



Official Position Paper of the League of Cities of the Philippines on *Bigger Pie, Bigger Slice Bills*

The League of Cities of the Philippines (League) **supports** the Bills which broaden the share of the Local Government Units (LGUs) in the Internal Revenue Allotment (IRA). The measures significantly empower the LGUs in the fulfillment of its mandates by allocating more resources and financial capacity.

Senate Bill No. 110¹ seeks to expand the source of funds from the current *national internal revenue taxes*, as provided for by Section 284 of the Local Government Code, to *national taxes* in compliance with the Constitutional mandate that local government units shall have a just share in the national taxes which shall be automatically released to them. It further provides for the increase of the share in the national taxes by ten percent (10%) or from forty percent (40%) to fifty percent (50%).

Senate Bill Nos. 810 and 843² seek to increase the Internal Revenue Allotment (IRA) of local government units from forty percent (40%) to fifty percent (50%) thereby strengthening the local government participation.

DISCUSSION

Expansion of the source of funds of the LGUs is more in keeping with the spirit and intent of the Constitution

The source of the share of the LGUs as provided in the Local Government Code is exclusive on the national internal revenue taxes only which is contrary to what the Constitution mandates. The use of the term national internal revenue taxes in the LGC has therefore reduced local government revenues

The Constitution is explicit as to the source of the share of the local government units. It provides that "*Local government units shall have a just share, as determined by law, in the **national taxes** which shall be automatically released to them.*" National taxes are derived from all taxes imposed and collected by the national government, of whatever kind or nature, and from whatever source. As opposed to local taxes which are imposed by the local government units usually in the form of property tax, national taxes are wider in scope. The amount of local taxes varies from one jurisdiction to the other. Collections by the Bureau of Internal

¹ Senate Bill No. 110. Full Text attached as Annex A

² Senate Bill Nos. 810 and 843. Text attached as Annex B.



Revenue (BIR) of all internal revenue taxes, value added taxes, and excise and tariff taxes on imported goods, as well as the collections by the Bureau of Customs (BOC) of customs duties also cover national taxes.

On the other hand, Section 284 of the Local Government Code (LGC) provides “Local government units shall have a share in the national internal revenue taxes based on the collection of the third fiscal year preceding the current fiscal year xxx.” National internal revenue tax³ is composed of the following taxes, fees and charges: 1) Income Tax; 2) Estate and donor’s taxes; 3) Value Added Tax; 4) Other percentage tax; 5) Excise taxes; 6) Documentary stamp taxes; and 7) Other taxes as are or hereafter may be imposed and collected by the Bureau of Internal Revenue.

The League maintains that while the Local Government Code is the law setting forth the standards for local government units, the Constitutional provision granting LGUs share from the national taxes is clear, plain and has no room for interpretation. It is a well-settled principle of constitutional construction that the language employed in the Constitution must be given their ordinary meaning except where technical terms are employed. As much as possible, the words of the Constitution should be understood in the sense they have in common use. What it says according to the text of the provision to be construed compels acceptance and negates the power of the courts to alter it, based on the postulate that the framers and the people mean what they say. *Verba legis non est recedendum* – from the words of a statute there should be no departure.

The creation and expansion of LGU shares address the proliferation of unfunded mandates

Fiscal decentralization, among others, is an overarching objective of the LGC. Local government units (LGUs) have been guaranteed a portion of the general taxes through the Internal Revenue Allotment or IRA, which they can use to fund some of the major functions devolved to them.

The genuine exercise of local autonomy, however, is still hampered with the imposition of unfunded mandates on LGUs. Since the enactment of the LGC up to 2015, at least 134 laws did not receive funding or remained underfunded. An overwhelming 105 or 78 percent of these laws concern local governments. Based on the report of the Congressional Policy and Budget Research Department (CPBRD), the total funding requirement to implement these laws amounted to

³ Section 21, Republic Act No. 8424. National Internal Revenue Code



P367.3 billion of which P242.1 billion, resulting in a funding deficiency of P125.2 billion. Considering that there are unfunded laws with 'unquantifiable' funding requirements, this is highly a conservative estimate.

