



## **GUIDELINES FOR THE REVIEW, ADJUSTMENT, SETTING AND/OR ADOPTION OF REASONABLE REGULATORY FEES AND USER CHARGES FOR LOCAL GOVERNMENT UNITS**

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Joint Memorandum Circular No: \_\_\_\_\_

Date: \_\_\_\_\_

**DRAFT (v.9; as of 23 July 2018)**

### **1. Background**

The regulation of business and activities as well as the delivery of services to the people, through the local government entails costs to the government, and equity requires that person benefitting from the services to share the cost of providing such services.

If the primary purpose of the imposition is generation of revenue and that regulation is merely incidental, the imposition is a "tax"; but if regulation is the primary purpose and the fact that revenue is incidentally obtained does not make the imposition a tax, but merely a "fee".

However, the determination of the amount of the fees and charges shall be a balance between recovering the cost of services rendered and the socio-economic impact of such imposition. But any revision of fees and charges need to be coordinated with stakeholders to ensure that the rates are just and reasonable and to minimize, if not avoid, unintended impact on established priorities and the general public.

In order to help Local Government Units (LGUs) build strong enabling environment for good local governance and serve our constituents fairly, particularly the business sector, we enjoin all LGUs to review, adjust, and/or revise their Local Revenue Ordinances in accordance with the rationalized procedure for setting fees and charges.

### **2. Purpose**

This Joint Memorandum Circular is being issued for the guidance of LGUs to ensure uniform procedure in setting reasonable fees and charges as provided for by the provisions of Republic Act (RA) No. 7160, otherwise known as the Local Government Code (LGC) of 1991 and in order to set a balance between recovering the cost of services and the ease of doing business in compliance with RA No. 11032, otherwise known as Ease of Doing Business and Efficient Government Service Delivery Act of 2018.

### **3. Legal Compliance**

Pursuant to Sections 134, 142, 151 and 152 of LGC allow provinces, cities, municipalities and barangays to impose and collect taxes, fees and charges on business and occupation and on the practice of any profession and calling.

Pursuant to Section 147 of the LGC provides that fees and charges imposed by provinces, cities, municipalities and barangays should be reasonable and commensurate with the cost of regulation, inspection and licensing before any person may engage in such business or occupation, or practice of such profession or calling.

Pursuant to Section 153 of the LGC stipulates that LGUs may collect reasonable fees and charges for services rendered.

Pursuant to Section 130 of the LGC requires that the exercise of the taxing and other revenue-raising powers of LGUs shall be governed by the following principles: a) uniform in each local government unit; b) equitable and based as far as practicable on the taxpayer's ability to pay, levied and collected only for public purposes, not be unjust, excessive, oppressive, or confiscatory, and not be contrary to law, public policy, national economic policy, or in the restraint of trade; c) collections shall in no case be let to any private person; d) collections shall inure solely to the benefit of, and be subject to the disposition by the local government unit levying the tax, fee, charge or other imposition; and e) evolve a progressive system of taxation.

Pursuant to Section 132 of the LGC stipulates that the power to impose a tax, fee or charge to generate a revenue under the LGC shall be exercised by the LGU concerned through an appropriate ordinance.

Pursuant to Sections 444(3)(iv), 455(3)(iv) and 563(3)(iv) of the LGC provides that the license and permits are to be issued by the local chief executives.

Pursuant to Sections 56 and 57 of the LGC, local ordinance shall be reviewed by higher local government authorities within thirty (30) days, otherwise such ordinance shall be presumed consistent with law and therefore valid.

Pursuant to Section 5 of the Ease of Doing Business Act of 2018 provides that all proposed regulations of government agencies under Section 3 of the same Act shall undergo regulatory impact assessment to establish if the proposed regulation does not add undue regulatory burden and cost to these agencies and the applicants or requesting parties.

Pursuant to Section 21 of the Ease of Doing Business Act of 2018 provides that imposition of additional cost not reflected in the Citizen's Charter constitutes a violation and holds persons responsible liable under the same Act.

#### 4. Scope/Coverage

This Circular covers all Local Chief Executives (LCE), Vice-Governors, Vice-Mayors, Sanggunian Members, Punong Barangays, Regional Directors of the Department of the Interior and Local Government (DILG) and the Department of Finance - Bureau of Local Government Finance (DOF-BLGF), Provincial/ City/ Municipal Treasurers and others concerned.

