

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

NINETEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 6121



Introduced by Representative **WOWO FORTES**

EXPLANATORY NOTE

Executive Order No. 249 of former Pres. Corazon Aquino provided for the income classification of Local Government Units (LGUs) which is used to determine their financial capability to fund development projects and priority needs and to determine the number of *Sanggunian* or council members in each locality. Republic Act No. 7160 or the Local Government Code of 1991 also impose limitations and policy on LGUs income classification.

The LGUs income classification has an impact on reclassification of its lands and compensation of its local officials and employees. Further, its regular income limits the amount of debt servicing and the use of provincial, city, and municipal funds for personnel services and procurement through personal canvass.

However, due to the Internal Revenue Allotment (IRA), now National Tax Allotment (NTA), that affects the income ranges for the different LGU classes, the income class does not accurately reflect the financial capability of an LGU specifically in generating locally-sourced revenue. The IRA has become the biggest component of the annual regular income, which is basically the basis for classifying the income class of LGUs.

With this, more LGUs are classified under higher classes while a number of them are classified under lower classes. This also makes a wide difference in the taxing capacities of LGUs. It is important that the LGUs have clear and more comprehensive income classification specially that Executive Order No. 138, series of 2021 or the full devolution of certain functions of the executive branch to local governments of former President Rodrigo Duterte shall be implemented. The said devolution definitely has impacts on fiscal sustainability, service delivery and as well as fiscal and project implementation of LGUs.

Through the new income classification, LGUs can better position themselves in accordance with the National Government's financial and fiscal policies. An upgrade in the income classification in LGUs will also definitely bring confidence in fulfilling the funding requirements of development programs, projects within every locality.

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


ATTY. WOWO FORTES
Representative
Second District, Province of Sorsogon

HOUSE OF REPRESENTATIVES

H.B. NO. 6121

Introduced by Representative **WOWO FORTES**

**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 Philippines in the Congress assembled:

SECTION 1. *Short Title.* - This Act shall be known as The Local Government Units Income Classification Act of 2022”.

SEC. 2. *Declaration of Policy.* - It is the policy of the State to provide an equitable and rational systems of regular income classification of provinces, cities and municipalities that will truly reflect their respective financial positions.

SEC. 3. *Definition of Terms.* - As used in this Act, the following terms shall mean:

(a) “*Annual Regular Income*” refers to revenues, including fees and receipts actually realized which are reported yearly on cash basis by provinces, cities and municipalities from regular sources, including the National Tax Allotment (NTA) and other shares of local government units as maybe provided by law;

(b) “*Average Annual Regular Income*” refers to the sum of the “annual regular income”, as herein defined, actually obtained by a province, city or municipality during the required number of fiscal years preceding the year of general income reclassification of local government units, divided by such number of fiscal years as provided in Section 5 hereof; and

(c) “*Local Government Units (LGUs)*” refer to the territorial and political subdivisions of the Republic of the Philippines comprising all the provinces, cities, municipalities, for purposes of this Act.

SEC. 4. *Computation of Annual Regular Income.* – The annual regular income shall be computed from the Statements of Receipts and Expenditures (SRE) maintained by the Bureau of Local Government Finance of the Department of Finance.

SEC. 5. *Income Classification of Provinces and Cities.* - All provinces and cities shall be classified into six (6) income classes according to income ranges and based on the average annual regular income for three (3) fiscal years preceding the general income reclassification, as follows:

- (a) First Class - provinces and cities that have obtained an average annual income of Eight Hundred Million Pesos (P800,000,000.00) or more;
- (b) Second Class - provinces and cities that have obtained an average annual income of Six Hundred Fifty Million Pesos (P650,000,000.00) or more but less than Eight Hundred Million Pesos (P800,000,000.00);
- (c) Third Class - provinces and cities that have obtained an average annual income of Five Hundred Million Pesos (P500,000,000.00) or more but less than Six Hundred Fifty Million Pesos (P650,000,000.00);
- (d) Fourth Class - provinces and cities that have obtained an average annual income of Three Hundred Fifty Million Pesos (P350,000,000.00) or more but less than Five Hundred Million Pesos (P500,000,000.00);
- (e) Fifth Class - provinces and cities that have obtained an average annual income of Two Hundred Million Pesos (P200,000,000.00) or more, but less than Three Hundred Fifty Million Pesos (P350,000,000.00); and
- (f) Sixth Class - provinces and cities that have obtained an average annual income of less than Two Hundred Million Pesos (P200,000,000.00)

SEC. 6. *Income Classification of Municipalities.* - All municipalities shall be classified into six (6) income classes according to income ranges and based on the average annual regular income for three (3) fiscal years preceding the general income reclassification, as follows:

- (a) First Class - municipalities that have obtained an average annual income of Ninety Million Pesos (P90,000,000.00) or more;
- (b) Second Class - municipalities that have obtained an average annual income of Eighty Million Pesos (P80,000,000.00) or more, but less than Ninety Million Pesos (P90,000,000.00);
- (c) Third Class - municipalities that have obtained an average annual income of Sixty Million Pesos (P60,000,000.00) or more but less than Eighty Million Pesos (P80,000,000.00);
- (d) Fourth Class - municipalities that have obtained an average annual income of Forty Million Pesos (P40,000,000.00) or more but less than Sixty Million Pesos (P60,000,000.00);
- (e) Fifth Class - municipalities that have obtained an average annual income of Thirty Million Pesos (P30,000,000.00) or more but less than Forty Million Pesos (P40,000,000.00); and

- (f) Sixth Class - municipalities that have obtained an average annual income of less than Thirty Million Pesos (P30,000,000.00).

