure assessors to lower valuations. Pressures could be placed on the assessor or indirectly on politicians. Thus, there is a double incentive to push for a lowered assessment: a lower overall tax base and a lower effective tax rate.

### Discovery and Determination of Property Ownership

The base of the RPT is more easily defined than it is measured. A first and difficult step is to discover and document the characteristics and ownership of a property. In the Philippines this problem has recently been exacerbated by the land reform program. The base determination problem has been addressed through tax mapping, required owner declarations of value, and procedures for handling duplicate records.



Tax mapping procedures are the key element in the entire process. Tax maps establish a complete inventory of all real property and assign to each parcel a property identification number (PIN) such that theoretically every parcel in the nation has a unique PIN. The PIN provides a simple means to keep track of all parcels and to link assessment and billing records.

Tax mapping is, however, a lengthy and costly process. Recent estimates of the costs of tax mapping range from P10 to P20 per parcel.<sup>10</sup> The mapping process itself requires several months, at the least, to carry out; for example, Albay Province planned 267 working days for tax mapping in Tabaco municipality, which comprises approximately 14,500 parcels.<sup>11</sup> Given the per parcel cost, outlays are indeed large for local jurisdictions, especially taking into consideration that one analyst has discovered a pattern of municipal governments contributing 23 percent of the cost of tax mapping and provincial governments 40 percent.<sup>12</sup> Because the results of the mapping will not be reflected in revenues until a year or two after the mapping has been completed, the procedure can be viewed as a long-term investment. Local politicians, who tend to favor investments with highly visible and short-term payoffs, are rarely enthusiastic about increasing local taxes to finance tax mapping projects. One could speculate that relatively progressive local governments with more secure leadership and political support would participate in tax mapping early but that their participation would diminish as the coverage of the project increased. This possibility would point to the need for more loan and/or grant financing and foreign assistance, all of which have been used to some extent to finance tax mapping in the Philippines.

As of August 1980, tax mapping had been completed in 4,820 barangays located in 160 cities and municipalities and had been begun in another 3,710 barangays in 138 localities.<sup>13</sup> Although these achievements are notable, one must keep in mind that there are about 1,600 local governments in the Philippines and that tax mapping has not even begun in 80 percent of the local government areas.

In a different approach to determining property ownership, PD 76 requires self-declaration, while PD 464 (and amendments PD 1383 and PD 1621) requires that such declarations be filed every three years, or within 60 days after any improvement to a property. Included on these declarations are sworn statements regarding the true value of the property and a description of the property "sufficient in detail to enable the assessor or his deputy to identify the same for assessment purposes."<sup>14</sup> While this approach—if performed accurately

and promptly by all property owners—would vastly improve the determination of ownership, it has not proven useful.

One of the most frequently cited problems is that of duplicate and missing records. There are several reasons for the existence of duplicate records on the property tax roll.<sup>15</sup> One of these is related to the original filing of tax declarations under PD 76. Apparently, there were cases where different people filed tax declaration statements for the same parcel, which inflates collectibles over that which realistically can be collected and therefore results in an understatement of collection efficiency. In one Albay municipality with 14,000 tax declarations, 2,000 duplicate tax declarations were detected after tax mapping had been completed.<sup>16</sup> A second situation leading to duplicate tax declarations occurs when a property buyer correctly files a tax declaration for a newly purchased property, but the seller's tax declaration form is not removed from the file. Under Section 11 of PD 464, it is the duty of a property owner to inform the assessor of property transfer within 60 days of the transaction, thus placing the responsibility with the previous owner. But there are no penalties for failure of the property owner to inform the assessor and in most cases there are no cross-checks to pick up this problem.

Missing records are also a problem. Although new property buyers must pay the property transfer tax, register the property with the registrar of deeds, pay a registration fee, and fill out a property declaration form, sometimes the final step is omitted. Again, the problem rises from a lack of effective coordination between the registrar of deeds and the assessor.

Another major source of records management problems relates to the land reform program. On the surface, the problem seems relatively simple: Land was transferred (sold) from large landholders to tenants through the Ministry of Agrarian Reform (MAR). Local assessors, however, do not have good records of the particulars of the reformed properties. The previous owners are not willing to pay the tax on behalf of their former tenants nor are the new owners eager to accept their taxpaying responsibilities. The MAR admits that complete mapping of the affected areas is yet another continuing difficulty.<sup>17</sup>

The problem is further complicated because some previous owners were delinquent in payment of property taxes at the time of reform. Large landowners have known since 1972 that it was only a matter of time before some of their lands would be confiscated. Under the statutes, owners could receive payments for their land from the Land Bank upon showing proof of payment of all real



property taxes on their holdings through October 1972. Such a system could only lead to delinquency after 1972.

Several aspects of the land reform system make it unlikely to expect a significant amount of compliance from tenants, too. First, there has been a great deal of uncertainty associated with the land reform process. If a tenant is uncertain that the reformed lands will remain in his possession, it is unlikely that he will be willing to pay the taxes. Second, the provision that tenants cannot transfer the land to anyone other than heirs or the government makes ownership of these properties unlike that of other taxed assets, suggesting a different pattern of tax compliance behavior. Third, many tenants were not aware that their rental payments since 1972 would, in fact, be counted as payment toward the purchase of the land. Fourth, there may have been a lack of understanding concerning legal responsibilities associated with property ownership, even in cases where the tenant realized he was the owner of the property. Fifth, there may have been an ability-to-pay problem since these former tenants suddenly found themselves the owners of property, but may still have lacked monetary assets with which to pay taxes.

Finally, local financial officers also must bear some of the blame for their inaction. There was a lack of understanding on the part of local assessors and treasurers of the administrative processes involved in land reform, and there is little evidence of campaigns being carried out in land reform areas to encourage the new landowners to declare their property for tax purposes.

### The Assessment Process

The property valuation system is based on a highly systematized set of instructions. Rather than relying upon the subjective judgments of an assessment officer, who unilaterally assigns a value to each parcel, a complete schedule of market values per unit (for example, per hectare of land or per square meter of a building constructed of a particular building material) is compiled before valuation or revaluation occurs. These schedules, constructed for each province and chartered city, are then approved by the Ministry of Finance.

As in most property tax assessment schemes, three different methods are used to estimate market values—comparative sales, income capitalization, and reproduction or replacement cost. The comparable sales approach is the principal technique utilized by



assessors in determining the schedule of current market values. Assessors obtain much of this information by asking the opinion of knowledgeable persons, such as bankers and realtors, concerning current prices in certain areas, and many also use their own knowledge of the local realty market.<sup>18</sup> The self-declarations of market value discussed above are seldom relied upon because it is assumed that self-assessment naturally yields downward biased market value estimates. Likewise, property values recorded at the time of sale by the registrar of deeds are felt to understate the actual sales price, and such information is usually discounted by local assessors.

In cases where the income capitalization approach is used, a "normal" rate of return must be determined. In a memo dated July 25, 1977, to all provincial, city, and municipal assessors from the Ministry of Finance, it is noted that the capitalization rate should be "a selected rate prevailing in the locality."<sup>19</sup> No further specification is provided.

The capitalization approach to valuation is not widely used for commercial property due to the difficulties of obtaining adequate financial records from property owners.<sup>20</sup> The approach is, however, utilized in the case of improvements to agricultural lands. The capitalization rate used in Iloilo Province in the latest schedule of values was 14 percent,<sup>21</sup> not an unreasonable rate given rates of inflation in the range of 7 to 10 percent.

