Bringing In Revenues
for Nation-building

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
National Office Building
Quezon City

BAGONG PILIPINAS

September 14, 2026

REVENUE MEMORANDUM CIRCULAR NO. 097-2026

SUBJECT : *Circularizing Energy Regulatory Commission Resolution No. 26, Series of 2026, Declaring the System Loss Charge as a Government-Mandated Pass-Through Cost Not Forming Part of the Gross Sales of Generation Companies, National Grid Corporation of the Philippines, and Distribution Utilities for Value-Added Tax Purposes, and Further Amending Revenue Memorandum Circular No. 116-2024*

TO : *All Internal Revenue Officials, Employees and Others Concerned*

For the information and guidance of all internal revenue officials, employees, and others concerned, attached herewith as Annex "A" is a copy of Energy Regulatory Commission (ERC) Resolution No. 26, Series of 2026,[1] entitled *"A Resolution Declaring the System Loss Charge as a Government-Mandated Pass-Through Cost Not Forming Part of the Gross Sales of Generation Companies, National Grid Corporation of the Philippines, and Distribution Utilities for Value-Added Tax Purposes and Amending Pertinent Provisions of ERC Resolution No. 20, Series of 2005, and ERC Resolution No. 14, Series of 2022."*

In its Resolution No. 26, Series of 2026, the ERC declared the allowable System Loss Charge, within the cap approved by the ERC pursuant to its rules and regulations, as a government-mandated pass-through cost that does not form part of the gross sales of Generation Companies (Gen Cos), the National Grid Corporation of the Philippines (NGCP), and Distribution Utilities (DUs) for Value-Added Tax (VAT) purposes.

Section 108 of the National Internal Revenue Code of 1997, as amended (Tax Code), imposes VAT on the **gross sales** derived from the **sale or exchange of services**, including digital services, and the use or lease of properties. **Gross sales** means the total amount of money or its equivalent representing the contract price, compensation, service fee, rental or royalty, including the amount charged for materials supplied with the services during the taxable quarter for the services performed for another person, which the purchaser pays or is obliged to pay to the seller **in consideration of the sale, barter or exchange or services** that has already been rendered by the seller and the use or lease of properties that have already been supplied by the seller **excluding** value-added tax and **those amounts earmarked for payment to third (3rd) party or received as reimbursement for payment on behalf of another which do not redound to the benefit of the seller** as provided under relevant laws, rules or regulations.

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[1] Approved by ERC on August 26, 2026.

Accordingly, Q&A No. 3 of Revenue Memorandum Circular (RMC) No. 116-2024,[2] as amended by RMC No. 60-2026,[3] is hereby further amended to recognize and confirm the allowable System Loss Charge within the cap approved by ERC under Resolution No. 26, Series of 2026 and other applicable ERC rules and regulations as one of the government-mandated charges excluded from Gross Sales for purposes of VAT computation and, consequently, not subject to Output Tax and Creditable Withholding on VAT. This exclusion, however, shall not extend to income tax and the corresponding creditable withholding tax.

For VAT purposes, the allowable System Loss Charge shall be excluded from Gross Sales, provided that it is separately identified in the billing statement, invoice, or similar document in accordance with ERC Resolution No. 26, Series of 2026 and other applicable ERC rules and regulations. Such exclusion shall likewise be subject to the applicable provisions of the Tax Code and its implementing rules and regulations governing the determination of Gross Sales, invoicing requirements, and the proper treatment of government-mandated charges.

All concerned Gen Cos, NGCP, DUs, electric cooperatives, and other affected taxpayers shall ensure the proper billing, accounting, reporting, and separate identification of the allowable System Loss Charge in accordance with applicable ERC rules and regulations and the applicable provisions of the Tax Code and its implementing rules and regulations.

This Circular shall take effect immediately and shall be applied prospectively from its effectivity and from the effectivity of ERC Resolution No. 26, Series of 2026 pursuant to Sections 12, 14 and 17 thereof. All internal revenue officials and employees are enjoined to give this Circular as wide a publicity as possible.

[redacted]

Digitally signed by Charlito Martin R. Mendoza Date: 2026.09.14

CHARLITO MARTIN R. MENDOZA
Commissioner of Internal Revenue

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2 Clarifying the Provisions of Republic Act No. 11976, or Otherwise Known as the "Ease of Paying Taxes Act", Applicable to the Power Industry.
3 Amendment of Revenue Memorandum Circular No. 116-2024, re: Inclusion of Lifeline Subsidy and Green Energy Auction Allowance as Government Mandated Charges Not Subject to Output Tax and Creditable Withholding on VAT and Income.