

NINETEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)



23 FEB 21 P 6 :28

SENATE

S. No. 1913

RECEIVED BY: _____

Introduced by SENATOR RAMON BONG REVILLA, JR.

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

EXPLANATORY NOTE

The income classification of the Local Government Units (LGUs) is directly linked with the determination of administrative and statutory aids, financial grants, and other forms of assistance to local governments, their financial capability to undertake developmental programs and priority projects, and establish the entitlement of their officials and personnel to salary and other emoluments.

The most recent income reclassification was issued by the Finance Secretary in July 2008 through Department of Finance Order No. 23-08. There should have been another reclassification in 2012 but this was put on hold due to legal issues. Thus, the reclassification of LGUs is ten years overdue and the last year covered in the computation of the average annual income is 2006 yet, making the revenue figures more than a decade old.

In the absence of regular and timely income reclassification, the LGUs are constrained to accessing programs and opportunities which could translate to services for their constituents, and delimited in creating certain positions crucial to their service delivery.

This measure seeks to grant authority to the Secretary of Finance to set income targets and undertake the periodic income reclassification of LGUs, and conduct the reclassification by DOF every three (3) years to synchronize with the term of local elective officials, and use of the DOF-BLGF's Statement of Receipts and Expenditures for setting the income ranges for the purpose of LGU income reclassification.

The measure will enable the DOF to effectively and systematically determine the LGU financial capability and fiscal position that are reflective of the economy and the state of local development.

In view of administrative efficiency in the LGU affairs, the approval of this measure is earnestly sought.


RAMON BONG REVILLA, JR.

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

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Section 1. *Short Title.* – This Act shall be known as the “*The Local Government Units’ Income Classification Act of 2023.*”

Sec. 2. *Declaration of Policy.* – it is the policy of the State to provide an equitable and rational system of regular income classification of provinces, cities and municipalities that will realistically reflect their respective financial position.

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 in national wealth, but exclusive of non-recurring receipts, such as national aids, grants, financial assistance, loan proceeds, sales of assets, miscellaneous income/receipts and similar others. For the purpose of this Act, shares from national wealth, excise tax on tobacco, incremental collection from value added tax (VAT) under Republic Act 7643, and the gross income tax paid by business and enterprises in Special Economic Zones (ECOZONES) under Republic Act 7916, as amended, and such other shares as may be granted by law to the province, city, or municipality, shall be considered as part of the annual regular income. The annual regular income shall be

1 computed from the Statement of Receipts and Expenditure (SRE) maintained
2 by the Bureau of Local Government Finance of the Department of Finance;

3 b. "*Average Annual Regular Income (AARI)*" refers to the sum of the "annual
4 regular income", as herein defined, actually obtained by a province, city or
5 municipality during the required number of fiscal years preceding the year of
6 general income reclassification of local government units, divided by such
7 number of fiscal years as provided in Section 4 hereof; and

8 c. "*Local Government Units (LGUs)*" refer to the political subdivisions of the State,
9 namely province, city or municipality.

10 *Sec. 4. Income Classification of Provinces, Cities and Municipalities.* – All
11 provinces, cities and municipalities shall be classified into six (6) income classes
12 according to income ranges and based on the AARI for three (3) fiscal years preceding
13 the general income reclassification.

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

20 *Sec. 6. Period of Income Reclassification.* –

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

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

31 c. If a province or municipality is created before the year of the general
32 reclassification of LGUs, it shall be classified on the basis of the estimated

1 aggregate net share of income from regular sources from its component cities
2 and municipalities in the case of a province, or its component barangays in the
3 case of a municipality, plus the corresponding estimated NTA of the newly
4 created province or municipality pursuant to Section 285 of Republic Act 7160,
5 during the fiscal year immediately preceding its creation.

- 6 d. The rule prescribed under the immediately preceding paragraph shall likewise
7 apply to a municipality that is converted into a city, or a city that is created out
8 of existing municipalities and/or barangays.

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

- 11 a. The determination of administrative and statutory aids, financial grants, and
12 other forms of assistance to local governments;
- 13 b. The determination of the financial capability of LGUs to undertake
14 developmental programs and priority projects;
- 15 c. The total annual or supplemental appropriation for personal services of a LGUs
16 for one (1) fiscal year as provided in Section 325 (a) of Local Government Code
17 (LGC) of 1991;
- 18 d. Compensation Adjustment for LGU Personnel as provide under Section 10 of
19 Republic Act No. 11466 (Salary Standardization Law of 2019);
- 20 e. The creation of a new LGU wherein Section 8 of the LGC of 1991 provides that
21 the division and merger of existing LGU shall not downgrade the income
22 classification of the original unit.
- 23 f. The number of elective members in the Sangguniang Bayan, as provided under
24 Section 2 of Republic Act 6637;
- 25 g. Issuance of a free patent title to residential lands as provided under Republic
26 Act 10023;
- 27 h. The minimum wage of domestic workers as provided under Section 24 of
28 Republic Act 10361;
- 29 i. LGUs to insure its properties with GSIS in compliance with Section 5 of Republic
30 Act 656 or Property Insurance Law;

- 1 j. Provides limitation on the percentage of agricultural land are that can be
2 reclassified and provided for the manner of their utilization or disposition as
3 stipulated in Section 20 of the LGC; and
4 k. Such other purposes as provided under existing laws and regulations.

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

18 *Sec. 9. Effectivity of the Income Reclassification.* – All income reclassification
19 of provinces, cities, and municipalities pursuant to this Act shall be effective on January
20 1st of the immediately succeeding year.

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

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

28 *Sec. 12. Suppletory Application of Existing Laws.* - The provisions of Republic
29 Act 7160, otherwise known as the "Local Government Code of 1991", and other laws
30 consistent with this Act shall have suppletory effect.

1 Sec. 13. *Separability Clause.* – If any provision of this Act is declared invalid or
2 unconstitutional, other provisions hereof which are not affected thereby shall remain
3 in full force and effect.

4 Sec. 14. *Repealing Clause.* – Executive Order No, 249, dated July 25, 1987, is
5 hereby repealed. All laws, presidential decrees, executive orders, presidential
6 proclamations, rules and regulations or parts thereof contrary to or inconsistent with
7 this Act are hereby repealed, superseded or modified accordingly.

8 Sec. 15. *Effectivity.* – This Act shall take effect fifteen (15) days after its
9 publication either in the *Official Gazette* or in two (2) newspapers of general circulation
10 in the Philippines.

Approved,