



S E N A T E

S. No. 2165

PREPARED BY THE COMMITTEE ON LOCAL GOVERNMENT
JOINT WITH THE COMMITTEE ON FINANCE, WITH
SENATORS EJERCITO, REVILLA JR., GATCHALIAN,
VILLANUEVA AND VILLAR (C.) AS AUTHORS THEREOF

AN ACT INSTITUTIONALIZING THE AUTOMATIC
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 Congress assembled:*

1 SECTION 1. *Short Title.* – This Act shall be known as
2 the “Automatic Income Classification of Local Government
3 Units Act”.

4 SEC. 2. *Declaration of Policy.* – It is the policy of the
5 State to provide a more responsive approach to promote
6 local autonomy and enable local government units to
7 realize their full economic potential. In line with this, the

1 State recognizes the need to determine the financial
2 capability and fiscal position of the local government units.

3 Towards this end, the State shall formulate policies
4 and guidelines for an equitable and rational system of
5 income classification to effectively distribute national
6 resources based on the needs of the communities.

7 SEC. 3. *Definition of Terms.* – As used in this Act:

8 (a) *Actual Growth Rate* refers to the percentage
9 increase in the aggregate annual regular income for
10 provinces, cities and municipalities from the last income
11 reclassification;

12 (b) *Annual Regular Income* refers to revenues,
13 including fees and receipts actually realized which are
14 reported yearly on cash basis by provinces, cities and
15 municipalities from regular sources, including the National
16 Tax Allotment (NTA) and other shares in national wealth,
17 but exclusive of non-recurring receipts, such as national
18 aids, grants, financial assistance, loan proceeds, sales of
19 assets, miscellaneous income/receipts and similar others.

1 For the purpose of this Act, shares from national wealth,
2 excise tax on tobacco, incremental collection from value
3 added tax (VAT) under Republic Act (R. A.) No. 7643, and
4 the gross income tax paid by business and enterprises in
5 Special Economic Zones under R. A. No. 7916, otherwise
6 known as “The Special Economic Zone Act of 1995” as
7 amended, and such other shares as may be granted by law
8 to the province, city, or municipality, shall be considered as
9 part of the annual regular income. The annual regular
10 income shall be computed from the Statement of Receipts
11 and Expenditures submitted by the local government units
12 pursuant to the guidelines issued by the Department of
13 Finance (DOF);

14 (c) *Average Annual Regular Income* refers to the sum
15 of the annual regular income, as herein defined, actually
16 obtained by a province, city, or municipality during the
17 required number of fiscal years preceding the year of
18 general income reclassification of local government units,
19 divided by such number of fiscal years as provided in
20 Section 4 hereof;

1 (d) *Local Government Units (LGUs)* refer to the
2 political subdivisions of the State, namely province, city,
3 or municipality;

4 (e) *LGU Leagues* refer to the Union of Local
5 Authorities of the Philippines (ULAP), League of
6 Provinces of the Philippines (LPP), League of
7 Municipalities of the Philippines (LMP), and the League
8 of Cities of the Philippines (LCP); and

9 (f) *Schedule of Income Classification* refers to the
10 updated income classification of LGUs periodically issued
11 by the Secretary of Finance pursuant to Section 6 of this
12 Act.

13 SEC. 4. *Income Classification of Provinces, Cities, and*
14 *Municipalities.* –

15 (a) Provinces shall be classified into six (6) classes,
16 according to income ranges and based on the average
17 annual regular income for three (3) fiscal years preceding a
18 general income reclassification. The classification shall be
19 as follows:

1 (1) First Class – The Provinces that have obtained
2 an average annual regular income of One billion five
3 hundred million pesos (P1,500,000,000.00) or more;

4 (2) Second Class – The Provinces that have
5 obtained an average annual regular income of One billion
6 two hundred million pesos (P1,200,000,000.00) or more,
7 but less than One billion five hundred million pesos
8 (P1,500,000,000.00);

9 (3) Third Class – The Provinces that have obtained
10 an average annual regular income of Nine hundred
11 million pesos (P900,000,000.00) or more, but less than
12 One billion two hundred million pesos (1,200,000,000.00);

13 (4) Fourth Class – The Provinces that have
14 obtained an average annual regular income of Six
15 hundred million pesos (P600,000,000.00) or more, but
16 less than Nine hundred million pesos (P900,000,000.00);

17 (5) Fifth Class – The Provinces that have obtained
18 an average annual regular income of Three hundred

1 million pesos (P300,000,000.00) or more, but less than
2 Six hundred million pesos (P600,000,000.00); and

3 (6) Sixth Class – The Provinces that have obtained
4 an average annual regular income of less than Three
5 hundred million pesos (P300,000,000.00).

