

Fiscal Implication of Agrarian Reform Program to the Real Property Tax Collection in Negros Occidental

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ABSTRACT. Property taxation is a component of land governance policies, processes, and institutions that relies on a land administration system, efficient property market, and secure legal rights. This study assessed the fiscal implication of the Comprehensive Agrarian Reform Program (CARP) in the real property tax (RPT) collection when municipalities are grouped by income classification, size of the area, and land classification. This descriptive-comparative and correlational research used secondary data and a checklist administered to 19 treasurers of a first-class province. Using descriptive and inferential analyses, the study yielded “very great” negative fiscal implications. No significant differences were found when municipalities were grouped as to income and size but a significant difference when areas were identified by classification. There is a significant relationship between the fiscal implication and the size of the area covered. The respondents encountered challenges. The study recommends revenue generation strategies, legislative support, and livelihood for agrarian beneficiaries.

1.0. Introduction

Property taxes are imposed in every country in the world as part of a balanced system of taxation (International Association of Assessing Officers, 2010). Differences in socio-political aspirations, perceptions and traditions, infrastructures, resources, history, needs, and culture all affect the type of property tax that will or will not work for the stakeholders (UN-HABITAT, 2011).

In the ASEAN region, countries lagged behind the global average in terms of tax revenues collected as a proportion of gross domestic product, which means that the ASEAN government must explore ways to leverage fiscal policy for sustainable growth. In the context of the Philippines, real property taxation is vested with the provincial, city, and municipal governments within the Metropolitan Manila Area (MMA). Outside the MMA, provinces collect the tax but delegate this function to local treasurers (Guevarra, 2004). The Local Government Code of 1991 enumerated the subjects of real property taxation as lands, buildings, machinery, and improvements; hence, agrarian reform beneficiaries as owners of lands, are liable to pay real property taxes on lands awarded to them through the CARP.

Studies were conducted on the taxation of agricultural lands. Agricultural taxation, tax structure, the taxable base, and tax rates for farmers were studied by Soliwoda and Tyszko (2015). Cvjetkovic, Veselinovic, and Nikolic (2015) discovered the privileged treatment of farmers on taxation, while McDonnell, Foukona, and Pollard (2011) explored the success of the government in land reform. Several authors such as Rajaraman (2005) and Cvjetkovic et al. (2015) agreed that agriculture is the sector that is very difficult to tax. In the Philippines, Villaroman (2017) studied the factors affecting collections of real property taxes. Cruz and Cruz (2018) assessed the revenue-raising capacity of LGUs. The only study found conducted in Negros Occidental focused on the CARP covered properties was that of Lorayna and Caelian (2020) but on the participation of civil society organizations on the implementation of CARP.

Of the studies reviewed, no study focused on the fiscal implications of the policies and mechanisms of CARP to the RPT collections of municipalities; thus, this study will determine the fiscal implications and the differences when municipalities are grouped by income, size of areas covered, and land classification to fill the gap in the literature and to contribute to the body of knowledge on property taxation. The findings of this study will be used as a basis in the formulation of strategies to address the fiscal implications of the agrarian reform program.

2.0. Framework of the Study

This paper theorizes that agrarian reform policies have negative fiscal implications for the collection of real property taxes of LGUs. The study is anchored on the theory of optimal taxation of

Ramsey (1927) and Mirrless (1971) that espoused distributive and distortionary effects of particular policies. This theory posits that it is subject to a set of constraints for a tax system to maximize a social welfare function. This theory is appropriate in this study as it will determine the impact of the policies and mechanisms in the agrarian reform program, whose objective is a social welfare function but is subject to the rules and regulations of local government taxation. The study will examine the distributive and distortionary effects of the CARP on collecting real property taxes, which is the lifeblood of local governments.