The replacement cost method of assessment involves estimating the current cost of replacing a building and requires two steps. The first is to estimate the current cost of constructing the building or purchasing the equipment. To obtain these estimates, assessors usually gather cost information from lumberyards, hardware stores, building contractors, engineers, and so on. The second step estimates the depreciation to be subtracted from the result of the first step and requires information regarding the age of the structure and an assumed depreciation rate. The Ministry of Finance has suggested that assessors use a table of depreciation schedules contained in the 1963 Philippine Assessors Appraisal Manual.<sup>22</sup> These rates range from 2 to 8 percent and are used by many assessors.

Even with these detailed instructions, considerable subjectivity can enter into the determination of assessed valuation. A good example is the case of the classification of agricultural lands. The MOF memorandum of July 25, 1977, establishes productivity classifications for nine different categories of agricultural crops, such as rice land (lowland) with irrigation facilities, rice land (lowland) without irrigation facilities, coconut land, and so on. Within each

crop category, several different productivity classes are established. For example, coconut land is classified into first class (more than 70 nuts annually per tree), second class (50 to 70 nuts per tree), and third class (less than 50 per tree).<sup>23</sup> The assessor's discretion can then be used to determine the class of land to which a particular parcel belongs, and one interview revealed that parcels are seldom placed in the first class group.

Equity of the property tax is also closely related to the assessment process. At least two different forms of equity can be considered—interpersonal and interjurisdictional. Within a jurisdiction, interpersonal inequality occurs when two parcels of like value are assessed differently. Although the use of value schedules applied in a similar manner to all properties within a jurisdiction should reduce such inequities, assessor discretion can still introduce inequalities. Likewise, if there are systematic biases built into the schedule of values—for example, if rice land values are understated relative to their actual values while coconut lands are valued accurately—inequities across property types will result.<sup>24</sup> Interjurisdictional inequalities will almost certainly arise in a property tax system that is administered at the local government level. Such tax differentials are less dramatic in the Philippines, where the effective rate of property taxation is not high and centralized assessments minimize the variations.

The final aspect of the assessment process involves reestimating the value of parcels through time. While uniform revaluation cycles every three years are in keeping with the centralized nature of the RPT administration process and produce greater interjurisdictional equality than randomly scheduled reassessments, there are several problems with lump-sum revisions in assessed valuations. The most significant relates to the large jumps in tax liabilities that occur when the new roll takes effect. It was estimated that values increased on the average by about 80 percent between the 1973 and 1977 revaluations<sup>25</sup> and many properties experienced from 80 to 120 percent increases in valuation in 1980.<sup>26</sup>

The revaluation process as currently conducted also creates a problem with the workloads associated with it. The provincial assessor of Albay indicated that of his 29 permanent staff employees, 20 were assigned to the general revision process with an additional 15 casual employees also working on reassessments (out of a total of from 70 to 120 casual employees hired). The number of parcels in Albay in 1979 totaled approximately 180,000. The scheduling of reassessments at particular dates obviously creates fluctuations in workloads that would not arise if the process were spread more



TABLE 2.1

## Growth in Taxable and Exempt Assessed Values, Selected Jurisdictions, 1970-79

Year	Iloilo Province Percentage Change		Guimaras Subprovince Percentage Change*		Albay Province Percentage Change		Legaspi City Percentage Change	
	Taxable Assessed Values	Exempt Assessed Values	Taxable Assessed Values	Exempt Assessed Values	Taxable Assessed Values	Exempt Assessed Values	Taxable Assessed Values	Exempt Assessed Values
1970-71	0.2	-0.4	NA	NA	0.1	-2.9	7.2	0.1
1971-72	3.9	0.8	NA	NA	4.9	0.2	11.4	5.8
1972-73	203.7	98.9	NA	NA	55.9	0.9	109.6	38.8
1973-74	11.3	60.9	NA	NA	36.3	4.1	1.8	35.4
1974-75	17.9	1.4	-0.3	6.4	19.4	39.4	4.7	51.2
1975-76	0.1	9.0	3.3	.8	11.8	67.4	3.7	3.5
1976-77	5.8	4.8	11.7	0.1	3.0	0.7	2.9	-0.1
1977-78	2.2	-1.9	0.6	1.2	18.5	43.6	22.3	43.4
1978-79	80.3	96.6	189.5	80.1	6.2	1.7	47.8	6.2

NA: Not available.

\*The subprovince of Guimaras became independent of Iloilo Province in November 1979, but prior to that many administrative offices had operated independently of Iloilo Province.

Source: Data supplied by provincial and city assessors.



evenly over time. On the other hand, the scheduling better ensures that all properties will be revalued periodically.

## GROWTH IN THE PROPERTY TAX BASE

With revenue yields a primary concern and with property tax rates essentially fixed (or at least limited in range), the principal source of revenue growth is in the tax base, which comes about through property reassessment. Since World War II, general reassessments have taken place in 1949, 1960 (partial), 1974, and 1979. Interim growth in the base can be due to the construction and assessment of new buildings, equipment, and improvements or to discovery of previously untaxed properties as might result from tax mapping.

Examination of the growth in the property tax base for different jurisdictions provides insight into the potential revenue effects of general reassessments. Table 2.1 shows the year-to-year percentage changes in assessed valuations for both taxable and exempt property for the period 1970-79 in the provinces of Iloilo, Albay, and Guimaras (until 1979 a subprovince of Iloilo). The data show a massive increase in assessed valuations between 1972 and 1973 in the wake of PD 76. The less dramatic increases in Albay were apparently due to the longer time period associated with getting the new assessed valuations recorded. The 1979 general reassessment was completed on time in Iloilo and Guimaras, but not in Albay. The increases for the two completed areas suggest that if tax rates were to be held constant and if collection efficiency did not fall, municipalities could anticipate considerable increases in revenues during the 1980 fiscal year. It is doubtful that collection efficiency could remain constant in light of an approximate doubling in tax liabilities.

During the interim periods, there was relatively little growth in the property tax base. For example, in Iloilo, increases in the taxable base were less than 6 percent in each year between 1975 and 1978. This growth is slow in comparison to inflation rates of between 7 and 9.9 percent during the same period. If property tax revenues did not keep up with inflation, but municipal expenditures did, then the pressure on municipal budgets during the late 1970s was in large measure attributable to the low elasticity of the property tax base.

As noted above, the granting of exemptions imposes a substantial opportunity cost on local governments in terms of revenues lost. In 1979 the ratio of exempt assessed values to the total (exempt and taxable) was 7.4 percent in Iloilo and 13.8 percent in Albay. Using

the 1 percent tax rate applicable in both of the provinces, these exemptions are equivalent to a P1.2 million revenue loss in Iloilo and a P0.5 million loss in Albay. To place these costs in some perspective, the provincial government of Iloilo collected only P2.4 million in real property taxes in 1979; thus, if all of the exempt property had been taxable and the collection rate had been 100 percent, the province could have increased its property tax collections by nearly 25 percent.<sup>27</sup> An even greater effect would have been observed in Albay, which, in 1979, collected approximately P0.697 million at the provincial government level. Using a similar assumption as above, revenues of the province would have increased by 32 percent. The data in Table 2.1 show a generally slower growth in exempt than taxable values, suggesting that the opportunity cost of exemptions has been declining.