6 (b) Cities shall be classified into six (6) classes,
7 according to income ranges and based on the average
8 annual regular income for three (3) fiscal years preceding
9 a general income reclassification. The classification shall
10 be as follows:

11 (1) First Class – The Cities that have obtained an
12 average annual regular income of One billion three
13 hundred million pesos (P1,300,000,000.00) or more;

14 (2) Second Class – The Cities that have obtained
15 an average annual regular income of One billion pesos
16 (P1,000,000,000.00) or more, but less than One billion
17 three hundred million pesos (P1,300,000,000.00);

18 (3) Third Class – The Cities that have obtained an
19 average annual regular income of Eight hundred million

1 pesos (P800,000,000.00) or more, but less than One
2 billion pesos (P1,000,000,000.00);

3 (4) Fourth Class – The Cities that have obtained
4 an average annual regular income of Five hundred
5 million pesos (P500,000,000.00) or more, but less than
6 Eight hundred million pesos (P800,000,000.00);

7 (5) Fifth Class – The Cities that have obtained an
8 average annual regular income of Three hundred million
9 pesos (P300,000,000.00) or more, but less than Five
10 hundred million pesos (P500,000,000.00); and

11 (6) Sixth Class – The Cities that have obtained an
12 average annual regular income of less than Three
13 hundred million pesos (P300,000,000.00).

14 (c) Municipalities shall be classified into six (6)
15 classes, according to income ranges and based on the
16 average annual regular income for three (3) fiscal years
17 preceding a general income reclassification. The
18 classification shall be as follows:

1 (1) First Class – The Municipalities that have
2 obtained an average annual regular income of Two
3 hundred million pesos (P200,000,000.00) or more;

4 (2) Second Class – The Municipalities that have
5 obtained an average annual regular income of One
6 hundred sixty million pesos (P160,000,000.00) or more,
7 but less than Two hundred million pesos
8 (P200,000,000.00);

9 (3) Third Class – The Municipalities that have
10 obtained an average annual regular income of One
11 hundred thirty million (P130,000,000.00) or more, but
12 less than One hundred sixty million pesos
13 (P160,000,000.00);

14 (4) Fourth Class – The Municipalities that have
15 obtained an average annual regular income of Ninety
16 million pesos (P90,000,000.00) or more, but less than One
17 hundred thirty million pesos (P130,000,000.00);

18 (5) Fifth Class – The Municipalities that have
19 obtained an average annual regular income of Sixty

1 million pesos (P60,000,000.00) or more but less than
2 Ninety million pesos (P90,000,000.00); and

3 (6) Sixth Class – The Municipalities that have
4 obtained an average annual regular income of less than
5 Sixty million pesos (P60,000,000.00).

6 (d) If a province or municipality is created
7 before the regular reclassification of LGUs, the Secretary
8 of Finance shall have the authority to classify the
9 concerned LGU on the basis of the estimated aggregate
10 net share of income from regular sources from its
11 component cities and municipalities in the case of a
12 province, or its component barangays in the case of a
13 municipality, including the corresponding estimated NTA
14 of the newly created province or municipality pursuant to
15 Section 285 of R. A. No. 7160 or the Local Government
16 Code of 1991, during the fiscal year immediately
17 preceding its creation. This rule shall likewise apply to a
18 municipality that is converted into a city, or a city that is
19 created out of existing municipalities and/or barangays:

1 *Provided*, That the income ranges herein shall be
2 adjusted and updated by the Secretary of Finance every
3 three (3) years based on the standards provided in the
4 succeeding section.

5 SEC. 5. *Administrative Authority of the Secretary of*
6 *Finance.* – The Secretary of Finance, in consultation with
7 the LGU Leagues, shall have the authority to adjust the
8 income ranges herein provided based on the actual growth
9 rate of the annual regular income from the last income
10 reclassification, and undertake the regular income
11 reclassification once every three (3) years, in order that the
12 income classification of LGUs may continue to conform
13 with the prevailing economic conditions and the overall
14 financial status of local governments: *Provided*, That the
15 Secretary of Finance may consider inflation and gross
16 regional domestic product in evaluating if an LGU has
17 experienced prolonged economic shocks that may warrant
18 retaining its current income classification: *Provided*,
19 *further*, That the Secretary of Finance shall upgrade the
20 income classification of an LGU if the LGU has shown

1 growth in real per capita locally sourced revenue every
2 year for the past three (3) years.

3 SEC. 6. *Period of Automatic Income Reclassification.* –

4 (a) The first general income reclassification shall be
5 made within six (6) months after the effectivity of this Act,
6 and every three (3) years thereafter.

7 (b) The DOF shall, within sixty (60) days from the
8 regular income reclassification, issue the appropriate
9 Department Order containing the schedule of income
10 classification which shall serve as certification of the
11 income classification of LGUs. The schedule of income
12 classification shall be automatically updated by the Bureau
13 of Local Government Finance (BLGF) of the DOF every
14 three (3) years: *Provided, however,* That the non-issuance
15 of said Department Orders in the succeeding regular
16 reclassification within the said period shall not suspend
17 the effects of the automatic income reclassification.

