

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



HOUSE OF REPRESENTATIVES

House Bill No. 8652

Introduced by Representative ~~Ralph G. Recto~~

AN ACT

LOWERING THE COST OF DOING BUSINESS IN SPECIAL ECONOMIC ZONES AND FREEPORT ZONES, AMENDING FOR THE PURPOSE SECTION 109 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED

EXPLANATORY NOTE

This proposed measure seeks to lower the cost of doing business in special economic zones and freeport zones by exempting from value-added tax (VAT) the sale of electricity to their locators.

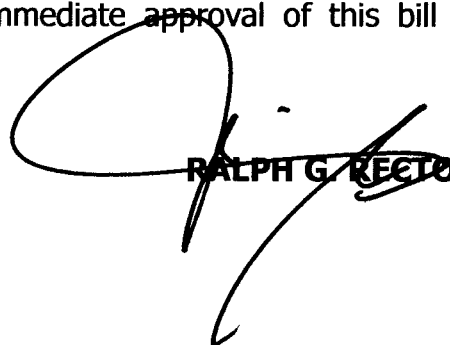
In 2005, Republic Act No. 9337, otherwise known as the Reformed Value-Added Tax (RVAT) Law, was enacted to widen the tax base by removing a number of products and services, including electricity, from the list of VAT-exempt transactions under the National Internal Revenue Code of 1997, as amended, thereby 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.

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. Therefore, the imposition of VAT on the sale of electricity has the effect of increasing the production cost of businesses, particularly the manufacturing and IT-BPO sectors within the special economic zones and freeport zones.

The purpose and intent of this proposed measure is to enhance the competitiveness of special economic zones and freeport zones in the global market by exempting from VAT the sale of electricity to their locators. The objective is to help these industries recover from the crisis brought about by various global and domestic challenges, and maximize their time, effort and resources in expanding business operations, thereby stimulating economic growth and generating more jobs throughout the country.

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



RALPH G. RECTO

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NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED

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) SALE OF ELECTRICITY TO REGISTERED BUSINESS**
11 **ENTERPRISES WITHIN THE SPECIAL ECONOMIC ZONES OR FREEPORT**
12 **ZONES; AND**

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

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

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

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

 Approved,