

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City
TWENTIETH CONGRESS
First Regular Session



HOUSE BILL NO. 2097

Introduced by **REP. BERNADETTE "DETTE" G. ESCUDERO**

AN ACT
EXEMPTING ELECTRICITY SALES FROM VALUE-ADDED TAX, FURTHER
AMENDING FOR THE PURPOSE SECTIONS 108 AND 109 OF THE NATIONAL
INTERNAL REVENUE CODE, AS AMENDED

EXPLANATORY NOTE

"Electricity can transform people's lives, not just economically but also socially."

— Piyush Goyal, Minister of Commerce & Industry, India

Electricity is a basic necessity that powers households, sustains livelihoods and businesses, and serves as a foundational driver of national economic development. Its availability and affordability are directly tied to the promotion of general welfare, the advancement of social justice, and the realization of the State's duty under Article XII, Section 1 of the 1987 Constitution to ensure equitable access to basic goods and services. As such, ensuring reasonable electricity costs is a matter of public interest and legislative concern.

However, the cost of electricity in the Philippines remains among the highest in Southeast Asia. Over half of a typical household's electricity bill is made up of generation charges, largely due to the country's reliance on imported fuel sources such as coal and liquefied natural gas (LNG). More than 50% of power plants in the Philippines are dependent on these imported fuels, making electricity rates vulnerable to global price volatility and foreign exchange fluctuations—particularly the U.S. dollar. Recent LNG imports alone have cost the country tens of millions of dollars, with these costs ultimately passed on to consumers through power supply agreements (PSAs) between producers and distribution utilities. These PSAs often include pass-through provisions that allow power suppliers to transfer increased generation costs directly to end users, further burdening households financially.

Currently, Sections 108 and 109 of the National Internal Revenue Code (NIRC), as amended, impose Value-Added Tax (VAT) on the sale of electricity by generation, transmission, and distribution companies, with limited exceptions for

certain renewable energy providers. This blanket imposition disproportionately affects low-income households and rural communities, where power distribution is often less efficient and more expensive. According to the Philippine Institute for Development Studies (PIDS), consumers in some provinces spend up to 20% of their monthly income on electricity alone—significantly reducing their ability to afford food, education, and health care.

In addition, VAT on electricity increases production costs for micro, small, and medium enterprises (MSMEs), which comprise 99.58% of all business establishments in the country, based on 2023 data from the Department of Trade and Industry (DTI). In provinces where local economies rely on agribusiness, retail, and cottage industries, high electricity costs stifle productivity, limit employment, and discourage growth.

This proposed measure—reintroduced by several authors in the Nineteenth Congress—seeks to exempt the sale of electricity from VAT by amending Sections 108 and 109 of the NIRC. The bill aims to reduce the cost of power, provide meaningful relief to ordinary consumers, and boost the competitiveness of local enterprises, especially in underserved and energy-challenged areas.

In view of the foregoing, the immediate and favorable enactment of this measure is earnestly sought.



HON. BERNADETTE "DETTE" G. ESCUDERO

Representative
1st District, Sorsogon

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INTERNAL REVENUE CODE, AS AMENDED

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

SECTION 1. Section 108 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"Sec. 108. Value-added Tax on Sale of Services and Use or Lease of Properties. -

"(A) Rate and Base of Tax. – There shall be levied, assessed and collected, a value-added tax equivalent to twelve percent (12%) of gross receipts derived from the sale or exchange of services, including the use or lease of properties.

"The phrase "sale or exchange of services" means the performance of all kinds of services in the Philippines for others for a fee, remuneration or consideration, including those performed or rendered by construction and service contractors; stock, real estate, commercial, customs and immigration brokers; lessors of property, whether personal or real; warehousing services; lessors or distributors of cinematographic films; persons engaged in milling processing, manufacturing or repacking goods for others; proprietors, operators or keepers of hotels, motels, rest houses, pension houses, inns, resorts; proprietors or operators of restaurants, refreshment parlors, cafes and other eating places, including clubs and caterers; dealers in securities; lending investors; transportation contractors on their transport of goods or cargoes, including persons who transport goods or cargoes for hire another domestic common carriers by land relative to their

transport of goods or cargoes; common carriers by air and sea relative to their transport of passengers, goods or cargoes from one place in the Philippines to another place in the Philippines; ~~[sales of electricity by generation companies, transmission by any means entity, and distribution companies, including electric cooperatives;]~~ services of franchise grantees of ~~[electric utilities,]~~ telephone and telegraph, radio and television broadcasting and all other franchise grantees except those under section 119 of this Code, and non-life insurance companies (except their crop insurances), including surety, fidelity, indemnity, and bonding companies; and similar services regardless of whether or not the performance thereof calls for the exercise or use of the physical or mental faculties. The phrase "sale or exchange of services" shall likewise include:

"x x x."

Sec. 2. Section 109 of the National Internal Revenue Code of 1997, as amended, 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) X x x.

"X x x.

"(BB) X x x.

**"(CC) SALE OF ELECTRICITY BY
GENERATION, TRANSMISSION, AND
DISTRIBUTION COMPANIES AND ELECTRIC
COOPERATIVES;**

**"(DD) SERVICES OF FRANCHISE GRANTEES
OF ELECTRIC UTILITIES; AND**

"(EE) [~~(CC)~~] x x x."

Sec. 3. Separability Clause. – If any provision of this Act or the application of such provision to any person or circumstance is declared invalid, the remainder of the Act or the application of such provision to other persons or circumstances shall not be affected thereby.

Sec. 4. Repealing Clause. – All laws, decrees, administrative issuances, rules and regulations, and orders or parts thereof inconsistent with this Act are deemed repealed or modified accordingly.

Sec. 5. Effectivity. – This Act shall take effect after fifteen (15) days following the completion of its publication in the *Official Gazette* or in two (2) national newspapers of general circulation, whichever comes first.

Adopted,