



HOUSE OF REPRESENTATIVES

H. No. 7006

BY REPRESENTATIVES GATCHALIAN, VILLA, FORTES, TARRIELA, FRESNEDI, ACHARON, CORVERA, ZUBIRI, MARIANO-HERNANDEZ, TAN (K.M.), CRUZ (R.), MORDEN, PALMA, BORDADO, MARQUEZ, PLEYTO, DEL MAR, PANALIGAN, NOGRALES (M.I.), DOMINGO, SUAN, DE VENECIA, CAJAYON-UY, NISAY, KHO (R.), PEÑA, ROQUE, GARCIA (D.), PLAZA, GUTIERREZ, ORDANES, VARGAS, TAN (J.), GARDIOLA, VIOLAGO, TANCHAY, SOLON, GO (M.), DALOG, MASTURA, GARCIA (J.A.), KHONGHUN, DALIPE, SINGSON (R.V.), YU (J.V.), YU (D.G.), SAKALURAN, GARCIA (P.J.) AND CAGAS, PER COMMITTEE REPORT NO. 298

AN ACT

PROVIDING FOR THE AUTOMATIC INCOME CLASSIFICATION OF PROVINCES, CITIES, AND MUNICIPALITIES, AMENDING FOR THE PURPOSE SECTION 8 OF REPUBLIC ACT NO. 7160, OTHERWISE KNOWN AS THE LOCAL GOVERNMENT CODE OF 1991, AS AMENDED

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

1 **SECTION 1.** This Act shall be known as the “*Automatic Income*
2 *Classification Act for Local Government Units*”.

3 **SEC. 2.** Section 8 of Republic Act (RA) No. 7160, as amended, is
4 hereby amended to read as follows:

5 **“Section. 8.** *Division, Merger, AND AUTOMATIC INCOME*
6 *CLASSIFICATION AND RECLASSIFICATION.* –

7 **(A) DIVISION AND MERGER.** – Division and merger of
8 existing local government units shall comply with the same
9 requirements herein prescribed for their creation:
10 *Provided, however,* That such division shall not reduce the
11 income, population, or land area of the local government unit
12 or units concerned to less than the minimum requirements
13 prescribed in this Code: *Provided, further,* That the income
14 classification of the original local government unit or units
15 shall not fall below its current classification prior to such
16 division.

1 [The income classification of local government units shall
2 be updated within six (6) months from the effectivity of this
3 Code to reflect the changes of their financial position resulting
4 from the increased revenues as provided herein.]”

5 **(B) INCOME CLASSIFICATION. –**

6 **1. CLASSIFICATION OF PROVINCES. –** PROVINCES SHALL
7 BE CLASSIFIED INTO SIX (6) CLASSES, ACCORDING TO
8 INCOME RANGE BASED ON THE AVERAGE ANNUAL
9 REGULAR INCOME FOR TWO (2) FISCAL YEARS PRECEDING
10 AN AUTOMATIC INCOME RECLASSIFICATION. THE
11 CLASSIFICATION SHALL BE AS FOLLOWS:

- 12 a. FIRST CLASS – PROVINCES THAT HAVE OBTAINED AN
13 AVERAGE ANNUAL REGULAR INCOME OF ONE
14 BILLION TWO HUNDRED MILLION PESOS
15 (P1,200,000,000.00) OR MORE;
- 16 b. SECOND CLASS – PROVINCES THAT HAVE OBTAINED
17 AN AVERAGE ANNUAL REGULAR INCOME OF NINE
18 HUNDRED MILLION PESOS (P900,000,000.00) OR
19 MORE, BUT LESS THAN ONE BILLION TWO HUNDRED
20 MILLION PESOS (P1,200,000,000.00);
- 21 c. THIRD CLASS – PROVINCES THAT HAVE OBTAINED AN
22 AVERAGE ANNUAL REGULAR INCOME OF SEVEN
23 HUNDRED MILLION PESOS (P700,000,000.00) OR
24 MORE, BUT LESS THAN NINE HUNDRED MILLION
25 PESOS (P900,000,000.00);
- 26 d. FOURTH CLASS – PROVINCES THAT HAVE OBTAINED
27 AN AVERAGE ANNUAL REGULAR INCOME OF FIVE
28 HUNDRED MILLION PESOS (P500,000,000.00) OR
29 MORE, BUT LESS THAN SEVEN HUNDRED MILLION
30 PESOS (P700,000,000.00);
- 31 e. FIFTH CLASS – PROVINCES THAT HAVE OBTAINED AN
32 AVERAGE ANNUAL REGULAR INCOME OF THREE
33 HUNDRED MILLION PESOS (P300,000,000.00) OR
34 MORE, BUT LESS THAN FIVE HUNDRED MILLION
35 PESOS (P500,000,000.00); AND
- 36 f. SIXTH CLASS – PROVINCES THAT HAVE OBTAINED AN
37 AVERAGE ANNUAL REGULAR INCOME OF LESS THAN
38 THREE HUNDRED MILLION PESOS (P300,000,000.00).

