Headline	New rule on amortization of input VAT on capital goods		
MediaTitle	The Philippine Star		
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Section	Business	Journalist	Reychelle May B. Medina
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New rule on amortization of input VAT on capital goods

Most people believe that a new year symbolizes growth and change, hence the adage, "Out with the old, in with the new." We resolve to change things that we found unpleasant during the previous year, make new year's resolutions in the hopes of following through with them, and make commitments to better ourselves as a new year commences.

Perhaps the most prominent change that is bound to affect us all this year is the Tax Reform for Acceleration and Inclusion (TRAIN) Law that was signed by President Duterte on Dec. 19, 2017. The law vastly amended the National Internal Revenue Code of 1997 (NIRC), and one of its amendments involve a new rule on the amortization of input value added tax (VAT) on capital goods whose acquisition cost exceeds P1 million.

TOP OF MIND

REYCHELLE MAY B. MEDINA

Prior to the TRAIN Law, Section 110(A) (1) of the NIRC provides that the input tax on capital goods purchased or imported in a calendar month for use in trade or business shall be spread evenly over the month of acquisition and the 59 succeeding months. If, however, the estimated useful life of the capital good is less than five years, as used for depreciation purposes, the input VAT thereon shall be spread over such a shorter period.

However, the TRAIN law now provides that the amortization of input VAT on capital goods, the acquisition cost of which exceeds P1 million shall only be allowed until Dec. 31, 2021. After the said date, taxpayers with unutilized input VAT on capital goods purchased or imported shall be allowed to apply the same as scheduled until fully utilized. Therefore, the input VAT on goods purchased on or after Jan. 1, 2022 shall be fully recognized outright and may be claimed as input tax credits against output tax. On the other hand, if the purchase was made on or before Dec. 31, 2021, the taxpayer can still amortize its input VAT until the same is fully utilized.

This, therefore, begs the question: What does this amendment entail? What impact would it make on taxpayers who will be affected by this new provision?

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Considering the outright recognition of the input VAT, taxpayers will greatly benefit from the amendment because they can instantly claim the input tax credits against the output tax. Taxpayers will be able to claim the input tax credits on their purchases outright, as opposed to the old rule, which requires them to amortize the same over a period of several years. Bear in mind, however, that this outright recognition will only be allowed after Dec. 31, 2021. So while the impact to the concerned taxpayers is beneficial, it is not immediate. However, taxpayers may want to consider this particular benefit in their future procurement plans.

This amendment would also necessitate the revision of BIR Forms Nos. 2550M and 2550Q. A separate field would have to be added to reflect the outright declaration of the full amount of the input VAT of capital goods purchased after Dec. 31, 2021. Additionally, because the input VAT on purchases made before the said date may still be amortized until the same is fully utilized, the line item on the VAT returns providing for the amortization of the same will have to be retained.

Just like the new year, the TRAIN Law brings changes into the lives of taxpayers. While we may feel inundated by all the new changes, it is important to welcome the changes and keep an optimistic mindset about them.

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