### PROPERTY TAX RATES AND ADDITIONAL LEVIES

Real property tax rates are limited by statute. Provinces and municipalities can set a basic tax rate of from 0.25 to 0.5 percent while cities are constrained to the range of 0.5 to 2 percent.<sup>28</sup> The statute suggests that provinces and their constituent municipalities can levy differential rates but in fact this is not the case. Item (3) of Section 39 in PD 464 requires that municipal tax rates be approved by the Provincial Board. Moreover, property taxes collected on any parcel are divided among the province, municipality, and barangay (in which the parcel is located) on a 45-45-10 percent basis.

The Special Education Fund rate is a uniform 1 percent, but PD 464 provides that all tax revenues in excess of those collected in 1972 can be placed in the General Fund. This provision aids the revenue elasticity of the property tax for General Fund purposes but, in turn, restricts growth in the SEF. The size of SEF revenues was also limited by PD 1621, which exempted all properties with values less than P5,000. PD 464 states that "when the entire total assessed valuation of real property situated in a province or city assessable to any *one person* does not exceed three thousand pesos (altered to five thousand under PD 1621), the additional 1 percent tax herein imposed shall not be collected."<sup>29</sup> The statute thus provides greater revenue capacity to chartered cities.

As of 1975, all provinces<sup>30</sup> and their constituent municipalities were levying the statutorily maximum rates, whereas there was con-



siderable variation in city rates, ranging from 0.7 percent (Tangub) to the legal maximum of 2 percent. There were also three instances of differential rates based either on property usage (Metro Manila), type of property (Palayan), or value (Bais). However, these are not easily explained given the statement in Section 39 of PD 464 that the rate of levy is "a uniform rate of real property tax."

### Special Levies

The basic tax and the SEF tax are not the only property-based taxes allowed under PD 464. Sections 42-46 provide the statutory basis for an idle lands tax, and Sections 47-54 provide for special levies to be imposed by local governments. Section 55 allows the central government to impose special assessments on properties affected positively by central government public works projects.

The idle lands tax is an additional levy on land not currently being utilized for productive purposes. PD 464 authorizes a rate of up to 5 percent for this purpose.<sup>31</sup> In the case of agricultural lands, any plot exceeding 5 hectares, where the uncultivated or ungrazed portion of the land constitutes more than three-quarters of the total, is defined as "idle." For urban properties, if more than two-thirds of the parcel is unutilized or unimproved, it can be certified as being idle. There are also provisions for exemptions from this land-use status, for example, if a natural disaster prevents cultivation, if there is lack of peace and order in the area, or if the land, while classified as agricultural, is actually not cultivatable (Section 44).

An idle lands tax has beneficial efficiency effects because it is a penalty against land speculation and encourages a more economic use of land. The taxation of idle lands and the taxation of the gains from land speculations are widely practiced in LDCs.<sup>32</sup> The idle lands tax, however, has never been used in the Philippines, perhaps because of political sensitivity to its use. Land speculators are often very powerful in the community and their influence a substantial deterrent to actions by local treasurers and assessors.

Special levies are a form of benefit taxation where a portion of the costs of particular projects such as street paving or sidewalk construction are recovered from residents in the immediate area. Under PD 464, up to 60 percent of the cost of such projects may be reimbursed through a special levy. The tax is to be applied over a five- to ten-year period, and differential rates can be applied to the different parcels lying within the area affected by the project. While special



levies are commonly used in other developing countries, they have not been utilized extensively in the Philippines.<sup>33</sup> Assessors assert that the lack of usage does not stem from the inability of assessors to appraise the differential benefits of spatially defined projects but rather from political pressures and the absence of implementing legislation.

## COLLECTION OF THE REAL PROPERTY TAX

The property tax is levied against the owner as of January 1 of each year. Billing must occur by January 31 and payment can be made in four equal installments—on or before March 31, June 30, September 30, and December 31. The taxpayer may choose the installment option without interest or penalty. Furthermore, under LOI 682 (March 20, 1978), a 10 percent discount on taxes due is granted to anyone paying his taxes in full within the prescribed period of time.

The law also provides for penalties against those who are tax delinquent. Yet it is estimated that in 1979, all provinces and cities in the country collected only 57 percent of property tax liabilities. Furthermore, there were provinces with collection rates as low as 5 percent.<sup>34</sup> One could argue that the most pressing problems associated with the property tax in the Philippines have to do with its collectibility rather than with structural weaknesses.

### Legal Incentives for Compliance

The major penalty form is that of interest charged on delinquent taxpayers. While the rate is set at 2 percent per month, there is an upper limit of 24 percent charged on the delinquent amount. If a taxpayer is delinquent for more than one year, there is, effectively, no additional cost for subsequent nonpayment. Relatively safe investments in the Philippines yield returns of 12 to 14 percent, so that by comparison the effective penalty is quite low.

In addition to the interest penalty, local governments can use three legal remedies to obtain past due taxes: distraint of personal property, public auction of the delinquent's property, and civil action. Distraint of personal property involves the seizing of personal properties, such as crops, equipment, and personal possessions. PD 464 (Section 69) provides, however, that certain items may not be seized, such as one horse, cow, or carabao (water buffalo) that the

delinquent selects, necessary clothing, and necessary household furniture. After proper notice, the confiscated property can be sold at a public auction administered by the provincial or city treasurer, with proceeds of the sale over the delinquent taxes (plus penalties and costs of the sale and seizure) reverting to the delinquent taxpayer.

The public auction remedy involves seizure of the real property on which taxes are due. Once again there must be advance notice of the sale. The proceeds of the sale in excess of what is owed the jurisdiction (including costs) revert to the delinquent taxpayer. Once the property is sold, however, the delinquent taxpayer retains possession for one year and has the right to redeem the property during that time by paying delinquent taxes, penalties, and costs of the sale, plus 20 percent interest on the purchase price. The purchaser of the property is then reimbursed for the purchase price plus the 20 percent interest fee. This final feature makes the purchase of tax-auction property considerably more attractive and helps ensure an adequate number of bidders.

Civil action refers to the fact that the delinquent tax constitutes an indebtedness of the taxpayer to the jurisdiction and therefore, as with any such debt, civil legal proceedings can be initiated. Furthermore, when a parcel on which taxes are delinquent is the subject of court proceedings, the award of ownership will be contingent upon payment of delinquent taxes.

### **Reasons for Delinquency**

Given these strong legal remedies to combat delinquency, the question arises as to why collection efficiency is so low. There are several possible answers to this question.

The most obvious reason is that the legal remedies are seldom used in the Philippines. While a list of the largest tax delinquents is to be prepared annually by the treasurer and submitted to the provincial fiscal officer, the provincial officer often does not carry out any further proceedings against the delinquent taxpayer. This inaction may be due to oversight, an overworked staff, or political pressures against such proceedings. The use of personal property distraint has also been avoided, possibly because of the political ramifications or because the personal property to be seized was removed before the action was taken. Finally, in any rural or sparsely populated area, nearly all residents are known to each other, which makes the successful use of the auction remedy less likely than in a highly populated, more impersonal area.



A second reason for low collection rates has to do with the problems associated with the determination of the legal owner of properties. If duplicate tax declarations exist, with the recorded owner not actually in possession of the property, there will be little chance of collecting the taxes. Likewise, the problems associated with land reform and lack of tax declarations filed by new owners mean that these taxes may go uncollected.

