

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



HOUSE OF REPRESENTATIVES

House Bill No. 3484

Introduced by Representative Ralph G. Recto

AN ACT
LOWERING THE COST OF ELECTRICITY BY EXEMPTING THE SYSTEM LOSS
CHARGE FROM THE VALUE-ADDED TAX

EXPLANATORY NOTE

This proposed measure seeks to exempt the system loss charge in the sale of electricity from the value-added tax (VAT).

The surge in demand for electricity indicates recovery from the crisis brought about by the COVID-19 pandemic. However, the increase in its price will have an effect on inflation. Electricity is an important component in the production of basic goods and services.

One of the charges in our electric bill is the system loss. This refers to the cost-recovery of power lost due to technical and non-technical system losses.¹ Republic Act No. 7832 sets the cap of recoverable systems loss at 9.5% for private distribution utilities, at the end of the fourth (4th) year following the effectivity of the Act.² For electric cooperatives, the cap was set at 14%, at the end of the fifth (5th) year following the effectivity of the Act.³ The caps were reduced to 8.5% for private distribution utilities and 13% for electric cooperatives, effective January 2010.⁴ The Energy Regulatory Commission further reduces the caps, from 6.5% in 2018 to

¹ <https://www.meralco.com.ph/residential/billing-payment/understanding-your-bill/breakdown-charges>

² Section 10 of Republic Act No. 7832

³ Section 10 of Republic Act No. 7832

⁴ ERC Resolution No.17, Series of 2008

5.5% in 2021, for private distribution utilities; and 12% in 2018 to 8.25% - 12% in 2022, for electric cooperatives.⁵

In 2005, Republic Act No. 9337, otherwise known as the Reformed Value-Added Tax (RVAT) Law, was enacted to widen the tax base by removing a number of products and services including electricity from the list of VAT-exempt transactions under the National Internal Revenue Code of 1997, as amended, thereby increasing revenue collections. Therefore, the sale of electricity by generation, transmission, and distribution companies including electric cooperatives is subject to VAT. This is in line with the principle that in order for the VAT system to be effective, it should be broad-based and with limited exemptions.

Undoubtedly, the VAT reform has produced significant and positive effects on our economy. However, as a consequence, such effect is also inflationary. VAT is an indirect tax that is passed on to the consumers of goods and services. Therefore, its imposition on the sale of certain products particularly electricity has the effect of increasing the prices of basic goods and services.

The imposition of VAT is too much of a burden on the consumers and businesses during this time that we are facing global and domestic challenges such as the COVID-19 pandemic, energy crisis, Russia-Ukraine conflict, rising commodity prices, soaring inflation and food crisis. As a mitigating response, it is high time to exempt the system loss charge from VAT, thereby effectively lowering the prices of electricity and consequently other basic goods and services.

In view of the foregoing, the immediate approval of this bill is earnestly sought.



RALPH G. RECTO

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⁵ ERC Resolution No.20, Series of 2017

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

1 Section. 1. Section 109 of the National Internal Revenue Code of 1997, as
2 amended, is hereby further amended to read as follows:

3 "SEC. 109. *Exempt Transactions.* –

4 "(1) Subject to the provisions of Subsection (2) hereof, the following
5 transactions shall be exempt from the value-added tax:

6 "(A) xxx;

7 "xxx;

8 "(AA) xxx;

9 "(BB) xxx;

10 "**(CC) SYSTEM LOSS CHARGE IN THE SALE OF ELECTRICITY; AND**

11 "~~{CC}~~ **(DD)** Sale or lease of goods or properties or the performance of
12 services other than the transactions mentioned in the preceding paragraphs, the
13 gross annual sales and/or receipts do not exceed the amount of Three million
14 pesos (P3,000,000)."

15 Sec. 2. *Implementing Rules and Regulations (IRR).* – Within thirty (30) days from
16 the effectivity of this Act, the Secretary of Energy and the Secretary of Finance, upon
17 the recommendation of the Commissioner of Internal Revenue, shall promulgate the
18 necessary rules and regulations for its effective implementation.

1 Sec. 3. *Repealing Clause.* – All laws, acts, decrees, executive orders, issuances,
2 and rules and regulations or parts thereof which are contrary to and inconsistent with
3 this Act are hereby repealed, amended or modified accordingly.

4 Sec. 4. *Effectivity.* – This Act shall take effect fifteen (15) days after its complete
5 publication in the *Official Gazette* or in at least two (2) newspapers of general
6 circulation.

Approved,