REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Quezon City

Revenue Regulations No. 7-2003		#187-2017

Person to Contact: Chief, Law Division
Tel Nos. 926-55-36 / 927-09-63

Date: April 17, 2017

A. E. CIPRIANO ENTERPRISES, INC.
APC Building 63 Kaliraya St.
Quezon City

Attention: **Pacita P. Cipriano**
President

Gentlemen:

This refers to your letter dated February 21, 2013 duly endorsed to this Office by Revenue Region No. 7, Quezon City, relative to your request on behalf of A. E. Cipriano Enterprises, Inc. (the "Company"), for availment of Section 3(e) of the Revenue Regulations (RR) No. 7-2003, particularly on the automatic conversion of ordinary asset into capital asset which has not been used in business for more than two (2) years.

Documents submitted show that the Company, with Tax Identification No. was a corporation duly organized and existing under the laws of the Philippines with principal office address at APC Building, 63 Kaliraya St., Quezon City; that it was registered with the Securities and Exchange Commission (SEC) under SEC Registration No. dated April 5, 2001; that the primary purpose for which it was organized was to engage in the manufacture, assembly, fabrication, production, purchasing and selling of cottage industry products in varied media such as abaca, sinamay, wood, horn, coral, shells of all kinds, synthetic materials, textile, ceramics and oils processing, enlargement, textile, and/or plasticizing of paintings, drawings and photographs, processing, designing, moulding and duplicating statuary, sculptures and carving derived from local or imported materials; that as of December 31, 2005, when the Company officially closed its business operation last January 1, 2006, as evidenced by the Certification issued by the Office of the City Treasurer, Quezon City, dated November 27, 2013, the Company's remaining assets are, among others, parcels of land and improvements, described below:

Assets	Transfer Certificate of Title	Tax Declaration	Area (sq. m.)
Land			912.60
Land			914.70
Land			119
Land			179

Land			176
Improvement	-		660
Improvement	-		154.24
Improvement	-		237.34

that said lots and improvements have not been used in business and remained idle from the time the Company had ceased its business operations in 2006 up to date; and that the Company was issued a Tax Clearance Certificate by the Bureau of Internal Revenue (BIR) on June 9, 2014 certifying that the Company has no outstanding tax liability as of even date.

In support of the above request, the following documents have been submitted:

1. SEC Registration Certificate and Articles of Incorporation;
2. Secretary's Certificate on the Board of Director's approval of the retirement of the Company's business;
3. Certification from the Office of the City Treasurer, Quezon City;
4. Barangay Certification issued by Barangay Tatalon, Quezon City;
5. Sworn Statement on the remaining assets of the Company as of December 31, 2005;
6. Tax Clearance Certificate issued by the BIR; and
7. Other documents.

In reply, please be informed that Section 3 (a) of RR No. 7-2003 provides:

> *"SEC. 3. Guidelines in Determining Whether a Particular Real Property is a Capital Asset or Ordinary Asset. —*
>
> *xxx xxx xxx*
>
> *e. Treatment of abandoned and idle real properties. — Real properties formerly forming part of the stock in trade of a taxpayer engaged in the real estate business, or formerly being used in the trade or business of a taxpayer engaged or not engaged in the real estate business, which were later on abandoned and became idle, shall continue to be treated as ordinary assets. Real property initially acquired by a taxpayer engaged in the real estate business shall not result in its conversion into a capital asset even if the same is subsequently abandoned or becomes idle.*
>
> *Provided however, that properties classified as ordinary assets for being used in business by a taxpayer engaged in business other than real estate business as defined in Section 2(g) hereof are automatically converted into capital assets upon showing of proof that the same have not been used in business for more than two (2) years prior to the consummation of the taxable transactions involving said properties."* (Emphasis supplied)

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The above provision provides for the automatic conversion of real property used in business by a taxpayer "engaged in business other than real estate business" from ordinary assets into capital assets upon showing of proof that the same have not been used in business for more than two (2) years. The foregoing provision finds application in this case. The two (2) important conditions set forth by RR No. 7-2003 for the automatic conversion of ordinary assets into capital assets, to wit: 1) the assets were previously used in business by a taxpayer not engaged in real estate business; and 2) there must be a showing that the same have not been used in business for more than two (2) years, are both present in this case. It can be gleaned from the Articles of Incorporation of A. E. Cipriano Enterprises, Inc. that it is not engaged in the real estate business. Moreover, based on the Certification issued by the City Treasurer of Quezon City, and the Barangay Certification issued by Barangay Tatalon, Quezon City, A. E. Cipriano Enterprises, Inc. has already ceased its business operation since January 1, 2006, leaving the above properties idle up until this date.

In view of the foregoing, this Office is of the opinion, as it hereby rules that the real properties described above, having complied with the conditions under RR No. 7-2003, are now classified as capital assets of the A. E. Cipriano Enterprises, Inc.

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 as null and void.

Very truly yours,

CAESAR R. DULAY
Commissioner of Internal Revenue

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