

REPUBLIC OF THE PHILIPPINES
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH CONGRESS
Second Regular Session

House Bill No. **7012**



Introduced by **MAGDALO Party-List Representative**
HON. GARY C. ALEJANO

EXPLANATORY NOTE

Capacity-building is the constant battle cry of the local governments on whom so many erstwhile national government functions were devolved, but so little finances to support them given. Many studies have advocated an urgent need to review the Internal Revenue Allotment of our local governments.

Within every level of LGU, the allocation is divided according to the 50-25-25 formula—half of the amount based on the LGUs' population, a fourth based on land areas, and another fourth divided equally among the LGUs within that level.

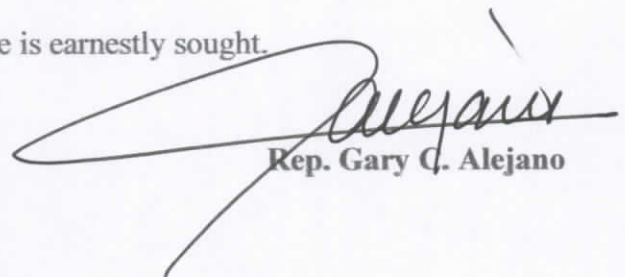
This formula encourages most LGUs to be complacent. The IRA can cover an LGU's operational costs and little service delivery. The governor, mayor, or barangay chair can practically just sit around in his office doing nothing and the IRA that fuels the LGU's operations will come.

To elaborate, an LGU's land area, for instance, won't change in decades unless the province or municipality is fragmented or merged, or if a court decides a boundary dispute between LGUs. A province with vast vacant or idle lands therefore gets a bigger share than a smaller province that develop its own. Population, too, is something that expands or shrinks beyond the control of the local chief executive.

With that said, it is glaringly obvious that the current formula used to allocate the IRA is fatally flawed and does not in any way effectively serve our people, thus this proposed measure. Under this Act, the allotment to LGUs shall increase to 60% and shall be prudently apportioned according to four criteria: Population, Poverty Index, Human Development Index, and Tax Collection Performance. Moreover, this shall also increase the barangay budget for the payment of compensation, allowances, emoluments and other privileges such as social security benefits, to protect the rights and promote the welfare of barangay officials and volunteer workers.

This shall ensure a more equitable means of apportioning our financial resources. Put simply, those who are able to deliver services are deserving to get bigger shares.

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


Rep. Gary C. Alejano

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AN ACT
STRENGTHENING LOCAL GOVERNMENT UNITS BY RATIONALIZING THE
FORMULA OF THE ANNUAL INTERNAL REVENUE ALLOTMENT SHARE OF
LOCAL GOVERNMENT UNITS AND FOR OTHER PURPOSES

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

SECTION 1. *Short Title.*—This Act shall be known as “Internal Revenue Allotment Reform Act.”

SEC. 2. *Declaration of Policy.*—It is hereby declared the policy of the State to promote good governance by local government units (LGUs) and empower government officials and public volunteer workers at the grassroots level. In pursuance of this, the State recognizes the need to have adequate funds to perform its expenditure responsibilities.

More importantly, the State recognizes the need of LGUs to have adequate funds to perform its expenditure responsibilities, thus the provision herein found to rationalize the formula for the share of provinces, cities, and municipalities of the internal revenue allotment. The proposed amendment shall optimize the allocation of much needed financial resources, prioritizing LGUs that suffer from rampant poverty all the while encouraging these units to adopt a more aggressive tax collection campaign.

Finally, the State recognizes the crucial role of the barangay as the primary planning and implementing units of government policies, programs and projects, the State shall, through the provision of increasing the barangay budget for the payment of compensation, allowances, emoluments and other privileges such as social security benefits, to protect the rights and promote the welfare of barangay officials and volunteer workers.

1 **SEC. 3. Rationalizing the Formula for IRA Allotment.**—The formula for the share of each
2 province, city, and municipality of the Internal Revenue Allotment for local government units is
3 hereby modified as follows:

- 4 a) Population – Twenty-five percent (25%);
- 5 b) Poverty Index – Twenty-five percent (25%);
- 6 c) Human Development Index - Twenty-five percent (25%); and
- 7 d) Tax Collection Performance- Twenty-five percent (25%)

8 **SEC. 4. Increase of Internal Revenue Allotment.**—Local government units shall have a sixty
9 percent (60%) share in the national internal revenue taxes based on the collection of the third fiscal
10 year preceding the current fiscal year.

11
12 Provided, that ten percent (10%) of the increase in the annual internal revenue allotment shall
13 be set aside and used for the payment of compensation, allowances, emoluments and other privileges
14 such as social security benefits of barangay officials and volunteer workers

15
16 **SEC. 5. Implementing Rules and Regulations.**—The Secretaries of Interior and Local
17 Government, Budget and Management, and Finance, shall jointly within ninety (90) days from the
18 effectivity of this Act, formulate and promulgate the rules and regulations to implement the provisions
19 of this Act.

20
21 **SEC. 6. Repealing Clause.**—Republic Act No. 7160 otherwise known as the “Local
22 Government Code” is hereby amended. All other laws, orders, decrees, issuances, circulars, rules and
23 regulations or parts thereof which are inconsistent with any provisions of this Act are hereby repealed
24 or amended accordingly.

25
26 **SEC. 7. Effectivity Clause.**—This Act shall take effect fifteen (15) days from the date of
27 publication in the Official Gazette and at least two (2) newspapers of general circulation.

Approved,