Further, the study is also anchored on the theory of distributive justice on taxation by Aristotle. According to this theory, taxes on private property are significant to the government as they fund social services. However, too much taxes imposed where the goals of efficiency and accountability take precedence over the values of the welfare state will create discontent, and people will refuse payment resulting in higher tax delinquencies. Therefore, to strike the right balance between efficiency and equality, the marginal tax rate must be tailored to taxpayers' ability to pay. This will be explored in this study in collecting real property taxes on properties covered by the CARP. The CARP distribution of lands to landless farmers aligned with the advocacy of Aristotle for equality where the inferior are not living under insufficiency. This theory seeks equitability that will be determined with bigger areas covered by CARP, translating to higher collectibles of real property taxes. The study will unravel how local governments enforced legislation of real property taxation to achieve equality through the strategies employed by local treasurers to collect taxes on agrarian covered properties. The framework will determine whether there is a relationship between the extent of fiscal implications of CARP policies with the size of the landholdings covered by the agrarian program, whether fiscal implications will depend on the size of the landholdings covered.

Finally, the study will attempt to integrate the benefits and the horizontal equity principles to the optimal theory that a person's tax liability should be related to the benefits that he receives from the government and that same groups of people should pay similar tax burdens. The findings of the study will be used as baseline information in the formulation of revenue generation strategies to address fiscal implications.

3.0. Methods

The study used a descriptive-comparative and correlational research design. A descriptive research design is utilized to describe the extent of fiscal implications of the agrarian reform program on collections of real property taxes. This is appropriate, considering the directions of the study, which aimed to describe a situation or a given state of affairs in terms of specified variables (Johnson & Kuby, 2012). The study also utilizes the comparative design to examine the differences of the fiscal implications when the municipalities are grouped by income, the size of the area covered, and land classification. It will use a correlational design to determine if a relationship exists between the fiscal implications with the size of the area covered by CARP. The respondents of the study are the total enumeration of the 19 municipalities represented by their municipal treasurers.

Secondary data will be used to determine the fiscal implications. In contrast, a checklist shall be used to determine the challenges and strategies employed by treasurers in collecting taxes. Fiscal implications will be measured using the collection efficiency formula adopted from the Department of Finance (DOF). A scale of interpretation provides a collection efficiency of below 85% as a "very great extent," which means that the fiscal implications of CARP policies are significantly substantial to RPT collections. The lowest rating in the scale is a collection efficiency of 100% and up interpreted as a very low extent of fiscal implications.

To answer the problem, which seeks to determine the extent of fiscal implications of CARP in the collections of real property taxes, the mean was used. Normality test using Kolmogorov-Smirnov showed that the variables fiscal implications and the size of the area covered are not normally distributed. Hence, nonparametric statistical tools were used for comparative and correlational analyses. Kruskal-Wallis was used to determine the significant differences in the extent of fiscal implications when municipalities were grouped by variables. Spearman rank correlation was used to determine the significant relationship between the fiscal implications of CARP with the size of the area covered. On the challenges encountered and strategies employed by treasurers, frequency, and percentage were used.

4.0. Results and Discussion

Extent of fiscal implications of CARP policies to RPT collections

Fiscal implications refer to the negative or positive influence of the agrarian reform policies on collecting real property taxes in the municipalities.

Table 1 presents the fiscal implications of the agrarian reform policies to the RPT collection of the municipalities as a whole as “very great” ($M=4.68$; $SD=6.23$), which means that the agrarian reform program has a significant negative substantial effect on the collections of real property taxes of the municipalities. This is revealed by the collection efficiency of below 85% of total tax collectibles. The highest collection efficiency for the period 2014-2018 was 12.90%, interpreted as a “very great” negative extent of fiscal implication. This means that 87.10% of taxes are not collected. It was further revealed that the total real property taxes that were not collected on covered agrarian properties was One Billion Eight Hundred Forty-Three Million Ninety-Six Thousand Two Hundred and Seventeen & 08/100 (Php1,843,096,217.08). This finding is supportive of the study of Cruz and Cruz (2018) that the collection efficiency of an LGU in the country is almost 20% of the total collectibles and that 80% of taxes are not collected.

Findings affirmed the study of Guevarra (2004) that the land reform program has made the collection of the tax more difficult in the Philippines. Likewise, the study of Ballesteros (2010) concluded that land reform had become a major burden on LGUs. Also, many problems were alleged to have been caused by unclear and inconsistent land policy, highly politicized land tax system, and inefficient agrarian reform program (Llanto & Ballesteros, 2003). Spoor (2012) substantiated these findings of very great negative fiscal implications on RPT collection, revealing that the growing inequality and widespread rural poverty were outcomes of agrarian transformation.

