



Republic of the Philippines
House of Representatives
Quezon City, Metro Manila

Twentieth Congress
First Regular Session

HOUSE BILL NO. 8415



Introduced by **REPRESENTATIVE ARTHUR C. YAP**

**AN ACT EXCLUDING SYSTEM LOSS CHARGES FROM VALUE-ADDED TAX ON
ELECTRICITY**

EXPLANATORY NOTE

Under existing policy, the Value-Added Tax (VAT) is imposed not only on the actual electricity delivered to households and businesses but also on system loss charges passed on by distribution utilities. System loss refers to electricity that is generated but not ultimately delivered to end-users due to line dissipation, technical inefficiencies in transmission and distribution, and, in some cases, pilferage or unauthorized connections.

As presently structured, consumers are effectively made to pay VAT on electricity they never consumed. This runs counter to the fundamental principle of VAT as a tax on consumption. By definition, VAT should apply only to goods and services actually consumed. Taxing system loss charges places an undue burden on consumers, requiring them to shoulder costs arising from inefficiencies and losses that are beyond their control.

At a time when Filipino families are grappling with rising electricity rates, inflationary pressures, and broader economic challenges, the imposition of VAT on system loss charges exacerbates financial strain. Ensuring a fair and equitable tax system demands that we correct this inconsistency.

This measure seeks to exclude system loss charges from the VAT base on electricity, thereby aligning tax policy with the core principle that VAT should apply solely to actual consumption. By doing so, the bill promotes fairness, protects consumers, and helps ease the cost of living for millions of households.

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

HON. ARTHUR C. YAP
Murang Kuryente Party-List

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SECTION 1. Short Title. – This Act shall be known as the “Systems Loss VAT Removal Law.”

SECTION 2. Amendment. – Section 106 A (1) of the National Internal Revenue Code of 1997 is hereby amended to:

“SEC. 106. Value-Added Tax on Sale of Goods or Properties. -

(A) Rate and Base of Tax. - There shall be levied, assessed and collected on every sale, barter or exchange of goods or properties, value-added tax equivalent to twelve percent (12%) [84] of the gross sales of the goods or properties sold, bartered or exchanged, such tax to be paid by the seller or transferor.

(1) “Goods or Properties.” The term “goods” or “properties” shall mean all tangible and intangible objects which are capable of pecuniary estimation and shall include:

- (a) Real properties held primarily for sale to customers or held for lease in the ordinary course of trade or business;
- (b) The right or the privilege to use patent, copyright, design or model, plan, secret formula or process, goodwill, trademark, trade brand or other like property or right;
- (c) The right or the privilege to use in the Philippines of any industrial, commercial or scientific equipment;
- (d) The right or the privilege to use motion picture films, tapes and discs; and
- (e) Radio, television, satellite transmission and cable television time.

Provided, that in the sale of electricity by generation companies, transmission entities, and distribution utilities, the value-added tax shall apply only to actual metered electricity delivered and consumed by the end-user and shall exclude system loss charges as defined under the Electric Power Industry Reform Act of 2001.

SECTION 3. Definition. – System Loss Charges shall refer to recoverable technical and non-technical losses as allowed by the Energy Regulatory Commission pursuant to the Electric Power Industry Reform Act of 2001.

SECTION 4. Implementing Rules and Regulations. – The Bureau of Internal Revenue and the ERC shall issue implementing rules within 60 days.

SECTION 5. Repealing Clause. – All laws, decrees, and issuances inconsistent with this Act are hereby repealed or modified accordingly.

SECTION 6. Effectivity. – This Act shall take effect fifteen (15) days after publication in the Official Gazette or a newspaper of general circulation.

Approved,