May 18, 2021

BIR RULING NO. OT-167-21

Sec. 41, Tax Code of 1997; BIR Ruling No. 049-16

Sycip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City

Attention: *AAA*

Gentlemen :

This refers to your letter dated October 20, 2020 requesting on behalf of **ALCON LABORATORIES (PHILIPPINES), INC.** (the "Company") for ruling or approval to change its accounting method on inventory costing from Weighted Average Method to Standard Costing Method for its merchandise inventory starting August 01, 2019.

As represented, **ALCON LABORATORIES (PHILIPPINES), INC.**, with Taxpayer Identification Number (TIN) _____ is a corporation duly organized and existing under and by virtue of Philippine laws with office address at 801 8F, Tower 1, Rockwell, Business Center, Blk. 4, MERALCO Compound, Ortigas Avenue, Pasig City. It was registered with the Securities and Exchange Commission (SEC) on February 20, 1970, with SEC Certificate of Registration No. _____.

The Company was established "to engage in manufacturing, marketing, selling and distributing drugs, medicines, chemical compounds, insecticides, chemical, medicinal and pharmaceutical preparations, compounds, food and food supplements, and materials of every kind and description, and all articles and products related thereto among others."

The Company has implemented a new Computerized Accounting System known as SAP ERP 6.0, upon which the current method of costing Merchandise Inventory, the Weighted Average Method, is no longer supported and instead uses the Standard Costing Method.

Moreover, the Company has likewise been reorganized as a result of the global

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restructuring of its parent company, its subsidiaries and affiliates and as such, there is a need to align the Company's inventory costing method with its global organization.

In reply, please be informed that Section 41 of the National Internal Revenue Code (Tax Code) of 1997, as amended, 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 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,*

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regarded as clearly reflecting his income."

Since the change in **ALCON LABORATORIES (PHILIPPINES), INC.'s** accounting method is the result of its use of a new Computerized Accounting System known as SAP ERP 6.0, upon which the current method of costing Merchandise Inventory, the Weighted Average Method is no longer supported, and the Company's need to align its inventory costing method with its global organizations, the Company is hereby granted permission to use the Standard Costing Method of inventory provided that such method conforms to the best accounting practice in its trade or business and will clearly reflect the income of the Company pursuant to the provision of Section 41 of the Tax Code of 1997, as amended.

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,

(SGD.) CAESAR R. DULAY
Commissioner of Internal Revenue

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