

Chapter XI

LOCAL TAXES³⁷¹

Local government units (LGUs) derive their revenues from local and external sources. Local sources include tax revenues from the real property tax and the business tax, and non-tax revenues from fees and charges, receipts from government business operations and proceeds from sale of assets. External sources, on the other hand, include the Internal Revenue Allotment (IRA) and other shares from special laws, grants and aids and borrowings.

I. TAXING POWERS OF LOCAL GOVERNMENTS

A. Taxes on Real Property

a. Basic Real Property Tax

The real property tax (RPT) is an ad valorem tax on real properties such as lands, buildings, and other improvements, and machineries imposed by provinces, cities and municipalities within the Metropolitan Manila Area (MMA), at the following rates:³⁷²

³⁷¹ Book II, Title One of RA 7160, otherwise known as the “Local Government Code of 1991”.

³⁷² Section 233, *supra*.

Provinces	-	Not exceeding 1% of the assessed value of the real property; and
Cities or Municipalities within the MMA	-	Not exceeding 2% of the assessed value of the real property

The RPT is based on the assessed value which is a certain percentage of the market value of the real property. The assessed value is arrived at upon application of the assessment levels to the market value of the property. The assessment levels are fixed by ordinance of the local Sanggunian depending on the actual use of the property, at rates not exceeding the following:³⁷³

(1) Lands

Class	Assessment Levels
▪ Residential	20%
▪ Agricultural	40%
▪ Commercial, Industrial and Mineral	50%
▪ Timberland	20%

(2) Buildings and Other Structures

The rate progresses directly with the fair market value (FMV) as follows:

- *Residential* – 0% for those with FMV of PhP175,000.00 or less to 60% for those with FMV of more than PhP10 million.

³⁷³ Section 218, *supra*.

- **Agricultural** – 25% for those with FMV of PhP300,000.00 or less to 50% for those with FMV of more than PhP2 million.
- **Commercial/Industrial** – 30% for those with FMV of PhP300,000.00 or less to 80% for those with FMV of more than PhP10 million.
- **Timberland** – 45% for those with FMV of PhP300,000.00 or less to 70% for those with FMV of more than PhP2 million.

(3) Machineries

Class	Assessment Levels
■ Agricultural	40%
■ Residential	50%
■ Commercial and Industrial	80%

(4) Special Classes. The assessment levels for all lands, buildings, machineries, and other improvements are as follows:

Actual Use	Assessment Levels
■ Cultural	15%
■ Scientific	15%
■ Hospital	15%
■ Local Water Districts	10%
■ Government-owned or controlled corporations engaged in the supply and distribution of water and/or generation and transmission of electric power	10%

- ❖ **Exemptions:** The following are exempted from payment of the RPT:³⁷⁴
- Real property owned by the Republic of the Philippines or any of its political subdivisions, except when the beneficial use thereof has been granted, for consideration or otherwise, to a taxable person;
 - Charitable institutions, churches, parsonages, or convents appurtenant thereto, mosques, non-profit or religious cemeteries, and all lands, buildings, and improvements actually, directly, and exclusively used for religious, charitable or educational purposes;
 - All machineries and equipment that are actually, directly and exclusively used by local water districts and government-owned or–controlled corporations (GOCCs) engaged in the supply and distribution of water and/or generation and transmission of electric power;
 - All real property owned by duly registered cooperatives as provided for under RA 6938; and
 - Machinery and equipment used for pollution control and environment protection.

Except as provided in the LGC, any exemption from the payment of RPT previously granted to or presently enjoyed by, all persons, whether natural or juridical, including all GOCCs were withdrawn upon the effectivity of the LGC.

³⁷⁴ Section 234, *supra*.

b. Special Levies on Real Property**(1) Special Education Fund Tax³⁷⁵**

In addition to the basic RPT, a province or city, or a municipality within the MMA may levy and collect an annual tax of 1% on the assessed value of real property which shall be in addition to the basic RPT. The proceeds thereof shall exclusively accrue to the Special Education Fund (SEF) to support public education.

(2) Idle Lands Tax³⁷⁶

A province or city, or a municipality within the MMA may levy an annual tax on idle lands at a rate not exceeding 5% of the assessed value of the property which shall be in addition to the basic RPT.