A third reason for delinquency could stem from the management and record-keeping methods used in some localities. Under a properly managed system there would be systematic scanning of the property tax payment records. If the filing system is not adequate or if the workloads due to other day-to-day efforts are too great to check for overdue payment of taxes and to notify the delinquent taxpayer, there is greater likelihood that delinquent taxes will not be paid. In interviews with local officials we found considerable variance in the frequency of checking through the files for delinquents, with stated frequencies ranging from daily to quarterly. Only a few localities actually sent out collectors, usually the person in charge of the property tax or a clerk in the treasurer's office, to meet with the largest delinquents.

TABLE 2.2

## Largest Tax Delinquencies in Selected Iloilo Municipalities, 1980

Municipalities	Total Delinquencies <sup>a</sup>			As Percent of 1979 Current Year RPT Revenues	
	Largest Five	Largest Ten	Range Among Largest Ten	Largest Five	Largest Ten
Dingle	44,642	63,765	3,713- 20,759	108.9	155.5
Dumangas	183,083	213,446	3,522-104,551	183.5	214.0
Guimbal	7,542	8,991 <sup>b</sup>	247- 2,166	55.1	65.6
Passi	129,792	169,029	4,793- 36,092	115.2	150.0
Pavia	12,050	16,099	342- 4,895	11.8	15.7
Tigbauan	2,463	3,039	108- 795	11.6	14.3

<sup>a</sup>As of May 1980.

<sup>b</sup>Information on only the nine largest delinquents was available from Guimbal.

Source: Data obtained from municipal treasurers.

TABLE 2.3

## Factors Affecting Property Tax Collection Efficiency

City/Municipality Province	1979 Collection Efficiency	Characteristics/ Industries of Major Delinquents	Reasons Cited for "Problems"	Reasons Cited for "Success"
Legaspi City	73.4	Agriculture		Tie tax to business license
Libon, Albay	19.0	Rice/grain	Land reform	
Malinao, Albay	29.2	Agriculture	Typhoons and low agricultural prices	Barangay-level campaigns
Oas, Albay	28.8	Rice	Land reform	
Tabaco, Albay	50.1	Agriculture	Low agricultural prices	Send collectors into field
Iloilo City	47.7	Panay Electric (125.3%)* manufacturing, the Church	Estates	
Dingle, Iloilo	52.3	Land reformed estates	Land reform	
Dumangas, Iloilo	57.2	The Church absentee landowners (15.8%)*	Absentee owners, refuse to pay; land reform	Several court cases
Guimbal, Iloilo	63.6	Agriculture	Land reform, poor records	
Passi, Iloilo	42.1	Sugar growers	Land reform, low sugar prices	
Pavia, Iloilo	99.6	Few delinquents		Barangay-level campaign, court case
Tigbauan, Iloilo	97.1	Agriculture		Information program in barangays

\*Delinquent taxes of largest delinquent as percent of 1979 current year RPT revenues.

Source: Survey interview data.



A fourth reason relates to the problems of farmlands. Agricultural land is especially prone to periods of low productivity due to unpredictable events such as floods or drought, or low prices can contribute to low incomes from such lands and therefore to an inability of the landowner to pay the due taxes. Because assessments are not altered annually in response to such events, these types of parcels are likely to be delinquent in times of stress.

To understand better the underlying nature of the tax delinquency problem, we have compiled information on the extent (Table 2.2), as well as the causes and means used to stimulate payment (Table 2.3). The example of six Iloilo municipalities (Table 2.2) gives some idea of the concentration of delinquent property taxes among larger taxpayers. The data show that for three jurisdictions, the amount outstanding from the largest delinquents in early 1980 actually exceeded total collections in the previous year. In the case of Dumangas it was more than twice the amount collected. The pattern of concentration of delinquent taxes raises an important policy issue. When one or two delinquents account for the vast proportion of delinquency, legal remedies are likely to be the most effective approach to alleviate the problem. On the other hand, where even the largest of delinquents is quite small, as is true in Guimbal and Tigbauan, extralegal remedies such as campaigns and moral suasion may be more effective.

Table 2.3 provides a different perspective on the problem of property tax delinquencies as observed in several municipalities in Albay and Iloilo provinces and Legaspi City and Iloilo City. Of the two cities represented, Legaspi had a considerably higher collection efficiency in 1979 than did Iloilo. Legaspi carries out a policy that should be especially effective in cities—tying property tax payments to the issuance of mayor's permits. It is interesting to note that Legaspi City's major delinquency problems are related to agricultural properties, which are not subject to business taxes. In Iloilo City the principal delinquent as of 1979 owed considerably more in back taxes than the entire yield of the current portion of the property tax that year.

Of the municipalities represented here, nearly all are agricultural areas, with the result that delinquencies are not nearly as concentrated as in the cities. From the success achieved in Pavia and Tigbauan it seems that campaigns to encourage property owners to pay taxes can be successful, especially when the focus of the campaign is at the barangay level. For the predominantly rural municipalities in these two provinces, however, the two principal cited causes of

property tax delinquency are land reform and the uncertainty of agricultural yields and prices.

Another problem associated with tax collection is absentee landlords (cited in Dumangas), where most of the landlords live in a nearby city, refuse to pay taxes, and are difficult to reach. In these cases legal means may be the most appropriate technique to alleviate the problem. The Catholic Church was also noted in both Iloilo City and Dumangas as being one of the largest delinquents. Finding a solution to the Church property problem is not easy because legal means are likely to create political difficulties and campaigns may be ineffective.

### Noncourt Methods for Improving Collections

Tax campaigns are an important noncourt method and one especially effective at the local level. The barangay is a natural vehicle for organizing tax campaigns. Because the barangay receives a share of the collection of property taxes, it should be possible to convince taxpayers of the localized benefits to be derived from payment of taxes. Closely related to formal campaigns in the barangays are campaigns eliciting the aid of barangay captains in encouraging their barangay residents to pay property taxes. In Jordan, Guimaras, a P2,000 prize is awarded to the barangay with the highest collection rate.

In the same vein, we found that some municipalities (Malinao and Tabaco, Albay) attempted to decrease compliance costs by sending tax collectors to the barangay, thus making it unnecessary for taxpayers to travel to the municipal treasury to pay their taxes.<sup>35</sup> This tactic also may aid in creating a psychological incentive to pay if a taxpayer is among neighbors who are complying with the law.

An innovative program initiated in Pavia, Iloilo, is relatively low in cost and, based upon collection records, productive. Under this program the local treasurer's office sponsors movies in the barangays. During each intermission, of which there are several, the municipal treasurer and barangay captain give short talks on the advantages of paying property taxes. At times public praise or embarrassment is sufficient to prompt tax compliance. For example, in Jordan, a list of the top taxpayers is posted for display in the municipal treasury. We did not encounter any municipality that does the same for the major delinquents; however, this would seem to be a potentially fruitful approach.



## REVENUE PERFORMANCE OF THE PROPERTY TAX

The relative burdens of property taxes among different countries can be compared in two ways—on a statutory basis and with respect to actual practices. On a statutory basis the property tax in the Philippines cannot be viewed as imposing an excessively high burden when compared with other developing countries.

