

## **IMPLEMENTING RULES AND REGULATIONS OF REPUBLIC ACT NO. 11964**

In Pursuance of Section 11 of Republic Act (RA) No. 11964 entitled, "*An Act Institutionalizing the Automatic Income Classification of Provinces, Cities and Municipalities, and for Other Purposes*," the Department of Finance (DOF), in coordination with the Department of Budget and Management (DBM) and in consultation with the Local Government Unit (LGU) Leagues, hereby promulgates the following rules and regulations implementing the provisions of the said Act:

### **RULE I GENERAL PROVISIONS**

**SECTION 1. Title.** These Rules shall be known and cited as the "Implementing Rules and Regulations (IRR) of RA No. 11964."

**SECTION 2. Purpose.** These Rules are hereby promulgated to ensure the effective implementation of RA No. 11964, and the attainment of the objectives thereof.

**SECTION 3. Scope of Application.** These Rules shall apply to the first general income reclassification and the regular income reclassification of LGUs, as provided for under RA No. 11964.

**SECTION 4. Interpretation.** These Rules shall be construed and applied in accordance with and in furtherance of the policies and objectives of RA No. 11964. In case of doubt, ambiguity, or disagreement in the interpretation of these Rules, the DOF, in coordination with the DBM and National Economic and Development Authority (NEDA), and in consultation with the LGU Leagues, shall issue the appropriate clarifications thereupon.

**SECTION 5. Definition of Terms.** For the purposes of these Rules, the terms hereunder shall be defined as follows:

- (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 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 RA No. 11964, shares from national wealth, excise tax on tobacco, incremental collection from value-added tax (VAT) under RA No. 7643, and the gross income tax paid by business and enterprises in Special Economic Zones under RA 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 to the Bureau of Local Government Finance (BLGF) by the LGUs pursuant to the guidelines issued by the 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 income reclassification of

LGUs, divided by such number of fiscal years as provided for in Sections 7 to 9 of Rule III;

- (d) *Estimated Aggregate Net Share Income from Regular Sources*, for the purpose of Section 4 (d) of RA No. 11964, shall refer to NTA and income from real property taxes, amusement tax, and tax on sand and gravel and other quarry resources, and such other taxes shared with the province, city, or municipality, as applicable;
- (e) *First General Income Reclassification* refers to the initial income reclassification of LGUs upon the effectivity of RA No. 11964, using the income ranges provided for therein;
- (f) *General Income Reclassification* refers to the act of updating the income classes of LGUs. This includes the First General Income Reclassification and the Regular Income Reclassification thereafter;
- (g) *Income Ranges* refer to the lower and upper limits of income determined for a specific income classification;
- (h) *LGUs* refer to the political subdivisions of the State, specifically the provinces, cities, or municipalities;
- (i) *Locally Sourced Revenues* refer to revenues sourced from the Real Property Tax, amusement tax, local business tax, community tax, transfer tax, franchise tax, fees and charges, receipts from economic enterprises and all other receipts actually realized, which are reported annually on a cash basis by provinces, cities, and municipalities from local sources, which are accounted for in the General Fund. The locally sourced revenues shall be computed from the Statement of Receipts and Expenditures submitted to the BLGF by the LGUs pursuant to the guidelines issued by the DOF;
- (j) *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);
- (k) *National Tax Allotment (NTA)* refers to the forty percent (40%) share of LGUs in all collections of national taxes based on the collection of the third fiscal year preceding the current fiscal year;
- (l) *Real per capita locally sourced revenues* refer to the locally sourced revenues of an individual LGU based on the Statement of Receipts and Expenditures submitted to the BLGF over the actual Census of Population, or in the absence thereof, the projected population of the LGU from the Philippine Statistics Authority (PSA);
- (m) *Regular Income Reclassification* refers to all subsequent income reclassification of LGUs, which are conducted every three (3) years after the First General Income Reclassification. This shall also refer to the Automatic Income Reclassification of LGUs; and
- (n) *Schedule of Income Classification* refers to the updated income classification of LGUs periodically issued by the Secretary of Finance pursuant to Section 6(b) of Rule II. This shall also refer to the table of income classification under Section 9 of RA No. 11964.



