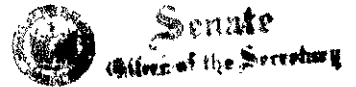


SIXTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
Second Regular Session)



'15 FEB 23 P 6 :05

SENATE

Senate Bill No. 2664

RECEIVED BY: *[Signature]*

Introduced by Senator FERDINAND R. MARCOS, JR.

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

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 income classification of local government units (LGUs) is based on Executive Order No. 249 issued on July 25, 1987 by then President Corazon Aquino. 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, which was 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.

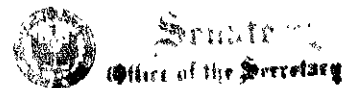
It is noteworthy to state that on 21 September 2012, the Department of Justice issued a legal opinion that under EO 249, "the Secretary of Finance has the authority to reclassify, every four years, all provinces, cities (except Quezon City and Manila) and municipalities based on the schedule of their annual income during the last four consecutive calendar years, **but his authority with respect to revising or modifying such schedule of income or "income ranges" only extends to recommending such appropriate changes or revisions to the proper authority.** x x x "the proper authority" to modify, revise or amend the applicable provisions of law is the Philippine legislature, namely, the two houses of Congress".

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

For the reasons cited above, the early passage of this bill is earnestly requested.



FERDINAND R. MARCOS, JR.



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SENATE

Senate Bill No. 2664

RECEIVED BY: *Jr.*

Introduced by SENATOR FERDINAND R. MARCOS, JR.

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 Congress assembled:

1 **SEC. 1. Short Title.** – This Act shall be known as the **"THE LOCAL GOVERNMENT**
2 **UNITS' INCOME CLASSIFICATION ACT."**

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

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

24 (b) **Average Annual Regular Income** refers to the sum of the "annual regular
25 income", as herein defined, actually obtained by a province, city or

1 municipality during the required number of fiscal years preceding the year of
2 general income reclassification of local government units, divided by such
3 number of fiscal years as provided in Section 4 hereof.

4 (c) **Local Government Units** refer to the political subdivisions of the State, namely,
5 province, city or municipality.

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

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

18
19 **SEC. 6. Period of Income Reclassification.** – a) The Secretary of Finance shall
20 undertake the first general income reclassification of all provinces, cities and
21 municipalities within six (6) months after the effectivity of this Act, and every three (3)
22 years thereafter. In cases of diminishing revenues, the Secretary of Finance may order
23 the re-computation and revision of the income classification of provinces, cities and
24 municipalities to reflect the actual financial situation of the local government units.

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

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

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

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

- 3 a) The determination of administrative and statutory aids, financial grants,
4 and other forms of assistance to local governments;
5 b) The determination of the financial capability of local government units to
6 undertake developmental programs and priority projects; and
7 c) Such other purposes as provided under existing laws and regulations.
8

9 **SEC. 8. Guidelines in Cases Where a Fourth or Lower Income Class Province, City
10 or Municipality Receives a Third or Higher Income Class Designation as a Result of the
11 General Income Reclassification.** – A Fourth or lower income class province, city or
12 municipality which gets either a First, Second or Third income class designation from the
13 general reclassification provided herein shall cease to provide for additional personal
14 services and maintain its existing personnel complement prior to the reclassification,
15 pursuant to civil service rules and regulations; Provided, further, that in case of
16 personnel transfers, resignations or deaths, the local government shall not cause the
17 filling up of the vacant position nor provide for its funding until the succeeding general
18 reclassification; and Provided, finally, that in case the local government shall still
19 exceed the limitations provided in Section 325 of the LGC despite the maintenance of
20 the status quo after it first received a First, Second or Third income class designation as
21 provided herein, this shall not be considered in violation of Section 325 of the LGC.
22

23 **SEC. 9. Effectivity of the Income Reclassification.** – All income reclassification of
24 provinces, cities, and municipalities pursuant to this Act shall be effective on January 1st
25 of the immediate succeeding year.
26

27 **SEC. 10. Implementing Rules and Regulations (IRR).** – The Secretary of Finance
28 shall promulgate rules and regulations within three (3) months after the effectivity of this
29 Act, and may continue to issue guidelines to carry out the provisions of this Act.
30

31 **SEC. 11. Saving Clause.** – All existing income classifications of provinces, cities
32 and municipalities shall continue to be in force and effect until superseded by the
33 issuance of a new income classification by the Secretary of Finance pursuant to this
34 Act.
35

36 **SEC. 12. Suppletory Application of Existing Laws.** – The provisions of Republic Act
37 No. 7160, otherwise known as the Local Government Code of 1991, and other laws
38 consistent with this Act shall have suppletory effect.

1 **SEC. 13. Repealing Clause.** – Executive Order No. 249, dated July 25, 1987 is
2 hereby repealed. All laws, presidential decrees, executive orders, presidential
3 proclamations, rules and regulations or parts thereof contrary to or inconsistent with this
4 Act are hereby repealed, superseded or modified accordingly.

5
6 **SEC. 14. Separability Clause.** – Any portion or provision of this Act that may be
7 declared unconstitutional or invalid shall not have the effect of nullifying other portions
8 or provisions hereof, as long as such remaining portions or provisions can still subsist and
9 be given effect in their entirety.

10
11 **SEC. 15. Effectivity.** – This Act shall take effect fifteen (15) days after its complete
12 publication in the Official Gazette or in at least two (2) newspapers of general
13 circulation.

14
15 *Approved.*