

H. No. 7006  
S. No. 2165

Republic of the Philippines  
**Congress of the Philippines**  
Metro Manila  
Nineteenth Congress  
Second Regular Session

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Begun and held in Metro Manila, on Monday, the twenty-fourth day of July, two thousand twenty-three.

[ REPUBLIC ACT NO. 11964 ]

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:*

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

SEC. 2. *Declaration of Policy.* — It is the policy of the State to provide a more responsive approach to promote local autonomy and enable local government units to realize their full economic potential. In line with this, the State recognizes the need to determine the financial capability and fiscal position of local government units.

Towards this end, the State shall formulate policies and guidelines for an equitable and rational system of income classification to effectively accelerate and improve the quality of economic growth and distribute national resources based on the needs of the communities.

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

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

(b) *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 No. 7643, and the gross income tax paid by business and enterprises in Special Economic Zones under Republic Act No. 7916, otherwise known as "The Special Economic Zone Act of 1995", 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 computed from the Statement of Receipts and Expenditures submitted by the local government units pursuant to the guidelines issued by the Department of Finance (DOF);

(c) *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 4 hereof;

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

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

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

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

(a) *Classification of Provinces.* – Provinces shall be classified into five (5) classes, according to their income ranges and based on the average annual regular income for three (3) fiscal years preceding a general income reclassification. The classification shall be as follows:

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

(2) *Second Class* – Provinces that have obtained an average annual regular income of Nine hundred million pesos (P900,000,000.00) or more, but less than One billion five hundred million pesos (P1,500,000,000.00);

(3) *Third Class* – Provinces that have obtained an average annual regular income of Seven hundred million pesos (P700,000,000.00) or more, but less than Nine hundred million pesos (P900,000,000.00);

(4) *Fourth Class* – Provinces that have obtained an average annual regular income of Five hundred million pesos (P500,000,000.00) or more, but less than Seven hundred million pesos (P700,000,000.00); and

(5) Fifth Class – Provinces that have obtained an average annual regular income of less than Five hundred million pesos (P500,000,000.00).

(b) Classification of Cities. – Cities shall be classified into five (5) classes, according to their income ranges and based on the average annual regular income for three (3) fiscal years preceding a general income reclassification. The classification shall be as follows:

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

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

(3) Third Class – Cities that have obtained an average annual regular income of Eight hundred million pesos (P800,000,000.00) or more, but less than One billion pesos (P1,000,000,000.00);

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

(5) Fifth Class – Cities that have obtained an average annual regular income of less than Five hundred million pesos (P500,000,000.00).

(c) Classification of Municipalities. – Municipalities shall be classified into five (5) classes, according to their income ranges and based on the average annual regular income for three (3) fiscal years preceding a general income reclassification. The classification shall be as follows:

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

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

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

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

(5) Fifth Class – Municipalities that have obtained an average annual regular income of less than Ninety million pesos (P90,000,000.00).

(d) If a province or municipality is created before the regular reclassification of LGUs, the Secretary of Finance shall have the authority to classify the concerned LGU on the basis of the estimated aggregate net share of income from regular sources from its component cities and municipalities in the case of a province, or its component barangays in the case of a municipality, including the corresponding estimated NTA of the newly created province or municipality pursuant to Section 285 of Republic Act No. 7160, as amended or the Local Government Code of 1991, during the fiscal year immediately preceding its creation. This rule shall likewise apply to a municipality that is converted into a city, or a city that is created out of existing municipalities and/or barangays: *Provided*, That the income ranges herein shall be adjusted and updated by the Secretary of Finance every three (3) years based on the standards provided in the succeeding section.

SEC. 5. *Administrative Authority of the Secretary of Finance.* – The Secretary of Finance, in consultation with the National Economic and Development Authority (NEDA) and the concerned LGU Leagues, shall have the authority to adjust the income ranges herein provided based on the actual growth rate of the annual regular income from the last income reclassification, and undertake the regular income reclassification once every three (3) years, in order that the income classification of LGUs may continue to conform with the prevailing economic conditions and the overall financial status of local governments: *Provided*, That the Secretary of Finance may consider inflation and gross regional domestic product in evaluating if an LGU has experienced prolonged economic shocks such as, but not limited to, public calamity and national emergency that may warrant retaining its current income classification: *Provided, further*, That the Secretary of Finance, upon recommendation of NEDA, shall upgrade the income classification of an LGU if the LGU has shown growth in real per capita locally sourced revenue every year for the past three (3) years.

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

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

(b) The DOF shall, within sixty (60) days from the regular income reclassification, issue the appropriate department order containing the schedule of income classification which shall serve as certification of the income classification of LGUs. The schedule of income classification shall be automatically updated by the Bureau of Local Government Finance (BLGF) of the DOF every three (3) years: *Provided, however*, That the non-issuance of said department orders in the succeeding regular reclassification within the said period shall not suspend the effects of the automatic income reclassification.