1 **2. CLASSIFICATION OF CITIES.** – CITIES SHALL BE
2 CLASSIFIED INTO SEVEN (7) CLASSES, ACCORDING TO
3 THEIR INCOME RANGE BASED ON THE AVERAGE ANNUAL
4 REGULAR INCOME FOR TWO (2) FISCAL YEARS PRECEDING
5 AN AUTOMATIC INCOME RECLASSIFICATION. THE
6 CLASSIFICATION SHALL BE AS FOLLOWS:

- 7 a. SPECIAL CLASS – CITIES THAT HAVE OBTAINED AN
8 AVERAGE ANNUAL REGULAR INCOME OF TWELVE
9 BILLION PESOS (P12,000,000,000.00) OR MORE;
- 10 b. FIRST CLASS – CITIES THAT HAVE OBTAINED AN
11 AVERAGE ANNUAL REGULAR INCOME OF ONE
12 BILLION ONE HUNDRED MILLION PESOS
13 (P1,100,000,000.00) OR MORE, BUT LESS THAN
14 TWELVE BILLION PESOS (P12,000,000,000.00);
- 15 c. SECOND CLASS – CITIES THAT HAVE OBTAINED AN
16 AVERAGE ANNUAL REGULAR INCOME OF NINE
17 HUNDRED MILLION PESOS (P900,000,000.00) OR
18 MORE, BUT LESS THAN ONE BILLION ONE HUNDRED
19 MILLION PESOS (P1,100,000,000.00);
- 20 d. THIRD CLASS – CITIES THAT HAVE OBTAINED AN
21 AVERAGE ANNUAL REGULAR INCOME OF SEVEN
22 HUNDRED MILLION PESOS (P700,000,000.00) OR
23 MORE BUT LESS THAN NINE HUNDRED MILLION
24 PESOS (P900,000,000.00);
- 25 e. FOURTH CLASS – CITIES THAT HAVE OBTAINED AN
26 AVERAGE ANNUAL REGULAR INCOME OF FIVE
27 HUNDRED MILLION PESOS (P500,000,000.00) OR
28 MORE, BUT LESS THAN SEVEN HUNDRED MILLION
29 PESOS (P700,000,000.00);
- 30 f. FIFTH CLASS – CITIES THAT HAVE OBTAINED AN
31 AVERAGE ANNUAL REGULAR INCOME OF THREE
32 HUNDRED MILLION PESOS (P300,000,000.00) OR
33 MORE, BUT LESS THAN FIVE HUNDRED MILLION
34 PESOS (P500,000,000.00); AND
- 35 g. SIXTH CLASS – CITIES THAT HAVE OBTAINED AN
36 AVERAGE ANNUAL REGULAR INCOME OF LESS THAN
37 THREE HUNDRED MILLION PESOS (P300,000,000.00).

38 **3. CLASSIFICATION OF MUNICIPALITIES.** – MUNICIPALITIES
39 SHALL BE CLASSIFIED INTO SIX (6) CLASSES, ACCORDING
40 TO THEIR INCOME RANGE BASED ON THE AVERAGE
41 ANNUAL REGULAR INCOME FOR TWO (2) FISCAL YEARS
42 PRECEDING AN AUTOMATIC INCOME RECLASSIFICATION.
43 THE CLASSIFICATION SHALL BE AS FOLLOWS:

