REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

Section 41 of the Tax Code of 1997
BIR Ruling No. 034-12
#049-2016 1-29-2016

MANABAT SANAGUSTIN & CO., CPAs
The KPMG Center, 9F
6787 Ayala Avenue, Makati City

Attention : **MARIA CARMELA M. PERALTA**
Principal, Tax

Gentlemen:

This refers to your letter dated March 19, 2013, requesting for on behalf of **LINTEC PHILIPPINES (PEZA), INC.** for an authority to change its accounting method of inventory posting from "First-in-First-out" (FIFO) Method to Moving Average Method effective taxable year beginning January 1, 2013.

It is represented that **LINTEC PHILIPPINES (PEZA), INC, (the "Company")** is a domestic corporation duly organized under the laws of the Philippines with SEC Registration No. , dated September 13, 2007; that the Company is registered with Philippine Economic Zone Authority (PEZA) as an Export Enterprise and that it is located at Block 8 Lot 5 Golden Mile Business Park, Maduya, Carmona, Cavite; that the Company's principal activity is to manufacture, import, assemble, furnish, develop and supply products, including, but not limited to jumbo rolls of pressure sensitive adhesive products, for customized slitting, subsequent sale and delivery to buyers and customers.

It is further represented that the Company is a wholly-owned subsidiary of Lintec Advanced Technologies (Philippines) Inc. (LATPI), another domestic company; that the Company's Intermediate Parent Company is Lintec Singapore Pte. Ltd. (Lintec Singapore); and that its ultimate parent company is Lintec Corporation (Lintec Japan), a company incorporated in Japan. LATPI, Lintec Singapore and Lintec Japan are collectively referred to as "Related Parties"; that since the start of commercial operations, the Company was using the FIFO method in accounting its inventory cost; that the related parties were using a different method in accounting their inventory costs and in order to align the method of inventory valuation with related parties, beginning calendar 2013, the Company decided to adopt the moving average method of inventory valuation.

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In reply, please be informed that on the basis of the above representations, **LINTEC PHILIPPINES (PEZA), INC.** is hereby granted permission to change its accounting method from FIFO to Moving Average method pursuant to the provisions of Section 41 of the Tax Code of 1997, as amended, in relation to Section 145 of Revenue Regulations No. 2, pertinent portion of which provide that —

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

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Considering that the purpose of **LINTEC PHILIPPINES (PEZA), INC.** 's change on its accounting method is to align its method of inventory valuation with related parties in order to clearly reflect the income of the said corporation, this Office hereby grants authority to **LINTEC PHILIPPINES (PEZA), INC.** the use of Moving Average method in its inventory costing effective taxable year beginning January 1, 2013. (BIR Ruling No. 034-12 dated January 31, 2012)

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

Recommending Approval:

KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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DEC 23 2015

Approved:

CESAR V. PURISIMA
Secretary of Finance

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