**RULE II**  
**AUTHORITY TO UNDERTAKE THE LGU INCOME RECLASSIFICATION**

**SECTION 6. Administrative Authority of the Secretary of Finance.** The Secretary of Finance shall have the authority to:

- (a) Adjust and update the income ranges herein provided every three (3) years, based on the actual growth rate of the annual regular income of the LGUs from the last income reclassification in accordance with Section 12 of this Rule, in consultation with the NEDA and the concerned LGU Leagues;
- (b) 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, gross regional domestic product, and other indicators, 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; and
- (c) Upon recommendation of the NEDA, upgrade the income classification of an LGU if the LGU has shown growth in real per capita locally sourced revenues every year for the past three (3) years pursuant to Section 13(b) of this Rule.

**RULE III**  
**INCOME CLASSIFICATION OF PROVINCES, CITIES, AND MUNICIPALITIES**

**SECTION 7. 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 the general income reclassification.

The first general income reclassification of provinces shall be based on the following income ranges:

- (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).

**SECTION 8. 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 the general income reclassification.

The first general income reclassification of cities shall be based on the following income ranges:

- (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).

**SECTION 9. 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 the general income reclassification.

The first general income reclassification of municipalities shall be based on the following income ranges:

- (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).

**SECTION 10. Effectivity of the First General Income Reclassification.** The first general income reclassification of provinces, cities, and municipalities pursuant to RA No. 11964 shall take effect on the first (1<sup>st</sup>) day of January of the immediately succeeding year following the promulgation of the issuance of the schedule of income classification per LGU level, that is, provinces, cities, and municipalities, by the Secretary of Finance.

**SECTION 11. Classification of a Province, City, or Municipality Created Prior to the Regular Income Reclassification of LGUs.** If a province or a municipality is created before



the conduct of a regular income reclassification of LGUs, the Secretary of Finance shall have the authority to classify the newly created province or municipality, as the case may be, within thirty (30) days from receipt of the full year data and relevant documents.

The income classification of the newly created province or municipality shall be based on the Estimated Aggregate Net Share of Income from Regular Sources for the immediately preceding fiscal year of the component cities and municipalities in the case of a province, or component barangays in the case of a municipality. 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.

**SECTION 12. Methodology of Adjusting Income Ranges.** In the computation and adjustment of the income ranges, the Secretary of Finance, through the BLGF, shall apply the actual growth rate of the annual regular income from the last income reclassification, per LGU level, on the latest income ranges.

The Secretary of Finance, through the BLGF, shall consult with the NEDA and the concerned LGU Leagues before the approval of the proposed income ranges. The approved income ranges shall be used for the next regular income reclassification.

**SECTION 13. Income Reclassification.**

- (a) The first general income reclassification shall be made within six (6) months after the effectivity of RA No. 11964, and every three (3) years thereafter;
- (b) The schedule of income classification shall be automatically updated by the BLGF every three (3) years. The BLGF shall request the issuance of the Department Order containing the schedule of income classification from the Secretary of Finance on or before two (2) years and eight (8) months from the effectivity of the latest income reclassification.

The DOF shall issue the DO within sixty (60) days from receipt of the request from the BLGF which shall serve as certification of the income classification of LGUs: *Provided, however*, That the non-issuance of said department orders in the succeeding regular classification within the said period shall not suspend the effects of the automatic income reclassification.

- (c) Following the first general income reclassification and any subsequent regular income reclassification, income classifications for local government units (LGUs) can only be adjusted or changed once every three consecutive years.

*Provided, however*, That an LGU may request for the upgrading of its income classification within the three-year regular income reclassification period, not later than twelve (12) months or one (1) year before the effectivity of the new income classification. For this purpose, the concerned LGU shall submit a letter of intent to the DOF, copy furnished the NEDA. The NEDA shall then give its recommendation to the DOF on the basis of the applicable LGU growth in real per capita locally sourced revenues. The income classification of said LGU shall be upgraded by the DOF by way of a Department Order. No request for upgrading of income classification of newly created or converted LGUs pursuant to this Section shall be made within three years after its first income classification.



**SECTION 14. 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 RA No. 7160;
- (d) Compensation adjustment for personnel of the LGUs pursuant to RA 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 prescribed under RA No. 7160, and guidelines to be issued by DBM.