- 1 a. FIRST CLASS – MUNICIPALITIES THAT HAVE
2 OBTAINED AN AVERAGE ANNUAL REGULAR INCOME
3 OF ONE HUNDRED FIFTY MILLION PESOS
4 (P150,000,000.00) OR MORE;
- 5 b. SECOND CLASS – MUNICIPALITIES THAT HAVE
6 OBTAINED AN AVERAGE ANNUAL REGULAR INCOME
7 OF ONE HUNDRED MILLION PESOS (P100,000,000.00)
8 OR MORE, BUT LESS THAN ONE HUNDRED FIFTY
9 MILLION PESOS (P150,000,000.00);
- 10 c. THIRD CLASS – THE MUNICIPALITIES THAT HAVE
11 OBTAINED AN AVERAGE ANNUAL REGULAR INCOME
12 OF NINETY MILLION PESOS (P90,000,000.00) OR
13 MORE BUT LESS THAN ONE HUNDRED MILLION
14 PESOS (P100,000,000.00);
- 15 d. FOURTH CLASS – MUNICIPALITIES THAT HAVE
16 OBTAINED AN AVERAGE ANNUAL REGULAR INCOME
17 OF SIXTY MILLION PESOS (P60,000,000.00) OR MORE,
18 BUT LESS THAN NINETY MILLION PESOS
19 (P90,000,000.00);
- 20 e. FIFTH CLASS – MUNICIPALITIES THAT HAVE
21 OBTAINED AN AVERAGE ANNUAL REGULAR INCOME
22 OF FORTY MILLION PESOS (P40,000,000.00) OR
23 MORE, BUT LESS THAN SIXTY MILLION PESOS
24 (P60,000,000.00); AND
- 25 f. SIXTH CLASS – MUNICIPALITIES THAT HAVE
26 OBTAINED AN AVERAGE ANNUAL REGULAR INCOME
27 OF LESS THAN FORTY MILLION PESOS
28 (P40,000,000.00).
- 29

30 WITHIN THIRTY (30) DAYS OF THE EFFECTIVITY OF THIS
31 ACT, THE SECRETARY OF FINANCE SHALL CAUSE THE
32 PUBLICATION OF THE FIRST GENERAL INCOME
33 RECLASSIFICATION OF ALL EXISTING LOCAL GOVERNMENT
34 UNITS BASED ON THE INCOME RANGE DETERMINED BY
35 SECRETARY OF FINANCE PURSUANT TO THIS
36 SECTION: *PROVIDED*, THAT THE FIRST GENERAL INCOME
37 RECLASSIFICATION SHALL BE APPLICABLE ON THE FIRST
38 DAY OF JANUARY OF THE IMMEDIATELY SUCCEEDING
39 YEAR FOLLOWING ITS PUBLICATION.

40 **(C) AUTOMATIC RECLASSIFICATION.** – THE ANNUAL
41 REGULAR INCOME SHALL BE COMPUTED FROM THE
42 STATEMENT OF RECEIPTS AND EXPENDITURES (SRE)
43 MAINTAINED BY THE BUREAU OF LOCAL GOVERNMENT
44 FINANCE (BLGF). THE ANNUAL REGULAR INCOME REFERS
45 TO REVENUES, INCLUDING FEES AND RECEIPTS ACTUALLY

1 REALIZED AND REPORTED YEARLY BY PROVINCES, CITIES,
2 AND MUNICIPALITIES FROM REGULAR SOURCES,
3 INCLUDING THE NATIONAL TAX ALLOTMENT (NTA) AND
4 OTHER SHARES IN NATIONAL WEALTH BUT EXCLUSIVE OF
5 NON-RECURRING RECEIPTS, SUCH AS NATIONAL AIDS,
6 GRANTS, FINANCIAL ASSISTANCE, LOAN PROCEEDS, SALES
7 OF ASSETS, MISCELLANEOUS INCOME, AND OTHER
8 SIMILAR RECEIPTS OF LOCAL GOVERNMENT UNITS. FOR
9 PURPOSES OF THIS SECTION, SHARES FROM THE
10 NATIONAL WEALTH, EXCISE TAXES ON TOBACCO,
11 INCREMENTAL COLLECTION FROM VALUE ADDED
12 TAXES PURSUANT TO REPUBLIC ACT NO. 7643, AND THE
13 GROSS INCOME TAXES PAID BY BUSINESS AND
14 ENTERPRISES IN SPECIAL ECONOMIC ZONES UNDER
15 REPUBLIC ACT NO. 7916, AS AMENDED, AND SUCH OTHER
16 SHARES AS MAY BE GRANTED BY LAW TO THE PROVINCE,
17 CITY OR MUNICIPALITY, SHALL BE CONSIDERED AS PART
18 OF THE ANNUAL REGULAR INCOME.

19 EVERY SIX (6) YEARS FROM THE FIRST GENERAL
20 INCOME RECLASSIFICATION THE SECRETARY OF FINANCE
21 SHALL UPDATE THE INCOME RANGES FOR THE INCOME
22 CLASSIFICATION OF ALL PROVINCES, CITIES AND
23 MUNICIPALITIES SET IN SUBSECTIONS 1, 2, AND 3 OF
24 SUBPARAGRAPH (B) BASED ON THE ANNUAL REGULAR
25 INCOME GROWTH RATE.

