



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. 9488



Introduced by Representative **ANTONINO B. ROMAN III**

EXPLANATORY NOTE

More than three (3) decades after the enactment of Republic Act No. 7160, otherwise known as the “Local Government Code of 1991,” local government units (LGUs) continue to bear primary responsibility for delivering essential public services and implementing local development programs. The Mandanas-Garcia ruling affirmed that LGUs are entitled to their just share in all national taxes, thereby increasing the overall National Tax Allotment (NTA). However, it did not fully address the structural inequities embedded in the distribution of national transfers.

Municipalities remain particularly disadvantaged. Despite serving around sixty percent (60%) of the country’s population and delivering critical services such as health care, agriculture, local infrastructure, disaster response, social welfare, environmental protection, and community development, municipalities receive only thirty-four percent (34%) of the NTA. In 2023, cities generated and spent approximately Ten Thousand Nine Hundred Sixty-Six Pesos (P10,966.00) per capita on average, compared to only Three Thousand One Hundred Eighty-Six Pesos (P3,186.00) per capita for municipalities, reflecting a substantial disparity in fiscal capacity.

Fiscal inequality likewise exists within LGU categories. Among cities, the proportion with Annual Regular Income per capita below the national average increased from forty-five and sixty-five hundredths percent (45.65%) in 2015 to fifty-nine and seventy-three hundredths percent (59.73%) in 2024, indicating that revenue growth has become increasingly concentrated among a smaller number of fiscally stronger cities. Similar disparities are evident among provinces and other LGUs.

This bill seeks to strengthen local fiscal autonomy by granting LGUs an additional five percent (5%) share in all national taxes, to be phased in at one percentage point (1%) annually. Recognizing the fiscal constraints faced by municipalities, seventy percent (70%) of the additional allocation shall be distributed to municipalities, while ten percent (10%) each shall accrue to provinces, cities, and barangays.

The preference for municipalities is based on substantial distinctions. Municipalities generally have narrower revenue bases, fewer opportunities to capture economic growth, more limited administrative capacity, and significant responsibility for frontline services, especially in geographically dispersed and less urbanized communities. The measure therefore uses the additional share, not the existing NTA, to correct fiscal imbalance without reducing the current shares of provinces, cities, municipalities, or barangays.

The bill further introduces an Income Classification Equalization Factor to provide greater support to lower-income LGUs. For provinces, cities, and municipalities, this factor shall be based on the income classification system under Republic Act No. 11964, otherwise known as the “Automatic Income Classification of Local Government Units Act.” For barangays, the equalization factor shall be based on the income classification of the city or municipality where the barangay is located, unless a separate official barangay income classification system is subsequently provided by law.

The bill also addresses practical implementation concerns by providing clear rules on computation, automatic release, official data sources, treatment of newly created or converted LGUs, correction of data errors, transparency reporting, and fiscal impact monitoring. These safeguards are intended to make the measure technically sound, politically supportable, and administratively implementable.

By enhancing local fiscal space, especially for municipalities and fiscally weaker LGUs, this measure is expected to improve local development outcomes, strengthen decentralization, reduce overreliance on congressional insertions and discretionary national assistance for basic infrastructure and services, and enable LGUs to better fulfill their devolved functions under the Local Government Code and the Mandanas-Garcia framework.

Immediate passage of this measure is earnestly sought.

A handwritten signature in black ink, appearing to read 'Antonino B. Roman III', with a stylized flourish at the end.

ANTONINO B. ROMAN III



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Introduced by Representative **ANTONINO B. ROMAN III**

AN ACT
STRENGTHENING LOCAL FISCAL AUTONOMY BY PROVIDING AN
ADDITIONAL SHARE IN NATIONAL TAXES FOR LOCAL GOVERNMENT
UNITS, AMENDING FOR THE PURPOSE REPUBLIC ACT NO. 7160,
OTHERWISE KNOWN AS THE LOCAL GOVERNMENT CODE OF 1991, AS
AMENDED, 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 “Local Fiscal Autonomy Enhancement Act.”

