



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

Twentieth Congress
First Regular Session



HOUSE BILL NO. 4787

Introduced by
REPRESENTATIVE DAVID C. SUAREZ

EXPLANATORY NOTE

The equitable distribution of national resources is fundamental to genuine local autonomy and balanced regional development. Under the 1987 Constitution, Local Government Units (LGUs) are entitled to a just share in national taxes, which shall be automatically released to them. This principle was affirmed and strengthened by the Supreme Court in the *Mandanas-Garcia* ruling, which significantly expanded the tax base used to compute the National Tax Allotment (NTA).

While the increased fiscal space has benefited LGUs, **the distribution formula remains outdated**, being largely unchanged since the enactment of the Local Government Code of 1991. It continues to rely heavily on population (50%), land area (25%), and equal sharing (25%), without regard to **poverty incidence, developmental deficits, or fiscal performance**. This status quo often results in economically vibrant LGUs receiving large allocations they do not urgently need, while poorer and more vulnerable LGUs are left with insufficient means to fulfill their devolved functions and meet basic service obligations.

This Bill seeks to **modernize the NTA allocation formula** to ensure that national funds are distributed more **equitably, rationally, and accountably**. It introduces a **Needs-Based Index** — anchored on poverty incidence, infrastructure access, and vulnerability — as a core component of the formula. It also incorporates a **Local Revenue Effort Incentive** to reward LGUs that demonstrate effective local tax collection and fiscal self-reliance. Finally, it recognizes the importance of **good governance and service delivery** by factoring in performance metrics based on measurable outcomes.

The revised allocation formula distributes 95% of the NTA based on the following factors:

- Population (25%)
- Land Area (10%)
- Equal Sharing (10%)
- Needs-Based Index (30%)
- Local Revenue Generation Effort (15%)
- Performance Metrics (10%)

To further address structural and emergent disparities, the Bill creates a 5% Equalization Fund, to be allocated by the President based on DBM, NEDA, and DILG recommendations. This fund targets LGUs facing extreme poverty, geographic isolation, or post-disaster recovery, and is governed by published guidelines and reporting requirements.

By aligning NTA distribution with real indicators of need, effort, and outcomes, this measure strengthens the foundation for inclusive and accountable local development. It empowers LGUs not just with resources, but with incentives to perform and tools to rise.

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



DAVID C. SUAREZ
2nd District, Province of Quezon



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AN ACT
REVISING THE FORMULA FOR THE NATIONAL TAX ALLOTMENT (NTA) TO LOCAL
GOVERNMENT UNITS, CREATING AN EQUALIZATION FUND, AND FOR OTHER
PURPOSES

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

SECTION 1. *Short Title.* – This Act shall be known as the “**Equitable National Tax Allotment Reform Act of 2025.**”

SECTION 2. *Declaration of Policy.* – It is hereby declared the policy of the State to strengthen local autonomy, equitable development, and accountable governance by ensuring that the National Tax Allotment (NTA) to Local Government Units (LGUs) reflects developmental needs, fiscal effort, and service delivery performance, while preserving transparency, predictability, and constitutional mandates.

SECTION 3. *Amendment of Section 284 of Republic Act No. 7160.* – Section 284 of Republic Act No. 7160, otherwise known as the Local Government Code of 1991, is hereby amended to read as follows:

"SECTION 284. Allotment of National Taxes to Local Government Units.
— Local Government Units shall have a just share in the national taxes collected

in the third fiscal year preceding the current fiscal year. Such share shall be forty percent (40%) of all national taxes collected by the national government, as determined by prevailing jurisprudence.

Of the total National Tax Allotment (NTA), ninety-five percent (95%) shall be distributed among LGUs in accordance with the allocation formula provided in Section 4 of this Act. The remaining five percent (5%) shall constitute an Equalization Fund as provided in Section 5."

SECTION 4. *Revised Allocation Formula.* – The 95% of the National Tax Allotment to be distributed by formula shall be allocated based on the following weighted factors:

Factor	Weight
Population	25%
Land Area	10%
Equal Sharing	10%
Needs-Based Index	30%
Local Revenue Generation Effort	15%
Performance Metrics	10%

Each factor shall be scored in accordance with the following general parameters:

(a) **Population – 25%** — The population score of each LGU shall be based on the proportion of its population relative to the total population of its category (province, city, municipality, barangay), using the most recent census or official projections of the Philippine Statistics Authority (PSA). Adjustments may be introduced to account for service demands in highly urbanized areas and sparsely populated but hard-to-reach areas, as may be defined in the IRR.

