

CHAPTER 10 EXERCISE

1. Benefits for the advantage of the employee are exempt from income tax. **F**
2. A rank and file employee recommends managerial actions. **F**
3. A consultant is not an employee. **T**
4. A manager has the power to lay down and executes policies. **T**
5. A regular employee is subject to the regular income tax. **T**
6. Filipinos employed by international missions are generally exempt. **F**
7. Filipinos working in Philippine embassies are exempt from taxation. **F**
8. A minimum wage earner is exempt from income tax **T**
9. Compensation income includes regular compensation, supplemental compensation and 13th month pay and other benefits in excess of P90,000. **T**
10. Compensation income includes all remunerations received under an employer employee relationship, including all fringe benefits of managerial or supervisory employees. **F**
11. Remunerations received as incidents of employment are exempt. **T**
12. The employee's share in SSS, GSIS, PhilHealth, and HDMF are excluded from Compensation income. **T**
13. The exempt vacation leave credits is 10 days for government employees **F**
14. Tax exempt de minimis benefit includes all benefits of relatively small value. **F**
15. The excess de minimis benefits are considered "other income" for any employee **F**
16. The sick leave credit of private employees up to 10 days is exempt de minimis. **F**
17. The overtime pay of minimum wage earners is exempt from tax. **T**

Filipinos employed in Philippine embassies are generally exempt. **F**

Supplemental compensations are fixed amounts regularly received by the employee every payroll period. **F**

A regular employee can be a managerial, supervisory, a rank and file employee **T**

Regular compensation includes variable performance-based remuneration received by the employee with or without regard to the payroll period. **F**

All directors are not considered employees. **F**

Rank and file employees do routinary or clerical jobs. **T**

A minimum wage earner with business income is considered a regular employee subject to income tax. **F**

A managerial employee is least likely to be a minimum wage earner. **T**

The statutory minimum wage is P60,000 annually or the amount fixed by the Regional Tripartite Wage and Productivity Board whichever is lower. **F**

The position and function test, compensation threshold test, and exclusivity are required for alien employees **F**

A managerial employee can be a special employee. **T**

The Christmas gift of private employees forms part of "other benefits" while that of government employees is considered de minimis benefit. **F**

The fringe benefits of managerial or supervisory employees are generally subject to fringe benefit tax. **T**

Resident Filipinos employed by foreign embassies, missions, or international organizations are generally taxable. **T**

Non-resident Filipinos employed by foreign embassies, missions, or international organizations are generally exempt. **T**

Half of the benefits given for the convenience or necessity of the employer are taxable. **F**

Fixed allowances are supplemental compensation income. **F**

For managerial employees, the excess of de minimis benefits over their limits are included as "other benefits". **F**

The excess of the 13th month pay and other benefits over P90,000 is considered compensation income. **T**

The substituted filing system applies to employees who have multiple or successive employments. **F**

An employer controls the means and methods by which the work is to be accomplished. **T**

An employee who became a minimum wage earner during the year is exempt from tax for the entire year. **F**

Minimum wage earners who are disqualified for exemption during the year shall be taxable as regular employees **T**

Minimum wage earners who breached the minimum wage threshold by a salary increase during the year are taxable only starting from the months of increase **T**

A fringe benefit is usually in the nature of an incentive. Compensation income is in the nature of performance-based pay. **T**

Exercise Drill No. 1

In the blank provided for, indicate whether the specified benefit or remuneration is an item of :

RC- Regular compensation

FB- Fringe benefits

SC- Supplemental compensation

OB- 13th month pay & other benefits

DM- De minimis benefit

EB- Exempt or non-taxable benefits.

1. Uniform allowance **DM DM**

2. Commissions **SC SC**

3. Rice Allowance **DM DM**

4. Productivity incentive **DM DM**

5. Christmas bonus- government **OB OB**

6. Fixed monthly RATA- government **RC RC**

7. Medical benefits **DM DM**
8. Additional compensation allowance- government **OB OB**
9. 13th month pay **OB OB**
10. Christmas gift – private **DM DM**
11. Anniversary gift **DM DM**
12. Shuttle allowance to distant facility **EB EB**
13. Excess de minimis benefit **OB FB**
14. Basic salary **RC RC**
15. Profit sharing **SC SC**
16. Other employee personal expenses paid by employer **OB FB**
17. Emoluments and honoraria **SC SC**
18. Stock bonus **SC SC**
19. Educational assistance to employee under employment bond **EB EB**
20. Used sick leave credit **RC RC**
21. Monetized unused sick leave-private **OB FB**
22. Monetized unused vacation leave-private **DM OB**
23. Monetized unused sick leave-government **EB EB**
24. Monetized unused vacation leave-government **EB EB**
25. Excess over P82,000 of 13th month pay and other benefits **SC SC**

Exercise Drill No. 2

Assuming that the employee is a private employee with a basic salary of P300 per day in a region with a minimum wage of P250 per day, Indicate the annual limit and compute the annual excess de minimis benefits in the spaces provided for.

De minimis benefits Limit Excess

- 1 P100/meal for 158 overtime days during the year **62.50 / day 5,925** (37.50/day x 158 days)
- 2 P6,000 monetized value of 15-day vacation leave credits **4,000 year** (6,000 x 10/15)
2,000
- 3 P1,000 monthly medical allowance to dependents of employees **250/ month 9,000**
(750 mo. X 12)
- 4 P6,000 monetized value of 15-day sick leave credits **0 6,000**
- 5 P12,000 medical benefits **10,000 year 2,000**
- 6 P2,000 quarterly uniform allowance **6,000 year 2000** (2,000 x 4- 6,000)
- 7 P500 monthly laundry allowance **300/ month 2,400** (200/month x 12)
- 8 P10,000 achievement award in cash **0 10,000**

9 P3,000 Anniversary gift and P5,000 Christmas gift 5000 year 3,000

10 P3,000 monthly rice allowance 2,000/ month 12,000 (1,000/month x 12)

A 50 year old employee of BREADLY CORP got retired during the year 2020 after 30 years of continuous service and received the following remunerations:

Basic salary 350,000

Employee share to SSS, PHIC and HDMF 24,000

Overtime pay P16,000; Retirement pay 2,300,000

Benefits received from SSS 400,000

Pro-rated 13th month pay 21,000.

Compute for the gross taxable compensation income.

Basic salary P350,000

Less: Employee share in SSS, PHIC, HDMF, and union dues (24,000)

Regular compensation income P326,000

Supplemental compensation 16,000

Gross taxable compensation income P342,000

Exercise Drill No. 4

An employee received the following benefits:

13th month pay P60,000

Profit sharing 12,000

De minimis benefit

De minimis benefit within their limits 80,000

Excess de minimis benefit 30,000

Other de minimis benefit 10,000

Other fringe benefits 25,000

Total incentives P182,000

Required:

Compute the taxable "13th month pay and other benefits" assuming the employee is a:

1. Rank and file employee 35,000-

2. Managerial or supervisory employee P0

	Rank & File Employee	Managerial/ Supervisory
13 th month pay	P 60,000	P 60,000
Profit sharing (this is supplemental)	0	0
De minimis benefits		
De minimis within their limits	-	-
Excess de minimis benefits	30,000	*-
Other de minimis benefits	10,000	*-
Other fringe benefits	25,000	*-
Total 13 th month pay and other benefits	P 125,000	P 60,000
Less: Exclusion limit	90,000	90,000
Taxable 13 th month pay and other benefits**	P 35,000	P 0

*Taxable under fringe benefits tax

**This will be included in compensation income as supplemental/additional compensation

An employee with 10 dependent children received the following benefits during the year:

Regular compensation P 1,068,000

Supplementary compensation 340,000

13th month pay 89,000

Other fringe benefits 13,000

Required: Compute the taxable amount in each of the following taxation schemes:

Employee type	Progressive tax	Fringe benefit tax
1. Rank and file employee	1,420,000	0
2. Managerial or supervisory employee	1,408,000	13,000

	Progressive tax	Fringe benefits tax
1.	P 1,420,000*	P 0
2.	P 1,408,000**	P 13,000

* $P1,068,000 + P340,000 + (P89,000 + P13,000 - P90,000)$

** $P1,068,000 + P340,000$; Note 13th month is below P90,000 threshold

The following relates to the compensation income of a minimum wage earner employee:

Compensation and overtime pay (January to April) 48,000

Compensation and overtime pay (May to December) 97,000

13th month pay and other benefits in December 15,000

Required:

Compute the gross taxable compensation income assuming the employee became a:

1. Minimum wage earner starting May 1 P 48,000
2. Regular employee by promotion starting May 1 P 97,000

13th month Pay DO NOT EXCEED THE P90,000 THRESHOLD; hence NOT TAXABLE

MCQ

1. Which is not an element of an employer-employee relationship?

- a Selection process c. Power of control
- b. Power to dismiss d. Payment of fixed wages

2. Which is not an employee classification as to function?

- a. Managerial employee c. Special employee
- b. Rank and file employee d. Supervisory employee

3. Which is not an employee classification as to taxability?

- a. Regular employee c. Managerial employee
- b. Special employee d. Minimum wage earner

4. Which is usually an employee?

- a) A director who is at the same time the Chief Executive Officer
- b) A director regularly receiving a retainer's fee
- c) Consultant
- d) A hired TV program talent

5. The statutory minimum wage is

- A) The amount fixed by the Regional Tripartite Wage and Productivity Board
- B) The rate fixed by the Regional Tripartite Wage and Productivity Board which must not exceed P5,000 a month or P60,000 annually
- C) The higher between P5,000 a month or P60,000 annually or the rate fixed by the Regional Tripartite Wage and Productivity Board
- D) P5,000 a month or P60,000 annually unless it exceeds the rate fixed by the Regional Tripartite Wage and Productivity Board

6. Which is not included in the gross taxable compensation income of an employee?

a Fixed monthly allowances

b. Performance based bonuses

c. 13th month pay and other benefits not in excess of P90,000

d. 13th month pay and other benefits in excess of P90,000

7. Which is not an exclusion criterion on employee benefits?

a. Necessity of the employee rule

b. Convenience of employer rule

c. Exemption by special law

d. Exemption by treaties or international agreements

8. For purposes of the fringe benefit tax, fringe benefits pertain to

a. other fringe benefits not included as compensation income of any employees.

b. other fringe benefits not specifically included as compensation income of managerial or supervisory employees.

c all fringe benefits of managerial or supervisory employees.

d. all fringe benefits of rank and file employees.

9. Which is a correct statement?

a. The compensation income of managerial or supervisory employees is subject to fringe benefit tax

b. The taxable fringe benefits of rank and file employee are subject to fringe benefit tax.

c. The taxable fringe benefits of managerial and supervisory employee are subject to regular income tax.

d. The compensation income of rank and file employees is subject to regular tax.

MCQ

1. Which is not a supplemental compensation income?

a. De minimis benefits

b. Honoraria

c. Allowances

d. Bonuses

2. Fringe benefits includes

a Basic salaries c. Retirement and separation pay

b. Fees d. De minimis benefits

3. De minimis benefits are generally

a. exempt from tax. c. taxable in excess of P90,000

b. fully taxable. d. subject to fringe benefit tax.

4. Which do not form part of other benefits of rank and file employees?
 - a. Excess of de minimis over their legal limits c Productivity incentive
 - b. Salaries and wages** d. Employee educational assistance
5. The term "de minimis benefits" does not include
 - a. Christmas bonus** c. Rice subsidy
 - b. Christmas gift d. Monetized unused vacation leave
6. Select the most accurate statement
 - a. De minimis benefits are totally exempt from income tax.
 - b. De minimis benefits in excess of P90,000 are subject to income tax.
 - c The excess of other benefits over P90,000 constitutes compensation income
 - d. The benefits of rank and file employees are not subject to fringe benefit tax**
7. Which is taxable as compensation?
 - a. SSS benefits **c. Termination benefits from resignation**
 - b. Retirement benefits d. Retirement gratuities from foreign institutions
8. Which of the following is subject to income tax?
 - a. Minimum wage b. De minimis benefits
 - C. GSIS benefits **d. Voluntary contribution to SSS, PHIC and HDMF**
9. All of these are exempt benefits of a minimum wage earner except
 - a. hazard pay. b. holiday pay
 - c. vacation pay.** d. overtime pay.
10. Which is correct when a minimum wage earner derives other income outside his employment?
 - a. He is subject to withholding tax and income tax
 - b. He is neither subject to withholding tax nor income tax.
 - C. He is exempt from withholding tax, but subject to income tax.**
 - d. He is subject to withholding tax, but exempt from income tax.
11. Rice allowance is taxable when
 - a. paid in cash. b. paid in non-cash.
 - c. given more than P1,000 a month. **d. given more than P1,500.**
12. Meal allowance is taxable when given
 - a for overtime duty. c. for night shift assignment
 - b. in cash. **d. as incentive to all employees.**
13. Which is an exempt de minimis benefit?
 - a. 9-day monetized sick leave
 - b. 15-day monetized vacation leave

c. Rice subsidy of half sack a month valued at P1,000

d. Uniform allowance of P5,500

14. Which is a correct de minimis limit?

a. Actual medical cash allowance of 5,000 per year

b. Laundry allowance of P3,600 per year

c. Employee achievement award of P5,000 per year

d. Christmas gift of P10,000

15. Statement 1: Excess de minimis is considered compensation income as "other benefits for rank and file employees and managerial or supervisory employees.

Statement 2: Excess de minimis is a fringe benefit subject to the fringe benefit tax.

a. Statement 1 is correct. c. Both statements are incorrect.

b. Statement 2 is correct. d. Both statements are correct.

16. Which is considered compensation?

a. Reasonable amounts of pre-computed daily transportation allowance

b. Cost-of-living allowance

c. Outstation allowance for employees working at distant facilities

d. Car incentives to medical doctors required to report on duty anytime

17. Which of the following remuneration is an item of compensation income?

a. Retainer fees of an outside director

b. Customer tips

c. Commissions to a minimum wage earner

d. Referral fee to a customer

18. Night differential pay is exempt from taxation when received by a

a. rank and file employee. c. minimum wage earner.

b. special employee d. managerial or supervisory employee.

19. Which is not subject to the P90,000 exemption threshold for a private employee?

a. 13th month pay c. Profit sharing bonus

b. Cash gift d. Productivity incentive

20. The P90,000 exemption threshold is applicable to

a. regular employees c. managerial or supervisory employees

b. rank and file employees. d. all employees.

21. The excess of 13th month pay and other benefits" is

a. subject to regular tax. b. subject to final tax.

c. subject to fringe benefit tax d. exempt from income tax.

22. Which is subject to the withholding tax on compensation?

- a. Salary of domestic "kasambahays"
- b. Compensation for injuries and sickness
- c. Salaries of resident Filipinos working in embassies, international MISSIONS and organizations
- d. Salary of minimum wage earners receiving fixed allowances**

23. Statement 1: A minimum wage earner who loses the benefit of exemption by transferring to a region with a lower minimum wage is taxable on all income during the year

Statement 2: A minimum wage earner who qualifies as such during the year is exempt from tax on all income earned during the year.

Which is correct?

- a. Both statements are correct.
- b. Both statements are incorrect.**
- c. Only statement 1 is correct.
- d. Only statement 2 is correct.

Multiple Choice - Problems: Part 1

1. Mr. Juanito had the following income in 2019:

"Compensation income, net of P77,000 SSS, PhilHealth, HDMF and union dues P 300,000

Supplemental compensation income 30,000

13 month pay and other benefits 25,000

What is the taxable compensation income? **(300,000 + 30,000)**

a. P402,000 c. P375,000

b. P330,000 d. P380,000

2. The following relates to an annual payroll of the employee:

Gross compensation income, before P44,000 contributions to SSS, PHIC and HDMF P1,068,000

Additional compensation 45,000

13th month pay and other benefits 89,000

Compute the taxable compensation income. **(1,068,000 - 44,000 + 45,000)**

a. P1,113,000 c. **P 1,069,000**

b. b. P1,112,000 d. P 1,068,000

3. Colyong a government employee, receives a full 13th month pay of P20,000, exclusive of P14,000 other benefits. He was deducted P18,000 during the year for premium for his SSS, PHIC, and HDMF contributions. Compute Colyong's taxable compensation income.

$(P20,000 \times 12 - P18,000)$

a. **P222,000** c. P240,000

b. P226,000 d. P254,000

4. An employee received the following compensation during the year:

Gross compensation (P11,000 x 13 months) P 143,000

Overtime pay 12,000

Less:

SSS, PHIC, HDMF and union dues 5,200

Withholding tax 10,000 (15,200)

Net pay P 139,800

Compute the taxable compensation income. $(P11,000 \times 12 + P12,000 \text{ OT} - P5.2K \text{ exclusions})$

a P149,800 c. P132,000

b. P138,800 d. P126,800

5. Johnny received a salary of 73,000 during the year consisting of: P60,000 basic salary. P8,000 overtime pay and P5,000 13th month pay. Compute Johnny's taxable income using contemporary tax regulations.

a PO b. P 60,000

c. P 68,000 d. P 73,000

Note that Johnny is a minimum wage earner for being a recipient of annual salary of P60,000. Note that overtime is an exempt benefit to a minimum wage earner. Note also that his 13th month pay and other benefits do not exceed P90,000.

6. A private employee retired at 60 in the middle of the year and was paid the following remunerations:

Retirement benefits 2,000,000

Terminal leave pay (150 accumulated days) 120,000

Compensation, net of P16,000

SSS, PHIC and HDMF premium contributions 128,000

Mid-year bonus 8,000

Pro-rated 13th month pay 12,000

$\{P128K \text{ regular} + P8K \text{ supplemental} + \{(P120K \times 140/150 + P12K) - P90K\}$

Note that the retirement benefit is exempt.

Compute the taxable compensation income.

a P2,170,000 c. **P 170,000**

b. P 238,000 d. P 136,000

7. A managerial employee received the following remunerations:

Gross salaries, net of SSS, PHIC, and HDMF 1,090,000

SSS maternity benefits 30,000

Profit sharing bonus 240,000

13th month pay 95,000

Determine the taxable compensation income. $(P1,090 + 240 + 5)$

a P1,365,000 c. **P1,335,000**

b. P1,350,000 d. P 1,330,000

8. A supervisory employee had the following remunerations during the year:

Salaries, before P24,000 SSS, PhilHealth HDMF, and union dues 258,000

Profit sharing 20,000

Fringe benefits 65,000

13th month pay and other benefits 21,000

What is the taxable compensation income? $(P258K \text{ regular} - P24K + P20K \text{ supplemental} + P0 \text{ excess})$

a. P343,000 c. **P 254,000**

b. P278,000 d. P 204,000

9. An employee had the following details of compensation income in 2019:

Regular compensation income 780,000

Overtime pay 43,000

13th month pay 65,000

De minimis benefits:

Medical assistance to employee 22,000

Total of other de minimis benefits 32,000

Compute the taxable compensation income if the employee is a rank and file.

a. P842,000 c. P 823,000

b. P836,000 d. P 780,000

(P780K regular + P43K supplemental + P19K excess computed as [P65K + (P22K – P10K) + P32K] – P90K]

10. Compute the taxable compensation income if the employee is a managerial or supervisory employee.

a. P842,000 c. P 823,000

b. P836,000 d. P 780,000

(P780K regular + P43K supplemental + P0K excess computed as [P65K – P90K])

1. An employee received the following remunerations aside from the basic pay:

Fixed representation and transportation allowance P 24,000

Night shift differential pay 12,000

Hazard pay 12,000

Honoraria 8,000

Profit sharing 24,000

13th month pay 18,000

Compute the supplemental compensation if the employee is a regular employee.

a. P 68,000 b. P 44,000

c. P 56,000 d. P 32,000

(P12K + P12K + P8K + P24K)

Note that the 13th month pay and other benefits in excess of P90,000 is part of additional or supplemental compensation. However, in this case, the 13th month pay and other benefits did not exceed the P90,000 exclusion threshold.

2. Compute the supplemental compensation if the employee is a minimum wage earner.

a. P68,000 c. P 56,000

b. P44,000 d. P 32,000 (P8K + P24K).

3. A supervisory employee is a recipient of a stock option which vested during the year. The following data pertains to the exercise of the option and its subsequent sale by the employee:

Value of stocks at vesting date P 45,000

Exercise price of option 30,000

Selling price of stocks 50,000

Compute the supplemental compensation. (P 45,000 – P30,000)

a. P50,000 b. P20,000

c. P 15,000 d. PO

4. The following relate to the compensation income of a private rank and file employee during the year:

Annual compensation income P 540,000

13th month pay 45,000

14th month pay 45,000

Total of monthly rice allowances during the year 26,000

Commission from employer 12,000

Christmas gift 8,000

SSS, PhilHealth and HDMF contributions 21,000

Compute the exempt de minimis benefits.

Exempt de minimis: P 24,000 rice allowance + P5,000 Christmas gift = P29,000

5. Compute the total non-taxable compensation income.

NOT SURE : Non-taxable compensation income:

13th month pay and other benefits P 90,000

Exempt de minimis 29,000

Contribution to SSS, PhilHealth and HDMF 21,000

Total non-taxable compensation P 140,000

6. Compute the supplemental compensation.

Supplemental compensation:

Commission income P 12,000

Excess 13th and other benefits (P45k + P45k+ P2k+ 3k – P90,000) 5,000

Total supplemental compensation P 17,000

7. Compute the taxable compensation income. P 536,000

Taxable compensation income:

Regular compensation (P540,000 – P21,000)	P 519,000
Supplemental compensation	<u>17,000</u>
Taxable compensation income	<u>P 536,000</u>

Alternatively:

Gross compensation (540+45+45+26+12+8)	P 676,000
Less: Non-taxable compensation	<u>140,000</u>
Taxable compensation income	<u>P 536,000</u>

8. A managerial employee received the following benefits during the year:

Compensation income, net of mandatory contribution P 1,080,000

Housing allowance in addition to regular pay

(P30,000 x 12; actual rent is P25,000/month) 360,000

13th month pay 95,000

What is the taxable compensation income? **[P1,080 + 5 x 12 + (95-90)]**

a. P1,445,000 c. P 1,145,000

b. P1,175,000 d. P 1,085,000

9. A government employee received the following benefits in 2019:

Gross salaries 1,044,000

RATA 12,000

PERA 24,000

Additional compensation (ADCOM) 24,000

Christmas bonus 87,000

Christmas gift 5,000

Laundry allowance (P400/month) 4,800

Contributions to GSIS, PhilHealth and HDMF 62,000

Determine the taxable compensation income. **1,009,200**

Regular compensation (P1,044K – P62K)	P 982,000
Supplemental compensation (P87+5K+24K addcom + 100x 12 – 90K)	<u>27,200</u>
Taxable compensation income	<u>P 1,009,200</u>

10. A private employee had the following remuneration in 2019:

Gross salaries, net of mandatory contribution 314,000

Fixed RATA 12,000

Cost-of-living allowance 24,000

13th month pay 28,000

Christmas gift 5,000

Laundry allowance (P500/month) 8,000

Answer the following questions:

What is the taxable compensation income?

a P314,000 c. P 338,000

b. P326,000 d. **P 350,000** (P314K + 12K + 24K);

Note 13th month and other benefits is below P90K exclusion

11. What is the total exempt de minimis benefit? P 8,600 $P300 \times 12 + 5,000 =$ **P8,600**

NOT SURE: 12. What is the total exempt benefit?

a P 36000 c.P 82,000

b. **P 41, 000** d. P 90,000

13 th month	P 28,000
Excess de-minimis (P8,000 – P3,600*)	<u>4,400</u>
13 th and other benefits (i.e. below P90K)	P 32,400
De minimis (P5,000 + 3,600)	<u>8,600</u>
Total non-taxable income	<u><u>P 41,000</u></u>

*P3,600. Note that the P500/month rate given does not match with the P8,000 annual total indicating that additional allowances were given. Hence the P8,000 shall be used in the computation.

