



Republic of the Philippines
House of Representatives
Quezon City

TWENTIETH CONGRESS

First Regular Session



House Bill No. 8293

Introduced by

APEC Party-List Representative Sergio C. Dagooc
PhilRECA Party-List Representative Presley C. De Jesus

EXPLANATORY NOTE

Electricity is a basic service and a necessary input to modern economic and social life. However, the cost of electricity in the Philippines remains among the highest in the region, partly due to the tax burden on fuels used in power generation and the heavy dependence on oil-based generation in off-grid and missionary areas.

Under the National Internal Revenue Code of 1997, as amended, fuels and electricity are generally subject to the value-added tax (VAT), with only limited exemptions and zero-rating for specific energy products and renewable power.

VAT on fuels used as primary inputs for power generation forms part of the cost base that is ultimately recovered from consumers through generation charges or from the public through subsidies such as the universal charge for missionary electrification.

In Small Power Utilities Group (SPUG) and other missionary or off-grid areas, electricity supply is typically provided by diesel and oil-fired generators operated by the National Power Corporation-SPUG and qualified private operators. The logistical difficulty and high cost of transporting fuel to remote islands and isolated grids result in generation costs that may be several times higher than those in the main grids, requiring significant subsidies to keep tariffs at reasonable levels.

Fuel cost is the dominant component of generation cost in these areas, such

that VAT and other indirect taxes on diesel and oil-based fuels effectively increase both the end-user tariff and the fiscal burden of subsidies.

The structure of the power sector, the regulatory pass-through of costs, and the presence of subsidies for missionary electrification mean that VAT on fossil fuels for generation may not function as an efficient environmental price signal but instead contributes to high tariffs and fiscal pressures, especially in remote and poorer communities.

This bill therefore proposes to expressly exempt from VAT:

(a) The sale and importation of fossil fuels—coal, petroleum oils, and natural gas—when proven to be primarily used for the generation of electricity in the Philippines; and

(b) The sale and importation of diesel, heavy fuel oil, and other oil-based fuels used exclusively for power generation in SPUG areas, missionary electrification areas, and other off-grid or isolated grids under the government’s missionary electrification program.

The proposed exemption is narrowly targeted, conditional, and supported by safeguards. By reducing the VAT cost embedded in fuels used for power generation, especially in SPUG and missionary areas, this measure is expected to moderate electricity generation costs, contribute to more affordable tariffs, and alleviate the subsidy burden on the national government and on-grid consumers who pay the universal charge for missionary electrification.

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


REP. SERGIO C. DAGOOC
APEC Party-List


REP. PRESLEY C. DE JESUS
PhilRECA Party-List



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AN ACT

**EXPANDING THE VALUE-ADDED TAX EXEMPTION FOR FUELS USED IN
POWER GENERATION, AMENDING FOR THE PURPOSE SECTION 109
OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED**

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

1 **SEC 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 "x x x

7 “(DD) **SALE OR IMPORTATION OF FOSSIL FUEL PRODUCTS,**
8 **INCLUDING COAL, PETROLEUM OILS, AND NATURAL GAS, IN**
9 **WHATEVER FORM OR STATE, WHICH ARE PROVEN TO BE USED**
10 **PRIMARILY FOR THE GENERATION OF ELECTRICITY IN THE**
11 **PHILIPPINES:**

12 “(i) **PROVIDED, THAT THE PURCHASER OR IMPORTER IS A**
13 **GENERATION COMPANY, ELECTRIC COOPERATIVE,**
14 **QUALIFIED THIRD-PARTY, OR OTHER ENTITY DULY**
15 **AUTHORIZED BY LAW OR BY THE ENERGY REGULATORY**