Time and again, the League submits that the presence of unfunded mandates stands as an utter irony to the country's decentralization policy and a huge obstacle to the achievement of its goals. They displace other essential local government priorities, impose contradictory and inconsistent requirements, and compound the fiscal difficulties of local government units to render basic services to the people. If this were not unsettling enough, depriving LGUs of resources as afforded to them by law is an infringement of local autonomy as a constitutional principle. In 2000, the Supreme Court⁴ ruled unconstitutional Administrative Order No. 372, s. 1997, which reduces the share of LGUs in the IRA as part of the administration's austerity measures. The high court declared that the order "effectively encroaches on the fiscal autonomy of local governments" and that even if the cuts were aimed at sparing the country from a possible economic disaster, "laudable purposes must be carried out by legal methods."

CONCLUSION

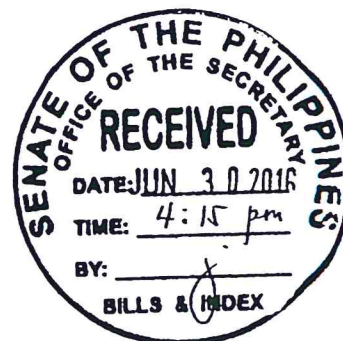
The enactment of Local Government Code of 1991 promotes the basic tenets of decentralization; however, it is not without flaws. As mentioned, Section 284 does not reflect the true intent and spirit of the Constitution where local government units shall have a just share in the national taxes in keeping with the Constitutional mandate to ensure autonomy of the local government units. Hence, Section 284 must be amended to conform to the Constitutional provision. While the present law essentially reduces the share of the LGUs in the national taxes, the foregoing bills if enacted into law will address the current issue on unfunded mandates and will also result to faster development and progress in the countryside.

Moreover, the League foresees that financially empowering LGUs will strengthen the foundation of a federal system. The economics of a local government unit will either make or break the federal states within the federal republic. The measures will prepare us for a stronger federation under one country.

⁴ Pimentel v Aguirre. G.R. No. 132988. July 19, 2000

SEVENTEENTH CONGRESS OF THE)
 REPUBLIC OF THE PHILIPPINES)
First Regular Session)

SENATE
 S. B. No. 110



Introduced by Senator Aquilino “Koko” Pimentel III

**AN ACT PROVIDING FOR THE SHARE IN THE NATIONAL
 TAXES OF LOCAL GOVERNMENT UNITS, AMENDING FOR
 THIS PURPOSE REPUBLIC ACT
 NO. 7160, OTHERWISE KNOWN AS THE LOCAL
 GOVERNMENT CODE OF 1991**

EXPLANATORY NOTE

Article X, Section 6 of the 1987 Constitution provides that “local government units shall have a just share, as determined by law, in the national taxes which shall be automatically released to them.”

Section 284, Title III, Chapter I of the Local Government Code of 1991 declares that the local government units (LGUs) shall have a share in the “national internal revenue taxes.”

This Bill, which I refer to as the “Bigger Pie, Bigger Slice” Bill, expands the source of funds for LGUs by changing “national internal revenue taxes” to “national taxes”, which is still, if not more, compliant with the above constitutional mandate.

As front liners in the delivery of government services, LGUs have been given numerous mandates but, most of the time, the resources to fulfill these mandates have been overlooked and have not been coming to the LGUs.

This Bill seeks to give LGUs more resources to make them fulfill their role as front liners to their respective constituents.

The Bill achieves this by including in the “pie” all the collections of the Bureau of Customs.

Not only does this Bill seek to increase the source of funds given to LGUs under the above-quoted constitutional mandate, but it also increases the share of, or slice for LGUs in this bigger pie, from the present 40% to the proposed 50% share.

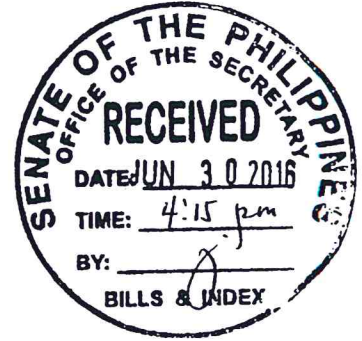
Aside from giving more resources to LGUs, another collateral result of this Bill is that it converts the fight against smuggling into a national and grassroots concern, because the LGUs will now be more sensitive on matters concerning smuggling operations for the simple reason that if the fight against smuggling succeeds, the BOC's collections will increase and which, in turn, will also increase the LGUs' share in the national taxes.

I foresee faster development and progress in the countryside with the enactment of this Bill, as barangays are also beneficiaries of this bill.