The lowest collection efficiency for 2014-2018 was 0.71% or less than 1% of real property taxes collectible from agrarian covered properties, which is a very significant negative fiscal implication. This finding strengthened the studies of Balisacan (2007), Sauer (2009), Borrás et al. (2009), Spoor (2012), and De los Reyes (2016) that one of the greatest problems in LGUs is the collection of taxes on CARP. The issuance of collective certificates of land ownership awards (CLOA) is one of the major causes of no payment of real property taxes; hence, this mechanism has substantial negative fiscal implication on revenue of LGUs. Also, challenges faced by the program as articulated in the study of Drbohlav et al. (2017), such as opposition from landlords, criticism by civil society, cynicism by legislators, lack of financial and material resources, and general public apathy are contributing to difficulties in the program translating to non-payment of real property taxes by agrarian beneficiaries.

Income classification. When municipalities are grouped as to income classification, which refers to the assigned classification of LGUs used as a factor in the allocation of national and other financial grants such as Internal Revenue Allotment, the extent of negative fiscal implication is “very great” ($M=4.12$; $SD=2.92$) on first-class municipalities, ($M=4.12$; $SD=2.98$) on second class; ($M=3.26$; $SD=2.16$) on 3rd class; 4th class municipalities ($M=2.49$; $SD=1.09$) all interpreted “very great”. Generally, findings revealed that higher classed municipalities exhibited a bit higher collection efficiency. However, it is still very low. Higher-classed municipalities provide higher budget appropriations for tax campaigns, more personnel, and updated property records consistent with the study of Slack and Bird (2015) that property taxation relies on adequate budget, secure and registered legal rights to land, and reliable property records. Plimmer and McCluskey (2016) found that an efficient and effective property tax administration comprises data on the real properties and individual taxpayers to be taxed and the use of technological resources. These findings of both groups of authors, Slack and Bird (2015) and Plimmer and McCluskey (2016), explained the very low collection efficiency of municipalities, which is contributory to a “very great” negative extent of fiscal implication to the collection of real property taxes. An examination of the records on collections in the Office of the Provincial Treasurer do not reconcile with the records of the Register of Deeds on transfers of ownership. The DAR revealed cancellations of CARP-issued titles, which corroborate the study of De los Reyes (2016), who discovered that 80.68% of issued titles were cancelled and reverted to the landowners, and 10.83% were cancelled in favor of another agrarian beneficiary. Hence, records of ownership are unreliable, a major difficulty for the collection of the property tax. De los Reyes (2016) found no clear guidelines on identifying beneficiaries of the CARP, similar to the findings of this study.

The mechanism adopted by the DAR in the implementation of the retention limit where landowners choose the areas they shall keep resulted in the abandonment of the lands or leasing lands to other persons resulting in the dispossession of land, no payment of amortization of the lands to Land Bank of the Philippines (LBP) and no payment of real property taxes which contributed to a very great negative fiscal implication on collections of real property taxes by LGUs as found in this study. Another mechanism adopted by the DAR is voluntary land transfers (VLT) that contributed to higher collection delinquency. Borras (2005) found that VLT used paper beneficiaries who are either family members, "dummies," tenants and farm workers, or people completely unaware of the transaction. This finding is affirmed when notice of assessment from the Assessor's Office remains unclaimed when sent to the office of the barangay council for distribution because they do not know the persons named on the notices and are not residents of the barangays. Hence, these properties remain delinquent for a number of years, and these cannot be sold at public auction because the requisite of receipt of the notice of sale cannot be undertaken. Further, the non-payment of taxes results from the perceptions of unfairness or inequity, like failure to link the tax paid to services received from the government (Plimmer & McCluskey, 2016).

Higher-classed municipalities can better provide good roads, communication facilities, and facilities and utilities to their constituents. This justifies why first-class municipalities revealed a little higher collection efficiency than lower classed municipalities articulating the benefit principle of taxation.

