



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

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. 10863



Introduced by REPRESENTATIVE CHEENO MIGUEL D. ALMARIO

EXPLANATORY NOTE

The high cost of electricity remains one of the most pressing economic burdens on Filipino households. The imposition of the 12% Value-Added Tax (VAT) on the "system loss" component of electric bills is a major factor that adds to this monthly financial strain.

Under the National Internal Revenue Code (NIRC), as amended, and existing Energy Regulatory Commission (ERC) guidelines, the 12% VAT is computed on the gross bill, which is composed of generation, transmission, distribution, and system loss charges. System loss represents electricity lost during distribution due to technical line resistance or non-technical factors such as illegal hookups, theft, and metering errors. Consequently, consumers are not only paying for "ghost electricity" that they never consumed, but they are also paying a 12% VAT on top of those operational losses.

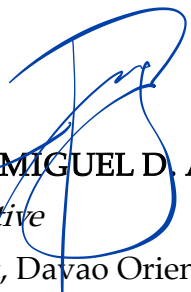
The imposition of VAT on system loss fundamentally distorts the principle of Value-Added Tax, which is intended to tax actual consumption of goods or services. Paying VAT on power lost in transit or stolen by third parties forces end-users to shoulder a tax on an operational inefficiency.

This tax, unfortunately, hits rural communities and Mindanao hardest. While private distribution utilities have ERC system loss caps between 5.5% and 6.5%, electric cooperatives operating in provinces and Mindanao carry caps of up to 12.0% to 12.5%. As a result, provincial households pay a disproportionately higher tax penalty simply because the system loss charge base in their electric bill is nearly double.

To address this, this measure seeks to amend the NIRC and energy regulations to expressly exclude system loss charges from the computation of the 12% VAT on the sale of electricity. This ensures that the Filipino consumers only pay taxes on the actual electricity delivered to and consumed by their households.

Together with the other proposed complementary legislative measures addressing system losses charges, this bill provides a direct and practical measure towards economic relief and tax fairness.

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



CHEENO MIGUEL D. ALMARIO
Representative
2nd District, Davao Oriental



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Introduced by **REPRESENTATIVE CHEENO MIGUEL D. ALMARIO**

**AN ACT EXCLUDING SYSTEM LOSS CHARGES FROM VALUE-ADDED TAX
ON ELECTRICITY, FURTHER AMENDING FOR THE PURPOSE THE
NATIONAL INTERNAL REVENUE CODE OF 1997**

*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 “**VAT Exemption on Systems
Loss Charges Act**”

Section. 2. Section 109 (of the National Internal Revenue Code of 1997, as amended,
is hereby further amended to include a new sub-section to read as follows:

“Section 109. Exempt Transactions. – The following transactions shall be
exempt from the VAT:

“xxx

**(EE) SYSTEM LOSS CHARGE OR COMPONENT IN THE SALE OF
ELECTRICITY BY DISTRIBUTION COMPANIES AND ELECTRIC
COOPERATIVES TO RESIDENTIAL HOUSEHOLD CONSUMERS:
PROVIDED, THAT THE ENERGY REGULATORY COMMISSION
(ERC) SHALL ENSURE THAT REDUCTION SHALL NOT BE
PASSED ON TO THE RESIDENTIAL CONSUMERS AS A
COMPONENT OF DISTRIBUTION WHEELING CHARGES OR
OTHER SIMILAR CHARGES.”**

Section. 3. Implementing Rules. – Within ninety (90) calendar days from the
effectivity of this Act, the Secretary of Finance, in consultation with the relevant agencies,
shall promulgate the rules and regulations necessary for its implementation.

Section 4. Separability Clause – If any provision of this Act is declared invalid or unconstitutional, the other provisions not affected by such declaration shall remain in full force and effect.

Section 5. Repealing Clause – All laws, executive orders, decrees, rules and regulations, or any part thereof inconsistent with the provision of this Act are deemed repealed or modified accordingly.

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

Approved,