

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

THIRTEENTH CONGRESS

First Regular Session

HOUSE BILL NO. 1467



Introduced by HON. ERIC D. SINGSON

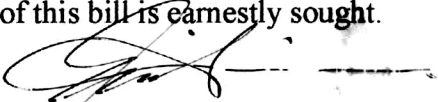
EXPLANATORY NOTE

Local government units (LGUs) are generally exempted from the payment of national internal revenue taxes. Section 32(B)(7)(b) of the National Internal Revenue Code of 1997, as amended, specifically provides that income derived by LGUs from the exercise of their governmental functions are not taxable. However, in the event that an LGU engages itself in proprietary activities, it becomes subject to tax in fairness to private businesses doing the same activities.

At present, however, the Bureau of Internal Revenue (BIR) experiences difficulty in collecting the taxes due from the LGUs. Apart from the problem of identifying which of the LGUs' transactions are in fact taxable, there is resistance on the part of the LGUs to pay these taxes to the national government, as well. LGUs argue that since they are entitled, as provided under the 1991 Local Government Code (LGC), to a proportionate share in the internal revenue taxes, the amount of tax LGUs will pay to the national government will be given back to them anyway through the release of internal revenue allocation (IRA). While this may be a valid point, the same may run counter with the provisions of the 1991 LGC. Section 286 of the 1991 LGC provides that the share of each local government from national internal revenue taxes shall be automatically released without any lien or holdback by the national government.

To steer clear of any conflict with existing statutory provisions, this bill seeks to amend Section 286 of the 1991 LGC by providing for a tax payment mechanism which will be beneficial to both the BIR and the LGUs. Under this bill, instead of the required remittance to the BIR, the internal revenue liability of each LGU shall be automatically deducted from their respective internal revenue allotment. This scheme will relieve the BIR of the task of monitoring the tax remittances of LGUs. Likewise, the unnecessary transfer of money from LGUs to the national government and the subsequent allocation of the same to the local government will be eliminated. And with the money not leaving the coffers of the local treasury, LGUs will be given more flexibility in channeling these resources to local projects and other undertakings.

In view of the foregoing, the approval of this bill is earnestly sought.


HON. ERIC D. SINGSON
2nd District, Ilocos Sur

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AN ACT
AMENDING SECTION 286 OF REPUBLIC ACT NO. 7160, OTHERWISE
KNOWN AS THE LOCAL GOVERNMENT CODE OF 1991

Be it enacted by the Senate and the House of Representatives of the Philippines in
Congress assembled:

SECTION 1. Section 286 of Republic Act No. 7160, as amended, is hereby
further amended to read as follows:

SEC. 286. *Automatic Release of Shares.* - (a) The share of each
local government unit shall be released, without need of any further
action, directly to the provincial, city, municipal or barangay treasurer,
as the case may be, on a quarterly basis within five (5) days after the end
of each quarter.], and which shall not be subject to any lien or holdback
that may be imposed by the national government for whatever purpose.]

PROVIDED, HOWEVER, THAT IN THE EVENT THAT A
LOCAL GOVERNMENT UNIT BECOMES LIABLE TO ANY OF
THE TAXES IMPOSED UNDER THE NATIONAL INTERNAL
REVENUE CODE OF 1997, AS AMENDED, THE AMOUNT
EQUIVALENT TO SUCH TAXES SHALL BE AUTOMATICALLY
DEDUCTED FROM THE LOCAL GOVERNMENT UNIT'S SHARE
IN THE INTERNAL REVENUE ALLOTMENT AS DETERMINED
UNDER SECTIONS 284 AND 285 HEREOF: **PROVIDED, FURTHER**
THAT THE AMOUNT SO DEDUCTED SHALL CONSTITUTE AS
THE PAYMENT OF THE LOCAL GOVERNMENT UNIT'S
INTERNAL REVENUE TAX LIABILITY.

[(b) Nothing in this Chapter shall be understood to diminish the
share of local government units under existing laws.]

SEC. 2. *Implementing Rules and Regulations.* - The Secretary of Finance
shall, upon the recommendation of the Commissioner of Internal Revenue,
promulgate the necessary rules and regulations for the effective implementation of
this Act.

SEC. 3. *Repealing Clause.* - All laws, decrees, executive orders, rules and regulations or parts thereof which are contrary to or inconsistent with this Act are hereby repealed, amended or modified accordingly.

SEC. 3. *Effectivity.* - This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in any two newspapers of general circulation, whichever comes earlier.

Approved,