

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SIXTEENTH CONGRESS
Second Regular Session

HOUSE BILL NO. **5656**



Introduced by: HON. FRANCIS HERALD AGUINALDO ABAYA

EXPLANATORY NOTE

From the time local governments had been established in the Philippines, they had always been classified, based on income, for certain purposes, among which are the determination of their financial capability, the establishment of the salary scales of local government officials and personnel and the determination of the number of *Sanggunian* or local council members.

The most recent legislation providing for the income classification of local government units (LGUs) is Executive Order No. 249 issued on July 25, 1987 by then President Corazon Aquino exercising legislative powers after the EDSA revolution. Subsequent LGU income reclassifications had been carried out through the promulgation of Department of Finance (DOF) Orders, the most recent of which is DOF Order No. 23-08 (issued on July 29, 2008).

Through time, however, the income reclassifications of local governments have evolved in such a way that an LGU's income class is not truly reflective of its financial capability particularly in generating locally sourced revenues because of the heavy reliance on the Internal Revenue Allotment (IRA) in setting the income ranges for the different classes. With the phased doubling of the IRA under the Local Government Code, it has become the biggest component of the annual regular income, which is the basis for classifying the income class of LGUs. As a result, LGUs at every level have tended to cluster in the higher classes while very few are classified in the lower classes. In addition, the wide disparities in the taxing capacities of LGUs and given further that this factor has a limited effect on the LGUs' current classification, the present system does not truly reflect the LGUs' financial capabilities and their relationship to each other within the same level.

In order to address these issues, it is imperative to give the Secretary of Finance a clear and unambiguous authority and mandate, and the flexibility to undertake regular income reclassification of provinces, cities and municipalities, so that LGUs can be better aligned with national government financial and fiscal policies.

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


FRANCIS GERALD AGUINALDO ABAYA
Representative, First District, Cavite

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Constitution Hills, Quezon City

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HOUSE BILL NO. _____

Introduced by: HON. FRANCIS GERALD AGUINALDO ABAYA

AN ACT INSTITUTIONALIZING THE INCOME CLASSIFICATION OF PROVINCES, CITIES AND MUNICIPALITIES, AND FOR OTHER PURPOSES

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

1 **SEC. 1. Short Title.** – This Act shall be known as the "THE LOCAL GOVERNMENT
2 **UNITS' INCOME CLASSIFICATION ACT."**

3
4 **SEC. 2. Declaration of Policy.** – It is the policy of the State to provide an equitable
5 and rational system of regular income classification of provinces, cities and
6 municipalities that will reflect realistically their respective financial positions.

7
8 **SEC. 3. Definition of Terms.** – As used in this Act, the following terms shall mean:

9 (a) **Annual Regular Income** refers to revenues, including fees and receipts
10 actually realized which are reported yearly on cash basis by provinces,
11 cities and municipalities from regular sources, including the Internal
12 Revenue Allotment (IRA) and other shares provided for in Sections 284,
13 290, and 291 of Republic Act No. 7160, but exclusive of non-recurring
14 receipts, such as national aids, grants, financial assistance, loan proceeds,
15 sales of assets, miscellaneous income/receipts and similar others. For the
16 purpose of this Act, shares from national wealth, excise tax on tobacco,
17 incremental collection from value added tax (VAT) under R. A. No. 7643,
18 and the gross income tax paid by businesses and enterprises in Special
19 Economic Zones (ECOZONES) under R. A. No. 7916, as amended, and
20 such other shares as may be granted by law to the province, city, or
21 municipality, shall be considered as part of the annual regular income. The
22 annual regular income shall be computed from the Statement of Receipts
23 and Expenditures (SRE) maintained by the Bureau of Local Government
24 Finance of the Department of Finance.

25 (b) **Average Annual Regular Income** refers to the sum of the "annual regular
26 income", as herein defined, actually obtained by a province, city or
27 municipality during the required number of fiscal years preceding the year
28 of general income reclassification of local government units, divided by
29 such number of fiscal years as provided in Section 4 hereof.

(c) **Local Government Units** refer to the political subdivisions of the State, namely, province, city or municipality.

SEC. 4. *Income Classification of Provinces, Cities and Municipalities.* – All provinces, cities and municipalities shall be classified into six (6) income classes according to income ranges and based on the average annual regular income for three (3) fiscal years preceding the general income reclassification.

