

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

TWENTIETH CONGRESS

Second Regular Session

House Bill No. **10314**



Introduced by **Rep. BEVERLEY ROSE A. DIMACUHA**

EXPLANATORY NOTE

The high cost of electricity in the Philippines remains a constant burden to Filipino households and businesses, contributing significantly to the rising cost of living and the overall cost of doing business in the country. This situation has been exacerbated by the ongoing conflict in the middle east.

A major component of electricity pricing is the imposition of the Value Added Tax (VAT) on the sale of electricity by generation, transmission, and distribution companies, as well as electric cooperatives. Under the current system, VAT is imposed on each stage of the power supply chain, from generation, transmission, to distribution, resulting in compounded tax costs that are ultimately passed on to consumers.

Another contributing factor to high electricity bills is the “system loss” charge, which represents the difference between the electricity supplied to the distribution system and the electricity actually delivered to end-users. These losses arise from both technical inefficiencies and non-technical factors such as pilferage. Despite not being directly consumed by households, this system loss component is currently included in electricity billing and remains subject to the Value-Added Tax (VAT).

The US State Department reported in its 2022 Investment Climate Statement, that: “Poor infrastructure, high power costs, slow broadband connections,

regulatory inconsistencies, and corruption are major disincentives to investment. The Philippines' complex, slow, and sometimes corrupt judicial system inhibits the timely and fair resolution of commercial disputes. Traffic in major cities and congestion in the ports remain barriers to doing business.”¹

This bill seeks to amend Sections 108(A) and 109(1) of the National Internal Revenue Code, as amended by Republic Act No. 9337, to exempt the sale of electricity from VAT. By removing the VAT on electricity, we aim to provide immediate relief to Filipino households and ease financial pressures on businesses, particularly micro, small, and medium enterprises (MSMEs). Moreover, by removing VAT on system loss charge, we can address the growing public concern over electricity pricing structures.

Lowering electricity costs will not only improve the purchasing power of Filipino families but also enhance the competitiveness of local industries, encourage job creation, and promote inclusive economic growth. This measure forms part of a broader agenda to bring down the cost of living and ensure that economic development is felt by all.

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



BEVERLEY ROSE A. DIMACUHA

¹ United States Department of State. (n.d.). Investment Climate Statement. Retrieved August 13, 2023, from <https://www.state.gov/reports/2022-investment-climate-statements/the-philippines/>

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AN ACT
TO LOWER THE PRICE OF ELECTRICITY BY EXEMPTING ITS SALE BY
GENERATION, TRANSMISSION AND DISTRIBUTION COMPANIES AND
ELECTRICITY COOPERATIVES, AND SYSTEMS LOSSES FROM THE
IMPOSITION OF VALUE ADDED TAX, AMENDING FOR THE PURPOSE,
SECTIONS 108 AND 109 OF THE NATIONAL INTERNAL REVENUE
CODE, AS AMENDED BY REPUBLIC ACT NO. 9337, AND FOR OTHER
PURPOSES

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

Section 1. Section 108 (a) of the National Internal Revenue Code, as amended by Republic Act No. 9337, is hereby further amended to read as follows:

"Sec. 108.- Value-Added Tax on Sale of Services, Including Digital Services, and the 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 digital services, and the use of 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 and other 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 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; digital service providers; 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 (1) of the National Internal Revenue Code, as amended, is 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 VAT.

(A)xxx

"xxx;

(EE) SALES OF ELECTRICITY BY GENERATION, TRANSMISSION, AND

**DISTRIBUTION COMPANIES AND ELECTRIC COOPERATIVES;
(FF) SERVICES OF FRANCHISE GRANTEEES OR
ELECTRIC UTILITIES; AND
(GG) SYSTEM LOSS COMPONENT IN THE SALE OF ELECTRICITY
BY DISTRIBUTION COMPANIES AND ELECTRIC COOPERATIVES**

Sec. 3. *Repealing Clause.* -All laws, decrees, orders, rules and regulations or other issuances or parts thereof inconsistent with the provisions of this Act are hereby repealed and modified accordingly.

Sec. 4. *Separability Clause.* - If any provision of this Act is subsequently declared unconstitutional, the validity of the remaining provisions hereof shall remain in full force and effect.

Sec. 5. *Effectivity Clause.* - This Act shall take effect immediately after its complete publication either in the Official Gazette or in a newspaper of general circulation.

Approved,