13. Jane, a recipient of minimum wage, became a regular employee at the start of the third quarter of 2019 when she received a raise in pay: BOOK P 360 TABLE (1st Quarter 2nd Qtr 3rd Qtr 4th Qtr)

Compute the taxable compensation income in 2019. $(33K + 33K + 3K + 6K - 1.2K - 1.2K)$

a. P 52,100 c. P 75,000

b. **P 72,600** d. P 127,60

14. A regular employee became a minimum wage earner when the minimum wage was increased effective the last quarter of 2019: SAME TABLE P 361 (1st Quarter 2nd Qtr 3rd Qtr 4th Qtr)

Compute the taxable compensation income in 2019.

a. PO

b. **P29,650** (24,750 + 6,000 – 1,100)

CHAPTER 11

The fringe benefit tax is a creditable withholding tax presumed to have been withheld at source by the employer from the fringe benefits of supervisory or managerial employees **F**

Rank and file employees may be subject to fringe benefit tax. **FALSE**

2. Fringe benefits are always subject to fringe benefit tax. **FALSE**

3. The personal expenses of employees shouldered by the employer are fringe benefits. **TRUE**

4. Managerial or supervisory employees are subject to fringe benefit tax. **TRUE**

5. The tax base of the fringe benefit tax is grossed-up monetary value of the fringe benefit. **TRUE**

6. The fringe benefit tax is a creditable withholding tax presumed to have been withheld at source by the employer from the fringe benefits of supervisory or managerial employees. **FALSE**

7. The taxable fringe benefit subject to the fringe benefit tax is the excess of the de minimis benefit over P90,000. **FALSE**

8. Half of the benefits that are necessary to the trade of the employer's business are subject to fringe benefit tax. **FALSE**

9. Benefits in the form of properties transferred to the name of the employee are subject to fringe benefit tax in full. **TRUE**

10. Benefits provided by the employer for his convenience are exempt from fringe benefit tax. **TRUE**

1. The annual depreciation value of a real property is presumed to be 10% of the value of property. **FALSE**

2. The monetary value of benefits given in cash is the cash paid. **TRUE**

3. The monetary value of benefits given in kind is 100% of the value of the property given. **TRUE**

4. The monetary value of fringe benefits in the form of free usage of property is 50% of the rental or depreciation value of the property. **TRUE**

5. Employee benefits are employee expense by nature that are paid by the employer. **FALSE**

6. The annual depreciation value of a movable property is 20% of the value of the property. **TRUE**

7. When title over property is transferred, monetary value is the fair value of the property given. **TRUE**

8. When the employer leases a house and lot as the usual residence of the supervisory or managerial employee, the monetary value of the benefits is 50% of the rental payments. **TRUE**

9. Educational assistance to the employee is exempt from fringe

benefit tax if there is an employee bond and the study is related to the trade or business of the taxpayer. TRUE

10. Aircraft including helicopters are considered for the business use and not subject to fringe benefit tax. TRUE

11. The monetary value of the benefit from loans at less than market rate shall be the difference between 12% and the actual rate charged. TRUE

12. Lodging costs on foreign travel is a taxable fringe benefit regardless of amount. FALSE

13. 30% of first-class tickets in foreign travel is taxable fringe benefit. TRUE

14. The expenses of family members of the employee shouldered by the employer constitute taxable fringe benefit in full. TRUE

15. An employee expense receipted in the name of the employer is considered a business expense of the employer. FALSE

8. When the employer leases a house and lot as the usual residence of the supervisory or managerial employee, the monetary value of the benefits is 50% of the rental payments. TRUE

9. Educational assistance to the employee is exempt from fringe benefit tax if there is an employee bond and the study is related to the trade or business of the taxpayer. TRUE

10. Aircraft including helicopters are considered for the business use and not subject to fringe benefit tax. TRUE

11. The monetary value of the benefit from loans at less than market rate shall be the difference between 12% and the actual rate charged. TRUE

12. Lodging costs on foreign travel is a taxable fringe benefit regardless of amount. FALSE

13. 30% of first-class tickets in foreign travel is taxable fringe benefit. TRUE

14. The expenses of family members of the employee shouldered by the employer constitute taxable fringe benefit in full. TRUE

15. An employee expense receipted in the name of the employer is considered a business expense of the employer. FALSE

MULTIPLE CHOICE – THEORY 1

1. Which is not part of de minimis benefit?

a. Clothing allowance c. Monetized unused vacation leave

b. Actual medical benefit 13th credits

d. Month pay

2. The de minimis benefit not exceeding their thresholds are

a. Exempt from income tax. c. Subject to regular tax.

b. Subject to fringe tax. d. Deductions from gross income. benefit

3. Select the answer which more accurately completes the statement.

The taxable fringe benefit of a supervisory employee is

a. Subject to fringe benefit.

b. Subject to regular income tax as compensation income.

c. The total of 13th month pay and other benefits not exceeding P90,000.

d. The total of 13th month pay and other benefits exceeding

P90,000.

4. Who is subject to the fringe benefit tax?
a. An employer of rank and file employees
b. Managerial or supervisory employees
c. An employer of managerial or file employees
d. Rank and file employees
5. Which of these items is subject to fringe benefit tax?
a. Compensation income of rank and file employees
b. Fringe benefits of rank and file employees

MULTIPLE CHOICE – THEORY 1

1. Which is not part of de minimis benefit? a. Clothing allowance c. Monetized unused vacation leave b. Actual medical benefit 13th credits d. Month pay

2. The de minimis benefit not exceeding their thresholds are a. Exempt from income tax. c. Subject to regular tax. b. Subject to fringe d. Deductions from gross income. benefit tax.

3. Select the answer which more accurately completes the statement. The taxable fringe benefit of a supervisory employee is a. Subject to fringe benefit. b. Subject to regular income tax as compensation income. c. The total of 13th month pay and other benefits not exceeding P90,000. d. The total of 13th month pay and other benefits exceeding P90,000.

4. Who is subject to the fringe benefit tax? a. An employer of rank and file employees
b. Managerial or supervisory employees
c. An employer of managerial or file employees
d. Rank and file employees

5. Which of these items is subject to fringe benefit tax? a. Compensation income of rank and file employees
b. Fringe benefits of rank and file employees

Fringe benefits of managerial or supervisory employees

d. Compensation income of managerial or supervisory employees

6. The fringe benefit tax by nature is a

- a. Tax on passive income of managerial or supervisory employees.
b. Final tax.
c. Tax to the employer of managerial or supervisory employees.
d. Tax to all employee on their fringe benefits.

7. Which is a correct statement?

- a. The fringe benefit tax is a tax upon the expense of the employer.
b. The personal expenses of any employees paid by the employer are subject to fringe benefit tax.
c. The personal expenses of rank and file employees paid by the employer are subject to fringe benefit tax.
d. The personal expenses of managerial or supervisory employee shouldered by the employer are subject to fringe benefit tax.

8. As a rule, hybrid expenses are presumed

- a. 50% fringe benefit. c. 50% de minimis benefit
b. 100% fringe benefit. d. 100% legitimate business expense.

9. Which of the following phrases is not an exemption criterion for purposes of the fringe benefit tax?

- a. Convenience of the employer
b. Necessary for the business of the employer
c. In furtherance of employee goodwill
d. For the furtherance of the employer's business

10. What percentage of the depreciation value is considered fringe benefit in the free usage of employer's real properties?

- a. 5% c. 50%
b. 20% d. 100%

11. When fringe benefit is in form of free use of real properties, what percentage of fair value of the property is considered fringe benefit?

- a. 5% c. 50%
b. 20% d. 100%

12. When fringe benefit is in the form of free use of personal properties, what percentage of the depreciation value of the property is considered fringe benefits?

- a. 5% c. 50%
- b. 20% d. 100%

13. An employer transferred title over property to the employee. What percentage of benefit is considered for purposes of the fringe benefit tax?

- a. 5% c. 50%
- b. 20% d. 100%

Fringe benefits of managerial or supervisory employees d. Compensation income of managerial or supervisory employees

6. The fringe benefit tax by nature is a a. Tax on passive income of managerial or supervisory employees. **b. Final tax.** c. Tax to the employer of managerial or supervisory employees. d. Tax to all employee on their fringe benefits.

7. Which is a correct statement? a. The fringe benefit tax is a tax upon the expense of the employer. b. The personal expenses of any employees paid by the employer are subject to fringe benefit tax. c. The personal expenses of rank and file employees paid by the employer are subject to fringe benefit tax. **d. The personal expenses of managerial or supervisory employee shouldered by the employer are subject to fringe benefit tax.**

8. As a rule, hybrid expenses are presumed **a. 50% fringe benefit.** c. 50% de minimis benefit b. 100% fringe benefit. d. 100% legitimate business expense.

9. Which of the following phrases is not an exemption criterion for purposes of the fringe benefit tax? a. Convenience of the employer b. Necessary for the business of the employer c. In furtherance of employee goodwill **d. For the furtherance of the employer's business**

10. What percentage of the depreciation value is considered fringe benefit in the free usage of employer's real properties? a. 5% **c. 50%** b. 20% d. 100%

11. When fringe benefit is in form of free use of real properties, what percentage of fair value of the property is considered fringe benefit? **a. 5%** c. 50% b. 20% d. 100%

12. When fringe benefit is in the form of free use of personal properties, what percentage of the depreciation value of the property is considered fringe benefits? a. 5% **c. 50%** b. 20% d. 100%

13. An employer transferred title over property to the employee. What percentage of benefit is considered for purposes of the fringe benefit tax? **a. 5%** c. 50% b. 20% d. 100%

MULTIPLE CHOICE – THEORY 2

1. Which is not a characteristic of the fringe benefit tax?

- a. A final tax c. Payable by the employer
- An income tax d. Imposed upon the monetary value of benefits

2. Which is correct with respect to the fringe benefit tax?

- a. It is due monthly and quarterly
- b. It is a tax upon the compensation income of employee
- c. It is tax upon the fringe benefit of an employee
- d. Employees do not need to file income tax returns to report the fringe benefit

3. The actual value of benefits realized by the managerial or supervisory employee is referred to as the

- a. Monetary value c. Grossed-up monetary value
- b. Fair value d. Annual depreciation value

4. Which is not exempt housing benefit?

- a. Housing within 50 meters from the perimeter of the employer's business
- b. Housing benefit for four months

- c. Military sleeping quarters
- d. Temporary housing
- 5. Which is not subject to fringe benefit tax?
 - a. Personal expenses receipted in the name of the employee paid by the employer
 - b. Employer personal expense receipted in the name of the employer paid by employer
 - c. Expenses of employees considered in furtherance of the employer's business
 - d. Personal expenses receipted in the name of the employee reimbursed by the employer
- 6. The free usage of which of the following items is exempt from fringe benefit tax?
 - a. Yacht c. Helicopter
 - b. Car d. Residential unit
- 7. What percentage of the fair value of the yacht is considered in measuring depreciation value?

MULTIPLE CHOICE – THEORY 2

1. Which is not a characteristic of the fringe benefit tax? a. A final tax c. Payable by the employer An income tax **d. Imposed upon the monetary value of benefits**
2. Which is correct with respect to the fringe benefit tax? a. It is due monthly and quarterly b. It is a tax upon the compensation income of employee c. It is tax upon the fringe benefit of an employee **d. Employees do not need to file income tax returns to report the fringe benefit**
3. The actual value of benefits realized by the managerial or supervisory employee is referred to as the **a. Monetary value** c. Grossed-up monetary value b. Fair value d. Annual depreciation value
4. Which is not exempt housing benefit? a. Housing within 50 meters from the perimeter of the employer's business **b. Housing benefit for four months** c. Military sleeping quarters d. Temporary housing
5. Which is not subject to fringe benefit tax? a. Personal expenses receipted in the name of the employee paid by the employer b. Employer personal expense receipted in the name of the employer paid by employer **c. Expenses of employees considered in furtherance of the employer's business** d. Personal expenses receipted in the name of the employee reimbursed by the employer
6. The free usage of which of the following items is exempt from fringe benefit tax? a. Yacht **c. Helicopter** b. Car d. Residential unit
7. What percentage of the fair value of the yacht is considered in measuring depreciation value? **a. 5%**
8. Which is subject to fringe benefits tax? a. Premiums of employee group insurance b. Expenses of business travels c. Housing for an employee to ensure his immediately availability **d. Housing for the family members of the employee**
9. To which the following is the tax benefit rate is not applied **a. The monetary value of the fringe benefit** b. The amount deductible by the employer from the gross income c. The gross-up monetary value of the fringe benefit d. Both accounts of the fringe benefit and the fringe benefit tax
10. Which fringe benefit is subject to fringe benefit tax? **a. If given for the convenience or advantage of the employees** b. Benefits given to rank and file employees c. Those required by the nature of or necessary to the trade, business, or profession of the employer d. Contributions of the employer to retirement, insurance and hospitalization benefit plans for the benefit of the employee

PROBLEMS

1. A supervisory employee has the following benefits:

13th month pay and other benefits	P 40,000
De minimis within their limits	35,000
Excess de minimis benefits	10,000
Other fringe benefits	40,000

Compute the amount fringe benefits subject to the fringe benefit tax rate.

c. **P 50,000**

Only EXCESS de minimis and other fringe benefits are taxable. 13th month, bonuses, and de minimis benefits are generally tax exempt.

2. An employer pays the P 10,000 monthly residential rental of his managerial employee. Compute the quarterly monetary value.

a. **P 15,000**

The monetary value of the benefit is 50% of its actual value.

$10,000 \times 3 \text{ (quarterly)} = 30,000$

$30,000 \times 50\% = 15,000$

3. ABC Company designated residential property for the use of its managerial employee. The lot has zonal value of P3,500,000 and P2,000,000 value per tax declaration. The assessed value on the improvement on the lot was P1,500,000. The lot was purchased at a cost of P2,000,000. Compute the monetary value to be reported in the quarterly fringe benefit tax return?

b. **P 125,000**

Keep in mind that question mentioned "designated" meaning the lot is already owned by the company prior to using it as benefit.

Monetary value is computed as 50% of the benefits's value, which is then computed as 5% of the higher of zonal (ZV) and fair market value (FMV).

In this case, FOR THE LOT, ZV is 3.5M and FMV is 2M. Higher is 3,500,000 ZV.

We add the lot improvement of 1,500,000 for a total of 5,000,000.

Hence, value of benefit is 5% of 5M = 250,000

Monetary value is 50% of benefit's value = $250,000 \times 50\% = 125,000$

4. Kalibo Company purchase a residential unit for P3,000,000 and transferred ownership to its supervisory employee. The property has a zonal value of P3,500,000. Compute the monetary value.

b. **P 3,500,000**

Compared to the last question, this time, employer has purchased the lot for the sole purpose of transferring it to the employee as a benefit. In this case, monetary value is 100% of the benefit's value, which this time is the higher between the acquisition cost and zonal value. Higher is zonal value of 3.5M

5. Celebs, Inc. owns a residential property it acquired for P2,000,000. It transferred ownership thereto to its managerial employee for P1,200,000 when its fair value was P3,000,000. What is the monetary value of the benefit?

c. **P 1,800,000**

This question involves transfer at a lower price. Monetary value in this case is 100% of benefit's value as well, but benefit's value is computed differently. It is the higher of Acquisition cost or Fair Market Value, then deduct the cost to the employee.

Acq Cost is 2M, FMV is 3M. Higher is 3M, then we deduct cost to employee of 1.2M, hence the benefit's value is 1,800,000

6. Catarman Corporation designated two condominium units for the use of its supervisory employees with fair value and terms of residence as follows:

Agreed Residence Time Property Value

Unit no. 1	1 year	P4,000,000
Unit no. 2	3 moths	P3,000,000

Compute the quarterly monetary values for the above.

c. **P 100,000**

Only Unit #1 is considered as fringe benefit. As stated in the law, temporary housing, which is 3months or less, is not to be considered as fringe benefit.

We use the same computation we did in item #3, no ZV so we use FMV of 2M.

Value of benefit is $4M \times 5 = 200,000$

Fringe benefit is 50% of benefit's value $200,000 = 100,000$

Tapas Corporation granted ownership of several housing units to the following employees on its foundation day:

Poistion Property Value Accounting Manager 3,000,000.00 Marketing Supervisor 2,000,000.00 Machine Operator 1,500,000.00 Electrical Staff 1,000,000.00 Compute the total monetary value of all fringe benefits 7,500,000 5,000,000 187,500 125,000

Total monetary value of all fringe benefits

= $3,000,000 + 2,000,000 + 1,500,000 + 1,000,000$

= 7,500,000

However, taxable monetary value of fringe benefits

$$= 3,000,000 + 2,000,000$$

$$= 5,000,000$$

Ozamis Corporation has a production facility 10 km away from town.

To promote the goodwill of its employees, it decided to construct housing units within the compound of the facility. It also agreed to pay half of the household rentals of employees, who did not want to transfer their families to the housing units. The following data relates to the quarter of grant:

Company Officers Rank and file employees

Value of housing unit P1,000,000 P3,000,000

Rental payments P 500,000 P 800,000

Compute the monetary value of benefits subject to fringe benefit tax.

$$\text{Monetary Value} = 500,000 \times 50\% = 250,000$$

As part of its employee benefits plan, Zarraga Realty Corporation acquired a piece of residential lot worth P2,000,000 for its director of finance and constructed upon it a house at a cost of P4,000,000. Ownership of the house and lot was turned over to the director upon completion of the construction. 40% of the value of the house and lot will be deducted from the director's salary over a period five years. What is the monetary value of the fringe benefit?

3,600,000

2 M plus 4M x 60% (100-40%)

1. Mandaue reimbursed the following expense liquidation of its managerial employee:

Purchase of supplies P 20,000

Personal meals and groceries P 15,000

Gasoline for transportation (1/2 for business) P 8,000

Office electricity, water and telephone bills P 12,000

Compute the monetary value of fringe benefits.

c. P 19,000

1	Personal meals	
	and groceries	15,000
	Gasoline for Transpo (1/2)	4,000
	TOTAL MV of FB	19,000

2. In the immediate preceding problems, what is the fringe benefit tax if the managerial employee is a resident citizen?

d. P 10,231

2	MV OF BENEFIT	19,000		
	Divide:	65%	<i>*Resident Citezen</i>	
	Gross-up Monetary Value	29,231		
	Multiply:	35%		
	FRINGE BENEFIT TAX	10,231		

3. Danao bought a car worth P800,000 and registered in the name of its supervisory employee. It was agreed that the same will be used partially for the business of Danao.

Compute the monetary value.

- a. P 400,000
- b. P 800,000
- c. P 80,000
- d. P 0

4. In the immediate preceding problems, what is the fringe benefit tax assuming the employee is a non-resident alien?

- a. P 376,471
- b. P 266,667
- c. P 188,235
- d. P 133,333

3	Value of the Benefit	800,000		
	Multiply:	100%	<i>*transfer of property</i>	
	Monetary Value of Benefit	800,000		
	Divide:	75%		
	Gross-up Monetary Value	1,066,667		
	Multiply:	25%		
4	FRINGE BENEFIT TAX	266,667		

5. Lapu-lapu Company grants its managerial employees the privilege to select a car of their choice with value not exceeding P1,000,000 a unit or be given P1,000,000 cash benefit to acquire their own cars. It also grants supervisory employees car benefits if they actually purchase their cars.

Car benefits given to an manager, net of withholding tax on compensation P 900,000
Value of cars purchased for two other managers P 2,000,000
Cash payments to various cars suppliers for supervisory employees P 1,600,000
Compute the monetary value

- a. P 4,500,000
- b. P 3,600,000
- c. P 2,000,000
- d. P 1,600,000

5	Car benefits to manager	900,000		
	Value of cars for 2 managers	2,000,000		
	Cash payment to car supplier	1,600,000		
	Monetary Value of Benefit	4,500,000		

6. In July 2019, Naga purchased a P1,200,000 car for the use of its managerial employee. Compute the monetary value to be reported respectively for the calendar quarters ending September and December 2019.

- a. P 1,200,000; P 120,000

- b. P 240,000; P 120,000
 c. P 120,000; P 120,000
 d. P 30,000; P 30,000

6	Value of the Benefit	240,000	(1,200,000/5 yrs)	UNDER TRAIN LAW:
	Multiply:	50%		
	Monetary Value of Benefit	120,000	<i>*per quarter</i>	120,000
	Divide:	68%		65%
	Gross-up Monetary Value	176,471		184,615
	Multiply:	32%		35%
7	FRINGE BENEFIT TAX	56,471	<i>*per quarter</i>	64,615

7. Compute the fringe benefit tax if the employee is a resident citizen **NOT SURE**

- a. P 564,706; P 56,471
 b. P 112,941; P 56,471
 c. P 16,154; P 16.154
 d. **P 56,471; P 56,471**

6	Value of the Benefit	240,000	(1,200,000/5 yrs)	UNDER TRAIN LAW:
	Multiply:	50%		
	Monetary Value of Benefit	120,000	<i>*per quarter</i>	120,000
	Divide:	68%		65%
	Gross-up Monetary Value	176,471		184,615
	Multiply:	32%		35%
7	FRINGE BENEFIT TAX	56,471	<i>*per quarter</i>	64,615

8. Maasin Carbon Plant acquired a P1,000,000-motor vehicle for the use of its field engineer, a plant supervisor, assigned to a very remote facility from town. Compute the monetary value of benefits subject to tax.

d. P 0

8	Monetary Value of Benefit	D. 0	<i>*for the convenience of employer</i>
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9. Dexter acquired a car for P1,200,000 and transferred ownership to its supervisory employee for P400,000. The car shall be used partly in the employer's business. Compute the monetary value

d. P 1,200,000

9	Monetary Value of Benefit	1,200,000	<i>*entire value of the benefit</i>
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EXERCISE NO. 06:

1. Dog Company made the following payments in the first quarter of 2019:

Fringe benefits:

- To the supermarket in payment for groceries of the company's manager and family P16,000
- To a university in payment for the tuition fee of the manager - P24,750 Salary of the manager, net of P50,000 and withholding tax - P350,000

Determine the fringe benefit tax due.

c. P 21,942

$$(P16,000 + 24,750) \times 35\% / 65\% = P21,942$$

2. Ormoc International acquired the following for the use of its executive officers:

Bell 206 helicopter P23,000,000

Elling E3 Executive (seagoing motor yacht) P16,400,000

Compute the monetary value.

d. P 410,000

Elling E3 Executive (seagoing motor yacht) :

Yacht	P16,400,000
Multiply by 5%	<input type="text" value="x.05"/>
Fringe Benefit	820,000
% of Benefit	<input type="text" value="50%"/>
Monetary Value of FB	410,000

3. Lila Corporation paid the following fringe benefits during the calendars quarter to its managerial employee:

Salaries of household help P10,000/month

Salaries of personal security guard P15,000/month

Personal driver P15,000/month

Annual home owner's association dues P 4,000

Garbage dues P 100/week

Compute the quarterly monetary value.

a. P 122,200

b. P 125,200

c. P 121,200

d. P 44,100

$$(10K+15K+15K=40K \times 3\text{mos} + 4K=124K, 100 \times 4\text{weeks} \times 3\text{mos}=1,200, 124K+1,200$$

4. Tolosa Company paid or punished the following in behalf of a supervisory employee for the quarter ended March 2016:

Membership dues in golf course P10,000

One-year P200,000 interest free loan due December 2016 -

Free vacation sponsored by Tolosa P12,000

Compute the monetary value.

d. P 28,000

The answer is d. P28,000

Solution:

200,000/4 (since paid quarterly) = 50,000

Monetary value = 50,000 - 10,000 - 12,000 = **P28,000**

Monetary value is the amount that would be paid in cash for an asset or service if it were to be sold to a third party. For example, tangible property, intangible property, labor, and commodities are priced at their monetary value.