Hence, it is requested that this Bill be enacted as soon as possible for the benefit of all.


AQUILINO "KOKO" PIMENTEL III

SEVENTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)



SENATE
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**AN ACT PROVIDING FOR THE SHARE IN THE NATIONAL
TAXES OF LOCAL GOVERNMENT UNITS, AMENDING FOR
THIS PURPOSE REPUBLIC ACT
NO. 7160, OTHERWISE KNOWN AS THE LOCAL
GOVERNMENT CODE OF 1991**

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

1 **SECTION 1.** Beginning the fiscal year following the effectivity
2 of this Act, local government units shall have a fifty percent (50%) share
3 in the national taxes (“SNT”) based on the collection of the third fiscal
4 year preceding the current fiscal year; Provided, that in the event that the
5 national government incurs an unmanageable public sector deficit, the
6 President of the Philippines is hereby authorized, upon the
7 recommendation of Secretary of Finance, Secretary of Interior and Local
8 Government, and Secretary of Budget and Management, and subject to
9 consultation with the presiding officers of both Houses of Congress and
10 the presidents of the various leagues of the local government units, to
11 make the necessary adjustments in the share in the national taxes of local
12 government units but in no case shall the share be less than forty percent
13 (40%) of the collection of national taxes of the third fiscal year
14 preceding the current fiscal year.

15
16 **SECTION 2.** As used in this Act:

17
18 (1) “Local Government Units” shall refer to provinces, cities,
19 municipalities, and barangays;

20
21 (2) “National Taxes” shall refer to and include the national
22 internal revenue taxes collected by the Bureau of Internal Revenue, and
23 the tariffs, duties, fees, and charges, as well as the national internal

1 revenue taxes, if any, collected by the Bureau of Customs. National
2 taxes shall likewise include 'value-added taxes' collected by both
3 agencies;

4
5 (3) "National Internal Revenue Taxes" shall include the value-
6 added taxes.

7
8 **SECTION 3.** The share in the national taxes created under this
9 Act of each local government unit shall be determined following the
10 formula provided under Section 285 of Republic Act No. 7160.

11
12 **SECTION 4.** Each local government unit shall appropriate in its
13 annual budget no less than twenty percent (20%) of its share in the
14 national taxes for development projects. Copies of the development
15 plans of local government units shall be furnished the Department of
16 Interior and Local Government.

17
18 **SECTION 5.** The Secretary of Finance, in consultation with the
19 Secretary of Budget and Management, shall promulgate the necessary
20 rules and regulations for a simplified disbursement scheme designed for
21 the speedy and effective enforcement of the provisions of this Act.

22
23 **SECTION 6.** Section 284 under Chapter I, Title III of Republic
24 Act No. 7160, and all laws, presidential decrees, executive orders, letters
25 of instruction, rules and regulations which are inconsistent with any of
26 the provisions of this Act are hereby repealed or modified accordingly.

27
28 **SECTION 7.** If, for any reason or reasons, any part or provision
29 of this Act shall be held to be unconstitutional or invalid, other parts or
30 provisions hereof which are not affected thereby shall continue to be in
31 full force and effect.

32
33 **SECTION 8.** This Act shall take effect fifteen (15) days after its
34 complete publication in the Official Gazette or in any newspaper of
35 general circulation.

36
37 *Approved,*

SEVENTEENTH CONGRESS OF THE)
 REPUBLIC OF THE PHILIPPINES)
 First Regular Session)



'16 JUL 21 P2:23

SENATE

S. No. 810

RE :

BY :

Introduced by Senator Ralph G. Recto

AN ACT
 STRENGTHENING LOCAL GOVERNMENT PARTICIPATION IN NATIONAL
 DEVELOPMENT BY INCREASING THE SHARE OF LOCAL GOVERNMENT UNITS
 IN THE NATIONAL INTERNAL REVENUE TAXES, AMENDING FOR THE
 PURPOSE SECTION 284 OF REPUBLIC ACT NO. 7160, OTHERWISE KNOWN AS
 THE LOCAL GOVERNMENT CODE OF 1991

Explanatory Note

The enactment of Republic Act (R.A.) No. 7160 otherwise known as the Local Government Code of 1991 was a major step in bringing administrative and organizational reforms to our local government units (LGUs), highlighted by decentralization and local autonomy. LGUs are now mandated to deliver the priority needs and basic services of its communities such as agricultural services, health and social welfare services, information services, waste management and environmental protection, maintenance of roads and highways, infrastructure facilities and tourism development, among others.¹

As mandated in the Code, LGUs have the power to create and broaden their own sources of revenue coupled with the right to a just share in national taxes in order to discharge local powers and effectively carry out devolved functions.

