

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

TWENTIETH CONGRESS
Second Regular Session

House Bill No. **10728**



Introduced by **Rep. ANGELO MARCOS BARBA**
2nd District, Ilocos Norte

EXPLANATORY NOTE

More than three (3) decades after the enactment of the Local Government Code (LGC) of 1991, local government units (LGUs) continue to bear primary responsibility for delivering essential public services and implementing local development programs. While the *Mandanas-Garcia* ruling¹ increased the overall National Tax Allotment (NTA) of LGUs, it did not address the structural inequities embedded in the distribution of national transfers.

Municipalities remain particularly disadvantaged. Despite serving around sixty percent (60%)² of the country's population and delivering critical services such as healthcare, agriculture, local infrastructure, disaster response, and social welfare,³ municipalities receive only thirty-four percent (34%)⁴ of the NTA. In 2023, cities generated and spent approximately ₱10,966⁵ *per capita* on average, compared to only ₱3,186⁶ *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

¹*Mandanas v. Ochoa*, G.R. Nos. 199802 & 208488, July 3, 2018

²Philippine Statistics Authority. (2020). 2020 Census of Population and Housing (CPH): Population counts by region, province, city, and municipality. PSA.

³Local Government Code of 1991, Republic Act No. 7160 Section 17. (1991)

⁴Local Government Code of 1991, Republic Act No. 7160 Section 285. (1991)

⁵Bureau of Local Government Finance. (2023). Statement of Receipts and Expenditures (SRE): Annual Regular Income by LGU, FY 2023.

⁶*Ibid.*

national average increased from 45.65%⁷ in 2015 to 58.73%⁸ 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 measure seeks to strengthen local fiscal autonomy by granting LGUs an additional five percent (5%) share in all national taxes, to be phased 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.

This 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, immediate passage of this bill is earnestly sought.



ANGELO MARCOS BARBA

⁷Bureau of Local Government Finance. (2015). Statement of Receipts and Expenditures (SRE): Annual Regular Income by LGU, FY 2015. Department of Finance. Authors' calculations using BLGF Annual Regular Income data and PSA population data.

⁸Bureau of Local Government Finance. (2024). Statement of Receipts and Expenditures (SRE): Annual Regular Income by LGU, FY 2024. Department of Finance. Authors' calculations using BLGF Annual Regular Income data and PSA population data.

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AN ACT
STRENGTHENING LOCAL FISCAL AUTONOMY THROUGH AN
ADDITIONAL FIVE PERCENT 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.”

SECTION 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 (LGUs) 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 LGUs is necessary to enable them to deliver responsive, effective, and sustainable programs that support local growth and uphold the welfare of their constituents.

SECTION 3. Definition of Terms. – In addition to the forty percent (40%) share of LGUs in national taxes provided under Sec. 284 of Republic Act No. 7160 (R.A. No. 7160), LGUs shall be entitled to an additional share equivalent to five percent (5%) in all national taxes.

SECTION 4. *Mandatory Allocation of Space.* – The additional five percent (5%) share shall be implemented gradually at the rate of one percentage point (1%) per year, commencing in the first fiscal year following the effectivity of this Act, until the full additional 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 year, three percent (3%);
- (d) on the fourth year, four percent (4%); and
- (e) on the fifth year and thereafter, five percent (5%).

SECTION 5. *Preferential contractual terms.* – The additional five percent (5%) share provided under this Act shall be allocated among LGUs as follows:

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

SECTION 6. *Incentives.* – 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%).

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 (DOF) pursuant to existing laws:

Class	Income Classification Weight
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:

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

(2) The share of each province, city, municipality, or *barangay* under this paragraph shall be determined by:

$$\left(\frac{\text{Weighted population of the province, city, municipality, or barangay}}{\text{Total weighted population of all provinces, cities, municipalities, or barangays, as the case may be}} \right) \times 50\% \text{ of the allocation}$$

SECTION 7. Implementing Rules and Regulations. – The Department of Finance (DOF), Department of Interior and Local Government (DILG), Department of Budget and Management (DBM), and other concerned

agencies shall promulgate the rules and regulations to implement this Act not later than one hundred eighty (18) days from the effectivity of this Act.

SECTION 8. *Separability Clause.* - If any provision of this Act shall be declared valid or unconstitutional, the remaining provisions not otherwise affected shall remain in force.

SECTION 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.

SECTION 10. *Effectivity.* - This act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in two (2) newspapers of general circulation.

Approved,