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

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

(a) Identification of administrative and statutory aids, financial grants, and other forms of assistance to local governments;

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

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

(d) Compensation adjustment for personnel of the LGUs pursuant to Republic Act No. 11466 or the “Salary Standardization Law of 2019”: *Provided*, That LGUs may fully adopt the salary schedules notwithstanding the ceilings under Sections 10(a) and 10(b) of the said law, subject to compliance with the personal services (PS) limitation and budget authorization requirements of Republic Act No. 7160;

(e) Creation of a new LGU provided that the division and merger of an existing LGU shall not downgrade the income classification of the original unit pursuant to Section 8 of Republic Act No. 7160;

(f) Number of elective members in the *Sangguniang Panlalawigan* and the *Sangguniang Bayan* as provided under Section 2 of Republic Act No. 6637;

(g) Issuance of a free patent title to residential lands as provided under Republic Act No. 10023, otherwise known as “An Act Authorizing the Issuance of Free Patents to Residential Lands”;

(h) Minimum wage of domestic workers as provided under Section 24 of Republic Act No. 10361, otherwise known as the “Domestic Workers Act” or “Batas Kasambahay”;

(i) LGUs to insure its properties with the Government Service Insurance System (GSIS) in compliance with Section 5 of Republic Act No. 656 or the "Property Insurance Law";

(j) Limitation on the percentage of agricultural land area that can be reclassified and the manner of their utilization or disposition as stipulated in Section 20 of Republic Act No. 7160; and

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

**SEC. 8. Guidelines in Cases Where a Fourth or Lower Income Class LGU Receives a Third or Higher Income Class Designation as a Result of the First General Income Reclassification.** – A fourth or lower income class LGU which is reclassified as first, second, or third income class following the first general income reclassification provided herein shall be exempted from providing for additional personal services and may maintain existing personal services prior to the reclassification, pursuant to civil service rules and regulations, until the next fiscal year. In case of personnel transfers, resignation or deaths, the local government may not cause the filling up of vacant position nor provide for its funding until the succeeding fiscal year.

LGUs exceeding the limitations provided in Section 325(a) of Republic Act No. 7160 despite maintaining the status quo after it received a first, second, or third income class designation following the first general income reclassification shall not be considered in violation of Section 325 of Republic Act No. 7160.

**SEC. 9. Effectivity of the Income Reclassification.** – The first income reclassification of provinces, cities, and municipalities pursuant to this Act and its uses as provided under Section 7 herein shall take effect on January 1<sup>st</sup> of the immediately succeeding year following the issuance of the table of income classification by the Secretary of Finance as mandated by this Act.

**SEC. 10. Transitory Provision.** – An LGU whose average annual regular income falls below the income range based on the

first general income reclassification as provided in this Act shall retain its current income class: *Provided, however,* That if its income continues to fall below the income range in the next reclassification, the concerned LGU shall be downgraded to its corresponding income class: *Provided, further,* That during the first income reclassification, no official or employee in the concerned LGU shall suffer any diminution of salary and benefits that he or she is actually receiving at the time of the effectivity of this Act.

**SEC. 11. Implementing Rules and Regulations (IRR).** – The DOF, in coordination with the Department of Budget and Management (DBM) and in consultation with the LGU Leagues, shall promulgate the necessary implementing rules and regulations within three (3) months from the effectivity of this Act. The IRR issued pursuant to this section shall take effect thirty (30) days after its publication in a newspaper of general circulation.

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

**SEC. 13. Repealing Clause.** – Any law, presidential decree or issuance, executive order, letter of instruction, rule or regulation inconsistent with the provisions of this Act is hereby repealed or modified accordingly.

**SEC. 14. Effectivity.** – This Act shall take effect fifteen (15) days after its complete publication in the *Official Gazette* or in a newspaper of general circulation.


Approved,

  
 JUAN MIGUEL F. ZUBIRI  
 President of the Senate

  
 FERDINAND MARTIN G. ROMUALDEZ  
 Speaker of the House  
 of Representatives

This Act, which is a consolidation of House Bill No. 7006 and Senate Bill No. 2165, was passed by the House of Representatives and the Senate of the Philippines on August 30, 2023 and August 29, 2023, respectively.

  
RENATO N. BANTUG JR.  
*Secretary of the Senate*

  
REGINALD S. VELASCO  
*Secretary General  
House of Representatives*

Approved: 26 OCT 2023

  
FERDINAND ROMUALDEZ MARCOS JR.  
*President of the Philippines*



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