SEC. 2. *Declaration of Policy.* – It is hereby declared the policy of the State to ensure the genuine and meaningful local autonomy of local government units (LGUs) by providing them with adequate, equitable, predictable, and automatically released fiscal resources.

The State recognizes that LGUs serve as frontline providers of essential public services, including health care, agriculture, social welfare, disaster risk reduction and management, environmental protection, local infrastructure, and community development.

The State further recognizes that municipalities generally have narrower local revenue bases, fewer opportunities to capture economic growth, and more limited fiscal and administrative capacity, despite serving a significant portion of the country’s population and performing extensive devolved functions. The allocation of a larger portion of the Additional Share created under this Act to municipalities is therefore based on substantial distinctions germane to the purpose of strengthening local fiscal autonomy, correcting fiscal imbalance, and promoting equitable local development.

The State likewise recognizes that fiscal inequality exists within LGU categories. Accordingly, the State shall use an Income Classification Equalization Factor to provide greater relative support to lower-income LGUs.

Nothing in this Act shall be construed to reduce, impair, or diminish the existing National Tax Allotment (NTA) shares or other statutory fiscal entitlements of any LGU.

SEC. 3. *Definition of Terms.* – For purposes of this Act:

- (a) Additional Share refers to the additional share of LGUs in all national taxes provided under this Act, separate and distinct from the existing forty percent (40%) NTA under Section 284 of Republic Act No. 7160, as amended, and applicable jurisprudence;
- (b) Local Government Unit or LGU refers to a province, city, municipality, or barangay covered by Republic Act No. 7160, as amended;
- (c) National Tax Allotment or NTA refers to the just share of LGUs in national taxes under Section 284 of Republic Act No. 7160, as amended, and applicable jurisprudence;
- (d) National Taxes refers to all national taxes used as the base for computing the NTA of LGUs under Section 284 of Republic Act No. 7160, as amended, and applicable jurisprudence;
- (e) Income Classification Equalization Factor refers to the weighted allocation factor under this Act that gives greater relative weight to lower-income LGUs in the distribution of the Additional Share;
- (f) Income Classification refers to the official income classification of provinces, cities, and municipalities under Republic Act No. 11964, otherwise known as the “Automatic Income Classification of Local Government Units Act,” and its implementing rules and regulations. For barangays, the income classification of the city or municipality where the barangay is located shall be used, unless a separate official barangay income classification system is subsequently provided by law; and
- (g) Official Data refers to population, land area, income classification, and other data issued, certified, or recognized by the appropriate national government agency for purposes of computing fiscal transfers to LGUs.

SEC. 4. *Insertion of a New Section 284-A in Republic Act No. 7160.* – A new Section 284-A is hereby inserted after Section 284 of Republic Act No. 7160, as amended, to read as follows:

SEC. 284-A. *Additional Share of Local Government Units in National Taxes.*

– In addition to the share of local government units in national taxes provided under Section 284 of this Code, local government units shall be entitled to an Additional Share equivalent to five percent (5%) of all national taxes.

The Additional Share shall be computed based on the collections of national taxes in the third fiscal year preceding the current fiscal year, following the same reference-year principle used in the computation of the National Tax Allotment.

The Additional Share shall be automatically released to the local government units concerned in the same manner, schedule, and procedure as the National Tax Allotment. The release of the Additional Share shall not be subject to any lien, holdback, retention, or withholding, except as may be expressly authorized by law.

Nothing in this section shall be construed to reduce, impair, or diminish the existing National Tax Allotment shares or any other statutory fiscal entitlement of local government units.

