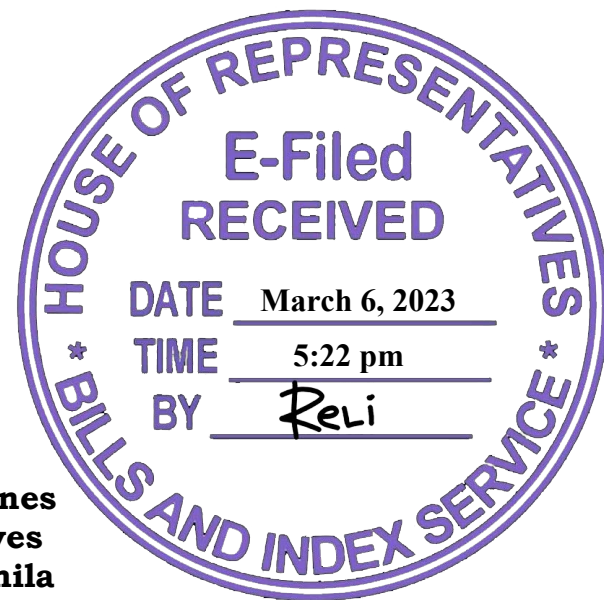




**Republic of the Philippines
House of Representatives
Quezon City, Metro Manila**

**Nineteenth Congress
First Regular Session**

HOUSE BILL NO. 7449



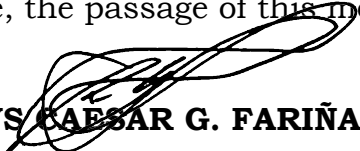
Introduced by Representative Rudys Caesar G. Fariñas I

EXPLANATORY NOTE

This proposed measure seeks to respond to state policy that provides an equitable and rational system of income classification of provinces, cities and municipalities that reflects the financial positions of local government units. The salient features of this bill include:

- The income classification of provinces, cities, and municipalities;
- The authority of the Secretary of Finance to update the income ranges and adjust the income classification of provinces, cities, and municipalities once every three (3) calendar years to reflect the prevailing economic conditions and actual financial status of local government units;
- Rules on the General Income Reclassification, as to the frequency of re-computation and reclassification of local government units according to prevailing economic conditions and actual financial status;
- The method of computation of Annual Regular Income and its Average, based on revenues, including fees and receipts actually realized as reported yearly by provinces, cities and municipalities from regular sources, and national tax allotment (NTA) and other shares provided under Republic Act (RA) No. 7160, otherwise known as the "Local Government Code of 1991," but exclude non-recurring receipts, such as national aids, grants, financial assistance, loan proceeds, sales of assets, miscellaneous income and similar others.

Hence, the passage of this measure is sought.


RUDYS CAESAR G. FARIÑAS I



**Republic of the Philippines
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**Nineteenth Congress
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HOUSE BILL NO. 7449

Introduced by Representative Rudys Caesar G. Fariñas I

AN ACT

PRESCRIBING THE INCOME CLASSIFICATION OF PROVINCES, CITIES AND MUNICIPALITIES AND AUTHORIZING THE DEPARTMENT OF FINANCE TO ADJUST THE INCOME BRACKETS AND UNDERTAKE REGULAR INCOME RECLASSIFICATION OF LOCAL GOVERNMENT UNITS

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

1 SECTION 1. Short Title. – This Act shall be known as the “LGUs Income
2 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 income classification of provinces, cities and
6 municipalities that reflects the financial positions of local government units
7 (LGUs). Towards this end, the State shall, through the proper government
8 agencies, formulate and regularly update the policies and guidelines on income
9 classification to effectively achieve the objectives and purposes of estimating the
10 income categories of LGUs.

11
12 SEC. 3. Income Classification of Provinces and Cities. – All provinces and cities
13 are classified into six (6) income classes according to the average annual regular
14 income realized during the last three (3) calendar years preceding the year of
15 reclassification, as follows:

16
17 (a) First class provinces and cities – Eight hundred million pesos
18 (P800,000,000.00) or more;

19
20 (b) Second class provinces and cities – Six hundred fifty million pesos
21 (P650,000,000.00) or more but less than Eight hundred million pesos
22 (P800,000,000.00);
23

(c) Third class provinces and cities – 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 – 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 – 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 – below Two hundred million pesos (P200,000,000.00).

SEC. 4. Income Classification of Municipalities. – All municipalities are classified into six (6) income classes according to average annual regular income realized during the last three (3) calendar years preceding the year of reclassification, as follows:

(a) First class municipalities – Ninety million pesos (P90,000,000.00) or more;

(b) Second class municipalities – Eighty million pesos (P80,000,000.00) or more but less than Ninety million pesos (P90,000,000.00);

(c) Third class municipalities – Sixty million pesos (P60,000,000.00) or more but less than Eighty million pesos (P80,000,000.00);

(d) Fourth class municipalities – Forty million pesos (P40,000,000.00) or more but less than Sixty million pesos (P60,000,000.00);

(e) Fifth class municipalities – Thirty million pesos (P30,000,000.00) or more but less than Forty million pesos (P40,000,000.00); and

(f) Sixth class municipalities – below Thirty million pesos (P30,000,000.00).