5. During the last calendar quarter of 2019, Naval Company granted a Filipino supervisory employee the following benefits:

Salaries P120,000

Performance bonus P 20,000

13th month pay P 40,000

Excess de minimis P 12,000

Cash price of car given to supervisory employee P300,000

Compute fringe benefit tax.

a. P 168,000

b. P 151,529

- c. P 146,824
d. P 141,176

P 168,000 (12K+300KX35%/65%)

6. Logan paid the P27,200 monthly rental of the residence of its managerial employee from January to May of 2019. Compute the fringe benefit tax for the first quarter and second quarter of 2019

d. P 21,969; P 14,646

	VALUE	MV OF BENEFIT (50%)	UNDER TRAIN LAW		UNDER OLD TAX LAW	
6 Jan	27,200	13,600	MV OF BENEFIT	40,800	MV OF BENEFIT	40,800
Feb	27,200	13,600	Divide:	65%	Divide:	68%
Mar	27,200	13,600	Gross-up Monetary Value	62,769	Gross-up Monetary Value	60,000
1st Quarter	81,600	40,800	Multiply:	35%	Multiply:	32%
Apr	27,200	13,600	FRINGE BENEFIT TAX	21,969	FRINGE BENEFIT TAX	19,200
May	27,200	13,600				
Jun	-	-	MV OF BENEFIT	27,200	MV OF BENEFIT	27,200
2nd Quarter	54,400	27,200	Divide:	65%	Divide:	68%
			Gross-up Monetary Value	41,846	Gross-up Monetary Value	40,000
			Multiply:	35%	Multiply:	32%
			FRINGE BENEFIT TAX	14,646	FRINGE BENEFIT TAX	12,800

7. On August 1, 2019, Calbayog designated the use of its residential unit for its managerial employee. The residential unit was acquired for P4,500,000 and has a fair value of P4,000,000

NOT SURE

- a. P 100,000; P 100,000
b. **P 52,941; P 52,941 or 60,577**
c. P 13,235; P 13,325
d. P 10,096; P 15,144

7	COST	4,500,000	COST	4,500,000	COST	4,500,000
	FV	4,000,000	Multiply:	5%	Multiply:	5%
	<i>*get the HIGHER between the two</i>		Value of the Benefit	225,000	Value of the Benefit	225,000
	<i>*COST is HIGHER</i>		Multiply:	50%	Multiply:	50%
			Monetary Value of Benefit	112,500	Monetary Value of Benefit	112,500
			Divide:	65%	Divide:	68%
			Gross-up Monetary Value	173,077	Gross-up Monetary Value	165,441
			Multiply:	35%	Multiply:	32%
			FRINGE BENEFIT TAX	60,577	FRINGE BENEFIT TAX	52,941
				<i>*per qrtr</i>		<i>*per qrtr</i>

8. Borongan Company granted the following fringe benefits in 2016:

- January 15 - paid P68,000 for the birthday celebration expense of its vice president for operations.
- February 14 - distributed iPhones costing P47,600 each to four supervisory employees as incentives.
- April 2 - granted the use of residential unit to the vice president for finance with fair value of P3,000,000.
- August 4 - transferred ownership of a residential dwelling with zonal value of P4,000,000 and assessed value of P3,000,000 to the company president.
- December 15 - distributed P896,000 in the 13th month pay to all employees (20% of this relates to managerial or supervisory employees)

Compute the quarterly fringe benefit tax to be remitted by Borongan Company in the first quarter and in the second quarter.

d. P 32,000; P 35,294

	VALUE	MV
8 Jan	68,000	68,000
Feb	47,600	-
Mar	-	-
1stQ	115,600	68,000
Apr	3,000,000	75,000
May	-	-
Jun	-	-
2ndQ	3,000,000	75,000
Jul	-	-
Aug	4,000,000	4,000,000
Sep	-	-
3rdQ	4,000,000	4,000,000
Oct	-	-
Nov	-	-
Dec	179,200	179,200
4thQ	179,200	179,200

MV OF BENEFIT	68,000	
Divide:	68%	
Gross-up Monetary Value	100,000	
Multiply:	32%	
FRINGE BENEFIT TAX	32,000	*1stQ
COST	3,000,000	
Multiply:	5%	
Value of the Benefit	150,000	
Multiply:	50%	
Monetary Value of Benefit	75,000	
Divide:	68%	
Gross-up Monetary Value	110,294	
Multiply:	32%	
FRINGE BENEFIT TAX	35,294	*2ndQ

9. What is the fringe benefit tax respectively in the third and fourth quarters?

d. P 1,882,353; P 0

Value of the Benefit	4,000,000	
Multiply:	100%	
Monetary Value of Benefit	4,000,000	
Divide:	68%	
Gross-up Monetary Value	5,882,353	
Multiply:	32%	
FRINGE BENEFIT TAX	1,882,353	*3rdQ
FRINGE BENEFIT TAX	-	*4thQ

THE CORRECT ANSWER IS A; P1,891,176 P8,823

Any employer must pay fringe benefit tax on a loan given to an employee, director, or their family at a lower interest rate than the market rate. The disparity between the market interest rate and the real interest charged on the debt is the taxable amount of fringe benefit tax.

The ratio of compensation paid to an employee's salaries is known as the fringe benefit rate. The annual amount of all benefits and payroll taxes collected is added together and divided by the annual salaries paid to arrive at the average.

Third quarter; Ownership transfer = $3,000,000 / 1.58 = P1,891,176$

Fourth quarter; $(80/100 \times 896,800) = 716,800 / 81.24 = P8,823$

10. Baybay Corporation maintains a fleet of motor vehicles for business use and employees use. The following relates the calendar quarter just ended:

Cost of three motor vehicles used exclusively for

Sales, freights and delivery service P4,500,000

Cost of a motor vehicle for employees' business

Use and employees use P 500,000

Rental payments for additional motor vehicle for

The employees' personal use P 30,000

Compute the total quarterly monetary value of the fringe benefit.

b. P 530,000 or 42,500 (500K/5X50%/4+30K)

Cost of Motor Vehicle (partly used by employee)	500,000
Rental Payments of Vehicle for personal use	30,000
MONETARY VALUE	530,000

11. ABC Company owns a residential lot which was purchased for P800,000, eight years ago. The lot was sold to a supervisory employee for only P500,000 when it was worth P1,200,000. **NOT SURE**

Compute the fringe benefit expense

a. P 300,000

b. P 400,000

c. P 700,000

d. P 0

CASH 500K

FRINGE BENEFIT EXPENSE 300K

LOT 800K

CASH 500K

FRINGE BENEFIT EXPENSE 300K

LOT 800K

CASH 500K

FRINGE BENEFIT EXPENSE **300K**

LOT 800K

Given;

Value of the house = P1,200,000

Employer purchased it for P500,000

Fringe benefit expense is;

= House value - Paid value

= P1,200,000 - P500,000

= P700,000

12. Compute the fringe benefits tax. **NOT SURE**

a. P 141,176

b. P 188,235

c. P 329,412

d. P 376,923

P 700,000 divided by 65% multiply to 35% **d. P 376,923 fringe benefit tax**

11	COST	800,000	MV OF BENEFIT	700,000	MV OF BENEFIT	700,000
	FV	1,200,000	Divide:	65%	Divide:	68%
	<i>*get the HIGHER between the two</i>		Gross-up Monetary Value	1,076,923	Gross-up Monetary Value	1,029,412
	<i>*FV is HIGHER</i>		Multiply:	35%	Multiply:	32%
	FV	1,200,000	FRINGE BENEFIT TAX	376,923	FRINGE BENEFIT TAX	329,412
	Shouldered by employee	500,000				
	Shouldered by employer	700,000				

CHAPTER 12

1. Tax basis means cost or depreciated cost of the property. **T**
2. The loss on the sale of stocks by a trust company is an ordinary loss. **T**
3. The capital gain from the sale of domestic bonds and foreign stocks are subject to regular income tax. **T**
4. Capital loss is deductible to the extent of capital gains. **T**
5. The sale of foreclosed land by a bank is subject to regular income tax. **F**
6. Ordinary loss and capital loss are items of deduction from gross income. **T**
7. The loss on the sale of bonds by banks is an ordinary loss. **T**
8. An ordinary gain is an item of gross income while a net capital gain is an exclusion from gross income. **F**
9. The holding period rule is relevant to individuals and corporate taxpayers. **T**
10. The gain is said to be short-term if the sale of the asset is made in less than one year from its acquisition. **T**
11. 50% of the capital gain or loss is considered if the asset is held by individuals for one year or more. **F**
12. Ordinary gains or losses are subject to the holding period rule if the taxpayer is an individual taxpayer. **F**
13. The gain or loss on the sale of any stocks is subject to capital gains tax. **F**
14. Ordinary loss is deductible to the extent of ordinary gains. **T**
15. A net ordinary loss is deductible from gross income while a net capital loss is non-deductible. **T**

Obligations assumed on the property purchased form part of the basis thereof **T**

If assets are acquired by way of inheritance, their basis shall be their fair value at the point of death of the decedent. **T**

The indicated gain in a tax-free exchange shall be recognized not to exceed the value of cash or properties received other than stocks **T**

The amount of net capital loss carry-over must not exceed the net income in the year it was sustained. **T**

If assets are acquired by way of donation, their basis shall be the fair value on the date of donation. **T**

The net capital loss can be carried over to a period of three years from the time it is sustained. **T**

The basis of properties received as boot in a tax-free exchange is their fair value upon receipt. **T**

Gains but not losses are recognized in tax-free exchanges. **F**

When no other property is involved in a share-swap pursuant to a plan of merger or consolidation, there is no gain to recognize. **T**

Corporations are allowed to carry-over net capital loss for a period of one year only. **F**

In initial acquisition of control, it is necessary that there are at least five persons who acquired control of a corporation so that the exchange is exempt from income tax. **F**

No gain can be recognized on a pure share-swap transaction which is not pursuant to a plan of merger or consolidation. **T**

Stock splits and stock dividends cause a dilution in the cost per unit of stocks which must be considered in subsequent gain or loss measurement. **F**

Capital gains within the 61-day period are recognized, but losses are deferred when there are acquisitions of identical securities in the same period **T**

15. When properties are sold for less than an adequate and full consideration, gain is measured as the difference between fair value and the tax basis of the property disposed. **T**

MULTIPLE CHOICES THEORY PART 1

1. Which is correct regarding gains from capital assets?

a. always subject to regular tax

2. Which capital asset is subject to the rules of capital gains tax?

Sale of domestic common shares directly to a buyer

3. Which is true regarding taxation of ordinary gain?

Individual taxpayers are always subject to regular tax

4. The gain arising from the sale of ordinary assets is

5. The gain arising from dealings in capital assets is

6. The gain arising from dealings in capital assets is

7. Which is not correct regarding rules in dealings in properties?

8. Which statement is incorrect?

9. Which is an incorrect statement regarding the taxability or deductibility of gain- or losses in dealings in properties?

10. Statement 1: Ordinary gains and losses are offset. Statement 2: Capital gains and losses are offset.

11. Which of the following is not included in the computation of taxable income?

12. Which statement is true?

13. Statement 1: net loss in dealing ordinary assets is deductible from gross income

Statement 2: net loss in dealing capital assets is not deductible from gross income

Which statement is true?

14. Statement 1: The net gain in dealing ordinary asset is subject to regular tax. Statement 2: Net gain in dealing capital asset is an item of gross income subject to capital gains tax. Which statement is true?

15. The short-term holding period is

Less than 12 months

16. Which statement is true regarding the holding period rule?

17. The holding period rule applies to

18. To which of the following taxpayer does the holding period assumption not apply?

19. For which of the following taxpayers is the holding period ignored?

20. A short-term holding period means

21. A long-term holding period means

22. For individual taxpayers, what percentage of the capital gain or loss is considered for capital assets held for 12 months?

23. Which of the following properly depicts the percentage of gains considered in dealings in properties?

Short term Long-term

a. Individual 50% 50%

b. Corporation 100% 100%

c. Individual 50% 100%

d. Corporation 100% 50%

24. What percentage of long-term capital gain shall be included in the computation of the net capital gain or loss of a corporate taxpayer
25. In the computation of the net capital gain or loss, what percentage of long-term capital losses is taken into consideration by an individual taxpayer?
26. Which is incorrect in the determination of the net capital gain or loss for individuals?
27. Which is incorrect regarding net capital loss carry over?
28. Which is incorrect regarding the application of the net capital loss carry over?
29. What is the tax basis of properties received by way of gift?
30. What is the tax basis of properties received as inheritance?

MULTIPLE CHOICE THEORY PART 2

1. All of the following are ordinary assets to a real property developer except
 - a. Raw and undeveloped land intended to be sold as is
 - b. Mortgage receivables on properties sold
 - c. Land currently under development
 - d. Raw land held for future development
2. Which is an ordinary asset? Gold inventory b. Notes receivable c. Investment in stocks d. Accounts receivable
3. Which is an ordinary asset? a. Home computer b. Office supplies c. Family residence d. Personal clothing
4. Which is a capital asset?
5. Which is a capital asset?
6. All of the following are capital assets to a merchandising business except
7. Which of the following capital assets when sold, exchanged, or disposed is subject?
8. Which capital asset is subject to capital gains tax?
9. Which capital asset is not subject to regular tax?
10. Which capital asset is not subject to regular tax?
11. Which of the following capital asset is the holding period rule applicable?
12. Which of the following is considered as capital assets?

13. Mr. Godod acquired a lot as a future plant site. For lack of financing, the lot is currently vacant. For taxation purposes, the lot should be classified as a/an
14. Purification Asuncion, a book publisher, received a lot as donation from a friend who is not engaged in the realty business. She reserves the lot to house his publication business
15. Bantay kagubatan, a non-profit and non-stock organization, has an office building devoted for its tax-exempt operations. For taxation purposes, this building is/an
16. Which of the following constitutes a long-term holding period?
17. Which of the following statements is incorrect regarding the presentation of dealings in properties in the income tax return?

MULTIPLE CHOICE PROBLEMS

1. An individual taxpayer had the following dealings in properties:

Capital gain P 150,000

Ordinary gain 200,000

Capital loss 120,000

Ordinary loss 150,000

Compute the total amount of gain to be included in gross income subject to progressive tax.

2. A taxpayer had the following dealings in properties:

Capital gain	P 100,000
Ordinary gain	200,000
Capital loss	120,000
Ordinary loss	150,000

How much shall be included in gross income?

3. In the immediately preceding problem, what is the total net gain which will ultimately be included in net income?
4. Mr. Herman had the following dealings in capital assets:

Short-term capital gain	P 200,000
Long-term capital gain	100,000
Short-term capital loss	100,000
Long-term capital loss	150,000

Compute the reportable net capital gain.

5. If Herman is a corporate taxpayer, compute the reportable net capital gain.
6. A taxpayer had a P300,000 net income before the following dealings in properties:

Ordinary gain	P 80,000
Capital gain	60,000
Ordinary loss	90,000
Capital loss	70,000

If the taxpayer is an individual, compute the taxable net income?

7. Assuming the taxpayer is a corporation, compute the taxable income.

a. P 300,000 c. P 280,000

b. P 290,000 d. P 260,000

8. In the immediately preceding problem, what is the net capital loss carry over for an individual and a corporation respectively?

a. P 10,000; P 0,000 c. P 5,000; P 0

b. P 5,000; P 5,000 d. P 10,000; P 0

9. After three years, an individual taxpayer disposed of a capital asset, other than domestic stock or real property, with the following data:

Fair value P 2,000,000

Selling price 1,500,000

Cost 1,200,000

What is the capital gain subject to regular tax?

10. A taxpayer had the following dealings in properties:

Short-term capital gain	P 200,000
Long-term capital gain	100,000
Short-term ordinary gain	50,000
Long-term ordinary gain	150,000
Short-term capital loss	100,000
Long-term capital loss	150,000
Short-term ordinary loss	200,000
Long-term ordinary loss	120,000

Assuming that the taxpayer is an individual, compute respectively the total items of gross income and the total items of deductions from gross income

11. Assuming that the taxpayer is a corporation, compute respectively the total items of gross income and the total items of deductions from gross income in regular income tax.

12. Two years after acquisition, a domestic corporation disposed of a real property capital asset for P3,000,000 at a P300,000 discount from its fair value. The property was acquired for P2,000,000 when its fair value was P2,100,000.

13. After three years of use, Mr. Kidapawan disposed of his malfunctioning factory equipment for P1,000,000. The equipment was acquired for P1,500,000 and has a carrying value of P800,000 on the date of sale. Compute the gain or (loss) to be included in the determination of regular income.

14. Pedro, a realtor, was able to dispose his 2-hectare land inventory to a buyer after three years. The lot has a fair value of P5,000,000 and was sold at a discount of P500,000. The lot was purchased at P3,000,000. Compute the gain to be recognized in regular income.

15. Midsayap Corporation reports the following dealings in capital assets:

	<u>2020</u>	<u>2021</u>
Net income	P 10,000	P 80,000
Capital gains	30,000	50,000
Capital loss	45,000	20,000

Compute the net capital gains in 2021.

16. Ms. Maui had the following dealings in properties.

2020 2021

Net income P 20,000 P 80,000

Capital gains 35,000 60,000

Capital loss 60,000 25,000

Compute the net capital gains in 2021.

Multiple Choices: Problems -Part 2

1. Mr. Mayamaya, a dealer of household appliances, made the following dispositions of properties during 2021:

Properties	Date of acquisition	Date of sale	Gain (Loss)
Leasehold right	12/2/2018	2/27/2021	P 50,000
Taxi franchise	7/10/2016	3/14/2021	100,000
Electric oven	6/15/2021	7/15/2021	80,000
Residence	1/14/2020	7/3/2021	800,000

Compute the net capital gains subject to regular tax.

2. The following data summarize the dealings in capital assets of an individual taxpayer.

	2020	2021
Net income	P 90,000	P120,000
Short term capital gains	35,000	60,000
Long term capital gains	40,000	25,000
Short term capital loss	60,000	50,000
Long term capital loss	80,000	20,000

Compute the net capital gain (loss) in 2021.

3. What is the 2021 net capital gain if the taxpayer is a corporation?
4. The following data may be relevant in establishing the net income of Mr. Masinloc

	2019	2020	2021
Net income (loss) before dealings	P 20,000	(P 70,000)	P 120,000
Capital gain	30,000	15,000	34,000
Capital loss	52,000	18,000	-

What is the net capital gain or loss in 2021?

5. Mr. Batangas, not a dealer in properties, made the following dispositions during the year

<u>Property</u>	<u>Holding period</u>	<u>Gain (loss)</u>
Land	5 years	P 200,000
Car	1 year and 8 months	30,000
Laptop	8 months	(8,000)

Compute the net gain to be included in gross income subject to regular tax

6. Mr. San Morales, a realty dealer, had the following dealings in properties in 2021:

<u>Properties</u>	<u>Date of acquisition</u>	<u>Date of sale</u>	<u>Gain (Loss)</u>
House and lot	2/25/2016	2/27/2021	P 400,000
Commercial lot	8/12/2017	3/14/2021	(100,000)
Personal car	7/18/2021	9/12/2021	80,000
Personal i-Phone	1/14/2020	7/3/2021	(40,000)

Compute the ordinary gain and the net capital gain subject to regular income tax

7. What is the amount of ordinary loss?
8. On July 1, 2021, Davao Corporation invested in the stocks of DEF corporation, by acquiring 10,000 shares at P12/share. On December 20, 2020, DEF declared a 20% stock dividend payable January 15, 2021. On January 2, 2021, Davao Corporation sold 10,000 shares for P13/share.

On July 1, 2021, Davao Corporation invested in the stocks of DEF, a foreign corporation, by acquiring 10,000 shares at P12/share. On December 20, 2020, DEF declared a 20% stock dividend payable January 15, 2021. On January 2, 2021, Davao Corporation sold 10,000 shares for P13/share.

Compute the net capital gain to be included in regular income,

9. Darrel exchanged his stocks in Queen Corporation for the stocks of Queendom Corporation pursuant to a plan of merger between Queen and Queendom. Darrel acquired his stocks for P100,000 when its fair value was P105,000. The shares of Queen and Queendom have fair values of P120,000, and P110,000, respectively on the date of exchange. What is the tax basis of the Queendom shares received and the gain to be recognized in the exchange?
10. Moana exchanged his MEG shares costing P80,000 and with fair value of P100,000 for SM shares with fair value of P120,000. MEG and SM are not parties to a merger or consolidation. Compute the tax basis of the SM shares and the gain to be recognized in the exchange.
11. Krystal exchanged her PAL shares costing P 90,000 for P20,000 cash plus AirPhil shares with fair value of P100,000 pursuant to a plan of merger between PAL and AirPhil. Compute the tax basis of the AirPhil shares and the gain to be recognized

12. Pursuant to a plan of consolidation, Darlow exchanged his shares costing P400,000 for the shares of the new corporation with fair value of P360,000 plus P90,000 cash. Compute the tax basis of the new shares and the gain to be recognized in exchange.
13. Mr. Tomas invested in the stocks of DBA, a domestic corporation, by purchasing 1,000 shares for P100,000 on July 1, 2016. DBA declared a P10/share cash dividend on November 12, 2021 payable on January 12, 2021 for stockholders of record December 12, 2021. On December 8, 2021, Mr. Tomas disposed of his share investment for a total consideration of P120,000. The transaction resulted to:
- P20,000 capital gain subject to regular income tax.
 - P11,000 capital gain subject to capital gains tax.
 - P20,000 capital gain subject to capital gains tax.
 - P11,000 capital gain subject to regular income tax.