The internal revenue allotment (IRA), is the share of the LGUs out of the national government's overall revenue collections. The Philippines consists of 81 provinces, 145 cities, 1,489 municipalities and 42,036 barangays. Since only a fraction of the 43,751 LGUs belong to the 1st and 2nd income classes,² most of these LGUs depend on their share from the IRA to perform their devolved powers and functions. Thus, majority of the LGUs have become dependent on their IRA and fails to exert effort to look for other resources to fund programs and projects.

Twenty-five years since the enactment of the Code, most local governments have yet to exercise genuine autonomy from the national government and still lack the capability to become effective partners of the national government in national progress.

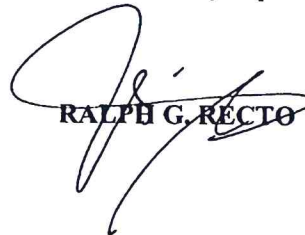
This bill seeks to promote good governance by LGUs through the amendment of Section 284 of the Code thereby increasing LGU share in the IRA from forty percent (40%) to fifty

¹ Eleuterio C. Dumogho. "Relevant Provisions of Local Government Code." Comparative Study Tour on Local Government Administration and Management. 8 May 2006. http://pcij.org/blog/wp-docs/Dumogho_LGC_Relevant_Provisions.pdf

² National Statistical Coordination Board. Provincial Summary: Number of Provinces, Cities, Municipalities and Barangays, By Region. http://www.nscb.gov.ph/activestats/psgc/PSA_PSGC_SUMMARY_ASOFDEC2015.pdf

percent (50%). With the increase of their share in the national taxes, local governments are expected to ensure efficient and effective delivery of basic services; increase local government capacities to generate revenues, enhance financial management and improve the performance of public economic enterprises; and improve their mechanisms for transparency and accountability.

In view of the foregoing, the immediate approval of this measure is hereby requested.




RALPH G. RECTO

'16 JUL 21 P2:23

SENATE

S. No. 810

RECEIVED BY: 

Introduced by Senator Ralph G. Recto

AN ACT
STRENGTHENING LOCAL GOVERNMENT PARTICIPATION IN NATIONAL DEVELOPMENT BY INCREASING THE SHARE OF LOCAL GOVERNMENT UNITS IN THE NATIONAL INTERNAL REVENUE TAXES, AMENDING FOR THE PURPOSE SECTION 284 OF REPUBLIC ACT NO. 7160, OTHERWISE KNOWN AS THE LOCAL GOVERNMENT CODE OF 1991

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

1 **SECTION 1.** Section 284 of Republic Act No. 7160, otherwise known as the "Local
2 Government Code of 1991" is hereby amended to read as follows:

3 "Section 284. *Allotment of Internal Revenue Taxes.* - Local government units
4 shall have a share OF FIFTY PERCENT (50%) in the national internal revenue taxes
5 based on the collection of the third fiscal year preceding the current fiscal year. [as
6 follows:

7 (a) On the first year of the effectivity of this Code, thirty percent (30%);

8 (b) On the second year, thirty-five percent (35%); and

9 (c) On the third year and thereafter, forty percent (40%).]

10 "X X X."

11 **SEC. 2. *Implementing Rules and Regulations.*** The Secretaries of the Department of the
12 Interior and Local Government in coordination with the Department of Finance and the Bureau
13 of Internal Revenue, shall jointly within ninety (90) days from the effectivity of this Act,
14 formulate and promulgate rules and regulations to implement the provisions of this Act.

15 **SEC. 3. *Repealing Clause.*** All other laws, orders, decrees, issuances, circulars, rules and
16 regulations or parts thereof which are inconsistent with any of the provisions of this Act are
17 hereby repealed or modified accordingly.

18 **SEC. 4. *Effectivity Clause.*** This Act shall take effect fifteen (15) days from the date of
19 publication in the Official Gazette or in at least two (2) newspapers of general circulation.