Size of covered areas. In terms of size of areas covered by CARP, which is the total number of hectares of lands issued with the notice of coverage by DAR classified as a bigger area which is more than 5,000 hectares while the smaller area is less than 5,000, as shown in Table 2, the results showed that for bigger and smaller areas, the implications are "very great" which means that the fiscal implications of CARP policies are significantly substantial to the RPT collections. Findings revealed that the highest percentage of agricultural land covered by the agrarian program was 87.96% in 2018; however, the collection efficiency was surprisingly only 2.92%. This is strongly supported by the studies of Borras (2005), Borras (2007), and Ballesteros et al. (2017) on the mechanism adopted by CARP on VLT and VOS, which usually faked distribution via paper sales and use of beneficiaries who are either family members, heirs that are non-tillers, or persons having no interest on farming. The average percentage of agricultural lands covered by the CARP in the province is 39.52% until the fiscal year 2018. It was uncovered that areas covered by CARP for the years 2014-2018 have not been increasing; instead, some have shown a decrease. The study acknowledged Ballesteros et al. (2017) that the regions with the highest percentage balance as to scope are Region V, the Negros Island Region (NIR), where the province is a part, and Autonomous Region of Muslim Mindanao (ARMM). Likewise, de los Reyes (2016) revealed that as of December 2016, which was the end of the completion of the land distribution component of the CARP, an area of 603,2060 hectares remained undistributed, where 1/3 of this balance as to scope comprising of farms above 50 hectares are located in Region VI and ARMM.

Land classification. When areas were grouped by classification as sugarland, riceland, and others, the extent of the fiscal implication of agrarian reform policies to the collection of real property taxes resulted to a "very great negative extent." The collection efficiency on all land classification covered by the agrarian reform program in all the municipalities of the province turned out below the standards of the BLGF, DOF. The findings imply that whatever is the land classification, the collection efficiency is very low, registering a very great negative fiscal implication of the agrarian policies to the RPT collection of municipalities. The findings find support in the studies of Borras (2005), de los Reyes (2016), Ballesteros et al. (2017), and Lanzona (2019) that there is still inequality in land ownership because the land is redistributed to former landowner elites because of the arrangement allowed by the DAR, one of the reasons why only 39.52% of agricultural lands in Negros Occidental was covered by the program in more than 20 years. Land distribution was slow for private agricultural lands, other than rice and corn lands under compulsory acquisition (Isaac, Carranza, & Acheron, 2017). Lands planted to sugarcane, coconut, and other tree crops are the most problematic (Balisacan, 2007). Agri-business venture arrangements are cooperatives, leaseback, growership, production-profit-sharing (PPS), and block farming believed to violate agrarian reform ideals (Tadem, 2015). These arrangements are beyond the reach of real property taxation. Cooperatives are exempt from

taxation. In other arrangements, property owners cannot be identified, beneficiaries do not possess their lands, and those who are managing the lands cannot be taxed because real property taxes are levied to property owners only.

Table 1. Extent of fiscal implication of agrarian reform policies to the RPT collection of the municipalities

Variable	M	SD	Interpretation
Income classification			
1st Class	4.12	2.92	Very Great
2nd Class	4.12	2.08	Very Great
3rd Class	3.26	2.14	Very Great
4th Class	2.49	1.09	Very Great
Size covered			
Smaller (below 5,000 hectares)	3.21	1.77	Very Great
Bigger (5,000 hectares and more)	3.94	2.77	Very Great
Land classification			
Sugarland	5.16	5.94	Very Great
Riceland	5.40	9.10	Very Great
Others	3.72	3.94	Very Great
<i>As a Whole</i>	4.68	6.23	<i>Very Great</i>

Difference in the extent of fiscal implications of the agrarian reform policies to RPT collections of the municipalities

Tables 2A and 2B present the difference in the extent of fiscal implications of the agrarian reform policies to RPT collections of municipalities.

Kruskal Wallis was used to determining the difference in the extent of fiscal implications of the CARP to RPT collections when municipalities were grouped according to income classification, size of the area covered, and land classification. There was no significant difference in the extent of the fiscal implication of the CARP when municipalities were grouped according to income classification [$\chi^2(3) = 6.970, p=0.073$]. This finding means that the collection efficiency from agrarian covered properties below 85% is a very great negative fiscal implication on collections of taxes regardless of the income of the municipality. This is explained by the fact that the province is predominantly agricultural. The majority of the people are engaged in farming because there are too few alternatives outside of agriculture.

