Quezon City

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| Sec. 41 of the NIRC of 1997, as amended;<br>Sec. 145 of RR 2 |
| BIR Ruling No. 034-12<br>BIR Ruling No. 567-12 |
| #462-2018<br>3-13-2018 |

**ISLA LIPANA & CO.**
29th Floor, Philamlife Tower
8767 Paseo de Roxas 1226
Makati City

Attention: **ATTY. ALEXANDER B. CABRERA**
*Managing Partner, Tax Services*

Gentlemen :

This refers to your letter dated December 28, 2010 stating that your client, Brenntag Ingredients, Inc. *(formerly EAC Industrial Ingredients, Inc.)*, is a corporation duly registered with the Securities and Exchange Commission (SEC) under SEC Registration No. [redacted] with TIN [redacted]; that it is engaged in the business of indenting, importing, stocking of specialty chemicals, food ingredients and flavours, raw materials for plastic films and rubber, coatings and prints as well as other chemical products necessary for the production of pharmaceuticals, cosmetics, and industrial finished goods; that in July 2010, Brenntag Ingredients, Inc. became part of the Brenntag Group of Companies; that currently, Brenntag Ingredients, Inc. is using the first-in-first-out method in accounting for its inventories; and that however, in order to align its inventory valuation with the Brenntag Group of Companies, Brenntag Ingredients, Inc. decided to change its accounting method for inventory valuation to the moving weighted-average method effective for taxable year 2011.

Based on the foregoing representations, you now request permission to change its inventory costing method from first-in-first-out method to the moving weighted average method.

In reply thereto, please be informed that on the basis of the above representations, Brenntag Ingredients, Inc. is hereby granted permission to change its inventory costing method from first-in-first-out (FIFO) method to the moving weighted average method pursuant to the provisions of Section 41 of the National Internal Revenue Code (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.*
>
> *"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, profit, or loss in a more realistic manner: Provided, however, That the Commissioner shall not exercise his 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.*

*xxx xxx xxx*

*"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 cannot 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 or 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."*

Considering that Brenntag Ingredients, Inc. became part of the Brenntag Group of Companies, the "first-in-first-out" method of inventory is no longer compatible with Brenntag Ingredients, Inc.'s inventory valuation as the change in its accounting method will best conform to the Brenntag Group of Companies' accounting practice, this Office hereby grants authority to Brenntag Ingredients, Inc. the use of moving "weighted average" method in their inventory costing. (*BIR Ruling Nos. 034-12 dated January 31, 2012 and 567-12 dated September 11, 2012*)

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

Recommending Approval:

**CAESAR R. DULAY**
*Commissioner of Internal Revenue*

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