

CLARIFICATION ON THE VALUATION OF IMPROVEMENTS FOR INTERNAL REVENUE TAX PURPOSES

BIR REVENUE AUDIT MEMORANDUM ORDER NO. 1-2001, February 15, 2001

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I. Objectives

1. To clarify the procedures in the determination of the valuation of improvements for purposes of computing the internal revenue tax on the sale, transfer or exchange of real property; and
2. To prescribe a uniform guideline in the valuation of improvements for tax purposes.

II. Rationale

In view of the conflicting interpretations concerning the correct valuation of improvements for internal revenue tax purposes as provided under Revenue Audit Memorandum Order No. 1-2000 against BIR Ruling No. UN-089-95 dated March 5, 1995 and DA 179-97 dated April 16, 1997 which state that the basis of the internal revenue taxes on the sale, transfer or other disposition of real properties shall be the fair market value which appears in the 1994, or later year's Tax Declaration covering the property involved, and for the purpose of uniformity in the application of the said rulings vis-a-vis the provision of the existing Handbook on Audit Procedures and Techniques, this clarificatory Order is hereby issued.

III. Amendment

Section 6.1.1. of the Handbook is hereby amended to read as follows:

"6.1.1 Determine the value of improvements by using the formula shown below:

(a) Total Selling Price/Consideration per deed of sale,

(land and improvement) xxx

Less: Zonal value of land xxx

Value of improvement xxx

THE VALUE OF THE IMPROVEMENT ARRIVED AT UNDER THIS COMPUTATION SHALL NOT BE LOWER THAN THE FAIR MARKET VALUE (FMV) APPEARING IN THE LATEST TAX DECLARATION, COVERING THE SAID IMPROVEMENT, AT THE TIME OF THE AFORESAID TRANSACTION/TRANSFER.

(b) THE FMV PER LATEST TAX DECLARATION AT THE TIME OF THE SALE OR DISPOSITION, DULY CERTIFIED BY THE CITY/MUNICIPAL ASSESSOR, SHALL BE USED. NO ADJUSTMENTS SHALL BE ADDED ON THE SAID VALUE, PROVIDED THAT, THE TAX DECLARATION BEARS THE UPGRADED FAIR MARKET VALUE OF THE SAID PROPERTY PURSUANT TO SECTION 219 OF R.A. NO. 7160, OTHERWISE KNOWN AS THE "LOCAL GOVERNMENT CODE OF 1991" AND THE LAST PARAGRAPH OF THE LOCAL ASSESSMENT REGULATIONS NO. 1-92 DATED OCTOBER 6,

1992.

IN CASE THE TAX DECLARATION BEING PRESENTED WAS ISSUED THREE (3) OR MORE YEARS PRIOR TO THE DATE OF SALE OR DISPOSITION OF THE REAL PROPERTY, THE SELLER/TRANSFEROR SHALL BE REQUIRED TO SUBMIT A CERTIFICATION FROM THE CITY/MUNICIPAL ASSESSOR WHETHER OR NOT THE SAME IS STILL THE LATEST TAX DECLARATION COVERING THE SAID REAL PROPERTY. OTHERWISE, THE TAXPAYER SHALL SECURE ITS LATEST TAX DECLARATION AND SHALL SUBMIT A COPY THEREOF, DULY CERTIFIED BY THE SAID ASSESSOR.

IV. Repealing Clause

This Order supersedes all revenue issuances or portions thereof inconsistent herewith.

V. Effectivity

This Order takes effect immediately upon approval.

Adopted: 15 Feb. 2001

(SGD.) RENE G. BAÑEZ
Commissioner of Internal Revenue

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