As to the size of the area covered by the CARP, no significant difference was found in the extent of the fiscal implication of the agrarian policies to the RPT collections of the municipalities. Findings revealed that whether the area covered is big or small, the fiscal implications are negatively very great. As emphasized in the study of Fjeldstad et al. (2017), property tax is a tax on wealth borne by middle and high-income earners. Agrarian beneficiaries are among the marginalized sectors of society, but the awarding and distribution of lands enable them to acquire wealth; hence, they are expected to contribute by paying taxes to the government. However, the contrary prevailed because their attitudes have not changed (Fjeldstad et al., 2017). Since the property tax is highly visible to taxpayers, and in principle, is linked to improved local services (Fjeldstad et al., 2017). Still, since lands covered by the agrarian program are located in rural areas, the government's services are far less convenient than in the urban areas negating the benefit principle of taxation.

However, when municipalities are grouped by land classification, a significant difference was found [$\chi^2(2) = 9.761, p=0.008$] with land classifications identified "others" providing lower negative fiscal implications than sugar land and rice land. This is because "other land classifications" are

devoted to planting fruit trees, corn, and other crops, in possession of the registered owners and small areas only. These property owners realized income from the land classification "others"; hence, they can pay property taxes because they are in small amounts considering lower market valuation, which explains the significant difference.

Table 2A. Difference in the extent of fiscal implication of agrarian reform policies to the RPT collection of the municipalities

Income classification	M	χ^2	df	p
1st Class	4.12 (2.92)	6.970	3	0.073
2nd Class	4.12 (2.08)			
3rd Class	3.26 (2.14)			
4th Class	2.49 (1.09)			
Land classification				
Sugarland	5.16 (5.94)	9.761*	2	0.008
Riceland	5.40 (9.10)			
Others	3.72 (3.94)			

Note: The difference is significant when $p \leq 0.05$

Table 2B. Difference in the extent of fiscal implication of agrarian reform policies to the RPT collection of the municipalities

Size covered	M	U	p
Smaller	3.21 (1.77)	1014.500	0.410
Bigger	3.94 (2.77)		

Note: The difference is significant when $p \leq 0.05$

Relationship between the extent of fiscal implication of the agrarian policies to RPT collections of municipalities and the size of the area covered by CARP

Table 3 presents the relationship between fiscal implications of the agrarian reform policies to the RPT collections and the size of the area covered by CARP.

Spearman rank correlation was used to determine the relationship between the extent of the fiscal implication of the agrarian reform policies to RPT collections of municipalities and the size of the area covered. There is a significant relationship between the fiscal implications and the size of the area covered by the CARP [$\rho(93) = 0.239, p = 0.020$].

The significant inverse relationship implies that, as the area covered by CARP increases, collection efficiency decreases, which means that the fiscal implications become greater. The interpretation of this relationship is that the longer the CARP is implemented, the agrarian reform beneficiaries become adaptive to the mechanisms employed. They have adjusted to the policies of the CARP (Elvinia, 2011). The local government is too lenient to implement tax regulations (Cruz & Cruz, 2018). Sometimes, they resorted to condonation of interests and penalties instead of sale at public auction because requirements cannot be complied with by local treasurers associated with policies of the CARP. This is a regressive effect of fiscal policies also found in studies of Hesmati, Kim, and Park (2014), Joumard, Pisu, and Bloch (2012), the International Monetary Fund (2013), and OECD (2012).

Table 3. Relationship between fiscal implications of agrarian policies to the RPT collection of municipalities and size of area covered by CARP

Variable	ρ	df	p
Fiscal implication x size of area covered	0.239*	93	0.020

Note: *The correlation is significant when $p \leq 0.05$.

Challenges encountered by local treasurers

Challenges encountered by treasurers are presented in Table 4. There are challenges identified by 100% of respondents affirming agrarian studies: insufficient appropriations (Plimmer & McCluskey, 2016; Drbohlav et al., 2017), lack of personnel and property owners cannot be located (de la Cruz, 2015; Elvinia, 2011; Guevarra, 2004; Ballesteros et al., 2017) including insufficient facilities for use in the tax collection program, and lack of transportation to reach far and mountainous barangays. There are three challenges identified by category: poverty, weak enforcement of administrative remedies, and social acceptability, implying the deficiency of governance at all levels.