#### 5. Definitions

- a. **Cost of Service** - refers to the sum of (a) direct costs such as supplies, materials, salaries/wages of personnel directly involved and proportionate share in the overhead expenses incurred by the LGU in rendering service, and (2) such expenses incurred by the LGU in rendering the service, and (b) such other readily identifiable incidental expenses incurred in rendering the service. The cost of service shall be considered equivalent to the regular budget of the operating department/division/unit rendering the pertinent service as authorized in the appropriation ordinance.
- b. **Cost recovery** - refers to the process of compensating the cost associated with the provision of services (including regulation), which involves the collection of user or regulatory fees to ensure long-term sustainability.
- c. **Charge** - refers to the pecuniary liability, as a rent or fee against a person or property.
- d. **Fee** - refers to a charge fixed by law or ordinance for the regulation or inspection of a business or activity.
- e. **Fees and charges** - refers to levies imposed on direct recipients of public goods and services by LGUs in the exercise of their mandated regulatory and service delivery functions; and should be commensurate with the cost of regulation, inspection and licensing before any person may engage in such business or occupation, or practice of such profession or calling.
- f. **Imposition** - pertains to the act of levying a tax, fee or charge on a particular subject, which is done by way of an ordinance
- g. **Regulatory Fees** - A charge fixed by law or ordinance for the regulation or inspection of a business or activity.
- h. **Socioeconomic impact** - refers to any potential positive or negative change in the socioeconomic environment of stakeholders, particularly the business sector, whether directly or indirectly, that is expected to arise with the introduction and implementation of a policy intervention.
- i. **Tax** - refers to a charge levied by a local government on a product, income, or activity, the purpose of which is to generate public revenues to finance public

goods and services. It is usually derived by applying a mandated tax rate/schedule to the prescribed and identified tax base according to a law or ordinance.

## 6. Policy Content and Guidelines

This Circular shall apply to all fees and charges being imposed by LGUs rendering services to the public, whether regulatory or service fees, the purpose of which is to recover the cost of service rendered, except when the rate or the method for determining the rate has already been prescribed under the LGC and/or other special laws.

### 6.1 Enumeration of Common and Allowable Fees and Charges

#### a. Regulatory Fees

- Business Permit
- Electrical Permit
- Demolition Permit
- Impact Fees and Exactions
- Development Permit
- Registration Fee on Fishing Boats, Tricycles,
- Permit Fee for Zoning and Locational Clearance
- Building Permit
- Occupancy Permit
- Dog License Fee
- Holding Benefits Permit
- Occupation Fee for Mining Claims
- Large Cattle Registration and Transfer Fees
- Permit on Occupation/Calling Not requiring Government Examination
- Plumbing Permit
- Mechanical Permit
- Police Clearance
- Permit Fee on Parades
- Permit for Cockfighting
- Permit Fee on Film-making
- Excavation Fees

#### b. Other Regulatory Powers

- Fees for Licensing of Weights and Measures
- Public Utility Charges
- Fishery Rentals, Fees and Charges
- Toll Fees and Charges

#### c. Service Fees and Charges

- Secretary's Fees
- Hospital Fees
- Parking Fees
- Local Civil Registry Fees
- Tuition Fees
- Medical and Physical Examination Fees
- Permit Fee for Inspection and Certification of Subdivision
- Garbage Collection Fees
- Inspection Fee on Machineries and Equipment

#### d. Other LGU Charges

- Public Utility Charge
- Toll Fees or Charges

## 6.2 Determination of Reasonable Rates of Fees and User Charges

The rates of fees and charges shall be revised at just and reasonable rates sufficient to recover the cost of services rendered taking into consideration the following:

- a. The direct cost of rendering the services broken down into the fixed and variable costs. These shall include the salaries and wages of personnel directly involved in delivering the service, costs of supplies and materials, the proportionate share in the overhead expenses including depreciation rates of equipment and utilities used. For illustration purposes:

**Fee / User Charge = Manpower + Attributable Fixed Costs + Other Variable Costs**

- b. The Local Fees and Charges (LFC) Toolkit which details the costing framework and steps to be undertaken by the LGU serves as the guide for the revision of the fees and charges. The major steps are as follows:

