

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

EIGHTEENTH CONGRESS
1st Regular Session

House Bill No. 0653



Introduced by Hon. Francis Gerald Aguinaldo Abaya

EXPLANATORY NOTE

From the time local governments had been established in the Philippines, they had always been classified, based on income, for certain purposes, among which are the determination of their financial capability, the establishment of the salary scales of local government officials and personnel and the determination of the number of *Sanggunian* or local council members.

The most recent legislation providing for the income classification of local government units (LGUs) is Executive Order No. 249 issued on July 25, 1987 by then President Corazon Aquino exercising legislative powers after the EDSA revolution. Subsequent LGU income reclassifications had been carried out through the promulgation of Department of Finance (DOF) Orders, the most recent of which is DOF Order No. 23-08 (issued on July 29, 2008).

Through time, however, the income reclassifications of local governments have evolved in such a way that an LGU's income class is not truly reflective of its financial capability particularly in generating locally sourced revenues because of the heavy reliance on the Internal Revenue Allotment (IRA) in setting the income ranges for the different classes. With the phased doubling of the IRA under the Local Government Code, it has become the biggest component of the annual regular income, which is the basis for classifying the income class of LGUs. As a result, LGUs at every level have tended to cluster in the higher classes while very few are classified in the lower classes. In addition, the wide disparities in the taxing capacities of LGUs and given further that this factor has a limited effect on the LGUs' current classification, the present system does not truly reflect the LGUs' financial capabilities and their relationship to each other within the same level.

In order to address these issues, it is imperative to give the Secretary of Finance a clear and unambiguous authority and mandate, and the flexibility to undertake regular income reclassification of provinces, cities and municipalities, so that LGUs can be better aligned with national government financial and fiscal policies.

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


FRANCIS GERALD AGUINALDO ABAYA
Representative, First District, Cavite

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AN ACT INSTITUTIONALIZING THE INCOME CLASSIFICATION OF PROVINCES, CITIES AND MUNICIPALITIES, AND FOR OTHER PURPOSES

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

1 **SECTION 1. Short Title.** – This Act shall be known as the "The Local Government
2 Units' Income Classification Act."

3
4 **SECTION 2. Declaration of Policy.** – It is the policy of the State to provide an
5 equitable and rational system of regular income classification of provinces, cities and
6 municipalities that will reflect realistically their respective financial positions.

7
8 **SECTION 3. Definition of Terms.** – As used in this Act, the following terms shall
9 mean:

10 (a) **Annual Regular Income** refers to revenues, including fees and receipts
11 actually realized which are reported yearly on cash basis by provinces,
12 cities and municipalities from regular sources, including the Internal
13 Revenue Allotment (IRA) and other shares provided for in Sections 284,
14 290, and 291 of Republic Act No. 7160, but exclusive of non-recurring
15 receipts, such as national aids, grants, financial assistance, loan proceeds,
16 sales of assets, miscellaneous income/receipts and similar others. For the
17 purpose of this Act, shares from national wealth, excise tax on tobacco,
18 incremental collection from value added tax (VAT) under R. A. No. 7643,
19 and the gross income tax paid by businesses and enterprises in Special
20 Economic Zones (ECOZONES) under R. A. No. 7916, as amended, and
21 such other shares as may be granted by law to the province, city, or
22 municipality, shall be considered as part of the annual regular income. The
23 annual regular income shall be computed from the Statement of Receipts
24 and Expenditures (SRE) maintained by the Bureau of Local Government
25 Finance of the Department of Finance.

26 (b) **Average Annual Regular Income** refers to the sum of the "annual regular
27 income", as herein defined, actually obtained by a province, city or
28 municipality during the required number of fiscal years preceding the year

1 of general income reclassification of local government units, divided by
2 such number of fiscal years as provided in Section 4 hereof.
3 (c) **Local Government Units** refer to the political subdivisions of the State,
4 namely, province, city or municipality.
5

6 **SECTION 4. *Income Classification of Provinces, Cities and Municipalities.*** – All
7 provinces, cities and municipalities shall be classified into six (6) income classes
8 according to income ranges and based on the average annual regular income for
9 three (3) fiscal years preceding the general income reclassification.
10

11 **SECTION 5. *Administrative Authority of the Secretary of Finance.*** – The
12 Secretary of Finance shall have the authority to set the income ranges and
13 undertake the regular income reclassification of all provinces, cities and
14 municipalities once every three (3) fiscal years, in order that the income classification
15 of local government units conforms with the prevailing economic conditions and the
16 overall financial status of the local governments.
17