Approved,

SEVENTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)



'16 JUL 21 P3:17

SENATE

S. No. 843

RECEIVED BY: 

Introduced by Senator Ralph G. Recto

AN ACT
STRENGTHENING LOCAL GOVERNMENT UNITS BY INCREASING TO FIFTY PERCENT (50%) THE ANNUAL INTERNAL REVENUE ALLOTMENT SHARE OF LOCAL GOVERNMENT UNITS AND FOR OTHER PURPOSES

Explanatory Note

This bill seeks to promote good governance by local governments units (LGUs) by increasing LGU share in the internal revenue allotment (IRA) from forty percent (40%) to fifty percent (50%). With the increase of their share in the national taxes, local governments shall have greater capability to become effective partners of the national government in national progress. LGUs are expected to ensure efficient and effective delivery of basic services; increase local government capacities to generate revenues, enhance financial management and improve the performance of public economic enterprises; and improve their mechanisms for transparency and accountability.

Due to the significance of barangays as a basic political unit, it is but just to promote their welfare and prosperity. Hence, this bill proposes that the ten percent (10%) increase in the IRA share of LGUs may be used for the payment of compensation, allowances, emoluments and other privileges such as social security benefits of barangay officials and volunteer workers.

The total IRA share released to the 43,593 LGUs in 2016 amounted to P428.62 billion.¹ With the proposed 10% increase in the IRA share, the FY 2017 IRA level shall be P608.61 billion which is P121.72 billion or 21.1% higher than the projected total IRA share of P480.41 billion (without 10% increase) for all LGUs. The 10% increase in the IRA share of LGUs, if allocated to barangays, shall be enough to cover their personal services requirement.

In view of the foregoing, the immediate approval of this measure is hereby requested.


RALPH G. RECTO

ap/m

¹ Department of Budget and Management. Local Budget Memorandum No. 70 "FY 2016 IRA Level and Other Local Budget Preparation Matters." June 15, 2015.

SENATE

S. No. 843

BY: _____

BY: _____



Introduced by Senator Ralph G. Recto

AN ACT
STRENGTHENING LOCAL GOVERNMENT UNITS BY INCREASING TO FIFTY PERCENT (50%) THE ANNUAL INTERNAL REVENUE ALLOTMENT SHARE OF LOCAL GOVERNMENT UNITS 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 the “*Equal Income*
2 *Sharing Act of 2016*”.

3 **SEC. 2. Declaration of Policy.** – It is hereby declared the policy of the State to
4 promote good governance by local government units (LGUs) and empower government
5 officials and public volunteer workers at the grassroots level.

6 The State recognizes the need of LGUs to have adequate funds to perform its
7 expenditure responsibilities.

8 In line with this policy and in cognizance of the crucial role of barangays as the
9 primary planning and implementing units of government policies, programs and projects,
10 the State shall, through the provision of increasing the barangay budget for the payment
11 of compensation, allowances, emoluments and other privileges such as social security
12 benefits, protect the rights and promote the welfare of barangay officials and volunteer
13 workers.

14 **SEC. 3. Increase in the Annual Internal Revenue Allotment (IRA) Share of**
15 *LGUs.* – Local government units shall have a share of fifty percent (50%) in the national
16 internal revenue taxes based on the collection of the third fiscal year preceding the
17 current fiscal year.

18 **PROVIDED,** That the ten percent (10%) increase in the annual internal revenue
19 allotment may be set aside and used for the payment of compensation, allowances,
20 emoluments and other privileges such as social security benefits of barangay officials and
21 volunteer workers.

22 **SEC. 3. Implementing Rules and Regulations.** The Secretaries of the Department
23 of the Interior and Local Government in coordination with the Department of Finance
24 and the Department of Budget and Management, shall jointly within ninety (90) days

25 from the effectivity of this Act, formulate and promulgate the rules and regulations to
26 implement the provisions of this Act.

27 **SEC. 4. *Repealing Clause.*** Section 284 of Republic Act No. 7160 otherwise
28 known as the "Local Government Code" is hereby amended. All other laws, orders,
29 decrees, issuances, circulars, rules and regulations or parts thereof which are inconsistent
30 with any of the provisions of this Act are hereby repealed or modified accordingly.

31 **SEC. 5. *Effectivity Clause.*** This Act shall take effect fifteen (15) days from the
32 date of publication in the Official Gazette or in at least two (2) newspapers of general
33 circulation.

Approved,