- Step 1: Map your **Service** process
- Step 2: Identify the resources for each activity
- Step 3: Classify activities into **Standard** or **Critical**.  
*Note: **Standard** activities are those with uniform standard time procedure and effort for processing each service/applicant while **Critical** activities are those with varying time, procedure and effort for processing each service/applicant*
- Step 4: Quantify the variable costs for the **Standard** activities
- Step 5: Allocate the variable costs for the **Critical** activities
- Step 6: Estimate and distribute the **Fixed** costs
- Step 7: Compare fee with cost of delivering services
- Step 8: Submit the results to the Oversight Committee of the LGU
- Step 9: Propose necessary adjustments to the Local Revenue Code
- Step 10: Submit the report, action taken and updates on the LRC to the BLGF
- Step 11: BLGF to publish the schedule or rates of fees and user charges in the online portal

- c. The inflation rate since the rate of imposition or last revision of the subject rates of fees and charges
- d. The revision shall be as much as possible, be uniform for similar or comparable services and functions offered by LGUs
- e. The concerned LGUs shall identify and evaluate the potential socio-economic impact of the proposed rates of their fees and charges.
- f. The revised rates shall be imposed through the issuance of an appropriate ordinance and compliance to all legal requirements including the conduct of a public hearing and publications.

### 6.3 Creation of an Oversight Committee on the Revision of Fees and User Charges

Within three (3) months after the effectivity of this Circular, LCEs shall issue an Executive Order creating an oversight committee on the revision of fees and user charges composed of the following:

#### For Provinces:

Chairperson:	Sanggunian Committee concerned
Co-Chairperson	Provincial Treasurer
Members:	Provincial Budget Officer Provincial Planning and Development Coordinator Provincial Accountant Sanggunian Secretary

Additional members may be identified depending on the type of fees and charges being reviewed e.g., Assessor, Environment Officer, Health Officer.

#### For Cities and Municipalities:

Chairperson:	Sanggunian Committee concerned
Co-Chairperson	City/Municipal Treasurer
Members:	City/Municipal Budget Officer City/Municipal Planning and Development Coordinator City/Municipal Accounting Sanggunian Secretary Business Permits and Licensing Officer (BPLO) Association of Barangay Captain (ABC) President

Additional Members may be identified depending on the type of fees and charges being reviewed e.g., Assessor, Building Official, Environment Officer, Sanitary Officer, Zoning Officer.

#### For Barangays:

Chairperson:	Punong Barangay
Co-Chairperson	Barangay Treasurer
Members:	Sanggunian Members Barangay Secretary

The Committee on Revision of Fees and Charges shall have the following functions and responsibilities:

- a. Ensure that the guiding principles as prescribed under the LGC and this Circular are observed;
- b. Review the rationale for fees and user charges imposed by the LGU and methodology for determination of the fee schedule or rates;

- c. Review and recommend basis of fees and user charges of their respective component barangays based on the submitted analysis and reports of these component barangays;
- d. Gather data on the cost of delivering regulatory, service fees and user charges in order to compute the appropriate rates that will recover the cost;
- e. Assess the socio-economic impact of the impositions; and
- f. Submit to the LCE and the Sanggunian the recommended proposed local revenue ordinance including a program of action to institute reforms.

In the case of municipalities and cities, once approved by the Sangguniang Bayan or Panlungsod, the recommended proposed local revenue ordinance shall submit to the Sangguniang Panlalawigan concerned, it shall declare such local revenue ordinance or resolution invalid in whole or in part.

In the case of barangays, once approved by the Sanggunian Members, the recommended proposed local revenue ordinance shall submit to the Sangguniang Bayan or Sanggunian Panlungsod concerned, it shall declare such local revenue ordinance or resolution invalid in whole or in part.

#### **6.4 Roles and Responsibilities of Oversight Agencies and Local Government Units**

##### **6.4.1 Department of Finance (DOF) through the Bureau of Local Government Finance (DOF-BLGF)**

The DILG, in coordination with DOF-BLGF, shall conduct capacity building and advocate among LGUs the guidelines for the review, setting and/or adoption of reasonable regulatory fees and user charges by using the Local Fees and Charges (LFC) Toolkit in revising their fees and charges.