SEC. 5. Authority of the Secretary of Finance. – The Secretary of Finance is authorized to update the income ranges and adjust the income classification of all provinces, cities and municipalities once every three (3) calendar years to reflect the prevailing economic conditions and actual financial status of the LGUs.

SEC. 6. Rules on General Income Reclassification. – The Secretary of Finance shall undertake a 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 LGUs.

For every general income classification that the Secretary of Finance shall undertake, the following rules shall apply:

If a province, city or municipality is only in existence for a period of less than three (3) calendar years immediately preceding the general income

1 reclassification it shall be classified on the basis of its average annual regular
2 income during such lesser number of calendar years.

3
4 If a province or municipality is created before the year of the general
5 reclassification it shall be classified on the basis of the aggregate net share of
6 income from regular sources actually realized from its component cities and
7 municipalities in the case of a province, or its component barangays in the case
8 of a municipality, plus the corresponding estimated NTA of the newly created
9 province or municipality pursuant to Section 285 of RA 7160, during the
10 calendar year immediately preceding its creation.

11
12 The rule prescribed in the immediately preceding paragraph shall likewise apply
13 to a municipality that is converted into a city, or a city that is created out of
14 existing municipalities or barangays.

15
16 If a fourth or lower income class province, city or municipality gets either a first,
17 second or third income class designation, it shall cease to provide additional
18 personal services and maintain its existing personnel complement prior to the
19 reclassification, pursuant to civil service rules and regulations: Provided, That
20 in case of personnel transfers, resignations or deaths, the LGU shall not cause
21 the filling up and funding of the vacant position until the succeeding general
22 reclassification: Provided, further, That in case the LGU still exceeds the general
23 limitations on the use of funds despite the maintenance of the status quo after
24 receiving a higher income class designation, it shall not be considered in violation
25 of Section 325 of RA 7160.

26
27 All income reclassification of provinces, cities, and municipalities shall take
28 effect on the first day of January of the immediately succeeding year.

29
30 SEC. 7. Computation of Annual Regular Income and Its Average. – The
31 computation of the annual regular income of LGUs shall include revenues,
32 including fees and receipts actually realized which are reported yearly on cash
33 basis by provinces, cities and municipalities from regular sources, and national
34 tax allotment (NTA) and other shares provided under Republic Act (RA) No. 7160,
35 otherwise known as the “Local Government Code of 1991,” but exclude non-
36 recurring receipts, such as national aids, grants, financial assistance, loan
37 proceeds, sales of assets, miscellaneous income and similar others.

38
39 For purposes of this Act, the shares from national wealth, excise tax on tobacco,
40 incremental collections from value added tax (VAT) under RA 7643, entitled “An
41 Act to Empower the Commissioner of Internal Revenue to Require the Payment
42 of the Value-Added Tax Every Month and to Allow Local Government Units to
43 Share in VAT Revenue, Amending for this Purpose Certain Sections of the
44 National Internal Revenue Code” and the gross income tax paid by businesses
45 and enterprises in special economic zones under RA 7916, as amended,
46 otherwise known as “The Special Economic Zone Act of 1995” and such other
47 shares as may be granted by law to the province, city, or municipality, are
48 considered part of the annual regular income as reflected in the statement of
49 receipts and expenditures of LGUs submitted to the Bureau of Local Government
50 Finance of the Department of Finance.

51
52 In computing the average annual regular income, the sum of the annual regular
53 income actually obtained by a province, city or municipality during the required
54 number of consecutive calendar years immediately preceding the classification

1 of LGUs, shall be divided by such number of calendar years as may be certified
2 by the Commission on Audit for the purpose of reclassification.

3
4 SEC. 8. Implementing Rules and Regulations. – Within ninety (90) days from the
5 effectivity of this Act, the Secretary of Finance shall promulgate the necessary
6 rules and regulations for the effective implementation of this Act.

7
8 SEC. 9. Saving Clause. – All existing income classifications of provinces, cities
9 and municipalities shall continue to be in force and effect until superseded by
10 the issuance of a new income classification by the Secretary of Finance pursuant
11 to this Act.

12
13 SEC. 10. Suppletory Application of Existing Laws. – The provisions of RA 7160
14 and other laws consistent with this Act shall suppletorily apply.

15
16 SEC. 11. Separability Clause. – If any provision or part of this Act is declared
17 invalid or unconstitutional, the remaining parts or provisions not affected shall
18 remain in force and effect.

19
20 SEC. 12. Repealing Clause. – Executive Order No. 249, entitled “Providing for a
21 New Income Classification of Provinces, Cities and Municipalities, and for Other
22 Purposes” is hereby repealed. All other laws, decrees, executive orders, rules and
23 regulations or parts thereof contrary to or inconsistent with the provisions of this
24 Act are hereby amended, repealed or modified accordingly.

25
26 SEC. 13. Effectivity. – This Act shall take effect fifteen (15) days after its
27 publication in the Official Gazette or in any newspaper of general circulation.

28
29 Approved,