June 21, 2019

BIR RULING NO. 360-19

Section 34 (F) 1997 Tax Code; BIR Ruling No. 182-2012; BIR Ruling No. 176-1998

Hitachi Industrial Machinery Philippines Corp.
PEZA Drive, Special Economic Zone
First Cavite Industrial Estate
Brgy. Langkaan, Dasmariñas
Cavite

Attention: *AAA*

Gentlemen :

This refers to your letter dated June 21, 2012 requesting, on behalf of Hitachi Industrial Machinery Philippines Corp. ("Hitachi" or "Corporation," for brevity), for authority to change its method of depreciation of assets from Declining Balance Method to Straight Line Method.

It is represented that Hitachi (TIN: 000-000-000-000) is a domestic company duly registered with the Securities and Exchange Commission (SEC), with SEC Certificate of Registration No. ASO95-04706, and is doing business at PEZA Drive, Phase II, SEPZ, First Cavite Industrial Estate, Brgy. Langkaan, Dasmariñas, Cavite; that it is one of the subsidiary companies of Hitachi Appliances, Inc. (HAP), a foreign company with business address at 603 Kandatsu-Machi, Tsuchiura-shi, Ibaraki-ken, 300 Japan; that Hitachi is engaged in manufacturing, selling, exporting, buying or otherwise dealing in at wholesale industrial machinery such as but not limited to, Absorption Chiller-Heaters, Centrifugal Chillers and Oil-Free Screw Compressors; that Hitachi Appliances, Inc. (HAP) and the whole Hitachi Group will be changing its depreciation method from Declining Balance to Straight Line Method: and that in order to be consistent with the method of depreciation that will be used by its parent company and other subsidiary companies, Hitachi will likewise change its depreciation method from Declining Balance to Straight Line Method.

Hitachi submitted a sample illustration of depreciation computation using Declining Balance Method and Straight Line Method, *viz.*:

Asset Cost:	Php200,000.00

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Estimated Useful Life:	5 years			
Salvage Value:	10%			
Straight Line Method				
Year	Book Value Start	% of Depreciation	Depreciation Expense/Year	Book Value Year End
1	200,000.00	0.18	36,000.00	164,000.00
2	164,000.00	0.18	36,000.00	128,000.00
3	128,000.00	0.18	36,000.00	92,000.00
4	92,000.00	0.18	36,000.00	56,000.00
5	56,000.00	0.18	36,000.00	20,000.00

Asset Cost:	Php200,000.00			
Estimated Useful Life:	5 years			
Salvage Value:	10%			
Declining Balance Method				
Year	Book Value Start	% of Depreciation	Depreciation Expense/Year	Book Value Year End
1	200,000.00	0.37	73,808.53	126,191.47
2	126,191.47	0.37	46,570.03	79,621.43
3	79,621.43	0.37	29,383.71	50,237.73
4	50,237.73	0.37	18,539.86	31,697.86
5	31,697.86	0.37	11,697.86	20,000.00

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 (RR) No. 2, provides:

"Section 109. Method of computing depreciation allowance. — The

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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 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."

Considering that Hitachi is changing its depreciation method from Declining Balance to Straight Line Method in order to be consistent with the method of depreciation that will be used by its parent company and other subsidiary companies, and that the use of the Straight Line Method, as illustrated above, where the amount of depreciation expense, plus the salvage value, would equal the basis of the property at the end of its useful life, is in accordance with Section 105 of RR No. 2, this Office hereby grants Hitachi the permission to change its method of computing depreciation of its assets from Declining Balance Method to Straight Line Method.

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.

Very truly yours,

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

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