26 EVERY TWO (2) YEARS FOLLOWING THE FIRST GENERAL
27 INCOME RECLASSIFICATION, THE SECRETARY OF FINANCE
28 SHALL AUTOMATICALLY UPDATE THE INCOME
29 CLASSIFICATION OF ALL LGUS WITHIN SIXTY (60) DAYS
30 FROM THE DEADLINE FOR THE SUBMISSION OF THE YEAR-
31 END REPORT.

32 THE INCOME CLASSIFICATION OF A LOCAL
33 GOVERNMENT UNIT SHALL BE UPGRADED WHEN ITS
34 AVERAGE ANNUAL REGULAR INCOME FOR TWO (2) FISCAL
35 YEARS EXCEEDS THE INCOME RANGE SET FOR ITS
36 CURRENT INCOME CLASS. WHERE THE AVERAGE ANNUAL
37 REGULAR INCOME OF AN LGU FALLS BELOW THE INCOME
38 RANGE OF ITS CURRENT INCOME CLASS, IT SHALL BE
39 PLACED ON A DOWNGRADE WARNING STATUS BY THE
40 SECRETARY OF FINANCE. IF ITS INCOME CONTINUES TO
41 FALL BELOW THE RANGE IN THE NEXT INCOME
42 RECLASSIFICATION, THE CLASSIFICATION OF THE

1 CONCERNED LGU SHALL BE DOWNGRADED TO ITS
2 CORRESPONDING INCOME CLASS.

3 THE BLGF SHALL ISSUE A CERTIFICATION OF THE
4 INCOME RECLASSIFICATION OF AN LGU; *PROVIDED*,
5 *HOWEVER*, THAT THE NON-ISSUANCE OF THE
6 CERTIFICATION SHALL NOT SUSPEND THE EFFECTS OF
7 THE AUTOMATIC INCOME RECLASSIFICATION.

8 IN CASES OF UNMANAGEABLE PUBLIC SECTOR DEFICIT,
9 THE SECRETARY OF FINANCE MAY RETAIN THE EXISTING
10 INCOME CLASSIFICATION OR ORDER THE RE-
11 COMPUTATION AND REVISION OF THE INCOME
12 CLASSIFICATION OF PROVINCES, CITIES AND
13 MUNICIPALITIES TO REFLECT THE ACTUAL FINANCIAL
14 SITUATION OF THE LGUs; *PROVIDED*, THAT, A PROVINCE,
15 CITY OR MUNICIPALITY, WHICH HAS BEEN IN EXISTENCE
16 FOR A PERIOD OF LESS THAN TWO (2) FISCAL YEARS
17 IMMEDIATELY PRECEDING THE AUTOMATIC INCOME
18 RECLASSIFICATION OF LGUs, AS HEREIN *PROVIDED*,
19 SHALL BE CLASSIFIED ON THE BASIS OF ITS AVERAGE
20 ANNUAL REGULAR INCOME DURING ITS EXISTENCE;
21 *PROVIDED, FURTHER*, THAT IF A PROVINCE OR
22 MUNICIPALITY IS CREATED BEFORE THE YEAR OF THE
23 AUTOMATIC RECLASSIFICATION OF LOCAL GOVERNMENT
24 UNITS, IT SHALL BE CLASSIFIED ON THE BASIS OF THE
25 ESTIMATED AGGREGATE NET SHARE OF INCOME FROM
26 REGULAR SOURCES OF ITS COMPONENT CITIES AND
27 MUNICIPALITIES IN THE CASE OF A PROVINCE, OR ITS
28 COMPONENT BARANGAYS IN THE CASE OF A
29 MUNICIPALITY, INCLUDING THE CORRESPONDING
30 ESTIMATED NTA OF THE NEWLY CREATED PROVINCE OR
31 MUNICIPALITY PURSUANT TO SECTION 285 THIS ACT,
32 DURING THE FISCAL YEAR IMMEDIATELY PRECEDING ITS
33 CREATION. THIS RULE SHALL LIKEWISE APPLY TO A
34 MUNICIPALITY THAT IS CONVERTED INTO A CITY, OR A CITY
35 THAT IS CREATED OUT OF EXISTING MUNICIPALITIES OR
36 BARANGAYS.

