**September 10, 2018**

# BIR RULING NO. 1188-18

Section 34 (F), Tax Code of 1997; BIR Ruling No. 182-12

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

Attention: *AAA*

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Gentlemen :

This refers to your letter dated January 26, 2018 requesting, on behalf of **Synchrony Global Services Philippines, Inc. ("SGSPI")**, for an authority to change the method of computing depreciation expense of its depreciable assets from Sum-of-the-years-digit Method to the Straight-Line Method under Section 34 (F) of the Tax Code effective April 1, 2017.

As represented, **SGSPI**, a wholly-owned subsidiary of Synchrony Financial ("SYF") based in Stamford, Connecticut, United States of America, was registered with the Securities and Exchange Commission on May 26, 2006. Its head Office is located at 2nd Floor Filinvest Three Building, Northgate Cyberzone, Filinvest Corporate City, Alabang, Muntinlupa City, Philippines and registered under the Bureau of Internal Revenue (BIR)-Revenue District Office (RDO) No. 53B while its Branch Offices are located at 14th Floor Vector 2 Building, Northgate Avenue, Northgate Cyberzone, Filinvest Corporate City, Alabang, Muntinlupa City, 1781 Philippines and registered under BIR-RDO No. 53B and at 15-18F Cebu Holdings Building, Cebu Business Park, Barrio Luz, Cebu City, Philippines and registered under BIR-RDO No. 81.

**SGSPI's** primary purpose is "to engage in the business of designing, implementing and operating certain business processes with the use of electronic means as well as telecommunication, without operating as a public utility, to enable domestic and foreign clients to sharpen their strategic business focus while improving the performance of these non-core services; To provide receivables and payables processing, billings and collections, treasury, escrow and other similar or related services to domestic and foreign clients; To engage in the business of collecting, buying, selling and dealing in current and delinquent accounts of domestic and foreign clients." [1]

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Presently, **SGSPI** is adopting the sum-of-the-years-digit method for computing its depreciation expenses. In order to align with the depreciation method used by SYF, **SGSPI's** parent company, SYF mandated **SGSPI** to change its method of computing its depreciation expenses from sum-of-the-years-digit method to straight line method.

Method of Depreciation

Prior to 2017, SYF used an accelerated method of depreciation based on sum-of-the-years digits consistent with the General Electric ("GE") policy.

In 2015, when SYF separated from GE, GE changed its method of depreciation to a Straight Line depreciation basis for its fixed assets. A re-consideration of the depreciation method has not been done since separation.

In 2017, SYF decided to adopt a straight-line method for computing its depreciation. Based on SYF's internal memorandum dated March 2, 2017, SYF provided the following reasons, among others, for the change:

1. Sum-of-the-years-digits is an accelerated method of depreciation, which is neither representative of SYF's usage of assets nor is it representative of how the asset's value is depleted. SYF generally does not sell its fixed assets before the end of their useful life and the Straight Line method of depreciation is a better approximation of usage as SYF gets equal use/value of the assets in each year, therefore equal depreciation is more reflective of usage/consumption;

2. While the existing depreciation tables were consistently applied, and represent an accelerated method of depreciation that is deemed in compliance with U.S. GAAP, it is not clear how the modifications to the sum-of-the-years digits method were established, as these modifications were established historically by GE; and

3. GE abandoned the use of the method SYF currently uses in the fourth quarter of 2015, which is the period when SYF separated from GE.

In line with SYF's internal memorandum, SYF revised its *General Accounting Policy 360.10 Property, Plant and Equipment* ("SYF GAP 360.10"). The following are the changes introduced by the latest revision of SYF GAP 360.10:

1. Changed the depreciation method to the Straight Line depreciation and removed the table with the SOTYD method; and

2. Removed assets SYF would not own from useful lives table.

Pursuant to SYF GAP 360.10, the revised "policy applies to all legal entities and operations of Synchrony Financial ("Synchrony" or "SYF" or "Company") and is

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required to be followed by all employees and functions that originate, process or approve accounting transactions and disclosures that are included in any set of financial statements or financial reporting of Synchrony (including its subsidiaries) that is required to be presented in accordance with accounting principles generally accepted within the United States (GAAP)."

Thus, to provide for a unified depreciation method, SYF mandated **SGSPI** to likewise change the latter's depreciation method from sum-of-the-years-digit method to the straight line method. Moreover, the sum-of-the-years-digit method is neither representative of **SGSPI's** usage of assets nor is it representative of how the asset's value is depleted. Lastly, you emphasized that the use of the same depreciation method by SYF and **SGSPI** is consistent with the best accounting practice, and would, in effect simplify the accounting procedures of the related companies.

In reply, please be informed that Section 34 (F) of the Tax Code of 1997 states that there shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear (including reasonable allowance for obsolescence) of property used in trade or business. The term reasonable allowance shall include, but not limited to, an allowance computed in accordance with rules and regulations prescribed by the Secretary of Finance, upon recommendation of the BIR Commissioner under any of the following methods:

(a) Straight Line Method;

(b) Declining balance Method, using rate not exceeding twice the rate which would have been used had the annual allowance been computed under the method prescribed in Subsection (F) (1);

(c) Sum-of-the-years-digit Method; and

(d) Any other method which may be prescribed by the Secretary of Finance upon recommendation of the BIR Commissioner.

In this connection, Section 109 of Revenue Regulations No. 2, provides:

*"Section 109. Method of computing depreciation allowance. — The capital sum to be replaced should be charged off over the useful life of the property, either in equal annual installments or in accordance with any other recognized trade practice, such as an apportionment of the capital sum over units of production. Whatever plan or method of apportionment is adopted must be reasonable and must have due regard to operating conditions during the taxable period. While the burden of proof must rest upon the taxpayer to sustain the deductions taken by him, such deductions must not be disallowed unless shown by clear and convincing evidence to be unreasonable. The reasonableness of any claim for depreciation shall be determined upon the conditions known to exist at the end of the period for which the return is made. If it develops that the useful life of the property will be longer or shorter than the useful life as originally estimated under*

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*all the then known facts, the portion of the cost or other basis of the property not already provided for through depreciation allowances should be spread over the remaining useful life of the property as re-estimated in the light of the subsequent facts, and depreciation deductions taken accordingly." (cited in BIR Ruling No. 176-98 dated December 14, 1998)*

Moreover, Section 105 of the said Revenue Regulations state that:

*"Section 105. Depreciation. — A reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in the trade or business may be deducted from gross income. For convenience, such an allowance will usually be referred to as depreciation, excluding from the term any idea of a mere reduction in market value not resulting from exhaustion, wear and tear, or obsolescence. The proper allowance for such depreciation of any property used in the trade or business is that amount which would be set aside for the taxable year in accordance with a reasonable consistent plan whereby the aggregate of the amount so set aside, plus the salvage value, will, at the end of the useful life of the property in the business, equal the basis of the property. Due regard must also be given to expenditures for current upkeep."*

Given the existing conditions in the operation of **Synchrony Global Services Philippines, Inc.**, and for tax and financial accounting purposes, this Office hereby grants the latter the permission to change its method of computing depreciation expense of its depreciable assets from Sum-of-the-years-digit Method to Straight Line Method in uniformity with the depreciation method of SYF, its parent company, effective April 1, 2017.

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*

**Footnotes**

1. SGSPI Amended Articles of Incorporation.

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