Yoingco and Quintos have made a comparison of property taxes in the ASEAN countries.<sup>36</sup> The information provided there suggests that the range of statutory property tax rates (basic tax plus SEF) of from 2 to 3 percent in the Philippines is not out of line. However, the fractional assessment scheme used in the Philippines, together with the several exemptions including the low value exemption, significantly reduces the overall burden of the tax. In a comparison of property taxes in major cities throughout the world the data indicate that statutory rates in Manila are neither excessively high nor very low.<sup>37</sup>

Because the actual burden of property taxes is so closely tied to its administration, an examination of statutory rates often gives misleading impressions about intensity of use. IMF data on property taxes as a percent of gross national product and as a percent of total taxes enable us to compare the Philippines with other developing countries for several years (Table 2.4).<sup>38</sup> These data suggest that since the mid-1950s the role of property taxes within the Philippines has been diminishing both in terms of relative importance in the tax structure and relative to total economic activity. Between the 1953-55 period and the 1972-76 period, property taxes declined from nearly 12 percent to only 3 percent of total tax revenues. Property taxes were also cut relative to GNP during the 1966-68 to 1972-76 period, from 0.8 percent to only 0.3 percent. The Philippines is not alone, however, in these general trends. Table 2.4 indicates that property taxes in other developing countries have declined relative to total taxes and as a percent of GNP.

When compared with other Asian countries, the relative (to GNP) property tax burden in the Philippines for the 1972-76 period was considerably below the regional average. In terms of rank ordering the Philippines is exceeded by only four countries—China, Nepal, Korea, and Sri Lanka.

TABLE 2.4

## A Comparison of Property Taxation in the Philippines and Other Developing Countries

	As a Percent of Total Taxes				Ratios to GNP		
	1953-55 <sup>a</sup>	1966-68 <sup>a</sup>	1969-71 <sup>b</sup>	1972-76 <sup>c</sup>	1966-68 <sup>a</sup>	1969-71 <sup>b</sup>	1972-76 <sup>c</sup>
Philippines	11.8	8.2	4.4	2.9	0.8	0.4	0.3
Afghanistan	—	—	—	1.7	—	—	0.1
Bangladesh	—	—	—	...	—	—	...
Burma	—	—	—	...	—	—	...
China	13.0	11.3	14.5	12.2	1.7	2.6	2.4
India	16.0	9.3	7.8	0.1	1.1	1.0	0.02
Indonesia	0.87	2.1	...	0.8	0.2	...	0.13
Iraq	—	—	—	0.8	—	—	0.3
Jordan	—	—	—	0.2	—	—	0.03
Korea	5.5	8.3	3.8	4.1	1.0	0.6	0.6
Malaysia	—	12.9	0.5	0.6	2.2	0.1	0.14
Nepal	55.1	26.3	23.8	16.4	0.8	1.1	0.9
Pakistan	7.8	5.7	3.8	2.7	0.5	0.3	0.3
Singapore	—	28.2	27.1	—	3.5	3.6	—
Sri Lanka	3.0	2.9	4.3	2.0	0.5	0.8	0.4
Syrian Arab Republic	—	—	—	1.8	—	—	0.2

(Continued)



TABLE 2.4 (Continued)

	As a Percent of Total Taxes				Ratios to GNP		
	1953-55 <sup>a</sup>	1966-68 <sup>a</sup>	1969-71 <sup>b</sup>	1972-76 <sup>c</sup>	1966-68 <sup>a</sup>	1969-71 <sup>b</sup>	1972-76 <sup>c</sup>
Thailand	.09	2.1	3.0	2.1	0.3	0.4	0.3
Turkey	—	—	—	0.5	0.8	—	—
Vietnam	—	5.6	—	—	7.6	—	—
Yemen Arab Republic	—	—	—	...	—	—	...
Average for:							
Asia	12.6 <sup>e</sup>	10.2 <sup>e</sup>	8.4 <sup>g</sup>	2.7 <sup>j</sup>	0.81 <sup>e</sup>	1.0 <sup>g</sup>	0.3 <sup>j</sup>
Other Asian LDCs <sup>d</sup>	12.7	10.4	8.9	2.7	0.80	1.1	0.3
Non-Asian LDCs	6.4	4.8	3.9	1.6	0.75	0.6	0.2
All LDCs	8.3 <sup>f</sup>	6.1 <sup>t</sup>	5.0 <sup>h</sup>	1.9 <sup>i</sup>	0.77 <sup>f</sup>	0.7 <sup>h</sup>	0.2 <sup>i</sup>

Key: ... zero or insignificant amount; — information not available.

<sup>a</sup>Compiled from Chelliah (July 1971).

<sup>b</sup>Compiled from Chelliah et al. (March 1975).

<sup>c</sup>Compiled from Tait et al. (March 1979).

<sup>d</sup>Excludes Philippines.

<sup>e</sup>Includes China, India, Indonesia, Korea, Malaysia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, Vietnam.

<sup>f</sup>Consists of 50 countries.

<sup>g</sup>Same as footnote e, excluding Vietnam.

<sup>h</sup>Consists of 47 countries.

<sup>i</sup>Consists of 63 developing countries.

<sup>j</sup>Includes all the countries as well as the Philippines.

Sources: Raja J. Chelliah, "Trends in Taxation in Developing Countries," *IMF Staff Papers* 18, no. 2 (July 1971): 254-331; Raja J. Chelliah, Baas Hessel, and Margaret Kelly, "Tax Ratios and Tax Effort in Developing Countries, 1969," *IMF Staff Papers* 22, no. 1 (March 1975): 187-205; and Alan Tait et al., "International Comparison of Taxation for Selected Developing Countries," *IMF Staff Papers* 26, no. 1 (March 1979): 123-56.

## Growth in Tax Yield

Property tax revenues may grow for several reasons: reassessment of existing properties, the addition of new properties to the tax rolls, an increase in nominal property tax rates, and an increase in collection efficiency. But the particular combination of these factors in the Philippines resulted in little growth in per capita real property tax revenues during the early 1970s (Table 2.5). Indeed, there were substantial real declines in some years before the situation was reversed in 1977 and 1978.

In current pesos, the per capita increase was from P4.97 in 1970 to P16.61 in 1979. To analyze the factors leading to this increase, the 1974-79 period might be used since it includes one full revaluation cycle. There was a general revaluation in 1973 and another in 1979, although the new assessment rolls were not completed in every jurisdiction in either year. Table 2.6 presents data in four components of changing property tax revenues between 1974 and 1979. The number of parcels increased by only about 8 percent over the period,

TABLE 2.5

### Per Capita Property Tax Revenues, 1969-79

Year	In Current Pesos		In Constant Pesos	
	Amount	Percent Increase	Amount	Percent Increase
1969	6.07		9.20	
1970	4.97	(19)	6.56	(29)
1971	4.29	(14)	4.65	(30)
1972	5.10	19	5.10	10
1973	6.54	29	5.62	11
1974	7.41	14	4.74	(16)
1975	8.23	11	4.94	5
1976	8.37	2	4.60	( 7)
1977	12.94	55	6.46	41
1978	14.44	12	6.72	4
1979	16.61	15	6.63	( 2)

Sources: Commission on Audit Reports on Local Governments (1969-71); Ministry of Finance (1972-79); Central Bank of the Philippines, *Statistical Bulletin*, 1978 (CPI, 1972 = 100); National Census and Statistics Office.

