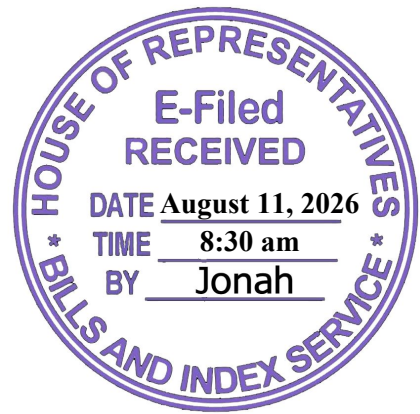


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Constitution Hills, Quezon City

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. 10694



Introduced by REP. YSABEL MARIA J. ZAMORA

EXPLANATORY NOTE

According to Article 2 of the Local Government Code of 1991, the State shall establish a more responsive and accountable local government structure through a system of decentralization, whereby local government units (LGUs) are granted greater powers, authority, responsibilities, and resources. This policy recognizes that empowering LGUs enables them to respond more effectively to the needs of their respective communities and deliver public services more efficiently.

However, despite the enactment of the Local Government Code more than three decades ago, significant challenges remain in the devolution of functions and responsibilities from the national government to LGUs. While the Supreme Court's ruling in the Mandanas-Garcia case substantially increased the National Tax Allotment (NTA) of LGUs by expanding the basis for its computation, the decision did not address the long-standing structural inequities in the distribution of national transfers

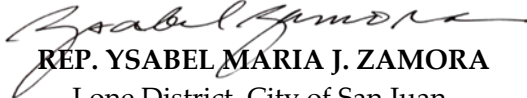
Municipalities remain particularly disadvantaged. Despite serving around 60 percent of the country's population and delivering critical services such as healthcare, agriculture, local infrastructure, disaster response, and social welfare, municipalities receive only thirty-four percent (34%) of the NTA. In 2023, cities generated and spent approximately P10,966 per capita on average, compared to only P3,186 per capita for municipalities, reflecting a substantial disparity in fiscal capacity.

However, fiscal inequality likewise exists within LGU categories. Among cities, the proportion with Annual Regular Income (ARI) per capita below the national average increased from 45.65% in 2015 to 59.73% in 2024, indicating that revenue growth has become increasingly concentrated among a small 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 bill further introduces an Income Classification Equalization Factor to provide greater support to lower-income LGUs. By enhancing municipal fiscal space, this measure is expected to improve local development outcomes, reduce reliance on congressional insertions for basic infrastructure, and enable LGUs to better fulfill their devolved functions under the LGC and the Mandanas–Garcia framework.

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


REP. YSABEL MARIA J. ZAMORA
Lone District, City of San Juan

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Constitution Hills, Quezon City

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. 10694

Introduced by REP. YSABEL MARIA J. ZAMORA

AN ACT
STRENGTHENING LOCAL FISCAL AUTONOMY THROUGH AN ADDITIONAL FIVE PERCENT (5%) SHARE IN ALL NATIONAL TAXES FOR LOCAL GOVERNMENT UNITS

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 of 2026.”

SEC. 2. Declaration of Policy. – It is hereby declared the policy of the State to strengthen local governance and promote equitable development by ensuring that municipalities are adequately resourced to meet the needs of their communities. Recognizing that a significant portion of the country's population resides in municipalities and that these local government units serve as the primary providers of essential public services, the State shall pursue measures to enhance their fiscal capacity. Increasing the National Tax Allotment (NTA) share of local government units is necessary to enable them to deliver responsive, effective, and sustainable programs that support local growth and uphold the welfare of their constituents.

SEC. 3. In addition to the forty percent (40%) share of local government units in national taxes provided under Section 284 of Republic Act No. 7160, local government units shall be entitled to an additional share equivalent to five percent (5%) in all national taxes.

SEC. 4. The additional five percent (5%) share shall be implemented gradually at the rate of one (1) percentage point per year, commencing in the first fiscal year following the effectivity of this Act, until the full additional five percent (5%) share is attained, as follows:

- (a) On the first year of the effectivity of this Act, one percent (1%);
- (b) On the second year, two percent (2%);
- (c) On the third, three percent (3%);

- (d) On the fourth year, four percent (4%);
- (e) On the fifth year and thereafter, five percent (5%).

SEC. 5. The additional five percent (5%) share provided under this Act shall be allocated among local government units as follows:

- (a) Provinces – Ten percent (10%)
- (b) Cities – Ten percent (10%)
- (c) Municipalities – Seventy percent (70%)
- (d) Barangays – Ten percent (10%).

SEC. 6. The share of each province, city, municipality, and barangay shall be determined on the basis of 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%).

Fifty percent (50%) of the total allocation shall be distributed on the basis of income classification equalization.

For this purpose:

(1) Each province, city, municipality, or barangay shall be assigned the following income classification weight, as determined by the Department of Finance pursuant to existing laws:

First Class – 1.00
 Second Class – 1.10
 Third Class – 1.25
 Fourth Class – 1.40
 Fifth Class – 1.60

(2) The weighted population of each province, city, municipality, or barangay shall be computed as: Population x Income Classification Weight.

(3) The share of each province, city, municipality, or barangay under this paragraph shall be determined by: (Weighted Population of the Province, City, Municipality, or Barangay + Total Weighted Population of All Provinces, Cities, Municipalities, or Barangays, as the case may be) × 50% of the allocation.

SEC. 7. Implementing Rules and Regulations. — The Department of Finance, the Department of the Interior and Local Government, the Department of Budget and

Management, and other concerned agencies shall promulgate the rules and regulations to implement this Act not later than one hundred eighty (180) days from the effectivity of this Act.

SEC. 8. Separability Clause. – If any provision of this Act shall be declared invalid or unconstitutional, the remaining provisions not otherwise affected shall remain in force.

SEC. 9. Repealing Clause. – Any laws, decrees, ordinances, or administrative circulars not consistent with any provision of this Act are hereby amended, repealed, or modified accordingly.

SEC. 10. Effectivity. – This Act shall take effect fifteen (15) days following its publication in the Official Gazette or in at least two (2) newspapers of general circulation.

Approved,