

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. **10676**



Introduced by Representative LEILA M. DE LIMA

AN ACT
EXCLUDING SYSTEM LOSS FROM VALUE-ADDED TAXES (VAT) IN THE SALE
OF ELECTRICITY TO RESIDENTIAL HOUSEHOLD CONSUMERS

EXPLANATORY NOTE

Every month, Filipino families open their electricity bills and pay for power they might not even use. Buried within the sum billed for “kilowatt-hours consumed” is a charge for electricity that was lost in the wires — dissipated as heat, siphoned off through pilferage, or otherwise unaccounted for before it ever reached a household meter. This is the System Loss Charge, and under current practice, it is taxed as though it were a service rendered to the consumer.

The Value-Added Tax (VAT) is, by design, a tax on consumption. Sections 105 to 108 of the National Internal Revenue Code (NIRC) of 1997, as amended, impose VAT on the sale, barter, or exchange of goods and services actually rendered or delivered. On the other hand, system loss, by definition, is the difference between the electricity entering a power network and the amount eventually measured and billed to customers¹. In other words, it is electricity generated, purchased, or transmitted but never delivered to the end-user. Therefore, to impose VAT on this component is to tax a transaction that, from the standpoint of the residential household consumer, never took place.

Thus, this proposed measure.

This bill seeks to exempt the system loss component charged to residential household consumers from the value-added tax by amending Article 109 of the NIRC,

¹ Yu, L.S (28 July 2026). EXPLAINER: What is system loss, and how does it affect your power bill? Retrieved from: <https://www.rappler.com/business/explainer-what-system-loss-affect-power-bill/>

as amended. In addition, to ensure that the benefit inures to the households for whose protection this measure is introduced, this bill directs the Energy Regulatory Commission (ERC) to ensure that the resulting reduction in tax liability is not recovered from consumers through distribution wheeling charges or other pass-through mechanisms. This provision effectively closes the door on any circumvention of the exemption's intent through rate reclassification.

By removing the tax burden on electricity which never reaches the Filipino household, this measure restores basic fairness to utility billing. This very injustice is what this bill seeks to rectify.

In the 20th Congress, similar bills were filed by Representatives Arthur Yap, Percival "Perci" Cendaña, Jose Manuel Tadeo "Chel" Diokno, Dadah Kiram Ismula, Kaka J. Bag-ao, Antonio L. Tinio, Sarah Jane I. Elago, Renee Louise M. Co, Dale B. Corvera, Keith Micah "Atty. Mike" Tan, Loreto S. Amante, Carlos Andes Loria, Eric Go Yap, Roberto Nazal, Jeffrey Soriano, Marcelino "Marcy" Teodoro, Ferdinand L. Hernandez, Miro S. Quimbo, Eric L. Olivarez, Senators Francis "Kiko" N. Pangilinan, and Risa Hontiveros.

This version fully adopts Senator Pangilinan's Senate Bill No. 2124.

The immediate passage of this bill is earnestly sought.


LEILA M. DE LIMA

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. **10676**

Introduced by Representative LEILA M. DE LIMA

AN ACT
EXCLUDING SYSTEM LOSS FROM VALUE-ADDED TAXES (VAT) IN THE SALE
OF ELECTRICITY TO RESIDENTIAL HOUSEHOLD CONSUMERS

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

1 SECTION 1. *Short Title.* - This Act shall be known as the “VAT Exemption on
2 System Loss Act for Residential Household Consumers.”

3
4 SEC. 2. Section 109 of the National Internal Revenue Code of 1997, as
5 amended, is hereby further amended to insert an additional subsection that shall read:

6
7 “SEC. 109. Exempt Transactions –

8
9 (1) Subject to the provisions of Subsection (2) hereof, the following transactions
10 shall be exempt from the VAT.

11
12 (A) x x x

13
14 “x x x;

15
16 **(EE) SYSTEM LOSS COMPONENT IN THE SALE OF ELECTRICITY BY**
17 **DISTRIBUTION COMPANIES AND ELECTRIC COOPERATIVES TO**
18 **RESIDENTIAL HOUSEHOLD CONSUMERS.**

19
20 **THE ENERGY REGULATORY COMMISSION (ERC) SHALL ENSURE**
21 **THAT THE REDUCTION ARISING OUT OF THIS EXEMPTION SHALL**
22 **NOT BE PASSED ON TO THE RESIDENTIAL HOUSEHOLD**
23 **CONSUMERS THROUGH DISTRIBUTION WHEELING CHARGES OR**
24 **OTHER PASS-THROUGH COMPONENTS.**

1 **FOR THE PURPOSES OF THIS PROVISION, SYSTEM LOSSES SHALL**
2 **REFER TO THE DIFFERENCE BETWEEN THE ELECTRIC ENERGY**
3 **DELIVERED TO THE DISTRIBUTION SYSTEM (ENERGY INPUT) AND**
4 **THE ENERGY DELIVERED TO THE RESIDENTIAL HOUSEHOLD**
5 **CONSUMERS (ENERGY OUTPUT);**

6
7 XXX
8

9 SEC. 3. *Implementing Rules and Regulations.* – Within ninety (90) calendar
10 days from the effectivity of this Act, the Secretary of Finance shall, after due
11 consultation with the relevant agencies, promulgate the necessary rules and
12 regulations to faithfully implement the intent and provisions of this Act.
13

14 SEC. 4. *Separability Clause.* - If any portion or provision of this Act is declared
15 unconstitutional, the remainder of this Act or any provisions not affected thereby shall
16 remain in force and effect.
17

18 SEC. 5. *Repealing Clause.* - Any law, presidential decree or issuance,
19 executive order, letter of instruction, rule or regulation inconsistent with the provisions
20 of this Act is hereby repealed or modified accordingly.
21

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

Approved,