Mr. Tomas invested in the stocks of DBA, a domestic corporation, by purchasing 1,000 shares for P100,000 on July 1, 2016. DBA declared a P10/share cash dividend on November 12, 2021 payable on January 12, 2021 for stockholders of record December 12, 2021. On December 8, 2021, Mr. Tomas disposed of his share investment for a total consideration of P120,000.

The transaction resulted to

- P20,000 capital gain subject to regular income tax.
- P11,000 capital gain subject to capital gains tax.
- P20,000 capital gain subject to capital gains tax.
- P11,000 capital gain subject to regular income tax.

14. Matutina had the following dealings during the year:

	<u>Short Term</u>	<u>Long Term</u>
Capital gain		
Sale of domestic stocks directly to a buyer	P 40,000	P 50,000
Sale of domestic bonds directly to a buyer	40,000	20,000
Ordinary gains		
Sale of equipment	20,000	10,000
Capital loss		
Sale of foreign stocks	10,000	10,000
Sale of domestic stocks directly to a buyer	10,000	-
Ordinary loss		
Sale of old machine	-	40,000

Matutina has a business income totaling P500,000 including P18,000 dividend income from a domestic corporation. Compute the total income of Matutina subject to regular tax.

15. In the immediately preceding problem, compute Matutina's net capital gains tax due on the sale of domestic stocks directly to a buyer.

16. Pursuant to a plan of consolidation, Mr. Dolphy exchange h's shX''of'pMOOOO of Pl.000.000 for the share of another corporation with fair value of P800.000 plus P100,000 cash. Compute the capital loss to be recognize .
17. In the immediately preceding problem, compute the tax basis of the properties received by Mr. Dolphy.

CHAPTER 13

Identify whether the following is a business expense or a personal expense by checking the appropriate box corresponding to the item:

Identify whether the following is a business expense or checking the appropriate box corresponding to the item:

BUSINESS	EXPENSE	PERSONAL	EXPENSE
----------	---------	----------	---------

1. Medical expense of the proprietor (business owner)
2. Tuition fees of an employee to acquire expertise for future use of the business
3. Transportation expense from office to client establishments
4. Cost of entertaining family members of the proprietor
5. Cost of entertaining clients receipted under the name of the taxpayer's spouse
6. Interest expense to finance the construction of the office building
7. Loss on destruction of taxpayer's residence
8. Office utilities expense
9. Repairs that restore the value of destroyed business properties
10. Tuition fee of the taxpayer's dependents
11. Salary of household help and maids
12. Salary of office staff
13. Vacation expense of family members of the proprietor
14. Travel expense to attend seminar
15. Costs of renewal of the taxpayer's professional license

*if silent personal, if business seminar, it is an expense

	BUSINESS EXPENSE	PERSONAL EXPENSE
1. Medical expense of the proprietor (business owner)		✓
2. Tuition fees of an employee to acquire expertise for future use of the business	✓	
3. Transportation expense from office to client establishments	✓	
4. Cost of entertaining family members of the proprietor		✓
5. Cost of entertaining clients receipted under the name of the taxpayer's spouse		✓
6. Interest expense to finance the construction of the office building	✓	
7. Loss on destruction of taxpayer's residence		✓
8. Office utilities expense	✓	
9. Repairs that restore the value of destroyed business properties	✓	
10. Tuition fee of the taxpayer's dependents		✓
11. Salary of household help and maids		✓
12. Salary of office staff	✓	
13. Vacation expense of family members of the proprietor		✓
14. Travel expense to attend seminar		✓ *
15. Costs of renewal of the taxpayer's professional license	✓	

*if silent personal, if business seminar, it is an expense

Compute the deduction from 2018 through 2020 assuming the expenditure was for:

Compute the deduction from 2018 through 2020 assuming the expenditure was for: 2018 2019 2020
 1. land which was sold in 2020 200,000
 2. Equipment with 4-year estimated useful life 25,000 50,000 50,000
 3. Inventory which was sold in 2019 200,000
 4. Salaries of administrative and sales personnel in 2019 200,000
 5. Rental of a facility for the years 2018 and 2019 100,000 100,000

Compute the deduction from 2018 through 2020 assuming the expenditure was for:

	2018	2019	2020
1. land which was sold in 2020			200,000
2. Equipment with 4-year estimated useful life	25,000	50,000	50,000
3. Inventory which was sold in 2019		200,000	
4. Salaries of administrative and sales personnel in 2019		200,000	
5. Rental of a facility for the years 2018 and 2019	100,000	100,000	

A taxpayer engaged in trading two types of precious merchandise had the following summaries of inventories: Zircon Ruby total
 January 1 inventory 200,000 320,000 520,000
 Purchases: 1,000 units 800,000 ---
 800,000 4,000 units --- 1,200,000 1,200,000
 January 31 inventory 400 units 800 units
 Required: Compute the cost of goods sold. P 1,960,000
 Exercise Drill No. 4 (459)
 On July 1, 2015, a taxpayer purchased equipment for P2,000,000 with an estimated n value of P200,000 after its four-year estimated useful life
 Required: Compute the depreciation expense and the adjusted tax basis of the property December 31 of 2015 through 2020.
 Year Straight line method Sum-of-the-years digit 150% declining balance 200% declining balance
 2015 2016 2017 2018 2019 2020

A taxpayer engaged in trading two types of precious merchandise had the following summaries of inventories:

	Zircon	Ruby	Total
January 1 inventory	P 200,000	P 320,000	P 520,000
Purchases:			
1,000 units	P 800,000	-	P 800,000
4,000 units	-	P 1,200,000	P 1,200,000
January 31 inventory	400 units	800 units	

Required:

Compute the cost of goods sold.

Beginning inventory		P 520,000
Purchases (P800,000 + P1,200,000)		<u>2,000,000</u>
Total cost of goods available for sale		P 2,520,000
Less: Ending inventory		
Zircon (400/1000 x P800,000)	P 320,000	
Ruby (800/4,000 x P1,200,000)	<u>240,000</u>	<u>560,000</u>
Cost of goods sold		<u>P 1,960,000</u>

On July 1, 2015, a taxpayer purchased equipment for P2,000,000 with an estimated n value of P200,000 after its four-year estimated useful life

Required:

Compute the depreciation expense and the adjusted tax basis of the property December 31 of 2015 through 2020

Year	Straight line method	Sum-of-the-years digit	150% declining balance	200% declining balance
2015				
2016				
2017				
2018				
2019				
2020				

	SLM		SYD		150%DB		200% DB	
	Expense	Tax basis	Expense	Tax basis	Expense	Tax basis	Expense	Tax basis
2010	P 225,000	P 1,775,000	P 360,000	1,640,000	P 375,000	P 1,625,000	P 500,000	P1,500,000
2011	450,000	1,325,000	630,000	1,010,000	609,375	1,015,625	750,000	750,000
2012	450,000	875,000	450,000	560,000	380,859.38	634,765.63	375,000	375,000
2013	450,000	425,000	270,000	290,000	238,037.11	396,728.52	150,000	225,000
2014	225,000	200,000	90,000	200,000	196,728.52	200,000	25,000	200,000
2015	0	200,000	0	200,000	0	200,000	-	200,000

Sum of the years digit method

		Annual dep'n	Semi-annual	Actual dep'n	Book value
2010	4	720,000.00	360,000.00	360,000.00	1,640,000.00
			360,000.00		
2011	3	540,000.00	270,000.00	630,000.00	1,010,000.00
			270,000.00		
2012	2	360,000.00	180,000.00	450,000.00	560,000.00
			180,000.00		
2013	1	180,000.00	90,000.00	270,000.00	290,000.00
2014			90,000.00	90,000.00	200,000.00
SYD	10				

150% Declining balance

Declining rate*	0.375	Annual	Semi-annual	Actual dep'n	Tax Basis
2010	4	750,000.00	375,000.00	375,000.00	1,625,000.00
			375,000.00		
2011	3	468,750.00	234,375.00	609,375.00	1,015,625.00
			234,375.00		
2012	2	292,968.75	146,484.38	380,859.38	634,765.63
			146,484.38		
2013	1	183,105.47	91,552.73	238,037.11	396,728.52
			91,552.73		
2014		105,175.78	105,175.78	196,728.52	200,000.00

Declining rate = $1/4 \times 150\% = 37.50\%$

Double declining balance

Declining rate*	0.5	Annual	Semi-annual	Actual dep'n	Tax Basis
2010	4	1,000,000.00	500,000.00	500,000.00	1,500,000.00
			500,000.00		
2011	3	500,000.00	250,000.00	750,000.00	750,000.00
			250,000.00		
2012	2	250,000.00	125,000.00	375,000.00	375,000.00
			125,000.00		
2013	1	175,000.00	25,000.00	150,000.00	225,000.00
			25,000.00		
2014		-	-	25,000	200,000.00
2015		-	-	-	200,000

*1/4 x 200% = 50%

Exercise Drill No. 5 (460) For each of the following, indicate CE if the item is a capital expenditure. If it is an expense, indicate DE if deductible expense and NDE if non-deductible expense.

- NDE1. Loss on destruction of uninsured personal car of the taxpayer
- DE2. Employee performance bonus for the current year
- CE3. Acquisition cost of equipment
- NDE4. Decline in market value of investment securities
- CE5. Advanced rent for the next two years
- NDE6. Interest expense in acquiring tax-exempt securities
- CE7. Expenses to create business goodwill
- NDE8. Loss on decline in the value of securities
- DE9. Fire loss on uninsured building
- CE10. Factory salaries, utilities and rent expense
- NDE11. Entertainment expenses for government officials
- NDE12. Revaluation loss on decline in value of building and equipment
- NDE13. Loss on sale of properties to an unaffiliated company
- NDE14. Decline in value of foreign currency denominated receivables
- NDE15. Facilitation fees to government agencies
- DE16. Freight costs of selling goods
- CE17. Freight and insurance cost of buying goods or equipment
- CE18. Raw materials used in production
- CE19. Cost of goods manufactured
- DE20. Accrued salaries expense of an accrual basis taxpayer
- DE21. Cost of goods finished and sold
- DE22. Expired portion of business property insurance
- NDE23. Interest expense on borrowings from family members

NDE24. Accrued but unpaid rent expense of a cash basis taxpayer

NDE25. Value of unharvested fruits destroyed by a storm

NDE26. Receivables proven to be uncollectible under the cash basis

DE27. Insurance expense on the life of the company president where the beneficiary the spouse of the president

NDE28. Expenses on business operation which are exempt from regular income tax or subject to a special tax regimes.

NDE29. Bad debt expense with non-paying family members

NDE30. Dividend to preferred or common stocks

TRUE OR FALSE

1. Losses on properties not used in business may be deducted but only to the extent of capital gains.
2. The cost of investments and land are deductible against their proceeds in the year Of sale
3. The entire cost of depreciable properties is deductible against their proceeds in 3- the year of sale.
4. prepaid expenses are deductible upon payment consistent with the rule that advanced incomes are taxable upon receipt.
- 5 capital expenditures are deductible against future income.
- 6 personal expenses are deductible from gross income.
7. Expenses intended for the business and the personal use of the taxpayer must be allocated between the two. Only the portion pertaining to the business is deductible.
8. The expense of defending a patent is a business expense deductible in the current
- 9, The depreciation of the property revaluation gain is deductible.
10. Supplies and inventories are expensed using the inventory method.

FALSE1. So long as the expense relates to the generation of an income subject to any income tax, the same is deductible against gross income subject to regular tax. *As a rule, expense of regular income only.

TRUE2. The amount of expense between affiliated companies may be adjusted by the BIR to reflect their arm's length value.

TRUE3. The failure to deduct creditable withholding tax on income payments will render the expense non-deductible.

FALSE4. Immaterial expenditures must always be capitalized.

TRUE5. Repairs that increase property useful life are capitalized.

TRUE6. Repairs that increase property fair value are capitalized.

TRUE7. An unpaid expense may be deducted under the accrual basis of accounting

FALSE8. The government should not enrich itself at the expense of the taxpayers. Losses between related parties are deductible in the same way gains between related parties are taxable.

FALSE9. Taxpayers opting to use the optional standard deduction must also maintain records of their expenses. records of gross income

FALSE10. Deduction incentives are deductible because they are actual expense. because allowed by law

Multiple Choice - Theory: Part 1

1 Losses on capital assets are

- a. deductible against gross income to the extent not compensated by insurance
- b. deductible against capital gain to the extent compensated by insurance.
- C. not deductible against gross income whether or not compensated for insurance.**
- d. not deductible against capital gains unless not compensated by insurance

2. Which is a deductible expense?

- a Marketing and advertising expense**
- b Insurance on factory building
- C. Salaries of security guards in the factory
- d. Cost of registering stocks

3. The transactions involving an insured property is said to be closed and completed when

- a final settlement by the insurer is made.**
- b. the report of the insurance adjuster indicates a loss.
- c final settlement confirms an unrecoverable cost.
- d. no proceedings in court is expected to be made by the insured.

4. Which is a deductible expense?

- a. Acquisition cost of a business franchise**
- b. Repayment of debt
- C. Cost of registering a business
- d Cost of issuing securities

5. Which is a deductible business expense?

- a. Interest on personal borrowings
- b. Rental of taxpayer's domicile
- c Selling commission to agents**
- d. Wages of kasambahays

6. A repair expense is deductible in the period paid or incurred unless
a merely maintain the value of the property.

- b. increases the value of the property.**
- c constitutes a major repair.
- d. constitutes a minor expense.

7. Losses on property are not deductible unless

- a sustained with a related party
- b. sustained in an actual or completed transaction.**
- c temporary in nature.
- d. covered by insurance or indemnity contracts.

8. Losses on insured properties are not deductible

- a. To the extent not compensated by insurance

B. to the extent compensated by insurance.

C. as a rule, except when allowed by the BIR examiner.

d. in all circumstances.

9. Which statement is the most accurate?

A Prepaid expense is deductible in the period paid by taxpayers using cash basis.

b. Prepaid expense is deductible in the future period it relate without regard to the basis of accounting employed by the taxpayer.

c Accrued expenses are deductible by cash basis taxpayers

d. Depreciation expense can be claimed only by accrual basis taxpayers.

10. Cash basis and accrual basis taxpayers differs in the treatment of

a. Prepaid expense

b. Current period cash expense

c. Current period accrued expense

d. Depreciation expense

11. Which may not be related?

A. The controlling individual and the controlled corporation.

b. The controlling individual and a subsidiary of a controlled corporation.

c The grantor and fiduciary of a trust

d. The grantor and the beneficiary of a trust

12. Which of the following is an extraordinary non-deductible expense against regular gross income of a merchandiser?

a Loss on sale of obsolete merchandise

b. Store supplies and utilities

C. Local business permit

d. Loss on sale of investment in stocks

13. Which is a deductible expense against business gross income?

a. Commission expense on sale of investment in stocks

b. Salaries of marketing personnel of a manufacturing business

c Quarterly estimated income tax

d. Final tax on interest income on bank savings deposit

14. Which is not a general principle of deduction?

a. The matching principle

c. The withholding rule

b. The related party rule

d. The transfer pricing rule

15. Which is an actual deductible expense?

A. Provision for an estimated bad debt expense

B. Loss arising from liability on a contested lawsuit confirmed by a final judgment

C. Increase in value of foreign currency-denominated debt

d. Death of animal offspring

16. Which is deductible against gross income?

a Imputed interest expense

b. Advances to the profit sharing of a partner in a general profession partnership

C Repayment of business debts

d. Local taxes

17. Which of the following is deductible?

a. Rent of office space

- b. Tuition fees of the siblings of the taxpayer
- c. Selling expense of domestic stocks directly to a buyer
- d. Estimated losses on lawsuit

18. Which is non-deductible against gross income?

- a. Loss on sale of stocks through the PSE
- b. Write-off of bad debts
- c. Loss on destruction of office building by an earthquake
- d. Amortization of patent or franchise used in business

19. Which is an incorrect statement?

- a. The straight line method provides for an equal periodic deduction against gross income
- b. The sum-of-the-years digit method provides for an increasing deduction against gross income.
- c. The double declining balance method provides for a declining deduction at a rate twice the deduction of the straight line method.
- d. Both straight line method and sum-of-the-years-digit method consider the residual value of the property.

20. Which of the following ordinary assets cannot be depreciated?

- a. Office equipment
- b. Machineries
- c. Building and its improvements
- d. Land

21. Statement 1: Only taxpayers under the accrual basis shall use the inventory method in deducting inventories.

Statement 2: Only taxpayers under the depreciation and losses accrual basis can claim deduction for depreciation and losses.

- a. Statement 1 is correct.
- c. Both statements are correct.
- b. Statement 2 is correct.
- d. Neither statement is correct.

22. Statement 1: The cost of goods sold is directly deducted upon sales in the measurement of the gross income from the sales of goods.

Statement 2: The cost of services is directly deducted from gross receipts in the measurement of the gross income from the sales of services.

- a. Statement 1 is correct.
- b. Statement 2 is correct.
- c. Both statements are correct.
- d. Neither statement is correct.

23. Which is not a capital expenditure?

- a. Payments to create a good image of the business of the taxpayer
- b. Prepaid expenses
- c. Accrued expenses
- d. Advances to contractors

24. Statement 1: Repairs that do not extend the useful life or increase the fair value of an asset should be capitalized.

Statement 2: The costs of issuing securities of the taxpayer are deductions against gross income

- a. Statement 1 is correct.
- c. Both statements are correct.
- b. Statement 2 is correct.
- d. Neither statement is correct.

25. Statement 1: Improvements to properties are usually capitalized.

Statement 2: Directly attributable cost of acquisition of properties are added to the basis of the properties acquired.

a.

Statement 1 is correct.

c.

Both statements are correct.

b.

Statement 2 is correct.

d. Neither statement is correct

1.

Which of the following cannot claim deductions from gross income despite actual engagement in business?

a.

Resident citizen

b.

Resident alien

c.

Non-resident citizen

d.

Non-resident alien not engaged in trade or business

2. Which of the following taxpayers cannot claim deductions from gross income?

a. General professional partnership

b. Domestic corporation

c. Resident foreign corporation

d. Non-resident foreign corporation

3. Which of the following can be claimed as deduction?

a. Transportation allowance of employees of the taxpayer

b. Transportation allowance of the taxpayer's dependents

c. Losses from destruction of the taxpayer's residence

d. Depreciation of the residence of the taxpayer

4. Which expense is deductible despite the fact that it is not an actual expense?

a. Compliance expense on regulatory requirements

b. Deduction incentives for compliance to regulatory requirements

c. Uncollectible debts ascertained to be worthless

d. None of these

5. Which is not a characteristic of deductions from gross income?

a. Legitimate business expense

b. Capital expenditure

c. Ordinary and necessary business expense

d. Actual and necessary business expense

6. Which is a deductible expense?

a. Regular repair of office equipment

b. Refurbishing of an old building to prepare it for use

c. Addition of a wing to an existing building

d. Overhaul of machineries to extend their useful life

7. Which of the following taxpayers can claim deduction against gross income?
- a. A resident citizen taxpayer earning purely compensation income
 - b. Non-resident foreign corporation
 - c. Non-resident alien not engaged in trade or business
 - d. Resident citizen earning a mix of passive and business income
8. Which is not a separate classification of deduction from gross income?
- a. Net operating loss carry over
 - b. Regular allowable itemized deductions
 - c. Special allowable itemized deductions
 - d. Net capital loss carry over
9. Which statement is incorrect regarding deductions?
- a. The claim of deduction, similar to exemption, is construed against the taxpayer.
 - b. The use of optional standard deduction always results in reported taxable income.
 - c. The unreasonableness of deduction is up to the BIR to prove.
 - d. The incurrence of an operating loss is an indication of an unreasonable expense.
10. The following cannot claim deduction from gross income except
- a. Self-employed individual taxpayer
 - b. A corporation earning purely passive income
 - c. An individual earning purely passive income
 - d. An individual taxpayer earning purely compensation and passive income
11. Which is not deductible against gross income?
- a. Interest expense incurred to purchase tax-exempt securities
 - b. Net capital loss
 - c. Personal expenses
 - d. All of these
12. Which is a deductible business expense?
- a. Loss on decline in value of securities
 - b. Estimated losses on expropriation
 - c. Fire loss on an insured property
 - d. Loss on theft of company assets
13. Which of the following constitutes a deductible business expense?
- a. Purchase of office equipment invoiced under the trade name of the taxpayers business
 - b. Tuition fees of dependents of the taxpayer
 - c. Interest expense on a business loan
 - d. Representation expenses booked in the name of the taxpayer's wife
14. Which of the following qualifies for deduction for an individual engaged in business?
- a. Salaries of household maid
 - b. Gasoline expenses of the taxpayer's personal car
 - c. Office Internet expense
 - d. Taxpayer's transportation expense to and from his residence
15. Which of the following can be deducted by an individual taxpayer not engaged business?
- a. Transportation expenses
 - b. Internet expense
 - c. Communication expenses
 - d. None of these

16. Which of the following can be claimed by a resident foreign corporation?

- a Depreciation expense on properties located abroad
- b. Income tax paid in a foreign country
- c. Income tax paid in the Philippines
- d. Interest expense on foreign borrowings used to finance its Philippine business

17. Which can be treated as a capital expenditure deductible through depreciation expense?

- a Interest expense incurred to purchase office equipment
- b. Losses sustained in an uninsured office building
- c. Acquisition of land
- d. Acquisition of personal computers

18. Which of the following items can be deducted in full in the year sustained?

- a Write-off of bad debts by a taxpayer under the cash basis
- b. Loss on market decline in the value of gold inventories
- c Loss on the destruction of the taxpayer's personal car
- d. Uninsured fire loss sustained by the business of the taxpayer

19. Deductions can be claimed against

- a talent fees.
- c. fringe benefits
- b. fixed allowances,
- d. salaries.