TABLE 2.6

## Indicators of Property Tax Performance

Year	Number of Parcels	Percent Change	Assessed Value	Percent Change
1974	12,095,287		P43,911,027,291	
1975	12,588,655	4.08	46,279,928,639	5.39
1976	12,055,681	(4.23)	49,491,049,874	6.94
1977	12,309,845	2.11	55,646,382,125	12.44
1978	13,204,942	7.27	67,302,340,738	20.95
1979	13,073,319	1.00	83,825,748,117	24.55

  

Year	Property Tax Revenue (million pesos)	Percent Change	Collection Rate*	Revenue/ Assessed Value	Assessed Value per Parcel
1974	307		41.15	.0070	P3,630.42
1975	346	12.70	43.96	.0075	3,676.32
1976	368	6.36	43.76	.0074	4,105.21
1977	586	59.24	61.95	.0105	4,520.48
1978	674	15.02	58.92	.0100	5,096.75
1979	799	18.55	56.07	.0096	6,402.91

\*Collectibles were estimated by using this formula:  $[(Av \times .01) + .70(Av \times .01)]$ . The assumptions are: (1) Collectibles from the basic property tax equal assessed value multiplied by 1 percent tax rate. (2) Collectibles from the SEF tax equal assessed value multiplied by 1 percent less 30 percent, which is remitted to the national treasurer.

Sources: For assessed values and number of land parcels: "Assessor's Report to the Ministry of Finance." For revenues: Commission on Audit and Ministry of Finance.



TABLE 2.7

Annual Growth Rates in General Fund Property Tax Revenues,  
Iloilo and Albay Provinces, 1970-1979 (in percent)

Fiscal Year	Province	
	Albay	Iloilo
1970-71	NA	14.5
1971-72	NA	2.1
1972-73	NA	97.9
1973-74	-17.2	12.5
1974-75	-54.8	5.0
1975-76	75.4	30.0
1976-77*	59.6	16.1
1977-78	6.1	0.2
1978-79	13.0	7.2

*Note:* Includes current year plus previous years plus penalties, but excludes excess SEF collections.

NA: Not available.

\*These growth rates are based on FY 1976 (ending June 30, 1976) compared with FY 1977 (ending December 31, 1977). The six-month transition period, July 1-December 31, 1976, has been excluded for comparison purposes.

*Source:* Computed from data supplied by provincial treasurers.

while assessed value per parcel increased by about 76 percent. The nominal tax rate remained constant over the 1974-79 period, but collection efficiency increased from 41 to 56 percent between 1974 and 1979. Thus, the principal causes of property tax revenue growth over the period would appear to be reassessment of existing properties and improvements in collection efficiency. The pattern, however, has varied from year to year.

Detailed analysis of property tax revenue growth cannot be provided for every jurisdiction, so we performed a case study of two provinces, Iloilo and Albay (Table 2.7). The 10-year history of collections in Iloilo shows considerable variation in the year-to-year increases in property tax revenues—from a low of only 0.2 percent between 1977 and 1978 to the nearly 98 percent increase between 1972 and 1973 in the aftermath of PD 76. The overall growth in property tax revenues during this period, 173 percent, greatly exceeded the population increase of only 12.4 percent. In contrast, Albay experienced declines in property tax revenues

TABLE 2.8

## Property Tax Collections in Selected Albay Municipalities, 1977-79 (in pesos)

	Camalig			Libon			Malinao			Tabaco		
	1977	1978	1979	1977	1978	1979	1977	1978	1979	1977	1978	1979
General Fund												
Current year collection	26,301	37,188	50,140	28,190	27,302	29,509	11,639	21,298	17,488	42,168	45,117	52,172
Previous year collection	9,838	9,275	15,871	19,445	21,414	27,968	4,513	5,099	8,889	11,971	611	4,400
Penalties	1,421	1,948	4,155	3,398	4,746	6,166	898	1,427	1,914	2,304	3,514	2,390
Total from RPT	37,560	48,411	70,166	51,033	53,482	63,643	17,050	27,824	28,291	56,443	49,242	58,962
RPT as percent of total General Fund income	7.9	8.7	11.5	13.8	14.3	15.0	8.7	12.0	11.2	4.1	3.3	3.6
Assessed valuation (in 1,000 pesos)*	12,089	12,280	15,928	33,708	33,968	32,773	12,661	12,766	12,458	23,611	25,102	25,158
Collection efficiency (in percent)	45.8	66.0	70.4	17.8	16.9	19.0	19.3	30.1	29.2	37.4	38.4	50.1
	Growth Rates (in percent)											
	Camalig		Libon		Malinao		Tabaco					
	1977-78	1978-79	1977-78	1978-79	1977-78	1978-79	1977-78	1978-79	1977-78	1978-79		
Total from RPT	28.9	44.9	4.8	19.0	63.2	1.7	-12.7	19.7				
Total General Fund income	18.3	9.6	1.6	13.1	18.1	8.5	8.3	11.7				
Assessed valuation	1.6	29.6	0.1	-3.3	0.1	-2.4	6.3	0.2				
Collection efficiency	44.1	6.7	-5.1	12.4	56.0	-3.0	2.7	30.5				

\*Based on taxable assessed valuation as of December 31 of the previous year.  
Source: Compiled from data supplied by provincial treasurers.

TABLE 2.9

## Property Tax Collections in Selected Iloilo Municipalities, 1977-79 (in pesos)

	Dingle			Dumangas			Guimbal		
	1977	1978	1979	1977	1978	1979	1977	1978	1979
General Fund									
Current year collection	50,287	45,690	41,002	85,510	101,519	99,755	14,503	13,167	13,697
Previous year collection	14,985	15,890	26,614	39,895	59,945	48,354	4,086	2,287	4,340
Penalties	3,844	3,759	5,802	5,998	11,069	11,432	925	575	1,101
Total from RPT	69,116	65,339	73,418	131,403	172,533	159,541	19,514	16,029	19,138
RPT as percent of total General									
Fund income	14.9	14.4	13.4	23.2	27.3	22.9	8.3	6.8	7.4
Assessed valuation (in 1,000 pesos)*	16,598	17,262	17,430	27,550	38,544	38,753	4,717	4,726	4,796
Collection efficiency (in percent)	NA	NA	52.3	NA	NA	57.2	NA	NA	63.6
				Growth Rates (in percent)					
	Dingle			Dumangas			Guimbal		
	1977-78	1978-79		1977-78	1978-79		1977-78	1978-79	
Total from RPT	-5.4	12.4		31.3	-7.5		-17.8	19.4	
Total General Fund income	-2.4	20.6		11.8	10.3		-0.3	10.1	
Assessed valuation	4.0	1.0		39.9	0.5		0.2	1.5	

(Continued)



TABLE 2.9 (Continued)

	Passi			Pavia			Tigbauan		
	1977	1978	1979	1977	1978	1979	1977	1978	1979
General Fund									
Current year collection	121,049	119,229	112,668	56,996	59,829	102,339	23,971	21,492	21,261
Previous year collection	18,477	21,561	31,393	13,296	14,354	21,364	9,189	3,705	9,064
Penalties	2,959	4,017	7,344	3,529	1,608	7,887	1,658	1,007	1,911
Total from RPT	142,485	144,807	151,405	73,821	75,791	131,590	34,818	26,204	32,236
RPT as percent of total General									
Fund income	12.7	12.0	14.6	14.7	13.5	18.7	10.4	6.4	7.3
Assessed valuation (in 1,000 pesos)*	64,773	65,019	65,318	10,608	10,665	20,042	3,915	3,915	4,009
Collection efficiency (in percent)	NA	NA	49.1	NA	NA	99.6	NA	NA	97.1
	Passi		Growth Rates (in percent)				Tigbauan		
	1977-78	1978-79	1977-78	1978-79	1977-78	1978-79	1977-78	1978-79	
Total from RPT	1.6	4.6	2.7	73.6	-24.7	23.0			
Total General Fund income	7.3	-14.0	11.4	25.7	20.9	8.8			
Assessed valuation	0.4	0.5	0.5	87.9	0.0	2.4			

NA: Not available.