Challenges encountered directly resulting from policies and mechanisms adopted by the agrarian program: issuance of CLOAs, lack of sufficient information on property owners, legal cases over the property, properties subject of a lease, agrarian properties excluded from auction, poverty, inequitable valuation, names of beneficiaries are not authentic, conflict of ownership and lack of social acceptability of taxation of CARP covered properties. These challenges are an affirmation of the studies of Llanto and Ballesteros (2003), Ballesteros et al. (2017), Borrás (2005), de los Reyes (2016), Elvinia (2011), LAMP-PMO (2003), de la Cruz (2015), Ballesteros (2010), Palic (2014), Tadem (2015), Limbo (2017), Lanzona (2019), and Goño (2019).

There are outcomes of agrarian policies resulting from the non-land transfer scheme revealed in the study of Elvinia (2011) and Ballesteros et al. (2017) that DAR does not maintain a database and does not provide LGUs of properties covered by stock distribution options on sugar farms similar with the findings of this study. The adoption by DAR of the agribusiness venture arrangements (AVAs) such as block farming and cooperatives to a very great extent negatively impact the RPT collections of municipalities. Another mechanism that weakens the collection efficiency of LGUs is the land valuation and owners' compensation (Adriano, 2013) because there is no standard valuation; hence, challenged by landowners before the courts and treasurers cannot collect taxes on properties subject of litigation.

Challenges	f	%
Income classification		
Insufficient appropriations for tax collection program	19	100
Lack of personnel	19	100
Inadequate technical knowhow	15	79
Poverty	15	79
Weak enforcement of remedies	11	58
Social in-acceptability of taxation of CARP	10	53
Voluminous administrative requisites	10	53
Inadequate professional competence of implementers	9	47
Ineffective monitoring	6	32
Political intervention	5	26
Limited use of information technology	5	26
Lack of appropriate strategies	5	26
Lack of public awareness	4	21
Corruption	3	16
Size covered		
Property owners cannot be located	19	100
Lack of transportation to mountainous barangays	19	100
Lack of personnel	19	100
Tax declarations on (CLOA)	17	89
Barangay officials do not cooperate	16	84
Insufficient information	16	84
Poverty	15	79
Weak enforcement of administrative remedies	11	58
Lack of social acceptability		
Conflict of ownership	7	37
School officials do not cooperate	6	32
Inequitable valuation	5	26
Names of beneficiaries are not authentic	4	21
Land classification		
Excluded from the auction	17	89
Legal cases filed	16	84
Poverty	15	79
Properties subject of the lease	14	74
Weak enforcement of administrative remedies	11	74
Lack of social acceptability	10	53
Multiple taxations	7	37

The identification of poverty as one of the challenges encountered by local treasurers in the collection of taxes is supported by studies of Spoor (2012), Borrás et al. (2009), Balisacan (2007), and Ballesteros (2010), which redound to very great negative implication to the collection of the LGUs.

Generally, the challenges faced by local treasurers are both administrative and technical in nature arising from the implementation of the policies and mechanisms of the agrarian program which cannot be resolved at the local level alone. To overcome these challenges on collections of real property taxes by LGUs, and for the agrarian program to succeed, there is a need for collaborative efforts or the whole-of-governance approach where the government agencies (national and local), civil society organizations, lawmakers, and the citizens should participate. Hence, the optimal theory of taxation shall include the benefits and equity principles espoused by the researcher as supported by robust evidence found in this study.

5.0. Conclusion

Many of the policies of the CARP have negative fiscal implications for local governments, supporting the theory of this study. Its impact is to a "very great" extent as far as collections of

real property taxes. This implies that the LGUs are at the losing end, considering that problems arising from agrarian conflict are brought before the local governments for resolution, and services are expected to be delivered by the LGUs to agrarian reform beneficiaries. Therefore, the theory of optimal taxation focus on distributive justice is valid. The inclusion of the benefit and equitability principles will add to new knowledge on property taxation.

The identification of poverty as one of the challenges encountered by local treasurers revealed the failure of the approach adopted by the agrarian reform program. The billions of pesos lost to the CARP in terms of real property taxes deserve the lawmakers' attention at all levels of governance. These funds should have been used to provide a livelihood, infrastructure, and social services such as health and education.

The desire of this study to narrow the fiscal implications through the enhanced revenue generation strategies proposed for adoption using a basis the findings of this study.

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