20. Which is deductible in full by a taxpayer engaged in the merchandising business?

- a Value of inventories taken home by the business owner
- b. Loss on unrecoverable debts from a non-paying family member
- c Imputed interest on the capital investment of the owner
- d. Value of inventories destroyed by rodents

21. Which is not a deductible loss by a security dealer?

- a. wash sales loss
- b Loss on the sale of bonds with more than five years maturity
- c. Loss on the sale of stocks through the PSE
- d. Loss on the sale of short-term bonds through the Philippine Dealings Exchange

22. Determine the deductible loss

- a. Loss incurred in exchanging property to obtain control of a corporation
- b. Loss incurred in exchanging properties with a corporation after obtaining control over said corporation
- c. Calamity loss on uninsured property
- d Bad debts from a sister company

23. Which of the following is non-deductible by the fact that it violates the Matching Principle?

- a Expense of a tax-exempt operation
- b. Payment for police protection
- c Payment of revolutionary taxes
- d. Expenses not receipted in the name of the taxpayer

24. Which is incorrect with regard to expenses incurred between associated enterprises?

- a. The pricing of the transaction must not be controlled.
- b. The pricing method to be adopted shall be based on free market factors or those made between two independent parties.
- c. In case of a controlled transaction, the deductible expense to the paying enterprise shall be the arm's

length value of the transaction.

d. No deduction shall be allowed on expenses incurred between associated enterprises

25. Which is not a business expense?

a Fringe benefit tax expense

b. De minimis benefits granted to employees

c Salaries of personal driver of the company president which was subjected to fringe benefit tax

d. Depreciation value of properties designated for the use of company managers and supervisors which are subjected to fringe benefits tax
(no outflow)

PROBLEMS

1. A taxpayer paid P45,000 property insurance having a 12-month coverage starting March 1, 2018. Compute the deductible insurance expense in 2018. **ZERO**

2. Spartan Corporation head office supplies valued at P40,000 on January 1, 2020. At the end of the first calendar quarter, it had P80,000 worth of office supplies. Total supplies purchased were P250,000 during the period. Compute the supplies expense to be deducted during the first quarter

P210,000 (P40K+P250K-P80K)

3. A non-resident alien not engaged in business incurred business expenses 100,000 and personal expenses of P20,000. How much is deductible from gross income? **ZERO**

4. A taxpayer paid the following salaries during the year: Salaries of administrative employees 80,000 Salaries of sales and marketing employees 70,000 Salaries of factory production workers 120,000

Compute the deductible salaries expense. **(P80K+P70K) = 150,000**

5. On July 1, 2018, a taxpayer purchased equipment for P500,000 which was estimated to be useful until July 1, 2023, with an expected P100,000 residual value. Compute the 2018 depreciation expense using the straight line method **40,000**

6. A taxpayer paid P45,000 property insurance having a 12-month coverage starting March 1, 2018. Compute the deductible insurance expense in 2018. **(P45K/12 X 10) = 37,500**

7. A storm resulted in the loss of the following livestock: Value of two heifers (purchased at P15,000 each) P 40,000 Value of a bull (purchased for P18,000) 24,000 Value of twelve calves worth P6,000 each 72,000 Total value of lost livestock P 136,000

Determine the deductible loss for taxation purposes. **[(P15K X 2)+ P18K] = 48,000**

8. Mr. Jun, a professional practitioner, incurred the following expenses during the period:

Salaries of household maids 50,000

Salaries of office staff 30,000

Office utilities 12,000

Office supplies 8,000

Depreciation of personal car 15,000

Depreciation of office equipment 20,000

Compute the total deductible expenses

70,000 (SALARIES HOUSEMAID 50K Plus office equipm 20,000)

9. The following relate to the building of a taxpayer: Fair market value P 6,000,000 Purchase price 5,000,000 Carrying amount 4,500,000 Remaining useful life 9 years Depreciation method straight line What is the deductible amount of depreciation expense?

P555,555 (P4.5M/9)

10. The personal car of the taxpayer had the following data: Fair market value 6,000,000 Purchase price 5,000,000 Estimated useful life 10 years What is the deductible annual depreciation expense? **ZERO**

11. The following relate to the inventory of tools held by the taxpayer: Inventory of tools, January 1, 2019 120,000 Purchases of tools 300,000 Inventory of tools, December 31, 2019 140,000 What is the amount of deductible tools expense? $(P120K + P300K - P140K) = 280,000$
12. A taxpayer paid the following disbursements and expenses for the current year: Tuition fees of children P 50,000 Donation to friends 20,000 Purchase of office equipment at start of the year (equipment expected to last for five years) 100,000 Office rent (for three years including the current year) 90,000 Office supplies (1/2 used) 20,000 Compute the total deductible expense from the above items:
 $P60,000[(P100K/5) + (P90K/3) + (P20K \times \frac{1}{2})]$
13. Bermuda Inc. insured two of its key employees paying the following premiums annually: Mr. Croco, the president P 40,000 Mr. Genero, the vice president for operations 34,000 In Mr. Croco's policy, Bermuda, Inc. is the beneficiary. In Mr. Genero's policy, his wife is the beneficiary of the policy. Compute the total deductible expense 34,000
14. Dragon City Corporation is a resident foreign corporation established in China but is operating in the Philippines. During the year, it paid for P300,000 for salaries of Philippine employees and P1,200,000 for Chinese employees. Compute the deductible compensation expense 300,000
15. Using the same choices in Number 14, compute the deduction assuming that Dragon City is a domestic corporation. $D (1,200,000 \text{ plus } 300,000 = 1,500,000$
16. Using the same choices in Number 14, compute the deduction assuming that Dragon City is a non-resident foreign corporation.
A (NRFC is subject to final tax. No deduction is allowed. ZERO)

PART 3 PROBLEMS

1. Boac Company had the following summaries of expenses:

Expenses without supporting documentation 200,000 Expenses with supporting documentations Income payments subject to creditable withholding tax: with withheld CWT 600,000 without withheld CWT 400,000 Payments not subject to creditable withholding tax 200,000 Determine the amount of deductions. $(P600K + P200K) = 800,000$

2. Calapan Corporation bought equipment costing P500,000. The equipment was expected to have P50,000 residual value at the end of its 5-year expected life. Calapan Corporation failed to withhold the creditable withholding tax on the equipment. Compute the depreciation expense in the first year. ZERO

3. Tri-Peak Semiconductor is an exporter of transistors to the United States. On December 15, 2019, it made a single shipment worth \$1,000,000 payable January 21, 2020. The value of the sales in peso equivalent was as follows: December 15, 2019 42,000,000 December 31, 2019 41,800,000 January 21, 2020 (Converted value to peso) 41,700,000 Compute the deductible foreign currency loss.

$(P42M - P41.7M) = 300,000 \text{ IN } 2020$

4. The taxpayer incurred the following in 2020: Loss on sale of equipment to a subsidiary company P 400,000 Loss on sale of equipment to a sister company 100,000 Loss on liquidation of an affiliate company 200,000 What is the deductible amount of loss to a related party? 200,000

5. The accountant of Triniville Corporation provides for an allowance against unrecoverable accounts equivalent to 3% of Triniville's total receivables. The allowance for bad debts had a balance of P45,000

and P50,000 at the start and end of the year, respectively, while P30,000 of previous accounts were actually found to be worthless and were written-of. What is the deduction against gross income for purposes of taxation? **30,000**

6. The following relate to a transaction between associated enterprises which was subjected to transfer pricing restatement by the BIR. Amount of expense claimed 800,000 Arm's length value in a comparable transaction 500,000 What is the deductible amount of expense? **500,000**

7. In the immediately preceding problem, what is the required adjustment to taxable net income? $(800,000 - 500,000) =$ **300,000 INCREASE**

8. A taxpayer had the following losses during the year: Estimated bad debt expense 300,000 Write-of of uncollectible accounts 150,000 Carrying value of property destroyed by fire (The property is covered by insurance.) 1,200,000 Unrealized on foreign currency receivables 12,000 Assuming the taxpayer is under the accrual basis, compute the total deduction **150,000**

9. in the immediately preceding problem, compute the deduction assuming the taxpayer is under the cash basis **ZERO**

10. ABC Company incurred and paid the following expenses in 2020: Salaries (1/8 unpaid) 400,000 Prepaid rent (2020 to 2022) 150,000 Depreciation expense 80,000 Purchase of supplies 60,000 Supplies used 25,000 Compute the total deductions under the cash basis for the year 2020 **505,000** $(P400K \times 7/8) + (P150K \times 1/3) + P80K + P25K$; NOTE: Supplies is a from prepayment

11. Compute the total deductions under the accrual basis for the year 2020.

$[P400K + (P150K \times 1/3) + P80K + P25K]$ **555,000**

12. An equipment was purchased on January 1, 2020 for P4,000,000. The equipment has an estimated useful life of P400,000 at the end of its five-year useful life. Compute the depreciation expense assuming the use of the straight line method: **720,000**

13. Under the sum-of-the-years digit method, compute the 2020 depreciation expense in the first year **1,200,000**

14. Using a 150% declining balance method, compute the 2020 depreciation expense. **1,200,000**

15. Using 200% declining balance method, compute the 2020 depreciation expense (1200,000 PLUS 400,000) = **1,600,000**

PART 3 PROBLEMS

1. .A certain taxpayer paid the following bill from a VAT-registered supplier of ece supplies. The office supplies were all used in operation during the period:
Selling price P 400,000 Plus: Output VAT 48,000 Less: Withholding tax (1%) 4,000 Net cash due P 444,000 What is the deductible supplies expense assuming the taxpayer is a VAT-taxpayer? (THE INPUT vat MUST BE EXCLUDED- **400,000**)

2. What is the deductible supplies expense assuming the taxpayer is a non-VAT- taxpayer?
P 448,000(The VAT is part of supplies expense.)
3. On January 2, 2016, a non-VAT taxpayer purchased an equipment with estimated useful life of 5 yearsSelling price P 150,000Plus: Output VAT 18,000Less: Withholding tax (1%)1.500Net amount dueP 166.500What is the claimable depreciation expense for the year?
P 33,600 (The cost of the equipment for a non-VAT taxpayer shall be (P150,000 + P18,000) or P168,000/5 years = P33,600.
4. The taxpayer withheld 5% creditable withholding tax on rental payments to various VAT-registered lessors. The total taxes withheld were P 5,600. What is the deductible amount of rental expense? . P **112,000** (P5,600 / 5%, note that the 5% is based on the rent expense, exclusive of VAT
5. Until the time of the examination of its book, the taxpayer failed to withhold 10% withholding tax amounting to P10,000 from the payments of professional fees to a consultant who is a VAT taxpayer. What is the deductible amount for professional services paid? **ZERO**
6. . In the immediately preceding problems, what is the amount of surcharge due from the taxpayer?
. P 2,500 (P10,000 x 25% surcharge)
7. The following case is applicable for Nos. 7 through 10:Atimonan Company received a bill for P27,440 from a non-VAT service provider.The payment for the service is subject to 2% creditable withholding tax What is the deductible expense if Atimonan is a non-VAT taxpayer
. 27,440
8. If Atimonan is a non-VAT taxpayer, what respectively is the withholding tax and the amount of cash to be paid by Atimonan to the service provider? **P 548.80; P 26,891.20**
9. If Atimonan is a VAT taxpayer, what is the deductible expense? **P 27,440**
10. If Atimonan is a VAT taxpayer, what respectively is the withholding tax and the amount of cash to be paid by Atimonan to the service provider? **P 548.80; P 26,891.20**

CHAPTER 13A

True or False 1

1. Interest expenses are deductible in full amount if there is no interest income subject to final tax during the period.
2. Interest incurred in the financing of petroleum operations may at the option of the taxpayer be capitalized or expensed.
3. Income tax is not an expense.
4. The arbitrage limit applies only when there is an intentional arbitrage.
5. The arbitrage limit applies to all taxpayers including individuals.
6. Interest expenses incurred with related parties are deductible.
7. Interest on a prescribed debt is deductible.
8. A deductible interest must not be incurred between related parties.
9. The allowable deduction for deductible taxes includes the basic tax, surcharge and interest. ■.,.

10- Foreign taxes can be claimed as a deduction or tax credit.

11. Foreign corporations and aliens can claim deduction or tax credit for foreign taxes.
- 12- Capital loss is deductible to the extent of ordinary gain while ordinary loss is deductible in full.
13. Losses must be reported to the BIR within 45 days from the occurrence of be casualty, robbery, theft, or embezzlement giving rise to the loss.
14. Depreciation on revaluation surplus of properties can be deducted as part of depreciation expense.
15. The claim of the same loss in the income tax return of the estate and in the estate tax return is not allowed.

True or False 2

1. If the fair value of the property is not determinable, restoration costs are expensed to the extent of the basis of the original property. The excess over the basis is treated as an increase in fair value and is capitalized.
2. The loss in value of assets is deductible only when sustained and realized.
3. Bad debt expenses representing loss of capital can be deducted by cash basis taxpayers.
4. Bad debt expenses between related parties can be deducted as long as these are adequately supported with documentary evidence.
5. The loss of capital investment in a business can be claimed as bad debt expense.
6. The subsequent recovery of bad debt expense must be reverted back to gross income to the extent of the tax benefit of the deduction in the year the deduction is made.
7. The loss on insured property cannot be deducted.
8. In total destruction of properties, restoration costs are treated as new acquisition of properties.
9. Losses on wagering transactions are deductible in full.
10. With the exception of domestic corporations and resident citizens, expenses incurred abroad cannot be deducted unless incurred in connection with the Philippine business.
11. Contributions are valued at the fair value of the property donated.
12. The recovery of bad debts by cash basis taxpayers must always be reverted back to gross income.
13. The recovery of bad debts by accrual basis taxpayers may be reverted back to gross income.
14. Capital assets can be depreciated for tax purposes.
15. The depreciation expense on properties held under life tenancy is computed as if the life tenant were the absolute owner of the property.

True or False 3 (507)

True1. Petroleum operations are not subject to the limit on the deduction of intangible exploration and development costs after the commencement of commercial production.

True2. Contribution expenses are deductible if the donee is a domestic institution.

True3. Donations to foreign institutions covered by treaty exemptions are fully deductible.

False4. Contribution expenses are measured at the fair value of the property donated. (tax basis of value given)

True5. Private educational institutions are allowed to deduct capital expenditures

True6. The depreciation on properties held in trust is apportioned between the income beneficiaries and the trustees in accordance with the provision of the instrument creating the trust or on the basis of the income allowable to each.

True7. The depreciation of revaluation surplus is not deductible in taxation

True8. No depreciation expense is allowable for helicopters, yachts, airplanes or aircraft, and land vehicles which exceeds P2,400,000 in value unless the main line of business of the taxpayer is transport or lease of transportation equipment

True9. Tangible development costs in wasting assets are capitalized and depreciated

True10. Intangible exploration and development costs incurred before commercial production in a wasting asset operation are capitalized as cost of the wasting asset

True11. After commencement of commercial production, intangible exploration development costs incurred on non-producing wells or mines are deductible in the period paid or incurred.

False12. After commencement of commercial production, intangible exploration and development costs incurred on producing wells or mines are always capitalized and amortized using the cost-depletion method. expensed or capitalized

False13. The threshold on partially deductible contributions of corporate taxpayers is 10% of the net income before the contribution. (5%)

False14. The funding of past service cost is amortized over 10 years or the actual vesting period whichever is longer. (fixed by law as 10 years)

False15. The overfunding of defined benefit plans is treated as funding of past service cost and is amortized over 10 years.

False16. The employee counterpart in a contributory pension plan is deductible by the employer.

TRUE17. Research and development costs related to land must be capitalized.

TRUE18. Research and development costs not related to capital accounts are either deducted outright or deferred and amortized over a period of not less than 60 months

FALSE19. The E&A expense on the sale of goods is subject to a limit of 0.5% of gross sales

TRUE20. The E&A expense on the sale of services is subject to a limit of 1% of net revenue

FALSE21. Purely employed individuals can claim deductions for donations made

Multiple Choice: Theory 1

(508)

1. Which of the following cannot be deducted against gross income of non-VAT taxpayers?

- a. Foreign income tax
- c. Philippine income tax**
- b. Value added tax
- d. Percentage tax

2. Which is not deductible against gross income?

- a Depreciation value of fringe benefits given to managerial**

3. Which is deductible tax expense against gross income? **a Documentary stamp tax**

4. Which is deductible in the measurement of profession? **d. Salaries of personal security guard of a managerial employee(D is fringe benefit expense. Mandatory payroll deduction is deduction against compensation.)**

5. Which of the following can treat capital expenditures as outright deduction? **Private educational institutions**

6. Which is not a requisite of a deductible loss **C. It must be compensated by insurance or indemnity contracts**

7. Which is a correct statement?

- a. Gains between related parties are exempt from income
- b. Losses between related parties are deductible.
- C. Gains between related parties are taxable**
- d. All of the above

8. Who are not related parties for purposes of the NIRC?

- a Fiduciary of trusts with the same grantor
- b. The trustee and the beneficiary of a trust
- c Corporations under common control
- d. A partner and the partnership**

9. Which is a deductible tax expense?

- a. Surcharges and penalties
- b. Stock transaction tax
- c. Real proper tax on business properties**
- d. Special assessment

10. Which of the following can be deducted by a VAT taxpayer?

- a. Philippine income tax
- b. Donor's tax
- c Value Added Tax
- d. Interest on tax delinquency**

11. Who cannot claim foreign income tax credit?

- a. Resident citizens
- c. Resident aliens**
- b. Domestic corporations

d. None of these

12. Foreign income tax can be claimed as
Deduction from gross income
Tax credit against the income tax due

A.

Yes

Yes

B.

No

Yes

C.

Yes

No

D.

No

No

13. Estimated quarterly income tax can be claimed as
Deduction from gross income
Tax credit against the income tax due

A.

Yes

Yes

B.

No

Yes

C.

Yes

No

D.

No

No

14. Fringe benefit tax can be claimed as
Deduction from gross income
Tax credit against the income tax due

A.

Yes

Yes

B.

No

Yes

C.

Yes

No

D.

No

No

15. Which of these expenses is not part of the deductible expenses of the taxpayer?

a. Expanded withholding taxes on certain expenses

b. Withholding tax on employee salaries

c. Documentary stamp tax on the sale of stocks directly to a buyer

d. Real property tax on business properties

Multiple Choice: Theory 2
(510)

1. Wagering losses are deductible

- a. in full.
- b. to the extent of capital gains.
- c. up to the extent of gains on wagering transactions months
- d. are treated deferred charge subject to amortization over 60

2. Securities becoming worthless is considered as an ordinary loss to

- a. Banks
- b. Trusts
- c. Security dealers
- d. All of these

3. Bad debts expenses include

- a. uncollectible debts due to the taxpayer, (securities becoming worthless is generally a capital loss)
- b. securities becoming worthless.
- C. Both a and b
- d. Neither a nor b

4. Which of these is a partially deductible contribution?

- a. Donation to the government for public purpose
- b. Donation to priority activities of the government
- c. Donation to foreign institutions with treaty exemption
- d. Donation to accredited charitable institutions

5. Research and development cost that are not chargeable to capital account can be claimed as

- a. Deductible expense
- b. Deferred expense subject to amortization
- C. Both a and b
- d. Either a or b

6. A taxpayer incurred research and development expenditures which are related to a capital account subject to depreciation. The taxpayer should

- a. claim outright deduction for the research and development expenses.
- b. treat the R&D expenses as a deferred expenses and amortize them over 60 months.
- C. treat the R&D expenses as capital expenditures and depreciate them over the useful life of the related asset.
- d. claim them as outright deductions or treat them as deferred charges and amortize them over 10 years.

7. A taxpayer paid for research and development expenses that are not chargeable to capital account.

The taxpayer wished to amortize the same over its expected period of benefits.

If the R&D is expected to benefit the taxpayer for 6 years, what is the correct amortization period for the R&D expenses?

- a 72 months
- b. 60 months
- c. 30 months
- d. 36 months

8. Which can claim full deduction for the loss of securities becoming worthless?

- a. Security dealers

- b. Non-security dealers
- c. Both a and c
- d. Neither a nor c

9. Which of the following items of entertainment, amusement and recreation expenses can be claimed as a deduction?

- a. Entertainment expenses paid to officials of the government
- b. Entertainment expenses not receipted in the name of the taxpayer
- c. Entertainment expenses in excess of the limits of the law
- d. Entertainment expenses for potential and existing clients

10. Calauag Inc, owns 51% of the voting power of Quezon, Inc. Which is a correct statement regarding gains and losses between these two entities?

- a. Losses sustained by Calauag Inc. on transactions with Quezon, Inc. are claimable as deductions.
- b. Losses sustained by Quezon, Inc. on transactions with Calauag, Inc claimable as deductions.
- c. Gains realized by either party from each other are exempt from income tax due to the underlying economic substance of their relationship.
- d. Gains between Calauag and Quezon are subject to income tax

PROBLEMS

1. The following relates to a taxpayer:

Interest expense

P400,000

Interest income - promissory notes

100,000

Compute the deductible interest expense

a. 400,000

2. The taxpayer has the following losses:

Net Operating Loss Carry Over - last year

P 200,000

Net capital loss – current

80,000

Net capital loss - last year

70,000

Ordinary loss

50,000

Taxable income before losses

P 400,000

Compute the total deductible losses in the current year.

(P200K+P50K) **250,000**

3. Gawan Merchandising paid P400,000 to employees, net of P60,000 total withholding tax on compensation. What is the deductible amount of expense by the employer?

d. P460,000

4. A taxpayer under the cash basis had the following expenditures:

Acquisition of office equipment at the

middle of the year (5 year useful life)

P 200,000

Payment of employee salaries

40,000

Payment for office utilities expenses

60,000

How much is claimable as deductible business expense for the year?

a. P300,000

5. The following relates to a taxpayer's warehouse:

Cost

2,000,000

Accumulated depreciation

600,000

Residual value

200,000

Current fair market value

2,500,000

Remaining useful life

12 YEARS

Compute the deductible depreciation expense.

d. P100,000

6. The following relates to a taxpayer:

Interest expense

400,000

Interest income - time deposit

100,000

Compute the deductible interest expense.

b. P367,000

7. An individual income taxpayer reported the following:

Capital loss - current year

P 50,000

Capital gain - current year

200,000

Net capital loss - last year

70,000

Compute the total capital loss deductible against capital gain in the current year.

c. P120,000

(P50K+P70K)

8. Suppose the income taxpayer in the immediately preceding problem is a corporation, compute the deductible capital loss against capital gain.

d. P50,000

9. The following data relate to an individual taxpayer:

Capital loss - current year

P 80,000

Capital gain - current year

150,000
Net capital loss - last year
90,000
Net income - last year
80,000
What is the net capital loss carry-over for the current period?
a. PO
b. P70,000

10. The following relate to a corporate taxpayer:
Capital loss - current year
60,000
Capital gain - current year
140,000
Net capital loss
40,000
Net income
75,000
What is the net capital loss carry-over?
a. PO

11. An individual income taxpayer reported the following:
Capital loss - current year
50,000
Capital gain - current year
60,000
Net capital loss - last year
70,000
Compute the deductible capital loss against capital gain in the current
c. P60,000

12. An individual taxpayer showed the following:
2019
2020
Gross income
P 300,000
400,000
Deductible business expense
(360,000)
(300,000)
Net Capital gain (loss)
(50,000)
70,000
Compute the 2019 net income

[(P400K GI-P300K Bus. Exp.) +P70K-P60K 2014NOLCO]
c. P 110,000

13. Assume in the immediately preceding problem that the taxpayer is a corporation What would be the taxable income in 2020?
c. P 110,000

14. A corporate income taxpayer reported the following gross income and deductions

Gross income

Deductions

2016

300,000

450,000

2017

400,000

470,000

2018

450,000

400,000

2019

500,000

420,000

2020

500,000

400,000

Compute the taxable income in 2020.

c. P30,000

15. Andrew, a resident citizen, reported a world taxable income of P500,000 and a tax due on world income of P125,000. P150,000 of the taxable income was earned in Japan out of which he paid P45,000 in income tax.