SEC. 7. *Administrative Authority of the Secretary of Finance.* – The Secretary of Finance shall have the authority to set the income ranges and undertake the regular income reclassification of all provinces, cities and municipalities once every three (3) fiscal years, in order that the income classification of LGUs conforms with the prevailing economic conditions and the overall financial status of the local governments.

SEC. 8. *Period of Income Reclassification.* -

- (a) The Secretary of Finance shall undertake the first general income reclassification of all provinces, cities and municipalities within six (6) months after the effectivity of this Act, and every three (3) years thereafter. *Provided however,* a province, city or municipality, which has been in existence for a period of less than three (3) fiscal years immediately preceding the general income reclassification of LGUs, as herein provided, shall be classified on the basis of its average annual regular income during such lesser number of fiscal years.

In cases of diminishing revenues, the Secretary of Finance may order the recomputation and revision of the income classification of provinces, cities and municipalities to reflect the actual financial situation of the LGUs. *Provided that,* the income classification of the LGUs shall not fall below its current classification or provided under Section 8 of the Local Government Code of 1991, as amended.

- (b) A province or municipality created before the year of the general reclassification of LGUs shall be classified on the basis of the aggregate net share of income from regular sources actually realized from its component cities and municipalities in the case of a province, or its component barangays in the case of a municipality, plus the corresponding estimated National Tax Allotment (NTA) of the newly created province or municipality pursuant to Section 285 of the Local Government Code of 1991, as amended, during the fiscal year immediately preceding its creation.

The rule prescribed under the immediately preceding paragraph shall likewise apply to a municipality converted into a city, or a city created out of existing municipalities and/or cluster of barangays.

SEC. 9. *Uses of Income Classification.* - The income classification of provinces, cities and municipalities shall, among other purposes, serve as a basis for:

- (a) The determination of administrative and statutory aids, financial grants, and other forms of assistance to local governments;
- (b) The determination of the financial capability of LGUs to undertake developmental programs and priority projects; and

(c) Such other purposes as provided under existing laws and regulations.

SEC. 10. *Guidelines in Cases Where a Fourth or Lower Income Class Province, City or Municipality Receives a Third or Higher Income Class Designation as a Result of the General Income Reclassification.* – A Fourth or lower income class province, city or municipality which gets either a First, Second or Third income class designation from the general reclassification provided herein may maintain its existing personnel complement prior to the reclassification, pursuant to civil service rules and regulations: *Provided that*, in case of personnel transfers, resignations or deaths, the local government shall not cause the filling up of the vacant position nor provide for its funding until the succeeding general reclassification: *Provided further that*, in case the LGU shall still exceed the limitations provided in Section 325 of the Local Government Code of 1991, as amended, despite the maintenance of the status quo after it first received a First, Second or Third income class designation as provided herein, shall not be considered a violation thereof.

SEC. 11. *Effectivity of the Income Reclassification.* - All income reclassification of provinces, cities, and municipalities pursuant to this Act shall be effective on the 1st day of January of the immediate succeeding year.

SEC. 12. *Implementing Rules and Regulations (IRR).* - The Secretary of Finance, in consultation with the Department of the Interior and Local Government, Department of Budget and Management, Bureau of Local Government Finance, and the Leagues of Provinces, Cities and Municipalities, shall promulgate the necessary rules and regulations within ninety (90) days after the effectivity of this Act.

SEC. 13. *Saving Clause.* - All existing income classifications of provinces, cities and municipalities shall continue to be in force and effect until superseded by the issuance of a new income classification by the Secretary of Finance pursuant to this Act.

SEC. 14. *Suppletory Application of Existing Laws.* - The provisions of the Local Government Code of 1991, as amended, and other laws consistent with this Act shall have suppletory effect.

SEC. 15. *Repealing Clause.* - Executive Order No. 249, dated July 25, 1987 is hereby repealed. All laws, presidential decrees, executive orders, presidential proclamations, rules and regulations or parts thereof contrary to or inconsistent with this Act are hereby repealed, amended or modified accordingly.

SEC. 16. *Separability Clause.* – If, for any reason, any section or provision of this Act is held unconstitutional or invalid, the other sections or provisions hereof shall remain in full force and effect.

SEC. 17. *Effectivity.* - This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,