

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

Twentieth (20th) Congress
First Regular Session



House Bill No. **9653**

Introduced by **HONORABLE LORETO "AMBEN" S. AMANTE**
3rd Legislative District, Province of Laguna

AN ACT
PROVIDING VALUE-ADDED TAX (VAT) RELIEF ON BASIC ELECTRICITY
AND WATER CONSUMPTION, EXCLUDING SYSTEM LOSS FROM VAT FOR
RESIDENTIAL ELECTRICITY USERS, AMENDING FOR THE PURPOSE
SECTION 109 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS
AMENDED, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

The 1987 Constitution mandates that taxation shall be uniform and equitable, and that Congress shall evolve a progressive system of taxation. In keeping with this principle, tax policy must consider taxpayers' capacity to pay and the essential nature of certain goods and services. While indirect taxes such as the VAT may have regressive effects, these may be mitigated through targeted exemptions and zero-rating.

Electricity and water are basic necessities indispensable to daily life, health, and productivity. However, rising energy prices and water tariffs have placed increasing pressure on Filipino households, particularly those in the working and middle-income sectors.

At present, VAT is imposed on electricity and water consumption, including cost components beyond consumers' control. One such component is system loss in electricity pricing, which represents technical and non-technical losses in power distribution. As a result, households effectively pay VAT not only on actual consumption, but also on inefficiencies in the delivery system.

This measure seeks to provide targeted and fiscally responsible relief by amending the VAT exemption provisions of the National Internal Revenue Code of 1997, as amended, to:

1. Exempt from VAT the basic consumption of electricity and water for residential households up to defined thresholds, ensuring that essential levels of consumption remain affordable;
2. Exclude the system loss component from VAT for residential electricity users, recognizing that system losses do not constitute actual household consumption; and
3. Require transparency and regulatory oversight to ensure that the VAT relief is fully passed on to consumers and not offset by other charges.

The proposed exemption thresholds—two hundred (200) kilowatt-hours (kWh) of electricity and fifteen (15) cubic meters of water per household per month—reflect reasonable baseline consumption for ordinary Filipino families. By limiting the exemption to basic levels and applying VAT only to consumption beyond the threshold, the measure ensures that relief is targeted toward essential use rather than excessive consumption.

Moreover, the power sector's pricing and billing framework already recognizes the importance of transparency in residential billing. Existing laws require that mandated rate reductions and cross-subsidies be separately reflected in billing statements, reinforcing the principle that regulated charges and consumer benefits must be transparent and verifiable.

This bill also aligns implementation with existing tax administration rules governing pass-through charges and VAT reporting in the power industry. Current regulations recognize the need for proper billing segregation and oversight to ensure that VAT treatment is accurately accounted for and that any relief granted directly benefits residential consumers.

By easing the VAT burden on basic utilities and removing VAT on system loss for residential users, this measure promotes social equity, protects household purchasing power, and supports economic stability, consistent with the constitutional policy of a more equitable and progressive tax system.

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



HON. LORETO S. AMANTE

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

Section 1. Title. - This Act shall be known as the “*Basic Utilities VAT Relief Act of 2026.*”

Section 2. Declaration of Policy. - It is hereby declared the policy of the State to promote a just, equitable, and progressive system of taxation that takes into account the essential needs of Filipino households.

The State recognizes that access to electricity and water constitutes basic necessities indispensable to a decent standard of living. It further recognizes that certain cost components in electricity pricing, such as system losses, are beyond the control of consumers.

As such, the tax system shall not unduly burden households in meeting these fundamental needs. Toward this end, the State shall provide targeted tax relief on basic utility consumption and remove value-added tax on system losses for residential consumers, while ensuring fiscal sustainability.

Section 3. Section 109 of the National Internal Revenue Code of 1997, as amended, is hereby 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:

"xxx

"(EE) SALE OF ELECTRICITY AND WATER FOR RESIDENTIAL USE, SUBJECT TO THE FOLLOWING LIMITATIONS:

(I) THE VAT EXEMPTION SHALL APPLY ONLY TO THE MONTHLY CONSUMPTION OF:

(A) UP TO TWO HUNDRED (200) KILOWATT-HOURS (KWH) OF ELECTRICITY PER HOUSEHOLD; AND

(B) UP TO FIFTEEN (15) CUBIC METERS OF WATER PER HOUSEHOLD;

(II) CONSUMPTION IN EXCESS OF THE THRESHOLDS PROVIDED HEREIN SHALL BE SUBJECT TO THE APPLICABLE VALUE-ADDED TAX RATE UNDER THIS CODE;

(II) THE EXEMPTION SHALL APPLY EXCLUSIVELY TO RESIDENTIAL USERS AS CLASSIFIED BY DISTRIBUTION UTILITIES AND WATER SERVICE PROVIDERS;

(III) DISTRIBUTION UTILITIES AND WATER CONCESSIONAIRES SHALL REFLECT THE VAT EXEMPTION AS A SEPARATE LINE ITEM DEDUCTION IN BILLING STATEMENTS TO ENSURE TRANSPARENCY;

(IV) THE SECRETARY OF FINANCE, UPON RECOMMENDATION OF THE COMMISSIONER OF INTERNAL REVENUE AND IN CONSULTATION WITH RELEVANT REGULATORY AGENCIES, MAY REVIEW AND ADJUST THE THRESHOLDS EVERY THREE (3) YEARS BASED ON INFLATION, CONSUMPTION PATTERNS, AND FISCAL IMPACT.

"(FF) SYSTEM LOSS COMPONENT IN THE SALE OF ELECTRICITY BY DISTRIBUTION UTILITIES AND ELECTRIC COOPERATIVES TO RESIDENTIAL HOUSEHOLD CONSUMERS.

FOR PURPOSES OF THIS SUBSECTION, "SYSTEM LOSSES" SHALL REFER TO THE DIFFERENCE BETWEEN THE ELECTRIC ENERGY DELIVERED TO THE DISTRIBUTION SYSTEM (ENERGY

INPUT) AND THE ENERGY DELIVERED TO END-USERS (ENERGY OUTPUT).

THE ENERGY REGULATORY COMMISSION (ERC) SHALL ENSURE THAT THE REDUCTION ARISING FROM THE VAT EXEMPTION ON SYSTEM LOSSES SHALL BE FULLY REFLECTED IN THE BILLING OF RESIDENTIAL HOUSEHOLD CONSUMERS AND SHALL NOT BE OFFSET BY INCREASES IN DISTRIBUTION WHEELING CHARGES OR OTHER PASS-THROUGH CHARGES."

Section 4. *Implementing Rules and Regulations.* - Within sixty (60) days from the effectivity of this Act, the Department of Finance (DOF), in coordination with the Bureau of Internal Revenue (BIR), the Energy Regulatory Commission (ERC), the Local Water Utilities Administration (LWUA), and other relevant agencies, shall promulgate the necessary rules and regulations for the effective implementation of this Act.

Section 5. *Separability Clause.* - If any provision of this Act is declared unconstitutional or invalid, the remainder shall not be affected.

Section 6. *Repealing Clause.* - All laws, decrees, executive orders, rules and regulations, or parts thereof inconsistent with this Act are hereby repealed or modified accordingly.

Section 7. *Effectivity.* - This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in at least two (2) newspapers of general circulation.

Approved,