

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

**CLARIFICATION ON THE VALUATION OF IMPROVEMENTS FOR  
INTERNAL REVENUE TAX PURPOSES**

*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	<u>xxx</u>
Value of improvement	<u>xxx</u>

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.