■ Coverage³⁷⁷

- (a) Agricultural lands, more than one (1) hectare in area, suitable for cultivation, dairying, inland fishery, and other agricultural uses, one-half (1/2) of which remain uncultivated or unimproved. Not considered as idle lands are (i) agricultural lands planted to permanent or perennial crops with at least fifty (50) trees to a hectare, and (ii) lands actually used for grazing purposes.
- (b) Lands, other than agricultural, located in a city or municipality more than one thousand (1,000) square

³⁷⁵ Section 235, *supra*.

³⁷⁶ Section 236, *supra*.

³⁷⁷ Section 237, *supra*.

meters in area, one-half of which remain unutilized or unimproved.

Regardless of land area, the tax shall likewise apply to residential lots in subdivisions duly approved by proper authorities, the ownership of which has been transferred to individual owners, who shall be liable for the additional tax.

- *Exemption*³⁷⁸

The LGU may exempt idle lands from the additional levy by reason of *force majeure*, civil disturbance, natural calamity or any cause or circumstance which physically or legally prevents the owner of the property or person having legal interest therein from improving, utilizing or cultivating the same.

(3) Special Levy³⁷⁹

A province, city or municipality may impose a special levy on the lands within its territorial jurisdiction specially benefitted by public works projects or improvements funded by the LGU concerned. The special levy shall not exceed 60% of the actual cost of such projects and improvements, including the costs of acquiring land and such other real property in connection therewith.

The special levy shall not apply to lands exempt from basic RPT and the remainder of the land portions of which have been donated to the LGU concerned for the construction of such projects or improvements.

³⁷⁸ Section 238, *supra*.

³⁷⁹ Section 240, *supra*.

(4) Other Impositions on Real Property

*a. Socialized Housing Tax*³⁸⁰

In addition to the RPT and SEF tax, a socialized housing tax may also be imposed by a province, city or municipality within the MMA. The tax is 1/2 of 1% of the assessed value of all lands in urban areas in excess of PhP50,000.00.

*b. Tax on Transfer of Real Property Ownership*³⁸¹

A province, city or municipality within the MMA may impose a tax on the sale, donation, barter, or any other mode of transferring ownership or title of real property at the rate of not more than 50% of 1% in the case of a province and 75% of 1% in the case of a city or a municipality in MMA of the total consideration involved in the acquisition of the property or of the FMV in case the monetary consideration involved in the transfer is not substantial, whichever is higher.

The sale, transfer or other disposition of real property pursuant to RA 6657 (Comprehensive Agrarian Reform Law of 1988) shall be exempt from the tax.

(5) Collection of Real Property Tax³⁸²

The real property tax for any year shall accrue on the first day of January. The basic RPT and the additional SEF tax

³⁸⁰ Section 43, RA 7279, otherwise known as the “Urban Development and Housing Act of 1992”, as implemented by Local Circular No. 1-97, dated April 16, 1997.

³⁸¹ Section 135, LGC.

³⁸² Sections 135, 245, 246 and 250, *supra*.

may be paid without interest in four (4) equal installments; the first installment to be due and payable on or before March 31; the second installment, on or before June 30; the third installment, on or before September 30; and the last installment on or before December 31.

The special levy shall accrue on the first day of the quarter next following the effectivity of the ordinance imposing such levy. Its payments shall be governed by the ordinance of the Sanggunian concerned.

The tax on transfer of real property ownership shall be paid within sixty (60) days from the date of the execution of the deed or from the date of the decedent's death.

The date for the payment of any other tax on real property shall be prescribed by the Sanggunian concerned.

B. Other Local Taxes

Local government units are empowered to impose the following taxes:

1. Provincial Taxes³⁸³

- a. Tax on business of printing and publication at a rate not exceeding 50% of 1% of the gross annual receipts for the preceding calendar year. In case of newly started business, the tax shall not exceed 1/20 of 1% of the capital investment.³⁸⁴
- b. Tax on a business enjoying franchise at a rate not exceeding 50% of 1% of the gross annual receipts for the preceding

³⁸³ Section 134, *supra*.