Compute Andrew's foreign tax credit

. $[(P150K/P500K) \times P125K]$

c. P37,500

Multiple Choice: Problems 2

1. Mr. Aurelius made contributions to the following in 2020:

Street beggars

50,000

Barrio fiestas

60,000

Various cancer patients

40,000

Takusa, an accredited non-profit organization

100,000

Compute the deductible contribution expense.

b. P100,000

2. ABC Company declared a property dividend with book value of P1,000,000, and fair value of P1,200,000. The total dividends withheld on the dividends were P60,000. Compute the total deductible expense.

a PO

3. Naga Company paid P32,000 fringe benefits tax for the purchase of merchandise used by the family of one of its company officers, How much is the deductible expense against gross income?

d. P100,000

(P32,000/32%)*

*This is an NIRC question. The grossed-up value inclusive of the monetary value and fringe benefits tax is an expense to the employer.

4. Makati Corporation has operations in Malaysia and Singapore with the following taxable income and taxes paid during the year:

	<u>Philippines</u>	<u>Malaysia</u>	<u>Singapore</u>
Taxable income	P 800,000	P 900,000	P 700,000
Income tax paid	180,000	288,000	175,000

Makati Corporation wishes to claim the foreign income tax paid as tax credit.
Compute the foreign income tax credit.

Makati Corporation wishes to claim the foreign income tax paid as tax credit. Compute the foreign income tax credit.

C. 445,000

5. Balanga, Inc. contributed P500,000 for its pension fund inclusive of P200,000 funding of current service cost. How much is the deductible pension expense?

b. P230,000

6. Tawi-Tawi, Inc. maintained a defined contribution pension plan. The plan is contributory where employees contribute 20% of the pension contributions. During the year, Tawi-Tawi contributed P1,000,000 inclusive of employee contribution which was pre-deducted through their salaries. Compute the pension expense.

b. P800,000

7. Entertain Corporation set up a plan in 2020. The following relate to the fund: Funding of current service cost Funding of past service cost

Compute the deductible pension expense in 2020.

c. 1430,000

8. In the immediately preceding problem, compute the pension expense in 2021.

a. P420,000

b. P430,000

c. P450,000

d. P600,000

9. Zambales Inc. made the following contributions during 2020:

Contributions to the government in non priority activities

Contributions to foreign charitable institutions Contribution to accredited non-profit

Institution

Contributions to foreign organizations with treaty exemption

P 60,000

40,000

30,000

Zambales Inc. has net income before contribution expense of P1,000,000.

Compute the deductible contribution expense

a. P230,000 b. P190,000

c. P180,000

d. P130,000

Mr. Pedro reported the following income and expenses in 2020:

Compensation income

Gross income from business Fully deductible contributions

Deductible contributions with limit

Other allowable deductions

Mandatory deduction and exempt income

P 400,000

50,000

75,000

75,000

10. Compute the deductible contribution expense,

P125,000 P70,000

a.

b. P80,000

d. P65,000

11. What is the taxable compensation income?

12. What is the net income?

13. What is the taxable income?

14. A taxpayer with net sales of P2,000,000 and cost of sales of P1,800,000 incurred

P15,000 entertainment, amusement and recreation expenses (EAR). Compute the allowable deduction for EAR expenses.

a. P20,000 b. P15,000

c. P10,000 d. PO

15. A taxpayer with gross receipts of P2,000,000 and direct cost of services of P1,800,000 incurred

P15,000 entertainment, amusement and recreation expenses. Compute the allowable deduction for EAR expense.

a. P20,000

b. P15,000

c. P10,000

d. PO

16. A taxpayer reported sales of P3,000,000 and gross receipts of P2,000,000 in 2020. It incurred entertainment, amusement, and recreations expenses of P35,000. Compute the deductible EAR expense.

- a. P35,000
- b. P30,000
- c. P29,000
- d. P25,000

CHAPTER 13B

- 1. Dividends are non-deductible by any taxpayer except real estate investment trust**
- 2. The employers are allowed to additional deduction of 15% on the compensation paid to persons with disability**
- 3. An adopting private entity of a public school is entitled to a deduction incentive equivalent to double the amount donated to a public school**
- 4. Taxpayers who installed improvements in their facilities to accommodate persons with disability are allowed an additional 50% deduction incentive based on the value of such improvement.**
5. The distribution of the corpus of a taxable estate or trust is an item of special deduction against the gross income of the estate or trust
6. The transfer to the reserve fund of insurance companies is a special deduction. but the release from the reserve fund is an item of gross income.
7. The transfers to all reserve funds of the cooperative including mandatory and discretionary funds are deductible from the gross income of cooperatives.
8. Persons with disability are mandatorily allowed a discount of 20% from all establishments
9. Senior citizens are mandatorily allowed a discount of 25% from certain establishments.
10. The employer of senior citizens can claim additional deductions equivalent to 50% of the compensation paid to senior citizens who have income below the poverty line
11. Expenses incurred to comply with the requirement of the Expanded Breastfeeding Act are allowed an additional incentive equivalent to the amount of the expense incurred.
12. Attorneys are entitled to the value of their pro-bono services to indigent clients as deduction from gross income
13. . The allowable incentives to lawyers for pro-bono services shall not exceed 10% of the gross income from the actual performance of the legal profession.
14. Employers are entitled to an additional deduction of 50% of the productivity incentive bonus paid to their employees.
15. The amount of NOLCO shall not include the amount of deduction incentives allowed by law.
16. A small business was merged to a larger business. Even after the merger, the NOLCO of the small business is deductible by the larger business.
17. NOLCO is valid for 3 years.
18. NOLCO always exist when there is a net operating loss
19. Net capital loss carry over cannot be carried over together with NOLCO
20. An acquirer in a business combination sustained a net operating loss before the business combination. The acquirer is allowed to carry-over its net operating loss in prior years.

21. Expense/Expenditure
Deduction incentive

22. Incentive limit

23. 1. Salaries paid to
senior citizen

24. employees

25. 2. Salaries paid to
persons with

26. disability

27. 3. Training expense
under the

28. Jewelry Industry
Development Act

29. 4. Cost of facility
improvement for

- 30. employees with disability
- 31. 5. Contribution under the "Adopt-a-School Program"
- 32. School Program"
- 33. 6. Cost of compliance with the
- 34. "Rooming-in and Breastfeeding Practices Act"
- 35. Practices Act"
- 36. 7. Free legal expense
- 37. 8. Productivity incentive bonus and
- 38. employee training program

39. Expense/Expenditure
Deduction incentive

40. Incentive limit

41. 1. Salaries paid to
senior citizen

42. employees

43. 2. Salaries paid to
persons with

44. disability

45. 3. Training expense
under the

46. Jewelry Industry
Development Act

47. 4. Cost of facility
improvement for

- 48. employees with disability
- 49. 5. Contribution under the "Adopt-a-School Program"
- 50. School Program"
- 51. 6. Cost of compliance with the
- 52. "Rooming-in and Breastfeeding Practices Act"
- 53. Practices Act"
- 54. 7. Free legal expense
- 55. 8. Productivity incentive bonus and
- 56. employee training program

Expense/Expenditure

Deduction incentive Incentive limit

1. Salaries paid to senior citizen employees
2. Salaries paid to persons with disability
3. Training expense under the Jewelry Industry Development Act
4. Cost of facility improvement for employees with disability
5. Contribution under the "Adopt-a-School Program"
6. Cost of compliance with the "Rooming-in and Breastfeeding Practices Act"
7. Free legal expense
8. Productivity incentive bonus and employee training program

Multiple Choice - Problems 1

1. A fitness gym catering to senior citizens recorded a total gross revenue of P345,000 from senior citizens. The gym provides 24% discount in excess of the legal

requirements. What is the deductible amount of senior citizen's discount?

- a. P0
- c. P82,800
- b. P 69,000
- d. P90,789

Multiple Choice - Problems

1. A fitness gym catering to senior citizens recorded a total gross revenue of P345,000 from senior citizens. The gym provides 24% discount in excess of the legal requirements. What is the deductible amount of senior citizen's discount? a. P0 c. P82,800 b. P 69,000 d. P90,789

2. Germania Inc. employs three senior citizens as regular employees. Two of them are receiving the minimum wage which is within the poverty level. Total minimum wages paid to these senior citizen employees during the year were P182,000. One of the senior citizen employees is a director of the company who was paid P780,000 compensation during the year. Compute the deductible additional compensation expense. a. 0 c. P91,000 b. P27,300 d. P144,300

3. An employer hired two senior citizens during the year as temporary replacements for its two staffs who were on leave. Both senior citizens were paid salaries not in excess of the poverty level. Mang Pandoy received a total of P144,000 during the year. Aling Maria substituted for an employee who filed for maternity leave for 3 months. Aling Maria received a total of P28,000 during the year. Compute the total deductible additional compensation expense. a. P0 b. P21,600 c. P25,800 d. P43,000

4. Mr. Bakilan irrevocably designated in trust his investment portfolio consisting of domestic stocks and bonds. The dividend income from the stocks shall be distributed to the beneficiary while the interest on the bonds shall be accumulated. During the year, the portfolio earned P200,000 interest and P135,000 dividends, net of final tax. What is the total deduction allowable to the trust for the income distribution? a. P0 b. P15,000 c. P135,000 d. P150,000

5. A grantor irrevocably designated in trust a real property in favor of a beneficiary. Under the trust indenture, 20% of the trust gross income shall be distributed to the beneficiary. The trustee shall be paid 5% of the gross income as management fee. During the year, the trust collected P810,000 rent income, net of 10% to creditable withholding taxes. The trust recorded P350,000 in expenses. Compute the deductible amount of income distribution to the fund. a. P0 b. P101,000 c. P110,000 d. P180,000

6. The required reserve for an insurance company was P3,200,000 as of December 31, 2013 and P3,500,000 as of December 31, 2014. What is the deductible amount of transfer to the reserve fund? a. P0 b. P300,000 c. P3,200,000 d. P3,500,000

7. A real estate investment trust (REIT) earned P4,100,000 from property rentals total business expenses were P2,100,000. Assuming the REIT declared the mandatory required dividend distribution, what is the amount of deductible dividend against gross income? a. P0 b. P1,800,000 c. P1,890,000 d. P3,690,000

8. A cooperative transacting business only with its members is on its operation. It reserves 50% of its operating income in compliance CDA regulation. During the year, it reported a total operating P3,000,000 inclusive of P2,400,000 income from related activities. Compute the deductible amount of transfers to reserve against gross income. a. P0 b. P240,000 c. P60,000 d. P300,000

9. An establishment granting senior citizens 25% discounts recorded the following for sales during the period:

Customers-	Regular	Senior citizen	Gross sales	P
8,000,000	P800,000	Cost of sale.	P 5,000,000	P400,000.

What is the deductible senior citizens' discount

10. A restaurant granted 25% discounts to senior citizens in excess of the 20% mandatory requirement. During the year, the restaurant reported receipts of P93,750 from senior citizen customers. Compute the deduction for senior citizens' discount balance. a. P0 b. 7,250 c. P23,437.50 d. P25,000

11. An employer embarked on a socio-economic program named "A World Empowered by Persons with Disability." Under the ambitious program, the employer established a business which is fully manned by persons with disability. The employer incurred P300,000 in workplace improvements specifically designed for its disabled employees. The business venture returned very profitable due to overwhelming public sympathy. During the year, the employer paid P2,100,000 in compensation expense. Compute the additional deduction for compensation expense. a. P0 b. P210,000 c. P315,000 d. P525,000

12. In the immediately preceding problem, what is the deductible additional expense for the improvements made for the employees with disability? a. P0 b. P45,000 c. P75,000 d. P150,000

13. In 2016, Bernard Bakilan, a practicing lawyer, adopted a public elementary school and contributed P500,000 for the acquisition of computer equipment and software. Bernard had an operating income of P900,000 before this contribution. Assuming the "Adopt-a-School Program" is an investment priority program of the government in 2016, compute Bernard's additional contribution expense and net income respectively. a. P250,000; P150,000 b. P250,000; P650,000 c. P125,000; P275,000 d. P125,000; P775,000

14. In the preceding problem, compute Bernard's additional contribution expense and net income, respectively, if the "Adopt-a-School program" is no longer a government priority program in 2016? a. P0; P810,000 b. P0; P400,000 c. P250,000; P650,000 d. P250,000; P560,000

15. Binondo Jewellery is a qualified jewelry enterprise registered with the Board of Investments. In order to modernize its jewelry making business, it instituted an in-house training program and hired external experts to train its employees. The program was duly approved by TESDA. The program cost P300,000 during the year. What is the deductible amount of additional training expenses? a. P30,000 b. P45,000 c. P75,000 d. P150,000

16. Girl Power Corporation employs purely women. It installed a lactation station at a total cost of P350,000 and secured a "Working Mother-Baby-Friendly Certificate" from the Department of Health. Compute the additional deduction under the Rooming-in and Breastfeeding Practices Act. a. P0 b. P175,000 c. P350,000 d. P700,000

17. A government provincial hospital established a milk bank at a cost of P1,000,000. Determine the additional deduction/incentive it is allowed under the Rooming-in and Breastfeeding Practices Act. a. P0 b. P250,000 c. P500,000 d. P1,000,000

18. In the immediately preceding problem, what would be the additional deduction assuming the hospital is a proprietary medical center? a. P0. c. P1,000,000 b. P500,000. d. P2,000,000

19. Atty. Midsayaf is a practicing lawyer in the remote provinces of Mindanao. During the year, he provided 180 actual hours for pro-bono services inclusive of the 60 hour mandatory legal aid services to indigent clients. These services would have been billed P1000 per hour if rendered to paying clients. Atty. Midsayaf has a P1,400,000 gross income during the year exclusive of P20,000 interest on his savings deposit. Compute the special deduction for the free legal services. a. P60,000 b. P120,000 c. P140,000 d. P142,000

20. Curaratnit, Bolalatsing & Associates, a law firm, earned an operating income of P8,000,000, net of P6,000,000 administrative expenses and P12,000,000 direct cost of services. During the year, it represented selected clients under its free legal assistance program. The value of these services would have been P1,500,000. It also represented indigent clients for free, the value of which would have been P400,000. Compute the special deduction for free legal services. a. P1,200,000 c. P1,500,000 b. P1,400,000 d. P1,900,000

21. An employer paid a total of P800,000 productivity incentive bonus to its production workers. What is the additional productivity incentive bonus expense? a. P0. c. P200,000 b. P80,000. d. P400,000

22. An employer provides manpower training and special studies to its rank and file employees at a total cost of P200,000. The in-house program was accredited by TESDA. What is the deductible additional productivity incentive bonus expense? a. P0 c. P100,000 b. P20,000. d. P200,000

Multiple Choice - Problems 2

1. A taxpayer had the following results of operations:

2019.

2020

Gross income.

P 1,200,000

P 2,500,000

Itemized deductions

1,400,000

1,000,000

Deduction Incentive.

200,000

300,000

What is the net income in 2020?

- a. P 800,000
- c. P1,100,000
- b. P1,000,000
- d. P1,200,000

2. An enterprise registered with the BOI had a consistent profitable operation. Just before graduating from its BOT

Multiple Choice - Problems

1. A taxpayer had the following results of operations:
income.

P 1,200,000 P 2,500,000 Itemized deductions

2019.2020Gross

1,400,000 1,000,000 Deduction Incentive. 200,000 300,000 What is the net income in 2020?
a. P 800,000 c. P1,100,000 b. P1,000,000 d. P1,200,000

2. An enterprise registered with the BOI had a consistent profitable operation. Just before graduating from its BOT tax holiday incentives in 2019, it sustained a P1,800,000 operating loss due to an employee strike in 2019. The settlement of the deadlock in 2020 enable the enterprise to post a P2,400,000 operating income. What is the allowable NOLCO deduction in 2020?
a. P0 b. P900,000 c. P1,800,000 d. P2,400,000

3. A corporate taxpayer incurred an operating loss in 2020
Sales P3,000,000
Less: Cost of sales 1,200,000 Gross income P1,800,000
Less: Deductions Regular itemized deduction P1,200,000 Special itemized deductions 800,000 Deduction incentives 400,000 2,400,000 Net operating loss P600,000
What is the amount of NOLCO to be carried over in the next three years?
a. P0 c. P400,000 b. P200,000 d. P600,000

4. An individual taxpayer reported the following in 2019:
Gross income P1,500,000
Less: Administrative expenses P 800,000 Selling expenses 650,000 1,450,000 Operating income P50,000
Less: Personal expenses 150,000 Excess of personal expenses over income P100,000
What is the NOLCO to be carried over in the next three years?
a. P0 c. P100,000 b. P50,000 d. P150,000

5. In 2020, a taxpayer finally posted a P1,000,000 operating profit after four years of continuous losses. The results of operations in prior years were:
2016 (P 800,000) 2017 (400,000) 2018 (200,000) 2019 (100,000)
Compute the deductible NOLCO in 2020
a. P0 b. P700,000 c. P1,000,000 d. P1,500,000

6. In 2016, Warren Buffet purchased the net assets of Berkshire Hathaway, a losing business which posted a cumulative P10,000,000 loss in the past three years.

Buffet's charismatic leadership led the business to turn P4,000,000 profits in 2016. What is the allowable NOLCO deduction for 2016?
a. P0 b. P4,000,000 c. P5,000,000 d. P10,000,000

7. A taxpayer has the following historical results of operations:

2016	(P 600,000)	2017	(700,000)	2018	400,000	2019	(200,000)	2020	100,000
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What is the total outstanding NOLCO at the end on 2020 which can be carried in future years?

a. P0
b. P600,000
c. P200,000
d. P800,000

8. A taxpayer reported the following items of gross income and deductions in 2020:

Rent Income	P 400,000	Service fees	200,000	Interest income from bank deposits	50,000	Deductible expenses	800,000	Non-deductible expenses	100,000
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Compute the NOLCO to be carried over in the next three years.

a. P300,000
b. P200,000
c. P100,000
d. P0

9. The carry-over of NOLCO is allowed when:

a. the net operating loss is sustained from an exempt year.
b. there is a change for at least 75% of the paid-up capital or nominal value of the outstanding shares of a corporation.
c. the business is acquired by another taxpayer.
d. there is a change in the controlling shareholder representing 51% ownership.

10. Which is incorrect with regard to the net operating loss carry-over (NOLCO)?

a. NOLCO can be claimed together with Optional Standard Deductions.
b. NOLCO cannot be claimed if the net operating loss arises in a year where the taxpayer is exempt from income tax.
c. NOLCO can be carried over to a period of three years.
d. NOLCO cannot be claimed by non-resident foreign corporation.

11. The following pertains to the salaries paid by the taxpayer during the year:

Salaries to regular employees	P400,000	Salaries to senior citizens (above poverty line)	30,000	Salaries to senior citizens (below poverty line)	50,000	Salaries to persons with disability	200,000
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Compute the total deductible salaries expense under regular allowable itemized deductions and the total special deduction.

a. P680,000; PO
b. P680,000; P57,500
c. P742,500; PO
d. P680,000; P62,500

CHAPTER 13C

True or False .

1. The optional standard deduction is presumed unless the taxpayer signified in his intention to claim itemized deductions.
2. Unlike individual taxpayers, corporations opting for OSD can claim deduction for cost of goods sold or cost of services.
3. OSD is in lieu of all deductions against gross income including personal exemptions.
4. Individuals can claim OSD up to 40% of gross sales or receipts or gross income.
5. Taxpayers opting to use the OSD are not required to submit financial statements.
6. Taxpayers may use the OSD for quarterly returns, then use the itemized deductions for the annual return.
7. The taxable net income of individuals is 60% of their gross sales or receipts.
8. Corporate taxpayers opting to use OSD will have taxable income equivalent to 60% of their gross income.
9. "Gross sales" is net of sales returns, allowances, and discounts.
10. "Gross receipts" include other receipts incidental to the primary operations of the business.
11. Gains in dealings in properties are included in gross sales or receipts.
12. Corporate OSD is 40% of operating and non-operating gross income excluding only those subject to final tax or capital gains tax and exempt income.
13. For taxpayers using the accrual basis in the sales of service gross receipts shall mean revenue.
14. Administrative and selling expenses are included in "cost of service."
15. A partner can claim itemized deduction against his share in the net income of a general professional partnership provided the partnership is using the OSD.
16. A partner can claim OSD out of his share in the net income of a general professional partnership.
17. A partner can claim OSD out of his share in the net income of a general professional partnership provided the partnership is not using the OSD.
18. No deduction of whatever nature is allowed against compensation income, except mandatory deductions and exempt benefits.
19. Net operating loss carry-over and net capital loss carry-over are items of deductions, hence, both are not claimable simultaneously with OSD
20. The option to elect OSD may result into a net operating loss carry-over.

Exercise Drill No.1: Check the box if the indicated taxpayers can claim optional standard deductions:

1. Resident citizen

2. Resident alien
3. Non-resident citizen
4. Non-resident alien
5. Regular domestic corporation
6. Regular resident foreign corporation
7. Special corporation
8. Corporations subject to special tax regime
9. Business partnership
10. General professional partnership

Exercise Drill No. 2 The gross income of a taxpayer who opted to use the optional standard deductions is presented below: Required: Determine the Optional Standard Deductions assuming the taxpayer is: 1. An individual _____ 2. An corporation _____

Exercise Drill No. 3 A taxpayer had the following results of operations: Professional fees, P5,200,000 collected P 6,000,000 Less: Cost of services, including P200,000 accrued and unpaid 3,100,000 Gross Income P 2,900,000 Recorded expenses, P200,000 accrued and unpaid 1,400,000 Net Income P 1,500,000 Required: Determine the net income of the taxpayers under each of the following conditions under the OSD

Taxpayers	Cash basis	Accrual basis
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1. Individuals
2. Corporations

Exercise Drill No. 4 The income statement of a taxpayer which opted for OSD is disclosed as follows: Sales, net of returns, allowances and discounts P 5,000,000 Less: Cost of Sales 3,000,000 Gross income from operations P 2,000,000 Add: Other income Gain on sale of machinery Gain on sale of domestic stocks P 100,000 92,000 192,000 Total gross income P 2,192,000 Less: Deductions 1,300,000 Net income P 892,000 Required: Compute the optional standard deductions assuming the taxpayer is

1. An individual taxpayer _____
2. A corporate taxpayer _____

Multiple Choice – Theory 1

1. The optional standard deduction for corporate taxpayer is

- a. 40% of gross income
- b. 40% of gross sales or gross receipts
- c. 40% of total deductions claimed with or without support
- d. 40% of cost of goods sold or direct cost of services

2. Which of the following individuals engaged in business cannot claim optional standard deduction?

- a. Resident citizen
- c. Resident alien

b. Non-resident citizen d.
NRA-NETB

3. Which is correct with optional standard deduction?

a. It replaces itemized deduction.

b. It replaces P250,000 annual exemption for individuals.

c. Both a and b.

d. Neither a nor b.