The compensation scheme, to be applied uniformly across all positions by the concerned LGU, shall take into consideration the LGU's financial capability, be sustainable, and shall give due regard to the efficient allocation of funds for PS, which shall be maintained at a realistic level in proportion to the overall expenditure of the LGU;

- (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 RA No. 7160;
- (f) Number of elective members in the Sangguniang Panlalawigan and the Sangguniang Bayan as provided under Section 2 of RA No. 6637;
- (g) Issuance of a free patent title to residential lands as provided under RA 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 RA 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 RA 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 RA No. 7160; and
- (k) Such other purposes as provided under existing laws and regulations.

**SECTION 15. Guidelines in Cases Where a Fourth or Lower Income Class LGU Receives a Third or Higher Income Classification as a Result of the First General Income Reclassification.** A fourth or lower income class LGU which is reclassified as first (1<sup>st</sup>), second (2<sup>nd</sup>), or third (3<sup>rd</sup>) income class following the first general income reclassification provided herein shall be exempted from additional personal services and may maintain existing personal services prior to the reclassification, pursuant to Civil Service rules and regulations, until the succeeding fiscal year. In case of personnel transfer, resignation or death, the local government may not cause the filling up the positions vacated or provide for its funding until the succeeding fiscal year.

LGUs exceeding the personal services limitation provided in Section 325(a) of RA No. 7160, although maintaining the status quo after having been reclassified as first (1<sup>st</sup>), second (2<sup>nd</sup>), or third (3<sup>rd</sup>) class following the first general income reclassification shall not be considered in violation of Section 325 of RA No. 7160.

## **RULE V DUTIES AND RESPONSIBILITIES OF AGENCIES CONCERNED**

**SECTION 16. Duties and Responsibilities.** In addition to the specific duties that may be found elsewhere in these Rules, the following agencies shall:

- (a) For the DOF:
  - i. Update the guidelines on the submission of financial reporting requirements under the Statement of Receipts and Expenditures;
  - ii. Issue a certification, upon recommendation of the BLGF, for retention of income class for LGUs experiencing prolonged economic shocks; and
  - iii. Update regularly such other guidelines, as may be necessary.
- (b) For the BLGF:
  - i. Provide data on the locally sourced revenues and annual regular income of LGUs to concerned agencies;
  - ii. Monitor the timeliness and accuracy of the financial data in the Statement of Receipts and Expenditures system;
  - iii. Issue guidelines and circulars for the effective implementation of RA No. 11964; and
  - iv. Disseminate the IRR to all concerned.
- (c) For the DBM:
  - i. Provide data on the estimated NTA of the newly created or converted LGUs.
- (d) For NEDA:
  - i. Determine the applicable growth rate in real per capita locally sourced revenues as reference in the assessment of LGU's request for upgrading;
  - ii. Recommend upgrading the income classification of specific LGUs to the DOF, on a per request basis; and
  - iii. Provide the DOF with inputs to update the income ranges based on available socio-economic indicators.
- (e) For the LGU Leagues:
  - i. Disseminate IRR to all LGUs; and
  - ii. Advocate for the timely and accurate submission of Statement of Receipts and Expenditures to BLGF.

## **RULE VI FINAL PROVISIONS**

**SECTION 17. Transitory Provision.** An LGU whose average annual regular income falls below the income range during the first general income reclassification, shall retain its current income class: *Provided, however,* That if an LGU's average annual regular income falls below the income range in the next reclassification, its income classification shall be



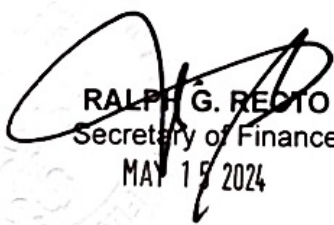
downgraded: *Provided, further,* That during the first general income reclassification, no official or employee in the concerned LGU shall suffer any diminution of salary and benefits received at the time of the effectivity of RA No. 11964 .

**SECTION 18. Amendment.** These Rules or any portion hereof may be amended by the DOF, in coordination with the DBM and NEDA, and in consultation with the LGU Leagues.

**SECTION 19. Repealing Clause.** All orders, rules, regulations, memoranda, circulars, resolutions, and other issuances contrary to or inconsistent with the provisions of RA No. 11964 and of these Rules are hereby repealed or modified accordingly.

**SECTION 20. Separability Clause.** If any provision of these Rules shall be declared invalid or unconstitutional, the remaining part or provisions not otherwise affected shall remain in force and effect.

**SECTION 21. Effectivity.** These Rules shall take effect thirty (30) days after its publication in a newspaper of general circulation.

  
RALPH G. RECTO  
Secretary of Finance  
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