37 AMONG OTHER PURPOSES, THE INCOME
38 CLASSIFICATION OF PROVINCES, CITIES, AND
39 MUNICIPALITIES SHALL SERVE AS BASIS FOR THE:

40 1. DETERMINATION OF ADMINISTRATIVE AND STATUTORY
41 AIDS, FINANCIAL GRANTS, AND OTHER FORMS OF
42 ASSISTANCE TO LOCAL GOVERNMENTS;

1 2. DETERMINATION OF THE FINANCIAL CAPABILITY OF
2 LGUS TO UNDERTAKE DEVELOPMENTAL PROGRAMS AND
3 PRIORITY PROJECTS;

4 3. TOTAL ANNUAL OR SUPPLEMENTAL APPROPRIATION FOR
5 PERSONAL SERVICES OF A LOCAL GOVERNMENT UNIT FOR
6 ONE (1) FISCAL YEAR AS PROVIDED IN SECTION 325 (A) OF
7 LOCAL GOVERNMENT CODE OF 1991, AS AMENDED;

8 4. COMPENSATION ADJUSTMENT FOR LGU PERSONNEL AS
9 PROVIDED UNDER SECTION 10 OF EXECUTIVE ORDER NO.
10 201, OR THE SALARY STANDARDIZATION LAW OF 2015;

11 5. CREATION OF A NEW LGU WHEREIN SECTION 8 OF THE
12 LOCAL GOVERNMENT CODE OF 1991, AS AMENDED,
13 PROVIDES THAT THE DIVISION AND MERGER OF EXISTING
14 LGU SHALL NOT DOWNGRADE THE INCOME
15 CLASSIFICATION OF THE ORIGINAL UNIT;

16 6. NUMBER OF ELECTIVE MEMBERS IN THE SANGGUNIANG
17 BAYAN AS PROVIDED UNDER SECTION 2 OF REPUBLIC ACT
18 NO. 6637;

19 7. ISSUANCE OF A FREE PATENT TITLE TO RESIDENTIAL
20 LANDS AS PROVIDED UNDER REPUBLIC ACT NO. 10023;

21 8. MINIMUM WAGE OF DOMESTIC WORKERS AS PROVIDED
22 UNDER SECTION 24 OF REPUBLIC ACT NO. 10361;

23 9. GSIS INSURANCE COVERAGE OF LGU PROPERTIES IN
24 COMPLIANCE WITH SECTION 5 OF REPUBLIC ACT NO. 656,
25 OR THE PROPERTY INSURANCE LAW;

26 10. DETERMINATION OF THE PERCENTAGE OF
27 AGRICULTURAL LAND THAT CAN BE RECLASSIFIED AND
28 THE MANNER OF THEIR UTILIZATION OR DISPOSITION AS
29 STIPULATED IN SECTION 20 OF THIS CODE; AND

30 11. SUCH OTHER PURPOSES AS MAY BE PROVIDED UNDER
31 EXISTING LAWS AND REGULATIONS.

32 THE SECRETARY OF FINANCE SHALL ISSUE THE
33 APPROPRIATE DEPARTMENT ORDERS FOR THE AUTOMATIC
34 INCOME CLASSIFICATION OF PROVINCES, CITIES AND
35 MUNICIPALITIES.”

1 **SEC. 3.** A fourth or lower income class province, city or municipality
2 which is reclassified as First, Second, or Third income class following the
3 first general income reclassification shall not be required to provide for
4 additional personal services and it may maintain its existing personnel
5 complement prior to the reclassification, pursuant to civil service rules and
6 regulations, until the next automatic income reclassification. In case of
7 personnel transfers, resignations, or deaths, the LGU concerned may not fill
8 up the vacant position or provide for its funding until the next succeeding
9 general reclassification.

10 Any LGU that exceeds the limitations provided in Section 325 (a) of
11 the Local Government Code of 1991, as amended, despite maintaining the
12 status quo after it received a first, second, or third income class designation
13 following the first general income reclassification shall not be considered in
14 violation of Section 325 of the Local Government Code.

15 **SEC. 4.** All existing income classifications of provinces, cities and
16 municipalities shall continue to be in force and effect until superseded by
17 the issuance of the first general income reclassification by the Secretary of
18 Finance pursuant to this Act. Nothing herein shall be construed to eliminate
19 or in any way diminish existing salaries and benefits granted by LGUs.
20

21 **SEC. 5.** The Secretary of Finance shall issue rules and regulations to
22 implement the provisions of this Act.

23 **SEC. 6.** Executive Order No. 249, dated July 25, 1987 is hereby
24 repealed. Section 8 of the Local Government Code of 1991, as amended, is
25 hereby amended. All laws, presidential decrees, executive orders,
26 presidential proclamations, rules and regulations which are inconsistent
27 with this Act are hereby repealed, or amended accordingly.

28 **SEC. 7.** This Act shall take effect fifteen (15) days after its complete
29 publication in the *Official Gazette* or in a newspaper of general circulation.

Approved,