4. The optional standard deduction for individual taxpayers is

Multiple Choice – Theory 1

1. The optional standard deduction for corporate taxpayer is

a. 40% of gross income

b. 40% of gross sales or gross receipts

c. 40% of total deductions claimed with or without support

d. 40% of cost of goods sold or direct cost of services

2. Which of the following individuals engaged in business cannot claim optional standard deduction?

a. Resident citizen c.

Resident alien

b. Non-resident citizen d.

NRA-NETB

3. Which is correct with optional standard deduction?

- a. It replaces itemized deduction.
 - b. It replaces P250,000 annual exemption for individuals.
 - c. Both a and b.
 - d. Neither a nor b.
4. The optional standard deduction for individual taxpayers is

Multiple Choice – Theory 1

1. The optional standard deduction for corporate taxpayer is
- a. 40% of gross income
 - b. 40% of gross sales or gross receipts

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2. Which of the following individuals engaged in business cannot claim optional standard deduction?

a. Resident citizen c. Resident alien

b. Non-resident citizen d. NRA-NETB

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4. The optional standard deduction for individual taxpayers i

Multiple Choice – Theory

1. The optional standard deduction for corporate taxpayer is a. 40% of gross income b. 40% of gross sales or gross receipts
c. 40% of total deductions claimed with or without support d. 40% of cost of goods sold or direct cost of services

2. Which of the following individuals engaged in business cannot claim optional standard deduction?
a. Resident citizen c. Resident alien b. Non-resident citizen d. NRA-NETB

3. Which is correct with optional standard deduction?
a. It replaces itemized deduction. b. It replaces P250,000 annual exemption for individuals.
c. Both a and b. d. Neither a nor b.

4. The optional standard deduction for individual taxpayers is a. 40% of gross income b. 40% of gross sales or gross receipts
c. 40% of total deductions claimed with or without support d. 40% of the lower of actual deductible expenses and 40% of gross sales or gross receipts

5. One of the following can claim OSD. Which is it?
a. A self-employed individual taxpayer b. A taxpayer earning mix of passive income and compensation income
c. A taxpayer earning purely passive income d. A taxpayer earning purely compensation income

6. When purely employed, who of the following can claim OSD?
a. Resident citizen c. Resident alien
b. Non-resident citizen d. None of these

7. Which is not covered by the optional standard deduction? a. Premium for health and hospitalization insurance b. Senior citizen's discount c. Contribution expensed. Salaries expense

8. Which can claim deduction by itemized deduction only? a. Employed taxpayers b. Non-resident alien engaged in trade or business c. General professional partnership d. Business partnership

9. Which is not included in corporate OSD? a. Cost of sales c. Administrative expenses b. Selling expenses d. Creditable withholding tax

10. Corporate OSD is in lieu of all expenses such as the following except a. Cost of sales or cost of services b. Regular itemized allowable deductions c. Special itemized allowable deductions d. Net operating loss carry over

11. Individual OSD is in lieu of all expenses, such as but not including a. Cost of sales or cost of services b. Regular itemized allowable deductions c. Special itemized allowable deductions d. Net capital loss carry over

1. The OSD of corporations under the cash basis is based on a. Gross sales c. Total gross income b. Gross receipts d. Gross income from operations

2. The option to elect OSD is irrevocable a. In the year it was made b. Over the next three years c. In the quarter it was made d. effective the quarter in the year the option was made.

3. Which is presented as operating income in the income tax return? a. Gain on sale of ordinary assets b. Share in the distributive net income of general professional partnership c. Share in the distributive net income of a business partnership d. Gross profit from the sale of goods

4. Which is not part of cost of services for a manufacturing concern? a. Wages of plant employees b. Factory supplies c. Depreciation on plant equipment d. Interest expense

5. The OSD of corporations under the accrual basis is based on a. Gross sales c. Total gross income b. Gross receipts d. Total gross income from operations

6. The OSD of individuals under the cash basis is based on a. Gross sales c. Total gross income b. Gross receipts d. Gross income from operations

7. Which is not deducted in the determination of gross sales a. Sales returns b. Allowances for defective merchandise c. Sales discounts d. Bad debt expense

8. For purposes of the OSD, which is not deducted in the determination of gross receipts? a. Sales returns c. Discounts b. Allowances d. Cost of services

9. Non-operating income subject to regular tax is excluded in the OSD base of a. Individual taxpayers b. corporate taxpayers c. Both individual taxpayers and corporate taxpayers d. neither individual taxpayers nor corporate taxpayers

10. Cost of services of banks excludes the following except a. Advertising expense c. Interest expense on depositors' accounts b. Local tax expense d. Loss on sale of assets

11. In the determination of the distributive net income of the general professional partnership, a. Partners can claim OSD on their share in the net income of a general professional partnership. b. Partners can claim OSD on their share in the net income of a general professional partnership provided the latter uses itemized deductions. c. Partners can claim OSD on their share in the net income of a general professional partnership provided the latter uses OSD. d. Partners cannot claim OSD on their share in the net income of a general professional partnership.

12. Which is correct with respect to the deduction claimable by a partner against his share in the distributive net income of a general professional partnership? a. The partner can claim OSD provided the general professional partnership also claims

b. The partner can claim OSD provided the general professional partnership also claims OSD c. The partner can claim itemized deduction provided the general professional partnership also uses itemized deduction d. The partner can claim itemized deduction provided the general professional partnership does not use itemized deductions.

13. Individual income taxpayer must indicate his or her option to claim OSD on a. the first quarter return during the year b. or before July 1 of the current year c. the annual income tax return d. annual or quarterly return at his or her option

14. Corporate income taxpayers must indicate their options to claim OSD on a. the first quarter return during the year b. or before July 1 of the current year c. the annual income tax return d. annual or quarterly return at his or her option

1. The OSD of corporations under the cash basis is based on

a. Gross sales
gross income

c. Total

b. Gross receipts d. Gross income from operations

2. The option to elect OSD is irrevocable

a. In the year it was made

b. Over the next three years

c. In the quarter it was made

d. effective the quarter in the year the option was made.

3. Which is presented as operating income in the income tax return?

a. Gain on sale of ordinary assets

b. Share in the distributive net income of general professional partnership

c. Share in the distributive net income of a business partnership

d. Gross profit from the sale of goods

4. Which is not part of cost of services for a manufacturing concern?

a. Wages of plant employees

b. Factory supplies

c. Depreciation on plant equipment

d. Interest expense

5. The OSD of corporations under the accrual basis is based on

a. Gross sales
gross income

c. Total

b. Gross receipts d. Total
gross income from operations

6. The OSD of individuals
under the cash basis is based
on

a. Gross sales c. Total
gross income

b. Gross receipts d.
Gross income from operations

7. Which is not deducted in
the determination of gross
sales

Multiple Choice - Problems 1

1. An individual taxpayer, reported P800,000 net income after the following: Cost of sales
P 600,000 Administrative expense. 300,000 Selling expenses. 400,000 Compute the
optional standard deductions. a. P320,000. c. P600,000 b. P560,000. d. P840,000

2. In the immediately preceding problem, what is the net income under OSD? a. P1,260,000. c.
P1,540,000 b. P1,500,000 d. P1,780,000

3. An individual taxpayer opted to claim optional standard deduction in his first quarter income tax return in 2015. Total recorded sales before P150,000 sales discounts and returns were P2,350,000. Total recorded expenses were P1,180,000 of which only P340,000 were adequately supported. The cost of sales was P900,000. What is the total allowable deduction for 2015 assuming the taxpayer wants to claim itemized deduction in the annual return? a. P340,000 c. P1,240,000 b. P900,000 d. P1,180,000

4. The claimable deduction of a taxpayer during the year consisted of the following: Cost of sales. P 600,000 Regular itemized allowable deductions. 400,000 Special itemized deductions, including P100,000. deduction incentives 300,000 Net operating loss carry-over. 150,000 To an individual taxpayer, optional standard deduction is in lieu of a. P750,000 c. P1,300,000 b. P850,000 d. P1,450,000

5. Assuming that the taxpayer in the immediately preceding problem is a corporation, OSD is in lieu of a. P750,000 c. P1,300,000 b. P850,000 d. P1,450,000

6. Mrs. Belo had the following in 2020: Sales P 3,400,000 Cost of sales 1,200,000 Administrative expenses. 300,000 Selling expenses. 500,000 Other taxable income from operations. 120,000 Other non-operating income 80,000 Passive income, net of final tax 70,000 Assuming Mrs. Belo elects to deduct OSD, compute the OSD. a. P800,000 c. P1,480,000 b. P1,360,000 d. P1,440,000

7. In the immediately preceding problem, compute the OSD assuming the taxpayer is a corporation. a. P1,440,000 c. P928,000 b. P960,000 d. P880,000

8. A self-employed practitioner and a part-time employee derived the following income in 2010: Gross receipts. P 800,000 Compensation income. 300,000 Dividend income from a Real Estate Investment Trust 20,000 Assuming the taxpayer opted to avail of OSD, what is the OSD? a. P320,000 c. P440,000 b. P328,000 d. P448,000

9. The following relate to collections upon billings, receipts, and unpaid billings of a practitioner during the year: Receipts from current year billings. P 800,000 Receipts from last year's billings. 200,000 Current year uncollected billings. 100,000 Reimbursement for out-of-pocket expenses. 20,000 Compute the OSD if the taxpayer is under the accrual basis. a. P408,000. c. P360,000 b. P368,000 d. P320,000

10. Compute the OSD if the taxpayer is under the cash basis. a. P408,000. c. P368,000b. P368,000. d. P320,000

Multiple Choice - Problems 2

1. The result of corporations of the taxpayer resulted in the following: Gross sales revenue. P 7,200,000 Beginning inventory. 300,000 Purchases. 5,800,000 Ending Inventory. 1,400,000 Other operating revenues 100,000 Non-operating income. 20,000 Assuming the taxpayer is an individual, what is the optional standard deduction? a. P1,040,000. c. P2,920,000b. P1,048,000. d. P2,928,000

2. In the immediately preceding problem, what is the OSD if the taxpayer is a corporation? a. P1,040,000. c. P2,920,000b. P1,048,000. d. P2,928,000

3. A professional practitioner has total uncollected billings of P200,000 at the year-end of 2019. Additional billings totaling P2,500,000 were made in 2020. Uncollected billings at the year-end of 2020 were P400,000 If he chooses to claim OSD I, determine the gross receipts. a. P2,100,000. c. P2,500,000b. P2,300,000. d. P2,700,000

4. In the second quarter of 2019, Mr. Mariano reported total gross income of P2,000,000 after P1,500,000 direct cost of services. If Mr. Mariano claimed itemized deduction in the first quarter, what is the amount of claimable OSD in the second quarter if he wishes to change to the OSD? a. P 0. c. P800,000b. P600,000. d. P1,400,000

5. A private educational institution subject to a 10% preferential corporate tax reported the following in the first quarter of 2020: Gross tuition revenues. P13,800,000 Less: Tuition discounts and remission. 400,000 Direct cost of services. 6,700,000 Gross income from canteen and bookstores 600,000 Compute the allowable OSD if the school wants to claim OSD. a. P 0. c. P5,600,000b. P2,920,000. d. P5,760,000

6. Mr. Calabarzon reported the following data in 2020: Sales. P 1,000,000 Cost of sales. 600,000 Gain on sale equipment. 60,000 Interest income from bank deposits. 40,000 Deductible expenses. 300,000 Non-deductible expenses. 200,000

Answer the following questions: Compute the optional standard deduction. a. P440,000. c.
P400,000 b. P424,000. d. P160,000

7. Compute the taxable income of Mr. Calabarzon. a. P700,000. c. P340,000 b. P660,000.
d. P300,000

8. Assuming that Calabarzon is a corporate taxpayer, compute the optional
standard deduction. a. P440,000. c. P184,000 b. P424,000. d. P160,000

CHAPTER 14

1. The husband and the wife are treated as separate taxable units. Each spouse shall compute his or her taxable income, but both of them shall file a single return to include the income of both spouses.
2. A revocable trust does not pay income tax.
3. Estates under judicial administration are considered individual taxpayers.
4. Non-resident persons shall file their tax return to the Office of the Commissioner of Internal Revenue.
5. The income distribution by a taxable estate or trust is a special deduction to the estate or trust, but is an item of gross income to the recipient heir or beneficiary.
6. The income of minors from properties received as donations from parents is taxable to the minor if the donation is exempt from the donor's tax.
7. The income of minors from properties received as donations from parents is taxable to the parents if the donor's tax on the donation is not paid.
8. A disabled person need not file a return by virtue of his disability.
9. The taxpayer's signature in the income tax return is presumed prima facie correct.
10. Large taxpayers shall e-file their tax returns through the B1R Electronic Filing and Payment System.
11. Two or more trusts are consolidated as a single trust when both are designated for the same beneficiary without regard to their grantor.
12. When the grantor reserved for himself part of the income of the trust, the same shall be treated as income of the grantor.
13. A trustee employee pension fund does not pay income tax.

14. The substituted filing of tax returns does not apply when there is concurrent or successive employment of the employee during the year.

15. An employee trust fund must be managed by the employer to be tax-exempt.

MULTIPLE CHOICE QUESTIONS

1. An individual whose residence is not within the Philippines and who is not a citizen thereof

Non-resident alien

2. Who is a resident citizen? a. A citizen who went on tour abroad b. A citizen of the Philippines who establishes to the satisfaction of the CIR the fact of his physical presence abroad with a definite intention to reside therein c. A citizen of the Philippines who leaves the Philippines during the taxable year to reside abroad d. A citizen of the Philippines who works and derives income abroad and whose employment requires him to be physically present abroad most of the time during the year
3. Which of the following is an individual whose residence is within the Philippines but who is not a citizen thereof? a. Resident citizen c. Resident alien b. Non-resident alien d. Non-resident citizen
4. A non-resident alien is considered engaged in trade or business in the Philippines if he stayed therein for a. at least 183 days. c. more than 183 days. b. at least 180 days. d. more than 180 days.
5. On which of the following dates shall a citizen who left the Philippines during the year be classified as a non-resident citizen for the year? a. May 31 c. July 15 b. July 31 d. November 30
6. An alien shall be classified as resident in 2019 if he arrived in the Philippines on which of the following dates? a. December 30, 2018 c. July 15, 2019 b. January 1, 2019 d. December 31, 2019
7. How long does a citizen have to stay abroad before classified as non-resident? **at least 183 days**
8. How long shall an alien have to stay in the Philippines before being classified as a resident alien?
9. The length of stay of individuals for purposes of taxpayer classification is reckoned as of a. December 31 of the current year. b. December 31 of the prior year. c. the day the alien individual leaves the Philippines. d. the day the individual taxpayer files his income tax return.
10. Which of the following is not subject to regular income tax?
a. Resident citizen b. resident alien c. non-resident alien engaged in trade or business d. non-resident alien not engaged in trade or business

11. In 2021, an alien who has been in the country since July 1, 2020 is classified as a a. Resident citizen c. NRA - ETB b. Resident alien d. NRA - NETB

12. In 2021, an American who had been a resident in the Philippines since August 14, 2021 is a a. resident citizen. c. NRA - ETB b. resident alien. d. NRA-NETB

Multiple-Choice: Theory - Part 2

1. A taxpayer who is both engaged in business and employment is not

a. subject to the withholding tax on salaries by his employer.

- b. required to file quarterly income tax on business income.
- c. required to consolidate his quarterly mixed income for quarterly tax reporting.
- d. required to file an annual consolidated income tax return.

2. Which of the following may be subject to final tax?

- a. 13th month pay and other benefits
- b. Supplemental compensation
- c. Fringe benefits
- d. Regular compensation income

3. Which of the following cannot claim deduction from gross income?

- a. Resident citizens deriving income solely from employment
- b. Non-resident citizens engaged in business
- c. Resident citizens deriving mixed income from employment and business
- d. Resident aliens deriving a mix of passive income and business income

4. To which of the following does the substituted filing system apply?

- a. Purely employed taxpayers
- b. Taxpayers purely engaged in business
- c. Mixed income taxpayers
- d. Any of these

Which is not a requisite of the substituted filing system?

- a. The taxpayer must have only one source of business income.
- b. The taxpayer must have only one employer during the year.
- c. The taxpayer has no other source of gross income subject to regular tax other than compensation.
- d. The employer did not commit errors in the computation of the employee's income tax.

6. Which of the following employees is not required to file an annual consolidated income tax return?

- a. Those with concurrent employment during the year

- b. Those with successive employment during the year
 - c. Those deriving income distribution from a general professional partnership, taxable trusts, or taxable estates
 - d. Those earning purely compensation income when the employer correctly withheld the tax
7. Which individual income taxpayer can claim tax credit for foreign taxes paid?
- a. Resident citizen c. Non-resident citizen
 - b. Resident alien d. All of these
8. What is the optional standard deduction claimable by individual income taxpayers who are engaged in business?
- a. 25% of gross income c. 40% of gross income
 - b. 25% of sales or receipt d. 40% of gross receipt or sales
9. When should individual income taxpayers submit their annual or consolidated return for the year 2021?
- a. April 15, 2021
 - b. November 15, 2021
 - c. April 15, 2022
 - d. 15th day of the fourth month following the fiscal year of the taxpayer
10. Which of the following taxes is a resident citizen or alien subject?
- a. Final tax c. Regular tax
 - b. Capital gains tax d. All of these
11. A non-resident alien, not engaged in trade or business is not subject to
- a. final tax. c. regular tax. J
 - b. capital gains tax. d. None of these

Multiple-Choice: Theory - Part 3

1. Who is not required to file quarterly income tax return.
- a. Pure compensation income earner
 - b. Pure business income earner

- c. Pure professional income earner
- d. Mixed income earner

2. Who is not subject to withholding tax on compensation?

- a. Mixed income earner
- b. Pure compensation income earner
- c. Minimum wage earner
- d. None of these

3. An individual who want to pay the regular income tax using optional standard deductions shall use

- a. Form 1700 c. Form 1701A
- b. Form 1701 d. Form 1702

4. Individuals opting to be taxed under 8% income tax shall use

- a. Form 1700 c. Form 1701A
- b. Form 1701 d. Form 1702

5. Trusts and estates shall use which tax form

- a. Form 1700 c. Form 1701A
- b. Form 1701 d. Form 1702

6. An adjustment return is least likely to be required when

- a. The employee receives compensation from multiple employers
- b. The employee has two successive employers during the year
- c. The employer has under-withheld the tax
- d. The employer has over-withheld the tax

7. A minimum wage earner who is subjected to withholding tax shall

- a. file an adjustment return and pay residual tax.

- b. file a quarterly income tax return.
- c. file an adjustment return and claim tax refund.
- d. do nothing.

8. If husband and wife are both employed, which is correct regarding their income tax exemption in the tax table?

a. Each spouse shall be entitled to a P250,000 income tax exemption in the tax table.

b. Each family is allowed P500,000 income tax exemption in the tax table.

Either the husband or the wife can take advantage of the P500,000 income exemption in the tax table.

d. Only the husband shall be allowed the P250,000 income tax exemption in the tax table.

9. A husband earned P450,000 taxable income. His wife also earned P100,000 taxable income. Which is true?

a. There will be no aggregate tax due for the spouses.

b. The husband pays tax while the wife is exempt.

c. The wife pays the tax while the husband is exempt.

d. Both spouses will report tax due.

10. If the husband is employed with P 700,000 taxable income while his wife is unemployed, he shall will be actually subject to tax on

a. P 700,000 of income. c. P 350,000 of income.

b. P 450,000 of income. d. P 200,000 of income.

11. Which of the following scenario will still require an adjustment return from the employee even if the employers correctly withheld the tax on their compensation payments?

- a. Employee has concurrent employment
- b. Employees had successive employees during the year
- c. The employee earned income from other sources
- d. All of these

12. An employee who earned income from other sources shall use which annual return?

- a. Form 1700
- b. Form 1701
- c. Form 1701A
- d. Form 1702

13. Which is a source of tax credit against the tax due under Form 1701

- a. form 2316 b. form 2307 c. 1701q d. all of these

14. Which is a tax credit against the tax due under form 1700?

- a. form 2316 b. from 2307 c. 1701q d. all of these

15. The first quarter income tax return is due

- a. April 15 of the same year
- b. April 25 of the same year
- c. May 15 of the same year
- d. May 25 of the same year

16. The third quarter income tax return is due

- a. August 15 of the same year
- b. August 25 of the same year
- c. November 15 of the same year
- d. November 25 of the same year

17. Which is incorrect regarding the 8% optional income tax?

- a. It substitutes the regular income tax and the 3% percentage tax.
- b. The 8% income tax option is irrevocable for the year it is made.
- c. May be opted to if the taxpayer claimed optional standard deduction.
- d. May be used even if the taxpayer is also an employee.

18. Which will not be included in the tax basis of the 8% income tax?

- a. Gross sales c. Gross income from operation
- b. Gross receipts d. Other gross income subject to regular tax

19. Which is an item of income subject to regular tax?

- a. Dividend income c. Gain on sale of domestic stocks
- b. Royalty income d. Gain on sale of equipment

20. Who is not allowed the option to be taxed at 8%?

- a. Compensation income earner
- b. Business income earner
- c. Professional income earner
- d. Mixed income earner

21. Statement 1: There is no need to file a consolidated return if the withholding tax on compensation and the expanded withholding tax is correctly withheld.

Statement 2: A businessman who is deriving income from a sole customer need not file a consolidated return if the customer correctly withheld any expanded withholding tax.