18 **SECTION 6. *Period of Income Reclassification.*** –

19 a) The Secretary of Finance shall undertake the first general income
20 reclassification of all provinces, cities and municipalities within six (6) months after
21 the effectivity of this Act, and every three (3) years thereafter. In cases of diminishing
22 revenues, the Secretary of Finance may order the re-computation and revision of the
23 income classification of provinces, cities and municipalities to reflect the actual
24 financial situation of the local government units.
25

26 b) However, a province, city or municipality, which has been in existence for a
27 period of less than three (3) fiscal years immediately preceding the general income
28 reclassification of local government units, as herein provided, shall be classified on
29 the basis of its average annual regular income during such lesser number of fiscal
30 years.

31 c) If a province or municipality is created before the year of the general
32 reclassification of local government units, it shall be classified on the basis of the
33 aggregate net share of income from regular sources actually realized from its
34 component cities and municipalities in the case of a province, or its component
35 barangays in the case of a municipality, plus the corresponding estimated Internal
36 Revenue Allotment (IRA) of the newly created province or municipality pursuant to
37 Section 285 of Republic Act No. 7160, during the fiscal year immediately preceding
38 its creation.

39 d) The rule prescribed under the immediately preceding paragraph shall
40 likewise apply to a municipality that is converted into a city, or a city that is created
41 out of existing municipalities and/or barangays.

42 **SECTION 7. *Uses of Income Classification.*** – The income classification of
43 provinces, cities and municipalities shall, among other purposes, serve as basis for:

- 44 a) The determination of administrative and statutory aids, financial grants,
45 and other forms of assistance to local governments;
46 b) The determination of the financial capability of local government units
47 to undertake developmental programs and priority projects; and
48 c) Such other purposes as provided under existing laws and regulations.
49

1 **SECTION 8. *Guidelines in Cases Where a Fourth or Lower Income Class***
2 ***Province, City or Municipality Receives a Third or Higher Income Class***
3 ***Designation as a Result of the General Income Reclassification.*** – A Fourth or
4 lower income class province, city or municipality which gets either a First, Second or
5 Third income class designation from the general reclassification provided herein
6 shall cease to provide for additional personal services and maintain its existing
7 personnel complement prior to the reclassification, pursuant to civil service rules and
8 regulations; Provided, further, that in case of personnel transfers, resignations or
9 deaths, the local government shall not cause the filling up of the vacant position nor
10 provide for its funding until the succeeding general reclassification; and Provided,
11 finally, that in case the local government shall still exceed the limitations provided in
12 Section 325 of the LGC despite the maintenance of the status quo after it first
13 received a First, Second or Third income class designation as provided herein, this
14 shall not be considered in violation of Section 325 of the LGC.

15
16 **SECTION 9. *Effectivity of the Income Reclassification.*** – All income
17 reclassification of provinces, cities, and municipalities pursuant to this Act shall be
18 effective on January 1st of the immediate succeeding year.

19
20 **SECTION 10. *Implementing Rules and Regulations (IRR).*** – The Secretary of
21 Finance shall promulgate rules and regulations within three (3) months after the
22 effectivity of this Act, and may continue to issue guidelines to carry out the provisions
23 of this Act.

24
25 **SECTION 11. *Saving Clause.*** – All existing income classifications of provinces,
26 cities and municipalities shall continue to be in force and effect until superseded by
27 the issuance of a new income classification by the Secretary of Finance pursuant to
28 this Act.

29
30 **SECTION 12. *Suppletory Application of Existing Laws.*** – The provisions of
31 Republic Act No. 7160, otherwise known as the Local Government Code of 1991,
32 and other laws consistent with this Act shall have suppletory effect.

33
34 **SECTION 13. *Repealing Clause.*** – Executive Order No. 249, dated July 25, 1987 is
35 hereby repealed. All laws, presidential decrees, executive orders, presidential
36 proclamations, rules and regulations or parts thereof contrary to or inconsistent with
37 this Act are hereby repealed, superseded or modified accordingly.

38
39 **SECTION 14. *Separability Clause.*** – Any portion or provision of this Act that may
40 be declared unconstitutional or invalid shall not have the effect of nullifying other
41 portions or provisions hereof, as long as such remaining portions or provisions can
42 still subsist and be given effect in their entirety.

43
44 **SECTION 15. *Effectivity.*** – This Act shall take effect fifteen (15) days after its
45 complete publication in the Official Gazette or in at least two (2) newspapers of
46 general circulation.

47
48 Approved,