1 COMMISSION (ERC) OR THE DEPARTMENT OF ENERGY
2 (DOE) TO ENGAGE IN THE GENERATION OF ELECTRICITY IN
3 THE PHILIPPINES;

4 “PROVIDED FURTHER, THAT THE FOSSIL FUEL PRODUCTS
5 COVERED BY THE SALE OR IMPORTATION ARE PRIMARILY
6 INTENDED FOR, AND ARE ACTUALLY UTILIZED IN, THE
7 GENERATION OF ELECTRICITY IN THE PHILIPPINES;

8 “(EE) SALE OR IMPORTATION OF DIESEL, HEAVY FUEL OIL, AND
9 OTHER OIL-BASED FUELS TO BE USED EXCLUSIVELY FOR POWER
10 GENERATION IN SMALL POWER UTILITIES GROUP (SPUG) AREAS,
11 MISSIONARY ELECTRIFICATION AREAS, AND OTHER OFF-GRID
12 OR ISOLATED GRID AREAS AS MAY BE DULY IDENTIFIED UNDER
13 THE MISSIONARY ELECTRIFICATION PROGRAM OF THE
14 GOVERNMENT:

15 “PROVIDED, THAT THE PURCHASER OR IMPORTER IS THE
16 NATIONAL POWER CORPORATION – SMALL POWER
17 UTILITIES GROUP (NPC-SPUG), GENERATION COMPANY,
18 ELECTRIC COOPERATIVE, QUALIFIED THIRD-PARTY, OR
19 OTHER ENTITY DULY AUTHORIZED BY LAW OR BY THE ERC
20 TO PERFORM THE MANDATE OF MISSIONARY
21 ELECTRIFICATION;

22 “PROVIDED FURTHER, THAT ANY PERSON WHO DIVERTS
23 OR CAUSES THE DIVERSION OF SUCH FUELS FOR USE
24 OTHER THAN POWER GENERATION IN SPUG, MISSIONARY
25 ELECTRIFICATION, OR OFF-GRID AREAS SHALL BE LIABLE
26 FOR THE VAT THAT SHOULD HAVE BEEN PAID, INCLUDING
27 SURCHARGES, INTEREST, AND PENALTIES, WITHOUT
28 PREJUDICE TO THE CANCELLATION OR SUSPENSION OF
29 LICENSES, AUTHORITIES, OR FRANCHISES AND OTHER
30 SANCTIONS UNDER THIS CODE, THE ELECTRIC POWER
31 INDUSTRY REFORM ACT (EPIRA), AND OTHER APPLICABLE
32 LAWS.

33 **SEC. 3. Prohibited Acts.** No VAT exemption shall apply where the fossil
34 fuel products are subsequently diverted, sold, or transferred for use other
35 than the generation of electricity, in which case the appropriate VAT, plus
36 surcharges, interest, and penalties, shall be imposed on the person
37 responsible for such diversion, without prejudice to other applicable
38 sanctions and penalties under this Code or other applicable laws.

39 **SEC. 4. Implementing Rules and Regulations.** The Department of
40 Finance (DOF), upon the recommendation of the Bureau of Internal Revenue,
41 and in consultation with the Department of Energy (DOE), the National Power

1 Corporation (NPC), the National Electrification Administration (NEA), the
2 Energy Regulatory Commission (ERC), and other concerned agencies, shall
3 issue the implementing rules and regulations within one hundred twenty
4 (120) days from the effectivity of this Act.

5 **SEC 5. Separability Clause.** If any part or provision of this Act shall be
6 declared unconstitutional, the other parts or provisions hereof which are not
7 affected thereby, shall continue in full force and effect.

8 **SEC 6. Repealing Clause.** All laws, acts, decrees, executive orders,
9 issuances and rules and regulations or parts thereof which are contrary to
10 and inconsistent with any provisions of this Act are hereby repealed, amended
11 or modified accordingly.

12 **SEC 7. Effectivity.** This Act shall take effect fifteen (15) days after its
13 complete publication in the Official Gazette or in two (2) newspapers of general
14 circulation.

15 *Approved,*