The DOF-BLGF shall prepare, update and issue the necessary advisories on the LFC Toolkit for LGUs containing the cost accounting framework in the determination of the reasonable rate of fees and charges and for the primary purpose of analyzing the efficient cost-recovery of the LGUs. The LFC Toolkit shall be available in two modes: 1) Excel-based template; and 2) Local Fees and Charges Estimation System (LFCES) incorporated in the LGU Integrated Financial Tools (LIFT) System.

The DOF-BLGF shall regularly monitor the fees and charges imposed by LGUs through the DOF-BLGF online portal, and shall ensure that the schedule of rates and analysis of such are regularly published online and readily available to the different stakeholders and the general public.

#### **6.4.2 Department of the Interior and Local Government (DILG)**

The DILG, in coordination with DOF-BLGF, shall conduct capacity building and advocate among LGUs the utilization of the “Local Fees and Charges Toolkit” in updating their revenue ordinances and/or codes.

The DILG, shall take the necessary measures and institutionalize a monitoring system to ensure compliance of LGUs.

The DILG shall recommend appropriate penalties for non-compliance or any violation of the provisions of this Circular.

#### **6.4.3 Local Government Units (LGUs)**

The LCE shall call for the immediate review and appropriate updating of their respective Local Revenue Code (LRC). Furthermore, LGUs shall ensure that their LRCs, schedule of fees and charges and result of the review of such via the “Local Fees and Charges Toolkit” are published online in their website and/or in three (3) conspicuous places in their localities.

The Sanggunian Panlalawigan shall make sure to review the Revenue Codes/Ordinances passed in their jurisdiction in connection with the imposition of fees and charges of their component cities and municipalities.

The Sangguniang Panlungsod and Sangguniang Bayan, shall make sure to review the Revenue Codes/Ordinances passed in their jurisdiction in connection with the imposition of fees and charges of their component barangays.

### **7. Penal Provisions**

Local Chief Executives, Presiding Officers, Local Treasurers and Members of the Sanggunians at all levels who fail to strictly adhere to the aforementioned fundamental principles, limitations and requisites of the exercise of taxing power by a local government unit, who ignore the same by failing to rectify defective tax ordinances, shall be dealt with according to the prescribed sanctions by the Administrative Code and the separate IRR to be issued by the DILG after the effectivity of this issuance.

All rules, regulations, orders, and/or Circulars previously issued by the Department that are contrary to, or inconsistent with, the provisions of this Circular are hereby repealed or modified accordingly.

### **8. References**

The Local Government Code of 1991  
Ease of Doing Business Act of 2018 (RA No. 11032)

### **9. Annexes**

Local Fees and Charges Toolkit



## **10. Effectivity**

This Circular shall take effect immediately.

Through their Regional Offices, the Bureau of Local Government Development of the Department of the Interior and Local Government and the Bureau of Local Government Finance of the Department of Finance are hereby instructed to disseminate this Circular to all Local Chief Executives, Vice-Mayors, Vice-Governors, Sanggunian Members, Provincial/ City/ Municipal Treasurers and others concerned within their respective jurisdictions for their information and guidance.

## **11. Monitoring & Submission**

The Bureau of Local Government Development (BLGD), through the Regional Offices, shall monitor compliance of LGUs on a quarterly basis to be submitted to the Office of the Secretary of the DILG. Copies of the report shall be sent by the Regional Office via email to BLGD. The BLGD shall be in charge of reviewing the compliance of LGUs and notifying management concerning incidents of non-compliance and their corresponding sanctions.

The BLGF shall evaluate general compliance to form part of the treasury operations of LGUs.

## **12. Approving Authority**

**EDUARDO M. AÑO**  
Secretary  
Department of the Interior and Local  
Government

**CARLOS G. DOMINGUEZ**  
Secretary  
Department of Finance

## **13. Feedback**

For related queries, kindly contact the Local Fiscal Resource Development Division of the Bureau of Local Government Development at Tel. No. (02) 925-0356 or at Telefax No. (02) 927-7852 or at email [localfiscal.blgd@gmail.com](mailto:localfiscal.blgd@gmail.com) or visit [www.dilg.gov.ph](http://www.dilg.gov.ph) and/or the Bureau of Local Government Finance at (02) 527-2790 or visit its website at [www.blgf.gov.ph](http://www.blgf.gov.ph).