³⁸⁴ Section 136, *supra*.

calendar year. In case of a newly started business, the tax shall not exceed 1/20 of 1% of the capital investment.³⁸⁵

- c. Tax on sand, gravel and other quarry resources at a rate not exceeding 10% of the fair market value in the locality per cubic meter of ordinary stones, sand, gravel, earth, and other quarry resources, as defined under the National Internal Revenue Code (NIRC), as amended, extracted from public lands or from the beds of seas, lakes, rivers, streams, creeks, and other public waters within its territorial jurisdiction.³⁸⁶
- d. Professional tax on each person engaged in the exercise or practice of his/her profession requiring government examination at a rate not exceeding PhP300.00.³⁸⁷
- e. Amusement tax payable by proprietors, lessees, or operators of theaters, cinemas, concert halls, circuses, boxing stadia, and other places of amusement at a rate of not more than 10% of the gross receipts from admission fees.³⁸⁸
- f. Annual fixed tax not exceeding PhP500.00 for every delivery truck or van used by manufacturers, producers, wholesalers, dealers or retailers in the delivery or distribution of distilled spirits, fermented liquors, soft drinks, cigars and cigarettes, to sales outlets, or consumers, whether directly or indirectly, within the province.³⁸⁹

³⁸⁵ Section 137, *supra*.

³⁸⁶ Section 138, *supra*.

³⁸⁷ Section 139, *supra*.

³⁸⁸ Section 140, amended by RA 9640, approved on May 21, 2009.

³⁸⁹ Section 141, *supra*.

2. *Municipal Taxes*³⁹⁰

a. Business Taxes

There are three (3) kinds of business taxes imposed by municipalities: (a) a combination of a graduated-fixed and percentage business taxes; (b) percentage tax; and (c) annual tax.

The following are subject to a combination of a graduated-fixed and percentage business taxes:

- (1) Manufacturers, assemblers, repackers, processors, brewers, distillers, rectifiers, and compounders of liquors, distilled spirits, and wines or manufacturers of any article of commerce of whatever kind or nature at rates ranging from PhP165.00 for gross receipts of less than PhP10,000.00 to PhP24,375.00 for gross receipts of PhP5 million to PhP6,499,999.00. Those with gross receipts of PhP6,500,000.00 or more are taxed at a rate of not exceeding 37 1/2% of 1% of the gross receipts.³⁹¹
- (2) Wholesalers, distributors, or dealers in any article of commerce of whatever kind or nature at rates ranging from PhP18.00 for gross receipts of less than PhP1,000.00 to PhP10,000.00 for gross receipts of PhP1 million to PhP1,999,999.00. Those with gross receipts of PhP2 million or more are taxed at a rate of not exceeding 50% of 1% of the gross receipts.³⁹²

³⁹⁰ Section 142, *supra*.

³⁹¹ Section 143 (a), *supra*.

³⁹² Section 143 (b), *supra*.

- (3) Exporters, and manufacturers, millers, producers, wholesalers, distributors, dealers or retailers of essential commodities are subject to not more than one-half (1/2) of the rates prescribed for manufacturers wholesalers and retailers of other products.³⁹³
- (4) Contractors and other independent contractors at rates ranging from PhP27.50 for gross receipts of less than PhP5,000.00 to PhP11,500.00 for gross receipts of PhP1 million to PhP1,999,999.00. Those with gross receipts of PhP2 million or more are taxed at a rate of not exceeding 50% of 1% of the gross receipts.³⁹⁴

Percentage taxes are imposed on the following:

- (1) Retailers, at rates of 2% for gross receipts of PhP400,000.00 or less and 1% for gross receipts over PhP400,000.00.³⁹⁵
- (2) Banks and other financial institutions at a rate not exceeding 50% of 1% of the gross receipts of the preceding calendar year derived from interest, commissions and discounts from lending activities, income from financial leasing, dividends, rentals, on property and profit from exchange or sale of property, insurance premium.³⁹⁶
- (3) Any business, not otherwise specified in the preceding paragraph at a rate to be determined by the local

³⁹³ Section 143 (c), *supra*.

³⁹⁴ Section 143 (e), *supra*.

³⁹⁵ Section 143 (d), *supra*. Barangays have exclusive power to levy taxes on gross sales or receipts of P50,000 or less in the case of cities, and P30,000 or less, in the case of municipalities.

³⁹⁶ Section 143 (f), *supra*.

