

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

9 August 2010

REVENUE MEMORANDUM CIRCULAR No. 70-2010

SUBJECT : Revocation of BIR Ruling Nos. DA-413-04 and DA-436-04, and Clarification of the Basis in Computing Depreciation of Property, Plant and Equipment

TO : All Internal Revenue Officials and Employees

This Circular is being issued to revoke BIR Ruling Nos. DA-413-04 (dated 30 July 2004) and DA-436-04 (dated 12 August 2004), and to clarify the basis that shall be used in computing depreciation of property, plant and equipment.

Some taxpayers employ these Rulings to justify the computation of depreciation based on the increased value of fixed assets, rather than their acquisition cost, notwithstanding the Decision of the Supreme Court in Basilan Estates, Inc. vs. CIR (GR No. L-22492, 5 September 1967), wherein the Court held that the depreciation of an asset must be premised on its acquisition cost, and not on its reappraised value. The Court emphatically stated:

“The income tax law does not authorize the depreciation of an asset beyond its acquisition cost. Hence, a deduction over and above such cost cannot be claimed and allowed. The reason is that deductions from gross income are privileges, not matters of right. They are not created by implication but upon clear expression in the law.

Moreover, the recovery, free of income tax, of an amount more than the invested capital in an asset will transgress the underlying purpose of a depreciation allowance. For then what the taxpayer would recover will be, not only the acquisition cost, but also some profit. Recovery in due time thru depreciation of investment made is the philosophy behind depreciation allowance; the idea of profit on the investment made has never been the underlying reason for the allowance of a deduction for depreciation.”

This principle has been reiterated in Item IX [H][2] of RAMO No. 1-00 (dated 17 March 2000), which states:

“No depreciation is allowable on the appraisal increase of fixed assets. Any foreseeable salvage value is to be deducted from the cost of the asset in determining the basis of depreciation.”

The concept of depreciation as a mere recovery of cost has not changed from the old Tax Code to the present. There is thus no compelling reason to deviate from the sound principles laid down in the aforecited Supreme Court Decision.

In this regard, BIR Ruling Nos. DA-413-04 and DA-436-04 are hereby revoked and invalidated, and all revenue issuances inconsistent with this Circular are repealed.

All revenue officers conducting audit investigations that involve the depreciation of assets shall take the provisions of this Circular into consideration. Accordingly, any depreciations based on the appraised increase of property, plant and equipment shall be disallowed, and, where applicable, the corresponding deficiency assessment shall be made.

All revenue officials and employees are enjoined to give this Circular the widest possible publicity.

(Original Signed)
KIM S. JACINTO-HENARES
Commissioner of Internal Revenue