SEC. 5. *Phased Implementation of the Additional Share.* – The Additional Share shall be implemented gradually at the rate of one percentage point (1%) per fiscal year, commencing in the first fiscal year following the effectivity of this Act for which the amount may be included in the National Expenditure Program and the General Appropriations Act, until the full additional five percent (5%) share is attained, as follows:

- (a) First year – one percent (1%) of all national taxes;
- (b) Second year – two percent (2%) of all national taxes;
- (c) Third year – three percent (3%) of all national taxes;
- (d) Fourth year – four percent (4%) of all national taxes; and
- (e) Fifth year and every year thereafter – five percent (5%) of all national taxes.

The phased implementation under this section shall not authorize the reduction, suspension, deferment, or withholding of the Additional Share once the applicable annual percentage has taken effect, except pursuant to a subsequent law.

SEC. 6. *Allocation Among Local Government Unit Categories.* – The Additional Share provided under this Act shall be allocated among LGU categories as follows:

- (a) Provinces – ten percent (10%);
- (b) Cities – ten percent (10%);
- (c) Municipalities – seventy percent (70%); and
- (d) Barangays – ten percent (10%).

SEC. 7. *Formula for Distribution Within Each Local Government Unit Category.* – The share of each province, city, municipality, and barangay from the allocation corresponding to its respective LGU category under Section 6 of this Act shall be determined according to the following formula:

- (a) Population – twenty-five percent (25%);
- (b) Land area – twenty-five percent (25%); and

(c) Income Classification Equalization Factor – fifty percent (50%).

The population component shall be distributed within each LGU category in proportion to the population of each LGU relative to the total population of all LGUs within the same category.

The land area component shall be distributed within each LGU category in proportion to the land area of each LGU relative to the total land area of all LGUs within the same category.

The Income Classification Equalization Factor component shall be distributed within each LGU category based on weighted population, giving greater relative weight to lower-income LGUs.

For this purpose, each province, city, municipality, or barangay shall be assigned the following income classification weight:

- (a) First Class – 1.00;
- (b) Second Class – 1.10;
- (c) Third Class – 1.25;
- (d) Fourth Class – 1.40; and
- (e) Fifth Class or any lower income classification recognized by law – 1.60.

For provinces, cities, and municipalities, the income classification weight shall be based on their official income classification under Republic Act No. 11964 and its implementing rules and regulations.

For barangays, the income classification weight shall be based on the income classification of the city or municipality where the barangay is located, unless a separate official barangay income classification system is subsequently provided by law.

The weighted population of each province, city, municipality, or barangay shall be computed as follows:

$$\text{Weighted Population} = \text{Population} \times \text{Income Classification Weight}$$

The share of each province, city, municipality, or barangay under the Income Classification Equalization Factor component shall be computed as follows:

$$\text{Income Classification Equalization Share} = (\text{Weighted Population of the Local Government Unit} \div \text{Total Weighted Population of All Local Government Units Within the Same Category}) \times \text{Fifty percent (50\%)} \text{ of the Allocation for the Corresponding Local Government Unit Category.}$$

SEC. 8. *Official Data Sources and Data Cut-Off.* – For purposes of computing the Additional Share:

- (a) Population shall be based on the latest official census of population issued by the Philippine Statistics Authority;
- (b) Land area shall be based on the latest official land area data issued or recognized by the appropriate national government agency, including the Philippine Statistics Authority, the National Mapping and Resource Information Authority, or such other agency officially designated by law or regulation;
- (c) Income classification for provinces, cities, and municipalities shall be based on the latest official income classification issued by the Department of Finance pursuant to Republic Act No. 11964 and its implementing rules and regulations; and
- (d) For barangays, the income classification of the city or municipality where the barangay is located shall be used, unless a separate official barangay income classification system is subsequently provided by law.

The Department of Budget and Management, in coordination with the Department of Finance, Department of the Interior and Local Government, Philippine Statistics Authority, and other concerned agencies, shall prescribe a uniform annual data cut-off date for purposes of computing the Additional Share.

Data changes after the applicable cut-off date shall take effect in the computation of the Additional Share for the succeeding fiscal year, unless otherwise provided in the implementing rules and regulations.

