

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

EIGHTEENTH CONGRESS
Second Regular Session

HOUSE BILL NO. 9263



INTRODUCED BY HONORABLE CHERYL P. DELOSO-MONTALLA

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

EXPLANATORY NOTE

Income classification of provinces, cities and municipalities in the country serves as the basis for the determination of financial capability of local governments to provide, in full or in part, the funding requirements of development projects and other priority needs in their localities.¹

In a Resolution of the Regional Development Council (RDC) of the Cordillera Administrative Region (CAR) in 2018, it stated that “income classification of local governments can also be used as a factor in the allocation of national and other financial grants and is important in the fixing of maximum tax ceilings imposed by the local governments; the determination of administrative and statutory aid, financial grants, and other forms of assistance to local governments; the establishment of the salary scales and rates of allowances, per diems, and other emoluments officials and personnel may be entitled; the implementation of personnel policies on promotions, transfers, details or secondment and related matters at the local government levels; the formulation and execution of local government policies and the determination of financial capability of local governments to undertake developmental programs and priority projects.”²

The advantages of upgrading the income classification of local governments are the corresponding increase in the Internal Revenue Allotment (IRA); increase in salaries of officials and personnel; sustained implementation of Magna Carta of Personnel for the 4th to 6th class local governments and provision of mandatory services. On the other hand, income reclassification will result in the lowering of the personnel services cap from 55 percent to 45 percent and the requirement of higher equity when the local governments apply for a loan.³

The rapidly increasing population based on the 2015 census, the selection of programs and projects based on LGU income classification and the availment of loans by the LGU based on their capacity to pay back are the prime considerations for the periodic upgrading of the local government’s income classification.

Section 9 of Executive Order No. 249, series of 1987 tasked the Secretary of Finance to review the income ranges, at least once every four years, provided that the finance department shall recommend appropriate changes or revisions to the proper authority, such that the income classification may continue to conform with prevailing economic conditions and the overall financial status of the local governments.⁴

¹ <https://www.baguioheraldexpressonline.com/law-on-income-classification-of-lgus-sought-2/>

² <https://baguio.gov.ph/content/law-income-classification-lgus-sought>

³ <https://www.baguioheraldexpressonline.com/law-on-income-classification-of-lgus-sought-2/>

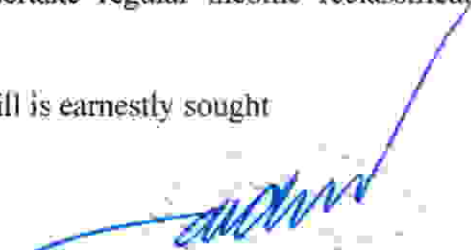
⁴ <https://www.officialgazette.gov.ph/1987/07/25/executive-order-no-249-s-1987/>

From income classification through legislation and income reclassification through promulgation of DOF Department Orders, the income reclassifications of local governments have developed in such a way that these provinces, cities and municipalities income classes are not truly reflective of their financial capability particularly in generating locally-sourced revenue.⁵

It bears emphasis that despite the developments, the DOF is constrained to halt all request for reclassification due to legal constraints as advised by the Department of Justice.⁶

In order to address these issues, it is imperative for the DOF through its Secretary, to be given unambiguous authority and mandate to undertake regular income reclassification of provinces, cities and municipalities.⁷

In view of the foregoing, the passage of this bill is earnestly sought



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⁵ Explanatory Note of House Bill No. 2058, authored by Hon. Jake Vincent S. Villa.

⁶ Ibid.

⁷ Ibid.

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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 the “Local Government Units’ Income Classification Act of 2021”.

SECTION 2. *Declaration of Policy.* — It is the policy of the State to provide an equitable and rational systems of regular income classification of provinces, cities and municipalities that will reflect realistically their respective financial positions.

SECTION 3. *Definition of Terms.* As used in this Act, the following terms shall mean:

- (a) **Annual Regular Income** refers to revenues, including fees and receipts actually realized which are reported yearly on cash basis by provinces, cities and municipalities from regular sources, including the Internal Revenue Allotment (IRA) and other shares provided for in Sections 284, 290, and 291 of Republic Act No. 7160, but exclusive of now-recurring receipts, such as national aids, grants, financial assistance, loan proceeds, sales of assets, miscellaneous income receipts and similar others. For the purpose of this Act, shares from the national wealth, excise tax on tobacco, incremental collection from value added tax (VAT) under R.A. No. 7643, and the gross income tax paid by businesses and enterprises in Special Economic Zones (ECOZONES) under R.A. No. 7916, as amended, and such other shares as may be granted by law to the province, city, or municipality, shall be considered as part of the annual regular income. The annual regular income shall be computed from the Statement of Receipts and Expenditures (SRE) maintained by the Bureau of Local Government Finance of the Department of Finance.
- (b) **Average Annual Regular Income** refers to the sum of the “annual regular income”, as herein defined, actually obtained by a province, city or municipality during the required number of fiscal years preceding the year of general income reclassification of local government units, divided by 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.