(b) **Land Area – 10%** — The land area score shall be based on the LGU's total official land area relative to its category total, as certified by the Land Management Bureau and PSA. A modifier may be applied for LGUs with geographically isolated and disadvantaged areas (GIDA), in accordance with Department of the Interior and Local Government (DILG) or Department of Health (DOH) classifications.

(c) **Equal Sharing – 10%** — This component shall allocate a fixed and equal base share to all LGUs within each level (province, city, municipality, barangay), regardless of population or income. The DBM shall publish the equal share value per LGU level annually, based on the total NTA pool and number of qualified LGUs.

(d) **Needs-Based Index – 30%** — This composite score shall be derived from indicators reflecting developmental disadvantage or service delivery gaps, which may include: poverty incidence (from PSA or official small area estimates), human development index components (e.g., education, health), access to infrastructure (e.g., electricity, water, roads, communication), and disaster risk or geographic isolation (e.g., NDRRMC, DOST risk maps). Each LGU shall be scored based on standardized benchmarks, and the composite index shall be normalized for comparability across LGU levels.

(e) **Local Revenue Generation Effort – 15%** — The fiscal effort score shall be based on the ratio of the LGU's actual locally-sourced revenue to its estimated local revenue potential, as assessed by the Bureau of Local Government Finance (BLGF). Rolling averages over three years may be used to stabilize volatility. Non-submission of data shall result in a zero score for this component.

(f) **Performance Metrics – 10%** — This component shall reflect governance and service delivery performance. It shall include, but not be limited to, the following indicators: compliance with the Seal of Good Local Governance (SGLG), health and education outcome benchmarks (e.g., immunization rates, student cohort survival), audit ratings, disaster risk reduction compliance, and open governance or transparency metrics. The DILG shall assign standardized scores based on the latest available validated data, in coordination with relevant national agencies.

The specific methodologies, data sources, and scoring systems for each factor shall be developed by the implementing agencies and detailed in the Implementing Rules and Regulations (IRR).

SECTION 5. *Equalization Fund.* – An Equalization Fund, equivalent to five percent (5%) of the total National Tax Allotment, is hereby created. It shall be allocated by the President of the Philippines, upon recommendation of the DBM, National Economic and Development Authority (NEDA), and DILG, for the following purposes:

- (a) Supporting LGUs with extreme poverty, geographic isolation, or infrastructure gaps;
- (b) Post-disaster rehabilitation or economic recovery;
- (c) Service delivery backlogs in basic sectors;
- (d) Governance or capacity-building support to low-performing LGUs.

The Equalization Fund shall be governed by published guidelines and scoring criteria, with an annual report submitted to Congress detailing recipients, amounts, and rationale for allocation.

SECTION 6. *Administrative Oversight and Responsibility.* – The Development Budget Coordination Committee (DBCC) shall serve as the oversight and final approving body for the annual computation and release of NTA shares.

The DBM shall serve as the lead implementing agency and shall: (a) Consolidate indicator scores submitted by PSA, DILG, BLGF, and NEDA; (b) Compute the formula-based allocations; (c) Issue the Local Budget Memorandum (LBM) reflecting official NTA shares; (d) Coordinate with the Bureau of the Treasury for timely release.

The following agencies shall be responsible for scoring and data generation:

- PSA: for population, land area, and poverty-related indicators;
- DILG: for performance and governance benchmarks;
- BLGF: for local revenue effort and fiscal data;
- NEDA: for technical coordination and composite index development.

All scores shall be submitted to DBM no later than April 15 each year. The latest available indicators may be used if new data is not yet released.

SECTION 7. *Transition and Safeguards.* – A two-year transition period shall be observed from the effectivity of this Act, during which:

- (a) No LGU shall receive less than seventy-five percent (75%) of its immediately preceding year's NTA allocation;
- (b) No LGU shall receive more than one hundred fifty percent (150%) of the national per capita average NTA unless it ranks within the bottom thirty percent (30%) of the Needs-Based Index.

SECTION 8. *Implementing Rules and Regulations.* – The DBM, DILG, NEDA, PSA, and BLGF shall jointly promulgate the rules and regulations necessary to implement this Act within ninety (90) days from its effectivity.

SECTION 9. *Separability Clause.* – If any provision or part of this Act is declared invalid or unconstitutional, other provisions not affected thereby shall continue to be in full force and effect.

SECTION 10. *Repealing Clause.* – All laws, decrees, executive orders, proclamations, other issuances, rules, and regulations, or parts thereof inconsistent with the provisions of this Act are hereby repealed, amended, or modified accordingly.

SECTION 11. *Effectivity.* – This Act shall take effect fifteen (15) days from its publication in the Official Gazette or in a newspaper of general circulation.

Approved.