

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City



SIXTEENTH CONGRESS
Second Regular Session

HOUSE BILL No. 5543

Introduced by **BAYAN MUNA**
Rep. NERI J. COLMENARES and Rep. CARLOS ISAGANI T. ZARATE

AN ACT
EXEMPTING THE SYSTEM LOSS CHARGE COMPONENT IN THE SALE OF
ELECTRICITY BY DISTRIBUTION COMPANIES AND ELECTRIC
COOPERATIVES FROM THE COVERAGE OF THE VALUE ADDED TAX,
AMENDING FOR THE PURPOSE SECTION 109 (1) OF THE NATIONAL
INTERNAL REVENUE CODE, AS AMENDED BY REPUBLIC ACT NO. 9337 AND
REPUBLIC ACT NO. 10378, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

Value-Added Tax (VAT) is a form of sales tax. It is a tax on consumption levied on the sale, barter, exchange or lease of goods or properties and services in the Philippines and on importation of goods into the Philippines.

VAT is an indirect tax. It is shifted or passed on to the buyer, transferee or lessee of goods, properties or services. Being a pass-on tax, the burden of paying the VAT is therefore ultimately left upon the shoulder of the final consumers – the consuming public.

System Loss charge, on the other hand, is that part of one's electric bill representing the cost of electricity lost during transmission, pilferage, and due to technical and administrative inefficiency. Even pilfered power and the electricity used by the distribution companies (i.e. Meralco) and electric cooperatives are passed on to consumers. Thus, the people are made to pay more than the cost of electricity they have actually consumed. In a report by independent think-tank Ibon Foundation, the system loss charge comprises about 8% of the total electricity bill. Worse, this System Loss charge is subjected to the coverage of VAT which further drives electricity bills up.

As a tax on consumption, VAT ought to be imposed upon the goods and services people actually buy and consume. By its very definition therefore, the imposition of VAT upon this System Loss charge is unfounded and illegal as the people are taxed for goods/services they have not actually consumed.

For instance, in 2013, based on Meralco's tariffs which averaged 24 US cents per kilowatt hour, the price Filipinos pay for their electricity is the fifth highest in the world. It also showed that electricity in the Philippines costs nearly twice that of Thailand's, while about five times that of Indonesia's.

In another study conducted by the International Energy Consultants (IEC), a Perth-based consultancy firm commissioned by Meralco to conduct the study, the rates in Luzon are placed at ninth highest electricity tariffs of the 44 countries surveyed.

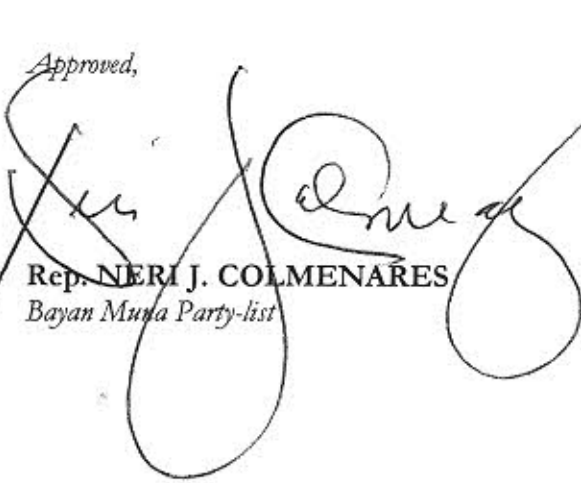
Per the IEC study, the primary reason for such higher power rates as compared to other countries is the absence of government subsidies for electricity, unlike countries like Indonesia, Thailand, and Malaysia, where electricity rates are subsidized by the government. These subsidies comprise a large part of their public budget. In Indonesia, for example, energy subsidies account for 24.0 percent of their 2013 public expenditure plan.

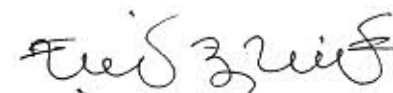
With this backdrop, along with the rising prices of consumer goods and commodities, fuel, education and medical costs, worsening inflation, and unabated sinking of the purchasing power of peso, it is high time that the Congress devise means which could readily help in keeping the pockets of Filipinos, especially those coming from the lower income class, from completely running dry.

Thus, this bill seeks to amend the National Internal Revenue Code of 1997, as amended by Republic Acts 9377 and 10378, by exempting the System Loss charge component in the electricity bills from the coverage of the Value Added Tax.

Passage of this bill is thus earnestly sought.

Approved,


Rep. NERI J. COLMENARES
Bayan Muna Party-list


Rep. CARLOS ISAGANI T. ZARATE
Bayan Muna Party-list

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

SECTION 1. Section 109 (1) of the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337 and Republic Act No. 10378, is hereby further amended to read as follows:

“SEC. 109. Exempt Transactions. – (1) Subject to the provisions of subsection (2) hereof, the following transactions shall be exempt from the value-added tax:

“(A) xxx

“(B) xxx

“xxx

“(W) SYSTEM LOSS COMPONENT IN THE SALE OF ELECTRICITY BY DISTRIBUTION COMPANIES AND ELECTRIC COOPERATIVES.

“(X) Sale or lease of goods or properties or the performance of services other than the transactions mentioned in the preceding paragraphs, the gross annual sales and/or receipts do not exceed the amount of One million five hundred thousand pesos (P1,500,000): Provided, That not later than January 31, 2009 and every three (3) years thereafter, the amount herein stated shall be adjusted to its present value using the Consumer Price Index as published by the National Statistics Office (NSO);

SECTION 2. *Repealing Clause.* – All laws, executive and administrative orders or parts thereof, inconsistent with any provision of this Act are hereby repealed or modified accordingly.

SECTION 3. *Effectivity.* – This Act shall take effect after fifteen (15) days following the completion of its publication in the Official Gazette or in a national newspaper of general circulation.

Approved,