SECTION 4. *Income Classification of Provinces and Cities.* — All provinces and cities 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, as follows:

- (a) First Class provinces and cities - the provinces and cities that have obtained an average annual income of Eight hundred Million Pesos (P800,000,000.00) or more;
- (b) Second Class provinces and cities - the provinces and cities that have obtained an average annual income of Six Hundred Fifty Million Pesos (P650,040,000.00) or more, but less than Eight Hundred Million Pesos (P800,000,000.00);
- (c) Third Class provinces and cities - the provinces and cities that have obtained an average annual income of Five Hundred Million Pesos (P500,000,000.00) or more but less than Six Hundred Fifty Million Pesos (P650,000,000.00);
- (d) Fourth Class provinces and cities - the provinces and cities that have obtained an average annual income of Three Hundred Fifty Million Pesos (P350,000,000.00) or more, but less than Five Hundred Million Pesos (P500,000,000.00);
- (e) Fifth Class provinces and cities - the provinces and cities that have obtained an average annual income of Two Hundred Million Pesos (P200,000,000.00) or more, but less than Three Hundred Fifty Million Pesos (P350,000,000.00); and
- (f) Sixth Class provinces and cities - the provinces and cities that have obtained an average annual income of less than Two Hundred Million Pesos (P200,000,000.00).

SECTION 5. *Income Classification of Municipalities.* — All 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, as follows:

- (a) First Class municipalities - the municipalities that have obtained an average annual income of Ninety Million Pesos (P90,000,000.00) or more;
- (b) Second Class municipalities - the municipalities that have obtained an average annual income of Eighty Million Pesos (P80,000,000.00) or more, but less than Ninety Million Pesos (P90,000,000.00);
- (c) Third Class municipalities - the municipalities that have obtained an average annual income of Sixty Million Pesos (P60,000,000.00) or more but less than Eighty Million Pesos (P80,000,000.00);
- (d) Fourth Class municipalities - the municipalities that have obtained an average annual income of Forty Million Pesos (P40,000,000.00) or more but less than Sixty Million Pesos (P60,000,000.00);
- (e) Fifth Class municipalities - the municipalities that have obtained an average annual income of Thirty Million Pesos (P30,000,000.00) or more but less than Forty Million Pesos (P40,000,000.00); and
- (f) Sixth Class municipalities - the municipalities that have obtained an average annual income of less than Thirty Million Pesos (P30,000,000.00).

SECTION 6. *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.

SECTION 7. *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 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.

SECTION 8. *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 tonus 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.

SECTION 9. *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 province, city or municipality which gets either a First, Second or Third income class designation from the general reclassification provided herein shall cease to provide for additional personal services and maintain its existing personnel complement prior to the reclassification, pursuant to civil service rules and regulations; *Provided*, that in case of personnel transfers, resignations or deaths, the local government shall not cause the filling up of the vacant position nor provide for its funding until the succeeding general reclassification; and *Provided, further*, that in case the local government shall still exceed the limitations provided in Section 325 of the Local Government Code of 1991, as amended, despite the maintenance of the *status quo* after it first received a First, Second or Third income class designation as provided herein, this shall not be considered in violation of Section 325 of the Local Government Code of 1991, as amended.

SECTION 10. *Effectivity of the Income Reclassification.* - All income reclassification of provinces, cities, and municipalities pursuant to this Act shall be effective on January 1st of the immediate succeeding year.

SECTION 11. *Implementing Rules and Regulations (IRR).* — The Secretary of Finance

shall promulgate rules and regulations within three (3) months after the effectivity of this Act and may continue to issue guidelines to carry out the provisions of this Act.

SECTION 12. *Savings Clause.* — All existing income classifications of provinces, cities and municipalities shall continue to be in force and effect until superseded by the issuance of a new Income classification by the Secretary of Finance pursuant to this Act.

SECTION 13. *Suppletory Application of Existing Laws* — The provisions of Republic Act No. 7160, otherwise known as the Local Government Code of 1991, as amended, and other laws consistent with this Act shall have suppletory effect.

SECTION 14. *Repealing Clause.* — Executive Order No. 249, dated July 25, 1987 is hereby repealed. All laws, presidential decrees, executive orders, presidential proclamations, rules and regulations or parts thereof contrary to or inconsistent with this Act are hereby repealed, superseded or modified accordingly.

SECTION 15. *Separability Clause.* — If, for any reason, any section or provision of this Act is held unconstitutional or invalid, the other sections or provisions hereof shall not be affected thereby.

SECTION 16. *Effectivity.* — This Act shall take effect fifteen (15) days after its complete publication in at least two (2) newspapers of general circulation.

Approved,