SEC. 9. *Treatment of Newly Created, Converted, Merged, Divided, or Abolished Local Government Units.* – A newly created, converted, merged, divided, or abolished LGU shall be treated for purposes of computing and releasing the Additional Share in accordance with the following rules:

- (a) A newly created LGU shall be entitled to receive its corresponding Additional Share beginning in the fiscal year immediately following the effectivity of its creation, conversion, merger, or division, subject to the availability of official data necessary for computation;
- (b) If complete official data is not yet available, the Department of Budget and Management, in coordination with the Department of Finance, Department of the Interior and Local Government, Philippine Statistics Authority, and other concerned agencies, shall prescribe an interim computation method based on the best available official data;
- (c) A municipality converted into a city shall continue to be treated under its previous LGU category until the next fiscal year for which official computation can be made, unless otherwise provided by law;

- (d) In case of merger, division, abolition, or boundary adjustment, the affected LGUs shall receive their adjusted shares beginning in the fiscal year following the issuance or recognition of the applicable official data; and
- (e) No LGU shall be deprived of its Additional Share solely by reason of delay in the issuance of official data, without prejudice to adjustment in the succeeding fiscal year.

SEC. 10. *Data Correction and Administrative Review.* – An LGU may request correction of clerical, mathematical, or data-based errors in the computation of its Additional Share.

The request shall be filed with the Department of Budget and Management within the period and in the manner prescribed in the implementing rules and regulations. The Department of Budget and Management shall resolve the request in coordination with the Department of Finance, Department of the Interior and Local Government, Philippine Statistics Authority, and other concerned agencies, as may be necessary.

The filing or pendency of a request for correction shall not suspend, delay, or withhold the release of the undisputed portion of the Additional Share. Any correction found to be meritorious shall be reflected as an adjustment in the next practicable release or in the succeeding fiscal year.

SEC. 11. *Lead Agencies and Administrative Responsibilities.* – The Department of Budget and Management shall be the lead agency for the computation, programming, and release of the Additional Share, in coordination with the Department of Finance, Department of the Interior and Local Government, Philippine Statistics Authority, and other concerned agencies.

The Department of Finance, through the Bureau of Local Government Finance, shall provide the official income classification data necessary for the application of the Income Classification Equalization Factor.

The Department of the Interior and Local Government shall assist in the validation of LGU data, including barangay-level data, and in coordinating with LGUs for the effective implementation of this Act.

The Philippine Statistics Authority shall provide or certify official population data and such other statistical data as may be necessary for the implementation of this Act.

SEC. 12. *Budgetary Programming and Automatic Release.* – The amounts necessary to implement this Act shall be included annually in the National Expenditure Program and the General Appropriations Act as part of the statutory fiscal transfers to LGUs.

The Additional Share shall be released automatically and directly to the LGUs concerned in accordance with the schedule, manner, and procedure applicable to the NTA, subject only to such modifications as may be necessary to implement this Act.

The inclusion of the Additional Share in the annual General Appropriations Act shall not be construed as converting the Additional Share into a discretionary appropriation or as authorizing its withholding, retention, or reduction, except pursuant to law.

SEC. 13. *Use, Accountability, and Local Fiscal Autonomy.* – The Additional Share shall form part of the general funds of the recipient LGUs and shall be used in accordance with Republic Act No. 7160, as amended, applicable budgeting, accounting, auditing, and procurement laws, and duly approved local development plans, annual investment programs, and budgets.

Recipient LGUs are encouraged to prioritize essential devolved services, including health care, agriculture, social welfare, local infrastructure, disaster risk reduction and management, environmental protection, and community development.

Nothing in this Act shall be construed to authorize any national government agency to impose spending conditions that would unduly impair local fiscal autonomy or delay the automatic release of the Additional Share.

SEC. 14. *Transparency and Public Reporting.* – The Department of Budget and Management shall publish annually, in an accessible and machine-readable format, the computation of the Additional Share for each LGU, including the applicable population, land area, income classification, weights, formula components, adjustments, and total amount released.

