

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City



Thirteenth Congress

First Regular Session

HOUSE BILL NO. 4145

Introduced by Reps. Eric D. Singson and Junie E. Cua

EXPLANATORY NOTE

It is of no doubt that the country is experiencing fiscal problems which require expeditious and concerted action across sectors. By 2003, the fiscal deficit has swelled to P199.9B or in terms of the Gross Domestic Product, 4.6 %. The government aims to arrest the deficit by 2009 and reduce its share to practically nil by that year.

Clearly, this is the overriding issue that should be addressed, since it has paramount political and economic ramifications. A cash-strapped government could not meet the rising needs of the people. Similarly, a cash-strapped government could not deliver much-needed social investments.

Congress has swiftly responded by successfully considering measures which tackle both the issues of fiscal health restoration and fiscal reform. The 13th Congresses have already passed measures which introduce significant revenue-positive policy initiatives: RA 9334 which increased the excise tax rates of alcohol and tobacco products and RA 9335, otherwise known as the "Attrition Act of 2005".

These additional fund sources for the government should first and foremost, be utilized for national development programs. Efforts should be coordinated so that attention would be concentrated on tactical measures which would spur job creation and economic growth.

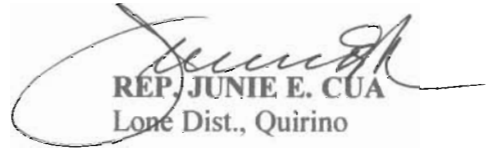
The bill addresses this important issue. It aims to exempt the incremental revenue to be generated from the aforementioned laws from the computation of the Internal Revenue Allotment (IRA) for local government units. As mandated by the Local Government Code of 1991, only when there is an unmanageable public sector deficit can the 40% IRA allotment be lowered. The Code does not make any reference however, to the non-inclusion of incremental revenue, generated from tax measures aimed to combat a fiscal deficit, from the computation of the IRA.

Furthermore, this bill creates a Special Economic Recovery Fund that would serve as a buffer to fund the operations of the national government in the event of any deficit.

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



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AN ACT
AMENDING SECTION 284 OF THE LOCAL GOVERNMENT CODE OF
1991, AS AMENDED, CREATING IN THE PROCESS A SPECIAL
ECONOMIC RECOVERY FUND, AND FOR OTHER PURPOSES

SECTION 1. Section 284 of the Local Government Code of 1991, as amended, is hereby further amended to read as follows:

“SEC. 284. Allotment of Internal Revenue Taxes. – Local government units shall have a **FORTY PERCENT (40%)** share in the national internal revenue taxes based on the collection of the third fiscal year preceding the current fiscal year [as follows:].

- [(a) On the first year of the effectivity of this Code, thirty percent (30%);]
- [(b) On the second year, thirty-five percent (35%); and]
- [(c) On the third year and thereafter, forty percent (40%);]

PROVIDED, HOWEVER, THAT IN THE EVENT THAT THE NATIONAL GOVERNMENT INCURS A BUDGETARY OR FISCAL DEFICIT, ALL INCREMENTAL REVENUES FROM TAX MEASURES APPROVED BY CONGRESS THREE (3) YEARS PRECEDING THE CURRENT FISCAL YEAR, SHALL NOT BE INCLUDED IN THE COMPUTATION OF THE INTERNAL REVENUE ALLOTMENT AS DETERMINED ABOVE. AS SUCH, ALL INCREMENTAL REVENUES EMANATING FROM THE TAX MEASURES APPROVED BY CONGRESS, INCLUDING BUT NOT LIMITED TO THE FOLLOWING, SHALL NOT BE INCLUDED IN THE COMPUTATION OF THE INTERNAL REVENUE ALLOTMENT:

- I. RA 9334, “AN ACT INCREASING THE EXCISE TAX RATES IMPOSED ON ALCOHOL AND TOBACCO PRODUCTS, AMENDING FOR THE PURPOSE SECTIONS**

131, 141, 142, 143, 144, 145 AND 288 OF THE NATIONAL
INTERNAL REVENUE CODE OF 1997, AS AMENDED”

II. RA 9335, “ATTRITION ACT OF 2005”

PROVIDED, *FURTHER*, THAT ALL INCREMENTAL REVENUES FROM ALL SUBSEQUENT TAX MEASURES APPROVED BY CONGRESS SHALL ALSO NOT BE INCLUDED IN THE COMPUTATION OF THE INTERNAL REVENUE ALLOTMENT, UNTIL SUCH TIME THAT THE GOVERNMENT ACHIEVES A BALANCED BUDGET. FOR PURPOSES OF THIS SECTION, A BUDGETARY OR FISCAL DEFICIT SHALL REFER TO THE SHORTFALL OF REVENUES FROM DISBURSEMENTS EXCLUDING DEBT REPAYMENTS AND PAYMENTS ON NON-BUDGETARY ACCOUNTS, AS CERTIFIED BY THE SECRETARY OF BUDGET AND MANAGEMENT. ALSO FOR PURPOSES OF THIS SECTION, A BALANCED BUDGET OCCURS WHEN REVENUES COLLECTED EQUAL CASH DISBURSEMENTS (EXCLUDING DEBT REPAYMENTS AND PAYMENTS ON NON-BUDGETARY ACCOUNTS) OF THE NATIONAL GOVERNMENT DURING A GIVEN YEAR, AS CERTIFIED BY THE SECRETARY OF BUDGET AND MANAGEMENT: *Provided, FINALLY*, that in the event that the national government incurs an unmanageable public sector deficit, the President of the Philippines is hereby authorized, upon the recommendation of the Secretary of Finance, Secretary of Interior and Local Government, and Secretary of Budget and Management, and subject to consultation with the presiding officers of both Houses of Congress and the presidents of the liga, to make the necessary adjustments in the internal revenue allotment of local government units but in no case shall the allotment be less than thirty (30%) of the collection of national internal revenue taxes of the third fiscal year preceding the current fiscal year. [*Provided, further*, That in the first year of the effectivity of this Code, the local government units shall, in addition to the thirty percent (30%) internal revenue allotment which shall include the cost of devolved functions for essential public services, be entitled to receive the amount equivalent to the cost of devolved personal services.].”

SEC. 2. *Creation a Special Economic Recovery Fund.* – A Special Economic Recovery Fund is hereby created from the incremental revenues generated from the tax measures enacted by Congress during the period when the national government incurs a budgetary or fiscal deficit. This Fund shall be used by the National Government exclusively for national government expenditures.

SEC. 3. *Implementing Rules and Regulations.* – The Secretaries of Finance, Interior and Local Government, and Budget and Management shall, upon consultation with the National Treasurer and Commissioner of Internal Revenue, jointly promulgate the necessary rules and regulations for the effective implementation of this Act.

SEC. 4. *Separability Clause.* – If any part of this Act shall be held unconstitutional or invalid, other parts not otherwise affected thereby shall remain in full force and effect.

SEC. 5. *Repealing Clause.* – All other laws, decrees, rules and regulations or parts thereof which are inconsistent with the provisions of this Act are hereby repealed, amended or modified accordingly.