1 (c) No readjustment of classification shall be made
2 more than once in three (3) consecutive calendar years
3 after the first general reclassification provided herein.

4 SEC. 7. *Uses of Income Classification.* – The income
5 classification of provinces, cities, and municipalities shall,
6 among other purposes, serve as basis for the following:

7 (a) Determination of administrative and statutory
8 aids, financial grants, and other forms of assistance to local
9 governments;

10 (b) Determination of the financial capability of LGUs
11 to undertake developmental programs and priority
12 projects;

13 (c) Total annual or supplemental appropriation for
14 personal services of an LGU for one (1) fiscal year as
15 provided in Section 325(a) of R. A. No. 7160;

16 (d) Creation of a new LGU wherein Section 8 of R. A.
17 No. 7160 provides that the division and merger of existing
18 LGU shall not downgrade the income classification of the
19 original unit;

1 (e) Number of elective members in the *Sangguniang*
2 *Panlalawigan* and the *Sangguniang Bayan* as provided under
3 Section 2 of R. A. No. 6637;

4 (f) Issuance of a free patent title to residential
5 lands as provided under R. A. No. 10023;

6 (g) Minimum wage of domestic workers as provided
7 under Section 24 of R. A. No. 10361;

8 (h) LGUs to insure its properties with the
9 Government Service Insurance System (GSIS) in compliance
10 with Section 5 of R. A. No. 656 or the Property Insurance
11 Law;

12 (i) Limitation on the percentage of agricultural land
13 area that can be reclassified and the manner of their
14 utilization or disposition as stipulated in Section 20 of R. A.
15 No. 7160; and

16 (j) Such other purposes as provided under existing
17 laws and regulations.

18 SEC. 8. *Guidelines in Cases Where a Fourth or Lower*
19 *Income Class LGU Receives a Third or Higher Income*

1 *Class Designation as a Result of the First General Income*
2 *Reclassification.* – A fourth or lower income class LGU
3 which is reclassified as first, second, or third income class
4 following the first general income reclassification provided
5 herein shall be exempted from providing for additional
6 personal services and may maintain existing personal
7 services prior to the reclassification, pursuant to civil
8 service rules and regulations, until the next fiscal year. In
9 case of personnel transfers, resignation or deaths, the local
10 government may not cause the filling up of vacant position
11 nor provide for its funding until the succeeding fiscal year.

12 LGUs exceeding the limitations provided in Section
13 325(a) of R. A. No. 7160 despite maintaining the status quo
14 after it received a first, second, or third income class
15 designation following the first general income
16 reclassification shall not be considered in violation of
17 Section 325 of R. A. No. 7160.

18 *SEC. 9. Effectivity of the Income Reclassification.* –
19 The first income reclassification of provinces, cities, and

1 municipalities pursuant to this Act and its uses as
2 provided under Section 7 herein shall take effect on
3 January 1st of the immediately succeeding year following
4 the issuance of the table of income classification by the
5 Secretary of Finance as mandated by this Act.

6 SEC. 10. *Transitory Provision.* – An LGU whose
7 average annual regular income falls below the income
8 range based on the first general income reclassification as
9 provided in this Act shall retain its current income class:
10 *Provided, however,* That if its income continues to fall
11 below the income range in the next reclassification, the
12 concerned LGU shall be downgraded to its corresponding
13 income class: *Provided, further,* That during the first
14 income reclassification, no official or employee in the
15 concerned LGU shall suffer any diminution of salary and
16 benefits that he or she is actually receiving at the time of
17 the effectivity of this Act.

18 SEC. 11. *Implementing Rules and Regulations (IRR).* –
19 The DOF, in coordination with the Department of Budget

1 and Management (DBM), and in consultation with the LGU
2 Leagues, shall promulgate the necessary implementing
3 rules and regulations within three (3) months from the
4 effectivity of this Act.

5 SEC. 12. *Separability Clause.* – If any portion or
6 provision of this Act is declared unconstitutional, the
7 remainder of this Act or any provisions not affected
8 thereby shall remain in force and effect.

9 SEC. 13. *Repealing Clause.* – Section 10 of R. A. No.
10 11466 or the Salary Standardization Law of 2019 is hereby
11 repealed. Any law, presidential decree or issuance,
12 executive order, letter of instruction, rule or regulation
13 inconsistent with the provisions of this Act is hereby
14 repealed or modified accordingly.

15 SEC. 14. *Effectivity.* – This Act shall take effect fifteen
16 (15) days following its complete publication in a newspaper
17 of general circulation.

Approved,