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OCT 12 2012

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

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October 12, 2012

DATE: 10/15/2012 REVENUE REGULATIONS No. 12-2012

BY: [Signature]
BUREAU OF INTERNAL REVENUE

SUBJECT : Deductibility of Depreciation Expenses as it Relates to Purchase of Vehicles and Other Expenses Related Thereto, and Input Taxes Allowed Therefor.

TO : All Internal Revenue Officials and Others Concerned

SECTION 1. Scope. – Pursuant to the provisions of Section 244, in relation to Section 245 of the National Internal Revenue Code of 1997, these Regulations are hereby promulgated to implement Sections 34 (F) and 110 of the 1997 National Internal Revenue Code (“Tax Code”), specifically to define depreciation expenses relating to taxpayer’s purchase of Vehicles of all types (defined herein as passenger vehicles of all type, whether by land, water, or air) providing for limits on the deductibility thereof and all expenses related thereto, and the disallowance of input taxes for disallowed expenses.

SECTION 2. General Principles. – Under Chapter VII, Section 34 (F) of the Tax Code, in computing taxable income, a reasonable allowance for the exhaustion, wear and tear of **property used in business** is allowed to be deducted from gross income. Generally, it cannot be presumed that the purchase of a Vehicle is a purchase of a property used in business. In order for the deduction for depreciation for said purchase, and all other expenses and input taxes incurred on said Vehicle may be allowed, the rules as prescribed under these Regulations must be complied with.

SECTION 3. Rules on Deductibility of Depreciation on Vehicles, Other Expenses Incurred Thereon, and Input Taxes on Disallowed Expenses. – The following guidelines shall be observed in determining whether depreciation expense can be claimed or not on account of Vehicles capitalized by the taxpayer, or in claiming other expenses and input taxes on account of said Vehicle:

- A. No deduction from gross income for depreciation shall be allowed unless the taxpayer substantiates the purchase with sufficient evidence, such as official receipts or other adequate records which contain the following, among others:
 - i. Specific Motor Vehicle Identification Number, Chassis Number, or other registrable identification numbers of the Vehicle;
 - ii. The total price of the specific Vehicle subject to depreciation; and
 - iii. The direct connection or relation of the Vehicle to the development, management, operation, and/or conduct of the trade or business or profession of the taxpayer;

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- B. Only one Vehicle for land transport is allowed for the use of an official or employee, the value of which should not exceed Two Million Four Hundred Thousand Pesos (Php 2,400,000.00);
- C. No depreciation shall be allowed for yachts, helicopters, airplanes and/or aircrafts, and land vehicles which exceed the above threshold amount, unless the taxpayer's main line of business is transport operations or lease of transportation equipment and the vehicles purchased are used in said operations;
- D. All maintenance expenses on account of non-depreciable Vehicles for taxation purposes are disallowed in its entirety;
- E. The input taxes on the purchase of non-depreciable Vehicles and all input taxes on maintenance expenses incurred thereon are likewise disallowed for taxation purposes.

SECTION 4. Repealing Clause.- All Rules and Regulations or parts thereof inconsistent with the provisions of these Regulations are hereby repealed accordingly.

SECTION 5. Effectivity.- The provisions of these Regulations shall take effect immediately.


CESAR V. PORISIMA
Secretary of Finance

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Recommending Approval:


KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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