\*Based on taxable assessed valuation as of December 31 of the previous year.

Source: Compiled from data supplied by provincial treasurers.

between 1973 and 1975. However, since 1975, taxes in Albay have grown more rapidly than in Iloilo.

It is difficult to explain this erratic tax revenue growth behavior when these data are compared with the tax base data (Table 2.1). Some of the differences may be due to the stock nature of the tax base information (measured as of January 1 of each year) and the revenue flow data (since in earlier years the fiscal years did not begin on January 1). More importantly, much of the annual variability can be traced to year-to-year fluctuations in collection efficiency. Because collections are made at the municipal level, case studies of individual jurisdictions shed some light on the factors affecting property tax growth and on variations in the pattern among jurisdictions.

For the four selected Albay municipalities (Table 2.8) several generalizations concerning property tax performance are possible. For Camalig, Libon, and Malinao the property tax as a proportion of total General Fund income increased between 1977 and 1979. Moreover, each jurisdiction experienced increases in property tax collection rates. Tabaco, which relies heavily on business taxes as a revenue source (24.2 percent of total 1979 revenues), experienced very little growth in property tax revenues from 1977 to 1979, and this revenue source thus declined in relative importance. Assessed values increased substantially only in Camalig between 1978 and 1979, in the wake of completion of tax mapping in that municipality. In the other jurisdictions assessed values tended to remain quite constant during this period.

In Iloilo, property taxes play a generally more important role in the overall revenue structure of the municipalities than in Albay, reflecting some combination of differences in their economies and in the way they administer the tax (Table 2.9). There was considerable stability in the base of the property tax, with the exception of large increases in assessed values in Pavia between 1978 and 1979 and in Dumangas between 1977 and 1978. Interestingly, the Pavia collection rate did not suffer in the face of the substantial growth in assessed values, suggesting that much of the increase may have been due to a small number of new properties added to the roll. Indeed, when the largest taxpayers in Pavia are reviewed, one finds that San Miguel Brewery paid ₱128,100 in municipal property taxes in 1979, the first year of operation for the brewery there.<sup>39</sup>

The different performance of the property tax in the two chartered cities compared in Table 2.10 presents an interesting contrast. Iloilo City seems to be deemphasizing the property tax as it moves toward increased reliance on business taxation. Its collection

TABLE 2.10

## Property Tax Collections, Iloilo City and Legaspi City, 1977-78 (in pesos)

	Iloilo City			Legaspi City		
	1977	1978	1979	1977	1978	1979
General Fund						
Current year collection	3,066,983	3,157,772	2,935,949	561,962	752,457	724,216
Previous year collection	792,358	750,949	794,744	152,883	185,110	191,297
Penalties	145,895	152,976	157,717	30,383	36,772	40,380
Total from RPT	4,005,238	4,061,697	3,887,810	745,228	974,339	955,893
RPT as percent of total						
General Fund income	24.2	21.4	18.7	15.2	17.5	16.5
Assessed valuation * (in 1,000 pesos)	390,432	404,042	410,903	81,232	83,566	102,205
Collection efficiency (in percent)	NA	NA	47.7	NA	NA	73.4
	Growth Rates (in percent)					
	1977-78	1978-79	1977-78	1977-78	1978-79	1978-79
Total from RPT	1.4	-4.3	30.7	-1.9		
Total General Fund income	14.4	9.6	13.8	4.0		
Assessed valuation	3.5	1.7	2.9	22.3		

NA: Not available.

\*Based on taxable assessed valuation as of December 31 of the previous year.

Source: Compiled from data supplied by provincial treasurers.



TABLE 2.11

## Elasticity of Property Tax Revenues and Property Tax Base

Year	Base Elasticity	Rate Elasticity	Total Revenue Elasticity
1975	.38	2.36	.90
1976	.46	.92	.42
1977	.66	4.76	3.14
1978	1.48	.72	1.07
1979	1.01	.76	.77

*Note:* The rate elasticity is the ratio of the annual percentage change in property tax revenues to the annual percentage change in the assessed value of property. The base elasticity is the ratio of the annual percentage change in the assessed value of property to the annual percentage change in personal income. Total revenue elasticity is the product of the rate and base elasticities.

*Sources:* Assessed value of property: Reports of Assessors to the Ministry of Finance; personal income: National Economic and Development Authority, NAS Estimates, 1971-79; revenue from the property tax: Ministry of Finance.

rate is relatively low and there have been only minimal increases in assessed valuation. In contrast, Legaspi City has maintained a lower, but approximately constant, property tax share with a much higher collection rate and a general valuation increase in 1978-79.

Another way to consider the revenue yield of a tax is to examine its income elasticity, that is, the percentage response in revenues relative to a percentage increase in personal income in the community. Income elasticities are especially relevant to a discussion of a revenue source since, as incomes increase within a locality, there are likely to be increased demands for public services. It is therefore desirable that yields from a tax source at least keep pace with these service demands—that the income elasticity of the tax be at least equal to the expenditure elasticity of demand. Because we do not know the latter, we might assume that expenditure requirements will grow roughly in proportion to income—hence, an income elasticity of unity would be a reasonable goal for the local tax system.

Table 2.11 reports on property tax base, rate, and total elasticities.<sup>40</sup> The base elasticity, which measures the ratio of the percentage growth of assessed value of property to the percentage growth in personal income, averaged about 0.8 over the 1974-79 period. In

other words, the assessed value of property grew only 80 percent as rapidly as personal income. The rate elasticity, which measures the ratio of the percentage growth in property tax revenues to the percentage growth in assessed value, averaged 1.9 over the 1974-79 period. That is, property tax revenues grew almost twice as rapidly as assessed value. If both nominal property tax rates and collection efficiency were constant over the 1974-79 period, the rate elasticity would have an average of unity. Since nominal tax rates were constant, the rate elasticity estimates can be attributed to increased collection efficiency over the period. The total revenue elasticity, which measures the ratio of the percentage increase in revenues to the percentage growth in personal income, averaged about 1.3 over the 1974-79 period. Alternatively stated, property tax revenues—discretionary factors included—grew 30 percent faster than personal income during this period.

Another way to estimate the income elasticity of the property tax is on a cross-sectional basis. The cross-sectional approach has the advantage of holding constant the legal definition of the tax base and the legal tax rate, as data are taken from a single point in time. Cross-sectional relationships, then, must reflect differences among local governments in collection efficiency and in the relationship between assessed value and personal income.

By regressing the natural logarithm of per capita property tax collections against the natural logarithm of per capita municipal incomes in each of the municipalities within a province, it is possible to estimate the cross-sectional income elasticity. The results of this estimation are mixed with the elasticity of current collections significantly different from zero only in Sorsogon.<sup>41</sup> The Bulacan findings show a considerably higher estimate of income elasticity, but there is obviously still a great deal of underlying variability in the collections of property taxes across municipalities. These findings suggest that rather than a consistent relationship with higher income municipalities collecting systematically greater levels of property taxes, other factors play crucial roles in the payment process. It is likely that administrative features are more important in determining relative yields than is simple concern for differences in abilities to pay.