Each recipient LGU shall include the receipt and utilization of the Additional Share in its existing local budget documents, financial reports, and full disclosure postings, in accordance with applicable laws, rules, and regulations.

The reporting requirements under this section shall promote transparency and accountability, but shall not constitute a condition precedent to the automatic release of the Additional Share.

SEC. 15. *Capacity Development Support.* – The Department of the Interior and Local Government, Department of Budget and Management, Department of Finance, and other concerned agencies shall provide technical assistance and capacity development support to LGUs, especially municipalities and lower-income LGUs, on local planning, budgeting, revenue generation, procurement, project implementation, monitoring, and financial management.

The provision of capacity development support under this section shall not be used as a ground to delay, reduce, or withhold the Additional Share.

SEC. 16. *Fiscal Impact Review.* – Within three (3) years from the initial implementation of this Act, and every three (3) years thereafter, the Department of Budget and Management and Department of Finance shall jointly submit to Congress a fiscal impact report on the implementation of this Act.

The fiscal impact report shall include:

- (a) The total amount released as Additional Share;
- (b) The distribution of the Additional Share by LGU category, income classification, and region;
- (c) The impact of the Additional Share on the fiscal position of the National Government;
- (d) The impact of the Additional Share on local fiscal capacity, service delivery, and development outcomes, to the extent measurable using available data;
- (e) Implementation issues, data gaps, and recommended administrative or legislative improvements; and
- (f) Measures to improve fiscal sustainability, transparency, and accountability.

The fiscal impact review shall not suspend, defer, reduce, or otherwise impair the automatic release of the Additional Share, unless otherwise provided by a subsequent law.

SEC. 17. *Application to Special Fiscal Regimes.* – This Act shall apply to LGUs covered by Republic Act No. 7160, as amended.

The application of this Act to LGUs within autonomous regions, special administrative regions, freeport areas, economic zones, or other areas governed by special laws shall be without prejudice to the Constitution, applicable organic laws, intergovernmental fiscal arrangements, and special laws governing such areas.

SEC. 18. *No Diminution of Existing Shares.* – Nothing in this Act shall be construed to reduce, impair, diminish, or otherwise prejudice the existing NTA shares of LGUs under Section 284 of Republic Act No. 7160, as amended, applicable jurisprudence, or any other fiscal entitlement provided by law.

SEC. 19. *Implementing Rules and Regulations.* – Within one hundred ninety (90) days from the effectivity of this Act, the Department of Budget and Management, Department of Finance, Department of the Interior and Local Government, Philippine Statistics Authority, and other concerned agencies shall jointly promulgate the implementing rules and regulations necessary to carry out the provisions of this Act.

The implementing rules and regulations shall include, among others:

- (a) The detailed computation methodology for the Additional Share;
- (b) The schedule and procedure for automatic release;
- (c) The official data sources and data cut-off dates for population, land area, and income classification;
- (d) The application of the Income Classification Equalization Factor;

- (e) The treatment of barangays for purposes of income classification equalization;
- (f) The treatment of newly created, converted, merged, divided, or abolished LGUs;
- (g) Procedures for resolving data conflicts, data gaps, and correction requests;
- (h) Transparency and public reporting standards;
- (i) The fiscal impact review process; and
- (j) Such other mechanisms as may be necessary to ensure transparent, predictable, equitable, and administratively feasible implementation.

SEC. 20. *Separability Clause.* – If any provision of this Act is declared invalid or unconstitutional, the remaining provisions not affected shall remain in full force and effect.

SEC. 21. *Repealing Clause.* – All laws, decrees, executive orders, rules and regulations, issuances, or parts thereof inconsistent with this Act are hereby repealed, amended, or modified accordingly.

SEC. 22. *Effectivity.* – This Act shall take effect fifteen (15) days after its complete publication in the Official Gazette or in a newspaper of general circulation.

Approved.