

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

EIGHTEENTH CONGRESS
First Regular Session



HOUSE BILL No. 0245

Introduced by
**BAYAN MUNA Party-List Representatives CARLOS ISAGANI T. ZARATE,
FERDINAND R. GAITE and EUFEMIA C. CULLAMAT**

AN ACT
EXEMPTING THE SYSTEM LOSS CHARGE COMPONENT IN THE SALE OF
ELECTRICITY BY DISTRIBUTION COMPANIES AND ELECTRIC
COOPERATIVES FROM THE COVERAGE OF THE VALUE ADDED TAX,
AMENDING FOR THE PURPOSE SECTION 109 OF THE NATIONAL
INTERNAL REVENUE CODE OF 1997, AS AMENDED

EXPLANATORY NOTE

This bill was first filed as House Bill 5543 in the 16th Congress by Bayan Muna Party-List Representatives Neri J. Colmenares and Carlos Isagani T. Zarate. It was refiled as HB 1616 in the 17th Congress and was passed by the House of Representatives on third reading.

Value-Added Tax (VAT) is a form of sales tax. It is a tax on consumption levied on the sale, barter, exchange or lease of goods or properties and services in the Philippines and on importation of goods into the Philippines.

VAT is an indirect tax. It is shifted or passed on to the buyer, transferee or lessee of goods, properties or services. Being a pass-on tax, the burden of paying the VAT is therefore ultimately left upon the shoulder of the final consumers — the consuming public.

System Loss charge, on the other hand, is that part of one's electric bill representing the cost of electricity lost during transmission, pilferage, and due to technical and administrative inefficiency. Even pilfered power and the electricity used by the distribution companies (i.e. Meralco) and electric cooperatives are passed on to consumers. Thus, the people are made to pay more than the cost of electricity they have actually consumed. In a report by independent think-tank Ibon Foundation, the system loss charge comprises about

8% of the total electricity bill. Worse, this System Loss charge is subjected to the coverage of VAT which further drives electricity bills up.

As a tax on consumption, VAT ought to be imposed upon the goods and services people actually buy and consume. By its very definition therefore, the imposition of VAT upon this System Loss charge is unfounded and illegal as the people are taxed for goods/services they have not actually consumed.

For instance, in 2013, based on Meralco's tariffs which averaged 24 US cents per kilowatt hour, the price Filipinos pay for their electricity is the fifth highest in the world. It also showed that electricity in the Philippines costs nearly twice that of Thailand's, while about five times that of Indonesia's.

In another study conducted by the International Energy Consultants (IEC), a Perth-based consultancy firm commissioned by Meralco to conduct the study, the rates in Luzon are placed at ninth highest electricity tariffs of the 44 countries surveyed.

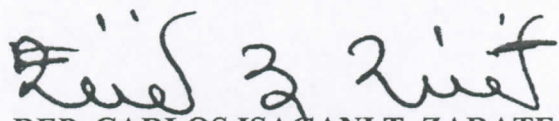
Per the IEC study, the primary reason for such higher power rates as compared to other countries is the absence of government subsidies for electricity, unlike countries like Indonesia, Thailand, and Malaysia, where electricity rates are subsidized by the government. These subsidies comprise a large part of their public budget. In Indonesia, for example, energy subsidies account for 24.0 percent of their 2013 public expenditure plan.

With this backdrop, along with the rising prices of consumer goods and commodities, fuel, education and medical costs, worsening inflation, and unabated sinking of the purchasing power of peso, it is high time that the Congress devise means which could readily help in keeping the pockets of Filipinos, especially those coming from the lower income class, from completely running dry.

Thus, this bill seeks to amend the National Internal Revenue Code of 1997, as amended by Republic Acts 9377 and 10378, by exempting the System Loss charge component in the electricity bills from the coverage of the Value Added Tax.

Passage of this bill is thus earnestly sought.

Approved,


REP. CARLOS ISAGANI T. ZARATE
BAYAN MUNA Party-List


REP. FERDINAND R. GAITE
BAYAN MUNA Party-List


REP. EUFEMIA C. CULLAMAT
BAYAN MUNA Party-List

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INTERNAL REVENUE CODE OF 1997, AS AMENDED

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

SECTION 1. Section 109 of the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337 and Republic Act No. 10378, is hereby 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 value-added tax:

“(A) x x x

“xxx

“(S) x x x

“(T) x x x

“(U) x x x

“(V) x x x

**“(W) SYSTEM LOSS COMPONENT IN THE SALE OF ELECTRICITY BY
DISTRIBUTION COMPANIES AND ELECTRIC COOPERATIVES;**

”[(W)](X) x x x

SECTION 2. *Repealing Clause.* — All laws, executive and administrative orders or parts thereof, inconsistent with any provision of this act are hereby repealed or modified accordingly.

SECTION 3. *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.

SECTION 4. *Effectivity.* — This act shall take effect after fifteen (15) days following the completion of its publication in the Official Gazette or in a national newspaper of general circulation.

Approved,