## CONCLUSION

The practice of property taxation in the Philippines is far from primitive. In comparison with other developing countries, the struc-



ture of the tax is sound and the quality of assessors and assessment practice is impressive. On the other hand, the revenue performance of the property tax has suffered from a poor record of enforcement. This trend can be reversed and the property tax made a more effective means of mobilizing domestic resources if the central government takes a few important and perhaps overdue steps (see Chapter 7). To be sure, there are important administrative and management improvements to be made at the local government level, but in the highly centralized Philippine system the really important reforms and implementing actions must be initiated by the central government.

## NOTES

1. Department of Finance, *Manual on Real Property Tax Administration in the Philippines* (Manila, 1975), p. v.

2. A good discussion of the property tax in the Philippines compared to that in other Southeast Asian countries is provided in A. Yoingco and V. Quintos, *Philippine Tax System Under the New Society* (Manila: GIC Enterprises, 1979), pp. 253-61.

3. In studying the operation of the RPT, we have relied heavily upon PD 464, supplementing it with data and observations obtained from interviews and fieldwork.

4. Since there are no unincorporated areas within provinces, the tax rolls of the municipalities and cities include agricultural lands, even though such properties benefit relatively little from municipal services.

5. PD 464, Section 40, as amended by PD 1621, PD 1383, and PD 939. From *The Real Property Tax Code Annotated* (PACTAA), compiled by Conrado G. Sabater and Roberto B. Millena (Manila: Provincial City and Municipal Treasurers and Assessors Association of the Philippines, 1979).

6. For a description of systems in other countries, see Roy Bahl, "The Practice of Urban Property Taxation in Less Developed Countries," in *The Taxation of Urban Property in Less Developed Countries*, ed. Roy Bahl (Madison: University of Wisconsin Press, 1979).

7. See the discussion in Ursula K. Hicks, *Development from Below: Local Government and Finance in Developing Countries of the Commonwealth* (London: Oxford University Press, 1961), pp. 349-59.

8. The strength of these disincentives depends on the rate at which the tax is imposed. The rates in the Philippines, by comparative standards, are not high.

9. For machinery, the fractional system is based only upon usage, with percentages set at agricultural, 60 percent; residential, 70 percent; and commercial and industrial, 80 percent.

10. See Daniel Holland, Michael Wasylenko, and Roy Bahl, "An Evaluation of the Real Property Tax Administration Project," Local Revenue Administration Project (Syracuse, N.Y.: Maxwell School, Syracuse University, 1981), p. 34.



11. *Multi-Year Plan for the Systematic Installation of the RPTA System* (Manila: Ministry of Finance, undated).

12. Eduardo Aguinaldo, "Tax Mapping: Its Significance in Real Property Tax Administration," Master's thesis, National Defense College of the Philippines, 1980.

13. Data supplied by the Ministry of Finance.

14. PD 464, Section 6.

15. The term "duplicate records" is used to refer to instances where the same parcel is listed as belonging to more than one owner.

16. Based on conversations with the provincial assessor of Albay.

17. The Bureau of Lands and the MAR share the responsibility for this mapping. Mapping for land reform purposes involves surveying the tenanted land and determining the boundaries, parcel size, and land use.

18. This is not an unusual practice in developing countries. For a survey see Bahl, "The Practice of Urban Property Taxation in Less Developed Countries."

19. PACTAA, p. 140.

20. One exception occurs in the case of negotiated sales of properties to the government, where the assessor is called upon to determine a fair market value.

21. Data from interviews with the Iloilo provincial assessor.

22. PACTAA, p. 149.

23. *Ibid.*, pp. 145-46.

24. We had neither the time nor resources to study this aspect of property tax administration, even though its implications are extremely important in an overall evaluation.

25. Data supplied by the Ministry of Finance.

26. The problems associated with large increases in assessed values are recognized by the Philippine authorities; LOI 800 (January 30, 1979) provided tax discounts of 5 percent for those experiencing 100 to 200 percent increases in assessed valuation; 10 percent discounts for those with increases in assessments of 200 to 300 percent; 15 percent discounts for those with 300 to 500 percent increases; and 20 percent discounts for those with greater than 500 percent increases in assessed valuation.

27. Assuming a continued provincial government share of 45 percent of collections.

28. In addition, under PD 888, timber and forestlands have a fixed rate of 0.5 percent in both municipalities and provinces (a combined 1 percent rate) and a 1 percent rate in cities.

29. Section 41, PD 464, emphasis added.

30. A complete listing for 1975 is shown in Bahl et al., *Strengthening the Fiscal Performance of Philippine Local Governments*, p. III-38. We were unable to obtain comparable data for a later year.

31. PD 464, Section 42, as amended by PD 1446.

32. For a review, see Roger Smith, "The Effects of Land Taxes on Development Timing and Rates of Change in Land Price," in *The Taxation of Urban Property in Less Developed Countries*, ed. Roy Bahl (Madison: University of Wisconsin Press, 1979), pp. 137-62.

33. William A. Doebele, Orville F. Grimes, Jr., and Johannes F. Linn, "Participation of Beneficiaries in Financing Urban Services: Valorization Charges in Bogota, Colombia," *Land Economics* 55 (February 1979): 73-92. A few instances of special assessments in the Philippines are provided in National Tax Research Center, "The Use of Special Assessment in Metropolitan Manila," *Metro Manila Public Finance Studies* (Manila: NTRC, 1977).

34. From data supplied by the Ministry of Finance. For a complete list of collection efficiency ratios for each province and city in 1979, see Bahl et al., *Strengthening the Performance of Philippine Local Governments*, Table III-7, pp. III-43a-III-43e.

35. The statutes are silent on the use of tax collectors. While this may not be an especially efficient method for collecting taxes in communities where the bulk of the delinquents are small taxpayers, it is a reasonable policy where a few large taxpayers dominate the delinquent list.

36. Yoingco and Quintos, *Philippine Tax System Under the New Society*.

37. Bahl, "The Practice of Urban Property Taxation in Less Developed Countries."

38. Raja J. Chelliah, "Trends in Taxation in Developing Countries," *IMF Staff Papers* 18, no. 2 (July 1971): 254-331; Raja J. Chelliah, Hessel Baas, and Margaret Kelly, "Tax Ratios and Tax Effort in Developing Countries, 1969-71," *IMF Staff Papers* 22, no. 1 (March 1975): 187-205; and Alan Tait et al., "International Comparison of Taxation for Selected Developing Countries," *IMF Staff Papers* 26, no. 1 (March 1979): 123-56. Unfortunately, there are problems using these data to make comparisons across time and countries since the data did not always include local property tax collections.

39. The P128,000 includes the basic tax as well as the SEF and therefore exceeds the amount shown in Table 2.9.

40. The usual procedure in public finance is to estimate the revenue income elasticity from a "cleaned" tax series. That is, one would eliminate all discretionary rate and base changes from the revenue series and then estimate the automatic responsiveness to income growth. In this exercise, we have not cleaned the revenue series; hence, we are estimating a combination of the automatic and discretionary response of tax revenues to income increases.

41. The point elasticity estimates together with their absolute t-statistics were

	Income Elasticity	t-Statistics	R <sup>2</sup>
Albay	0.33	1.43	.16
Bulacan	0.83	1.26	.07
Iloilo	-0.17	0.49	.01
Sorsogon	0.32	2.13	.27

Even smaller elasticities and explanatory power are obtained when overdue tax payments are included in the analysis—a reasonable finding given that such payments are probably driven more by random factors.