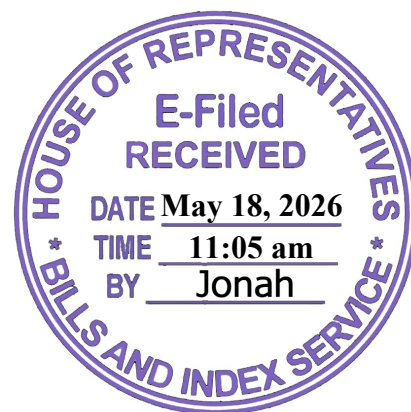


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Constitution Hills, Quezon City

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. 9276



Introduced by Lone District of Agusan del Norte Representative
HON. DALE B. CORVERA

AN ACT
EXCLUDING SYSTEM LOSS CHARGES FROM THE VALUE-ADDED TAX BASE
ON ELECTRICITY, AMENDING FOR THE PURPOSE SECTION 106 OF THE
NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR
OTHER PURPOSES

EXPLANATORY NOTE

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

In its current application, consumers are effectively made to pay VAT on electricity they never consumed. This contradicts the fundamental principle of VAT as a tax on consumption. By design, VAT is intended to apply only to the value of goods and services actually supplied, delivered, and consumed. However, system loss charges do not represent actual consumption by end-users; rather, they reflect recoverable costs associated with electricity that is lost before it reaches the consumer.

Under Republic Act No. 9136 (EPIRA), system losses are recognized as part of the operational costs of distribution utilities, subject to caps and regulatory review by the Energy Regulatory Commission (ERC). These charges are allowed to be passed on to consumers strictly as a cost-recovery mechanism, not as payment for actual electricity usage.^{1 2} As such, they are fundamentally different in nature from charges for electricity that is metered and consumed.

In practice, system loss levels in the Philippines are typically allowed at up to approximately 8.5% for private distribution utilities and 13% for electric cooperatives, subject to regulatory caps.² This means that a portion of every electricity bill represents electricity that was never delivered to the consumer. When VAT is applied to this portion, households effectively pay a 12% tax on 8–13% of non-consumed electricity, translating to an estimated additional burden of around 1% to 1.5% of the total electricity bill. While seemingly modest on a per-bill basis, this accumulates significantly over time, particularly for low- and middle-income households already burdened by high energy costs.

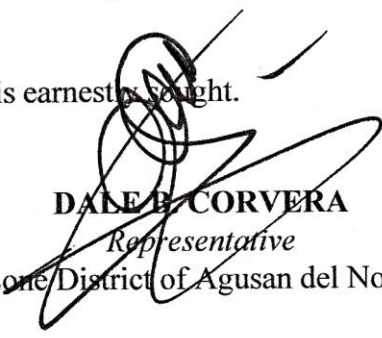
The continued inclusion of system loss charges in the VAT base thus expands the scope of VAT beyond consumption and into cost recovery, thereby distorting the tax base. This results in consumers bearing an additional tax burden on inefficiencies and losses that are inherent in the system and beyond their control. International VAT principles, as articulated in guidelines by the Organisation for Economic Co-operation and Development, emphasize that VAT should be levied on final consumption and should not apply to amounts that do not correspond to an actual supply consumed by the taxpayer.³

At a time when Filipino households are already facing rising electricity rates, inflationary pressures, and broader economic challenges, the imposition of VAT on system loss charges further aggravates financial strain. A fair and equitable tax system requires that such distortions be corrected.

This measure, therefore, proposes to expressly limit the VAT base on electricity to actual metered consumption, and to exclude system loss charges from VAT computation. By clarifying the tax base in this manner, the bill restores consistency with the fundamental nature of VAT, ensures that consumers are taxed only on what they actually consume, and prevents the undue taxation of inefficiencies embedded in the power distribution system.

By doing so, the bill promotes fairness, enhances consumer protection, and contributes to easing the cost of living for millions of Filipinos.

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


DALE B. CORVERA
Representative
Lone District of Agusan del Norte

¹ Republic Act No. 9136 (EPIRA), Sec. 23, provides for the recovery of system losses by distribution utilities, subject to regulatory caps.

² Energy Regulatory Commission, rules and issuances implementing EPIRA, including system loss caps (approximately 8.5% for private distribution utilities and up to 13% for electric cooperatives), recognizing system loss as recoverable cost rather than actual consumption.

³ Organisation for Economic Co-operation and Development, International VAT/GST Guidelines (2017), establishing that VAT is a tax on final consumption and should apply only to goods and services actually consumed.

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

SECTION 1. *Short Title.* This Act shall be known as the “Electricity VAT Fairness Act.”

SEC. 2. *Amendment.* Section 106(A)(1) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“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, a value-added tax equivalent to twelve percent (12%) 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 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 privilege to use in the Philippines any industrial, commercial, or scientific equipment;
- (d) The right or 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 to and consumed by the end-user, and shall exclude system loss charges, as defined under Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001.”

SEC. 3. *Definition of Term.* For purposes of this Act, “System Loss Charges” shall refer to recoverable technical and non-technical losses, as authorized and regulated by the Energy Regulatory Commission pursuant to Republic Act No. 9136.

SEC. 4. *Implementing Rules and Regulations.* Within sixty (60) days from the effectivity of this Act, the Bureau of Internal Revenue, in coordination with the Energy Regulatory Commission, shall promulgate the necessary rules and regulations for its effective implementation.

SEC. 5. *Repealing Clause.* All laws, decrees, executive orders, rules, and regulations, or parts thereof inconsistent with this Act are hereby repealed or modified accordingly.

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

Approved,