SEC. 5. *Administrative Authority of the Secretary of Finance.* – The Secretary of Finance shall have the authority to set the income ranges and undertake the regular income reclassification of all provinces, cities and municipalities once every three (3) fiscal years, in order that the income classification of local government units conforms with the prevailing economic conditions and the overall financial status of the local governments.

SEC. 6. *Period of Income Reclassification.* –

a) The Secretary of Finance shall undertake the first general income reclassification of all provinces, cities and municipalities within six (6) months after the effectivity of this Act, and every three (3) years thereafter. In cases of diminishing revenues, the Secretary of Finance may order the re-computation and revision of the income classification of provinces, cities and municipalities to reflect the actual financial situation of the local government units.

b) However, a province, city or municipality, which has been in existence for a period of less than three (3) fiscal years immediately preceding the general income reclassification of local government units, as herein provided, shall be classified on the basis of its average annual regular income during such lesser number of fiscal years.

c) If a province or municipality is created before the year of the general reclassification of local government units, it shall be classified on the basis of the aggregate net share of income from regular sources actually realized from its component cities and municipalities in the case of a province, or its component barangays in the case of a municipality, plus the corresponding estimated Internal Revenue Allotment (IRA) of the newly created province or municipality pursuant to Section 285 of Republic Act No. 7160, during the fiscal year immediately preceding its creation.

d) The rule prescribed under the immediately preceding paragraph shall likewise apply to a municipality that is converted into a city, or a city that is created out of existing municipalities and/or barangays.

SEC. 7. *Uses of Income Classification.* – The income classification of provinces, cities and municipalities shall, among other purposes, serve as basis for:

- a) The determination of administrative and statutory aids, financial grants, and other forms of assistance to local governments;
- b) The determination of the financial capability of local government units to undertake developmental programs and priority projects; and
- c) Such other purposes as provided under existing laws and regulations.

SEC. 8. *Guidelines in Cases Where a Fourth or Lower Income Class Province, City or Municipality Receives a Third or Higher Income Class Designation as a Result of the General Income Reclassification.* – A Fourth or lower income class

1 province, city or municipality which gets either a First, Second or Third income class
2 designation from the general reclassification provided herein shall cease to provide
3 for additional personal services and maintain its existing personnel complement prior
4 to the reclassification, pursuant to civil service rules and regulations; Provided,
5 further, that in case of personnel transfers, resignations or deaths, the local
6 government shall not cause the filling up of the vacant position nor provide for its
7 funding until the succeeding general reclassification; and Provided, finally, that in
8 case the local government shall still exceed the limitations provided in Section 325 of
9 the LGC despite the maintenance of the status quo after it first received a First,
10 Second or Third income class designation as provided herein, this shall not be
11 considered in violation of Section 325 of the LGC.

12
13 **SEC. 9. Effectivity of the Income Reclassification.** – All income reclassification of
14 provinces, cities, and municipalities pursuant to this Act shall be effective on January
15 1st of the immediate succeeding year.

16
17 **SEC. 10. Implementing Rules and Regulations (IRR).** – The Secretary of Finance
18 shall promulgate rules and regulations within three (3) months after the effectivity of
19 this Act, and may continue to issue guidelines to carry out the provisions of this Act.

20
21 **SEC. 11. Saving Clause.** – All existing income classifications of provinces, cities
22 and municipalities shall continue to be in force and effect until superseded by the
23 issuance of a new income classification by the Secretary of Finance pursuant to this
24 Act.

25
26 **SEC. 12. Suppletory Application of Existing Laws.** – The provisions of Republic
27 Act No. 7160, otherwise known as the Local Government Code of 1991, and other
28 laws consistent with this Act shall have suppletory effect.

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30 **SEC. 13. Repealing Clause.** – Executive Order No. 249, dated July 25, 1987 is
31 hereby repealed. All laws, presidential decrees, executive orders, presidential
32 proclamations, rules and regulations or parts thereof contrary to or inconsistent with
33 this Act are hereby repealed, superseded or modified accordingly.

34
35 **SEC. 14. Separability Clause.** – Any portion or provision of this Act that may be
36 declared unconstitutional or invalid shall not have the effect of nullifying other
37 portions or provisions hereof, as long as such remaining portions or provisions can
38 still subsist and be given effect in their entirety.

39
40 **SEC. 15. Effectivity.** – This Act shall take effect fifteen (15) days after its complete
41 publication in the Official Gazette or in at least two (2) newspapers of general
42 circulation.

43
44 *Approved.*