Sanggunian. If the business is subject to the excise, VAT or percentage tax under the NIRC, the rate shall not exceed 2% of the gross sales or receipts of the preceding calendar year.³⁹⁷

Annual tax on peddlers engaged in the sale of any merchandise or article of commerce, at a rate not exceeding PhP50.00 per peddler.³⁹⁸

3. *City Taxes*³⁹⁹

The city government may impose and collect any of the taxes, fees and charges imposed by the province or municipality. The rates of taxes may exceed the maximum rates allowed for the province or municipality by not more than 50% except the rates of professional and amusement taxes which are already fixed.

4. *Barangay Taxes*⁴⁰⁰

The barangay may impose a tax on stores or retailers with fixed business establishments with annual gross sales or receipts of PhP50,000.00 or less in the case of cities; and PhP30,000.00 or less, in the case of municipalities, at a rate not exceeding 1% of gross sales or receipts.

³⁹⁷ Section 143 (h), *supra*.

³⁹⁸ Section 143 (g), *supra*.

³⁹⁹ Section 151, *supra*.

⁴⁰⁰ Section 152, *supra*.

5. *Community Tax*⁴⁰¹

City and municipal government may impose a community tax at the following rates:

a. Individuals

Basic community tax PhP5.00

Additional tax –

For every PhP1,000.00 of income PhP1.00

The tax, however, shall in no case exceed PhP5,000.00.

b. Corporations

Basic community tax..... PhP500.00

Additional tax –

- For every PhP5,000.00 worth of real property PhP2.00

- For every PhP5,000.00 worth of gross receipts/ earnings derived from business..... PhP2.00

The tax, however, shall in no case exceed PhP10,000.00.

⁴⁰¹ Section 156, *supra*.

❖ **Exemptions**⁴⁰²

The following are exempt from the community tax:

- Diplomatic and consular representatives; and
- Transient visitors when their stay in the Philippines does not exceed three (3) months.

C. Other Revenue-Raising Powers of Local Governments

1. Common⁴⁰³

a. Service Fees and Charges

LGUs may impose and collect such reasonable fees and charges.

b. Public Utility Charges

LGUs may fix the rates for the operation of public utilities owned, operated and maintained by them within their jurisdiction.

c. Toll Fees and Charges

LGUs may prescribe the terms and conditions and fix the rates for the imposition of toll fees or charges for the use of any public road, pier or wharf, waterway, bridge, ferry or telecommunication system funded and constructed by the LGU concerned.

⁴⁰² Section 159, *supra*.

⁴⁰³ Sections 153, 154, and 155, *supra*.

2. Municipalities

- a. Fees and charges on business and occupation and, except as reserved to the province in Section 139 of the LGC, on the practice of any profession or calling, commensurate with the cost of regulation, inspection and licensing at rates to be prescribed by the Sangguniang Bayan.⁴⁰⁴
- b. Fees for the sealing and licensing of weights and measures at rates to be prescribed by the Sangguniang Bayan.⁴⁰⁵
- c. Rentals, fees or charges on the use of municipal waters at rates prescribed by the Sangguniang Bayan.⁴⁰⁶

3. Cities⁴⁰⁷

Fees and charges imposed by the province or municipality.

4. Barangays⁴⁰⁸

Fees and charges:

- (a) For services rendered in connection with the regulation or the use of barangay-owned properties or service facilities.

⁴⁰⁴ Section 147, supra.

⁴⁰⁵ Section 148, supra.

⁴⁰⁶ Section 149, supra.

⁴⁰⁷ Section 151, supra.

⁴⁰⁸ Section 152 (b), (c) and (d), supra.

- (b) For the issuance of a barangay clearance for any business or activity located or conducted within the territorial jurisdiction of the barangay before the city or municipality may issue a license or permit to said business or activity.
- (c) On commercial breeding of fighting cocks, cockfights and cockpits.
- (d) On places of recreation which charge admission fees.
- (e) On billboards, signboards, neon signs, and outdoor advertisement.

D. Collection of Taxes, Fees and Charges⁴⁰⁹

All local taxes, fees and charges shall accrue on the first day of January of each year. However, new taxes, fees or charges, or changes in the rates thereof, shall accrue on the first (1st) day of the quarter next following the effectivity of the ordinance imposing such new levies or rates.

All local taxes, fees and charges shall be paid within the first twenty (20) days of January or of each subsequent quarter, as the case may be. The payments may be made in quarterly installments.



⁴⁰⁹ Sections 165, 166 and 167, *supra*.