REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

National Office Building
Quezon City

Sec. 41, Tax Code
Sec. 145 of RR No. 2-40
BIR Ruling No. OT-175-21
OT- 088-2023
OCT 18 2023

FILINVEST REIT CORP.
5th to 7th Flrs. Vector One Bldg., Northgate Cyberzone
Filinvest Corporate City, Alabang
Muntinlupa City

Attention: **Atty. Maricar G. Ramos**
Tax Counsel

Atty. Carence Janelle C. Navidad
Tax Counsel

Gentlemen:

This refers to your request on behalf of **Filinvest Reit Corp. ("FILRT")** to change the accounting method for valuing investment properties from Cost method to Fair Value method for financial reporting purposes to take effect on **January 1, 2023.**

Background

1. FILRT formerly, Cyberzone Properties, Inc. is a domestic corporation registered with the Securities and Exchange Commission on January 14, 2000 to engage in the business of real estate investment trust, as provided under Republic Act (RA) No. 9856, otherwise known as, the Real Estate Investment Trust Act of 2009 (the "REIT Act").

2. Since its incorporation, FILRT has been using the Cost method of accounting for its investment properties. However, after reviewing its financials, FILRT's management has determined that the Fair Value method of accounting will properly reflect the current market value of its investment properties. The proposed change is in accordance with Revenue Regulations (RR) No. 8-2007 and Philippine Accounting Standards 8, which allow changes in accounting policy if the change will result in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows. As mentioned, FILRT is adopting the Fair Value method of valuing investment properties to properly reflect the current market value of its investment properties for financial reporting purposes. thereby providing

reliable and more relevant information on its financial position. Further, the change from Cost method to Fair Value method in valuing investment properties will align FILRT's financial reporting practices with financial practices of other REITs.

3. FILRT will continue to use the Straight-Line method in computing for the allowable deduction for depreciation to arrive at taxable income. Thus, the adoption of the Fair Value method of valuing investment properties will not affect the amount of deduction for depreciation expense to be claimed by FILRT for tax reporting purposes.

Discussion/Ruling

In reply, please be informed that Section 41 of the Tax Code provides:

"Section 41. Inventories. — Whenever in the judgment of the Commissioner, the use of inventories is necessary in order to determine clearly the income of any taxpayer, inventories shall be taken by such taxpayer upon such basis as the Secretary of Finance, upon the recommendation of the Commissioner, may, by rules and regulations, prescribe as conforming as nearly as may be to the best accounting practice in the trade or business and as most clearly reflecting the income.

If a taxpayer, after having complied with the terms and conditions prescribed by the Commissioner, uses a particular method of valuing its inventory for any taxable year, then such method shall be used in all subsequent taxable years unless:

*(i) **with the approval of the Commissioner, a change to a different method is authorized**; or*

(ii) the Commissioner finds that the nature of the stock on hand (e.g., its scarcity, liquidity, marketability and price movements) is such that inventory gains should be considered realized for tax purposes and, therefore, it is necessary to modify the valuation method for purposes of ascertaining the income, profits, or loss in a more realistic manner: Provided, however, That the Commissioner shall not exercise its authority to require a change in inventory method more often than once every three (3) years: Provided, further, That any change in an inventory valuation method must be subject to approval by the Secretary of Finance." (Emphasis provided.)

In relation to the above Section of the Tax Code, Section 145 of Revenue Regulations No. 2-40 states:

"Section 145. Valuation of Inventories. — The law provides two tests to which each inventory must conform. — (1) it must conform as nearly as possible to the best accounting practice in the trade or business,

and (2) it must clearly reflect the income. It follows, therefore, that inventory rules can not be uniform but must give effect to trade customs which come within the scope of the best accounting practice in the particular trade or business. In order to clearly reflect income, the inventory practice of a taxpayer should be consistent from year to year, and greater weight is to be given to consistency than to any particular method of inventory or basis of valuation, as long as the method of basis used is substantially in accord with these regulations, an inventory that can be used under the best accounting practice in a balance sheet showing the financial position of the taxpayer is, as a general rule, regarded as clearly reflecting his income."

On the condition that the change in the Company's accounting method will best conform to the accounting practice applicable in the trade or business of the Company and the new method of inventory valuation will clearly reflect the income and financial position of the Company, FILRT is hereby granted permission to change its accounting method from Cost method to Fair Value method of valuing investment properties for financial reporting purposes effective January 1, 2023 pursuant to the provision of Section 41 of the Tax Code.

This ruling is being issued on the basis of the foregoing facts as represented. However, if upon investigation, it will be ascertained that the facts are different, then this ruling shall be considered null and void.

Very truly yours,

ROMEO D. LUMAGUI, JR.
Commissioner of Internal Revenue
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