- a. True; True c. False; True
- b. True; False d. False; False

Multiple Choice: Problems - Part 1

1. Trixie's business uses a fiscal year accounting period starting July 1 and ending

June 30 for internal reporting. Her business reported the following quarterly net income on a fiscal year basis:

FISCAL YEAR	2020-2021	2021-2022
- 1 st Quarter (July 1 to September 30)	P 190,000	210,000
- 2 nd Quarter (October 1 to December 31)	220,000	250,000
- 3 rd Quarter (1/1/2022 – 3/31/2022)	180,000	
- 4 th Quarter (4/1/2022 – 6/30/2022)	200,000	

Compute the taxable net income to be reported april 15, 2023

2. Jerson, married 15 dependents, had the following income within and outside the Philippines: Compensation income P 280,000, Rental income P 50,000, Royalties - books P 100,000, Domestic dividends P 32,000, Foreign dividends P 25,000, Philippines Abroad P 9,000, • - 40,000. Compute Jerson's taxable income assuming she is a resident citizen. a. P 330,000 c. P 495,000 b. P 371,000 d. P 536,000

3. Compute his taxable income assuming she is a resident alien. a. P 330,000 c. P 495,000 b. P 371,000 d. P 536,000

4. Henry Sy, a managerial employee, received the following employee benefits in 2020: Salaries, net of mandatory and exempt benefits P 4,000,000, Stock bonus P 000,000, Director's fees P 200,000, Car designated for the use of Henry P 2,500,000, House and lot, transferred in the name of Henry P 5,000,000. Compute the taxable income of Henry. a. P 12,500,000 c. P 5,000,000 b. P 7,500,000 d. P 4,800,000

5. In the immediately preceding problem, compute the fringe benefit tax for the year. a. P 1,346,153 c. P 2,826,923 b. P 2,692,308 d. P 4,038,462

6. The following relate to the net income of the firm of Mr. Oda: Professional fees P 600,000, Long-term capital gain P 80,000, Short-term capital gain P 45,000, Ordinary gain P 20,000, Long-term capital loss (P 90,000), Short-term capital loss (P 30,000), Ordinary loss (P 40,000), Other business expenses P 200,000, Net income P 38,000. Compute his taxable income. a. P 385,000 c. P 410,000 b. P 390,000 d. P 435,000

7. Shown below is the summarized result of operations of Mr. Chiz Mozo's business: Sales P 900,000, Cost of sales P 300,000, Gross profit P 600,000, Other deductible expenses P 100,000, Contributions P 600,000, Government priority project P 25,000, Non-accredited non-profit institution P 55,000, Foreign foundation P 50,000, Net income P 25,000. Compute his taxable income. a. P 400,000 c. P 420,000 b. P 405,000 d. P 450,000

8. During the year, Celeen received compensation income of P 455,000 after P 15,000 withholding tax on compensation. Compute her income tax still due. a. P 48,750 c. P 28,750 b. P 47,500 d. P 32,500

9. A Filipino citizen has P400,000 Philippine income and P300,000 foreign income. He paid P55,000 income taxes abroad. Compute the allowable tax credit for the income taxes paid abroad. a. P0 c. P 45,000 b. P 40,000 d. P 55,000

10. In the preceding problem, what is the tax credit if the taxpayer was a non-resident citizen or a resident alien? a. P 0 c. P 45,000 b. P 40,000 d. P 55,000

Multiple Choice: Problems - Part 2

1. An individual taxpayer recorded sales of P 2,500,000, cost of sales of P1,000,000 and expenses of P700,000. He is also a partner in various partnership and received the following share in their net income:

General professional partnership Business partnership Share in net income P 200,000 P 400,000

C P 310,000 c. P 190,000 * P 250,000 d. P 130,000

2- Compute the income tax due if opted to the 8% optional income tax. P 216,000 c. P 196,000 J, P 200,000 d. P 180,000

3. P 400,000 Gross salaries Deductions for:

Karen Kaied received the blowing income from her employment in 2021: - sss PhilHealth - Pag-Ibig Union dues Withholding tax Loans repayment Tardiness and absences Net pay P 10,000 8,000 7,000 2,000 67,400 50,000 15,000 P 240,600 Compute Karen Kaled's taxable compensation income. a. P 240,600 c. P 358,000 b. P 290,600 d. P 400,000

3. Karen Kaled received the following income from her employment in 2021:

Gross salaries	P 400,000
Deductions for:	
- SSS	P 10,000
- PhilHealth	8,000
- Pag-Ibig	7,000
- Union dues	2,000
- Withholding tax	67,400
- Loans repayment	50,000
- Tardiness and absences	15,000
Net pay	<u>P 240,600</u>

Compute Karen Kaled's taxable compensation income.

- a. P 240,600 c. P 358,000
b. P 290,600 d. P 400,000

4. Magdalene made the following computations of her annual financial savings from employment, her sole source of income: Salaries, net of P59,000 withholding tax and P12,000 mandatory payroll deductions P 321,000 Expenses: Load expenses P 10,000 Medical expenses 8,000 Transportation expenses 25,000 Food, rent & utilities 100,000 Bank loan repayments 20,000 Miscellaneous expenses 15,000 Net savings for 2020 P 143,000 What is Magdalene's taxable compensation income

in 2021? a- P 280,000 c.P 380,000 b- P321,000 d.P 392,000 Mr. Roger presented the following schedule of income in 2021:

4. Magdalene made the following computations of her annual financial savings from employment, her sole source of income:

Salaries, net of P59,000 withholding tax and P12,000 mandatory payroll deductions	P 321,000
Expenses:	
- Load expenses	P 10,000
- Medical expenses	8,000
- Transportation expenses	25,000
- Food, rent & utilities	100,000
- Bank loan repayments	20,000
- Miscellaneous expenses	<u>15,000</u>
Net savings for 2020	<u>P 143,000</u>

What is Magdalene's taxable compensation income in 2021?

- a. P 280,000 c. P 380,000
b. P 321,000 d. P 392,000

5. Mr. Roger presented the following schedule of income in 2021

Service fees, net of 5% withholding tax Dividends from a domestic corporation Interest income from bank P 617,500 20,000 10,000 Expenses: Office utilities expenses Staffsalaries Rent & miscellaneous expenses Tuition fees of 5 dependent children Personal medical expenses Net business income P 30,000 120,000 80,000 100,000 15,000 P 25L50I1 Total deductible expense against gross income is

Service fees, net of 5% withholding tax	P 617,500
Dividends from a domestic corporation	20,000
Interest income from bank	10,000
Expenses:	
- Office utilities expenses	P 30,000
- Staff salaries	120,000
- Rent & miscellaneous expenses	80,000
- Tuition fees of 5 dependent children	100,000
- Personal medical expenses	<u>15,000</u>
Net business income	<u>P 297,500</u>

Total deductible expense against gross income is

- a. P 0 c. P 330,000
b. P 230,000 d. P 345,000

6. Compute Roger's taxable net income, a. P 305,000 c.P 387,500 b. P 320,000 d.P 420,000

7. Compute the tax still due. a. P 21,500 refundable b. P 18,500 refundable c. P 5,000 refundable d. P 2,500 payable

8. Compute the tax still due if Mr. Roger opted to the 8% optional tax. a. P 31,800 payable c. P 4,400 refundable b. P 32,000 payable d. P 500 refundable

9. Clyde Jerik, a self-employed employee with ten dependent children, had the following items of income and expenses in 2021: Sales P 900,000 Less: Cost of sales 400,000 Gross profit P 500,000 Interest income, net of 20% final tax 16,000 Interest income from clients notes 12,000 Expenses: Salaries expense P 100,000 Depreciation expense 15,000 Rent & other expenses 50,000 Interest expense 30,000 Net Income P-333,000 Compute the deductible business expense. a. P 165,000 c. P 189,720 b. P 188,400 d. P 191,000

9. Clyde Jerik, a self-employed employee with ten dependent children, had the following items of income and expenses in 2021:

Sales	P 900,000
Less: Cost of sales	<u>400,000</u>
Gross profit	P 500,000
Interest income, net of 20% final tax	16,000
Interest income from clients notes	12,000
Expenses:	
- Salaries expense	P 100,000
- Depreciation expense	15,000
- Rent & other expenses	50,000
- Interest expense	<u>30,000</u>
Net Income	<u>P 333,000</u>

Compute the deductible business expense.

- a. P 165,000 c. P 189,720
b. P 188,400 d. P 191,000

9. Clyde Jerik, a self-employed employee with ten dependent children, had the following items of income and expenses in 2021:

Sales	P 900,000
Less: Cost of sales	<u>400,000</u>
Gross profit	P 500,000
Interest income, net of 20% final tax	16,000
Interest income from clients notes	12,000
Expenses:	
- Salaries expense	P 100,000
- Depreciation expense	15,000
- Rent & other expenses	50,000
- Interest expense	<u>30,000</u>
Net Income	<u>P 333,000</u>

Compute the deductible business expense.

- a. P 165,000 c. P 189,720
b. P 188,400 d. P 191,000

10. Clyde Jerik shall report a taxable income of

11. Compute the taxable income if Clyde Jerik opted to use the optional standard deduction. a. | > 552,000 c. P 540,000 b. P 547,200 d. P 307,200

12. Compute the income tax due if Clyde Jerik opted to use the 0% optional income tax. a. P 72,960 c. P 52,960 b. P 72,000 d. P 52,000

13. An individual income tax payer had the following income: Compensation income Mandatory payroll deductions Gross receipts Direct cost of services Expenses Other income subject to regular tax Other income subject to final tax Withholding tax on compensation Expanded withholding tax on receipts Estimated tax payments made P 820,000 20,000 1,800,000 500,000 300,000 100,000 200,000 130,000 14,000 94,000

Compute the income tax still due if the taxpayer opted to the itemized deduction. a. P 351,000 c. P 222,000 b. P 322,000 d. P 192,000

13. An individual income tax payer had the following income:

Compensation income	P 820,000
Mandatory payroll deductions	20,000
Gross receipts	1,800,000
Direct cost of services	500,000
Expenses	300,000
Other income subject to regular tax	100,000
Other income subject to final tax	200,000
Withholding tax on compensation	130,000
Expanded withholding tax on receipts	14,000
Estimated tax payments made	94,000

Compute the income tax still due if the taxpayer opted to the itemized deduction.

- a. P 351,000 c. P 222,000
b. P 322,000 d. P 192,000

14. Compute the income tax still due if the taxpayer opted to the optional standard deduction. a. P 351,000 c. P 222,000 b. P 246,000 d. P 192,000 a. P 282,000 b. P 278,000

15. Compute the income tax due if the taxpayer opted to the 8% optional income tax c. P 262,000 d. P 254,000

CHAPTER 15B

True or False 1

1. Domestic corporations are subject to either gross income tax or regular corporate income tax.
2. A partnership organized under Philippine law is a domestic corporation for purposes of taxation.
3. Exempt corporations are subject to MCIT with respect to their income subject to regular corporate income tax.
4. MCIT does not apply to foreign corporations.
5. As a rule, corporations always pay tax even if there is a loss effective from the fourth year of their operations.
6. Resident foreign corporations are subject to either gross income tax or regular corporate income tax.
7. Foreign MSMEs can claim 20% corporate income tax.
8. Non-resident foreign corporation are subject to minimum corporate income tax.
9. The 20% corporate income tax cannot apply if the gross profit exceeds P5,000,000.
10. Large corporations with taxable income not exceeding P5,000,000 can claim the 20% corporate income tax.
11. The MCIT applies only when income is zero or when there is an operating loss.
12. MSMEs and REITs are exempt from MCIT.
13. Special domestic corporations and special resident foreign corporations are exempt from MCIT.
14. MCIT is generally computed as 2% of the gross income from operations starting July 1, 2023.
15. If an entity started operations on June 2021, MCIT shall commence on June 2025.

True or False 2

1. The cost of services of banks includes interest expense.
2. MCIT is applied on a quarterly, but not on an annual basis.
3. MCIT excess can be deducted only against the excess of RCIT over the MCIT in any of the succeeding three years.
4. When there are several excess MCIT in prior years, the crediting of MCIT is made in a first-in first-out (FIFO) basis.
5. The MCIT gross income includes only those arising from operations while the OSD gross income covers all items of gross income subject to regular income tax.

6. For Purposes the MCIT, cost of sendees includes all direct costs and expenses incurred in acquiring or manufacturing the goods.
7. Items of passive income subject to final tax and capital gains tax are included in the basis of the MCIT.
8. For accrual basis taxpayers, the cost of services shall include unpaid expenses directly incurred in the provision of services
9. The gross receipts of service providers include advances from clients or customers.
10. Corporations with income subject to special tax are mandatorily required to use the itemized deductions.
11. Whenever MCIT is payable, there is a Net Operating Loss Carry-Over.
12. An unused excess MCIT will expire on the fourth year of operation.
13. The excess MCIT of previous years can be deducted against the RCIT of any quarter of the year if RCIT is greater than MCIT.
14. The MCIT rules are applied on the cumulative balances of the RCIT and MCIT during the quarters of the taxable year.
15. MCIT can be suspended for a taxpayer suffering from prolonged labor dispute, force majeure, or legitimate business reverses.
16. The Commissioner of Internal Revenue may suspend the imposition of MCIT upon submission of the required proof.
17. The branch profit remittance tax covers remittance of special resident foreign corporations except PEZA-registered entities.

Multiple-Choices: Theory - Part 1

1. Which is a correct statement?
 - a. Domestic corporations shall elect either MCIT or RCIT.
 - b. Resident foreign corporations are liable to either 20% or 25% RCIT.
 - c. MSMEs may still be taxable like large corporations.
 - d. Resident foreign corporations are elect either RCIT and MCIT.
2. Resident foreign corporations
 - a. shall elect either RCIT or MCIT.

- b. may be subject to 20% RCIT.
- c are limited to 25% RCIT subject to the 1% or 2% MCIT.
- d are required to withhold the dividend tax.

3 Which is exempt from the corporate income tax?

- a. Non-profit corporations
- b. Joint venture
- c. Partnership
- d. Government-owned and controlled corporations

4 Which of these can claim the corporate OSD against gross income?

- a. Private schools
- b. Non-profit hospital
- c. Exempt corporations
- d. Retail stores

5. Which is subject to or can be subjected to MCIT?

- a. Private schools
- b. Non-resident lessors of aircraft or vessels
- c. Non-profit hospitals
- d. Exempt corporations

6. Which is not a requisite of the 20% RCIT?

- a. Total assets excluding land must not exceed P100M
- b. Must not be a foreign corporation
- c. Taxable income must be P5,000,000 or less
- d. Corporation must not be subject to special tax rates

7. The regular corporate income tax is

- a. 25% of gross income.

- b. 2% or 1% of taxable income.
- c. 25% of taxable income.
- d. 2% of gross income.

8. The minimum tax for corporate taxpayers is

- a. 15% of gross income.
- b. 2% or 1% of taxable income.
- c. 2% of gross income.
- d. 15% of taxable income.

9. The MCIT applies to

- a. domestic and resident corporations.
- b. domestic corporations only.
- c. special corporations.
- d. non-resident foreign corporation.

10. The gross income for MCIT purposes covers

- a. those from related activities only.
- b. all items of income subject to regular tax.
- c. all items of income subject to any tax scheme.
- d. any of these.

11. The maximum cost ratio for corporations to avail of the gross income tax is

- a. 60% c. 55%
- b. 40% d. 45%

12. The minimum lock-in period under the corporate gross income tax is

- a. five years. c. three years.
- b. four years. d. two years.

13. The MCIT is not due when

- a. MCIT is greater than RCIT.
- b. taxable income is zero.
- c. taxable income is negative.
- d. RCIT is greater than MCIT.

Multiple Choice: Theory - Part 2

1. Which is included in the MCIT base?

- a. Dividend income from domestic corporations
- b. Royalty income
- c. Interest income from banks
- d. Ordinary gains

2. Which taxpayer is subject to the MCIT?

- a. Private schools
- b. Government-owned and controlled corporations
- c. Home Development Mutual Fund
- d. International carriers

3. Exempt corporations are subject to MCIT on their income from

- a. related activities.
- b. unrelated activities.
- c. both related and unrelated activities if they pass the dominance test.
- d. both related and unrelated activities if they fail the dominance test.

4. MCIT shall commence on the

- a. 5th year of operation.
- b. 3rd year of operation.

- c. 4th taxable year following the year of start of operation.
- d. 3rd taxable year following the year of start of operation.

5 Excess MCIT is a tax credit that can be carried over to the next

- a. 3 consecutive years.
- b. 4 consecutive years.
- c. 3 years including the year it arises.
- d. 2 consecutive years when there is income.

6 Which is deductible in the computation of the MCIT?

- a. Marketing expenses
- b. Office utilities
- c. Loss on sale of assets
- d. Salaries of employees directly engaged in rendering the service

Which of these may grant relief from the MCIT?

7 a Secretary of Finance

- b. Office of the Commissioner of Internal Revenue
- c. Office of the Revenue District Officer having jurisdiction
- d. National office of the BIR

8. Private schools and non-profit hospitals may be subject to MCIT when

- a. they are subject to the 25% RCIT.
- b. they are subject to the 10% (now 1%) preferential rate.
- c. their income from related activities exceeds 50% of their total revenue all sources.
- d. they are exempt from income on related activities.

9. If a foreign corporation operates a branch in the Philippines but transacts business directly with Philippine residents, the corporation is

a. taxable on net income. b. automatically reclassified into a non-resident foreign corporation. only

10. For taxpayers involved in the sale of goods, gross income means a. gross sales less sales returns, discounts and cost of goods sold. b. gross receipts less returns, allowances, discounts and cost of goods sold c. gross sales less sales returns, discounts and cost of services. d. gross receipts less returns, allowances, discounts and cost of services.

11. For taxpayers involved in the sale of services, gross income means a. gross sales less sales returns, discounts and cost of goods sold. b. gross receipts less returns, allowances, discounts and cost of goods sold. c. gross sales less sales returns, discounts and cost of services. d. gross receipts less returns, allowances, discounts and cost of services.

12. Gross receipts, as compared with gross sales, include a. cash collections only. b. transactions on account sales only. c. both cash and on account transactions. d. cash collections on completed contracts only.

13. Which is not included in gross receipts? a. Reimbursements for out-of-pocket cost of the service provider b. Repayment on loan by the client c. Advanced collection of income d. Cash collection for services rendered

14. Which of the following is least likely included in the "cost of services" for a bank? a. Bad debt expense on loans b. Interest expense c. Depreciation of bank premises d. Salaries of tellers

Multiple Choice: Theory - Part 3

1. In the quarterly income tax return, Excess MCIT prior year is deductible only when a. the MCIT exceeds the RCIT for that quarter. b. the RCIT exceeds the MCIT for that quarter. c. the cumulative MCIT exceeds the cumulative RCIT as of the end of that quarter. d. the cumulative RCIT exceeds the cumulative MCIT as of the end of that quarter.

2. The quarterly income tax return is due on or before a. 60 days following the end of the quarter. b. 30 days following the end of the quarter. c. 15th day of the fourth month following the end of the quarter. d. 45 days following the end of the quarter.

3. The optional standard deduction for corporations a. excludes cost of goods sold and cost of services. b. includes cost of goods sold and cost of services. c. includes personal exemption. d. excludes actual items deductions.

4. Which of the following is not a direct cost of service of a corporate car-parking operator? a. Marketing expenses b. Cashier salaries c. Depreciation of parking building d. Security guard salaries

5 Which of the following is not a deduction in the computation of the income tax payable or refundable?
a. Estimated quarterly income tax payment b. Final withholding tax on passive income c. Excess MCIT prior year d Creditable withholding tax on gross income

6 Which of the following tax credit is not always creditable in the current accounting period? a. MCIT Excess prior year b Excess creditable withholding tax in prior years c Creditable withholding tax in the current year d Estimated quarterly income tax payment

7 Excess MCIT is valid a. five years. b. four years. as a tax credit over c. three years. d. two years.

8. Which is subject to the Improperly Accumulated Earnings tax? a. Domestic corporations b. Resident foreign corporations c. Non-resident foreign corporations d. All of these

9. Which of these is deducted in the computation of the improperly accum profits? u'ated a. Profits from passive income b. Profits from capital gains c. NOLCO d. Corporate income tax

10. The branch profit remittance tax is 15% of the total profits a. of the current year. b. of the current year earmarked for remittance, including investment income c. earmarked for remittance without deducting the tax. d. actually remitted to the home office abroad, net of the tax.

11. Which of these entities is exempt from the branch profit remittance tax? a. OBUandFCDUs b. Regional operating headquarters of multinational companies c. International carriers d. PEZA-registered entities

12. The branch profit remittance tax is imposed a. upon all foreign corporations, resident or non-resident. b. whenever the foreign branch reports income. c. when there is profit remittance by the branch to the home office. d. upon resident corporations, domestic or foreign.

Multiple Choice: Problems - Part 1

1. A MSME corporation reported its first profits in 2021 since its start-up in 2018. The following summarizes its results of operations: Sales, net of discounts and allowances Less: Cost of sales P 5,000,000 2,000,000 Gross income Regular allowable deductions Special allowable deductions NOLCO Net income P 3,000,000 P 1,200,000 200,000 500,000 1,900,000 P 100,000 What is the income tax due? a. P 20,000 c. P30,000 b. P 25,000 d. P60,000

1. A MSME corporation reported its first profits in 2021 since its start-up in 2018. The following summarizes its results of operations:

Sales, net of discounts and allowances	P 5,000,000
Less: Cost of sales	<u>2,000,000</u>
Gross income	P 3,000,000
Regular allowable deductions	P 1,200,000
Special allowable deductions	200,000
NOLCO	<u>500,000</u>
Net income	<u>P 100,000</u>

What is the income tax due?

- a. P 20,000 c. P 30,000
b. P 25,000 d. P 60,000

2. The following relates to a corporation on its fourth year of operation in 2021: Gross income P 10,000,000 Deductions 6,000,000 Compute the tax due if the taxpayer is a large corporation. a. P 800,000 c. P 1,200,000 b. P 1,000,000 d. P 1,500,000

2. The following relates to a corporation on its fourth year of operation in 2021:

Gross income	P 10,000,000
Deductions	<u>6,000,000</u>
Taxable income	<u>P 4,000,000</u>

Compute the tax due if the taxpayer is a large corporation.

- a. P 800,000 c. P 1,200,000
b. P 1,000,000 d. P 1,500,000

3. Compute the tax due if the taxpayer is a large corporation using OSD. a. P 800,000 c. P 1,200,000 b. P 1,000,000 d. P 1,500,000
4. Compute the tax due if the taxpayer is a MSME corporation. a. P 800,000 c. P 1,200,000 b. P 1,000,000 d. P 1,500,000
5. Compute the tax due if the taxpayer is a MSME corporation using OSD. a. P 800,000 c. P 1,200,000 b. P 1,000,000 d. P 1,500,000
6. The following are the composition of the total gross income of a MSME domestic corporation which is subject to MCIT in 2021:

6. The following are the composition of the total gross income of a MSME domestic corporation which is subject to MCIT in 2021:

Sales, net of discounts and allowances	P 4,000,000
Less: Cost of sales	<u>2,400,000</u>
Gross income from operations	P 1,600,000
Dividend income	100,000
Royalty income	250,000
Gain on sale of building	<u>150,000</u>
Total gross income	<u>P 2,100,000</u>

What is the minimum corporate income tax?

- a. P 42,000 c. P32,000
b. P 35,000 d. P17,500

7. In the immediately preceding problem, what is the regular corporate income tax if the corporation has a total allowable deduction of P1,700,000? a. P 10,000 c. P15,000 b. P 12,500 d. P90,000
8. The IJngkodBayan Corporation had the following historical MCIT and RCIT data

8. The IJngkodBayan Corporation had the following historical MCIT and RCIT data:

	2018	2019	2020	2021
MCIT	P 120,000	P 200,000	P 190,000	P 170,000
RCIT	P 110,000	P 220,000	P 0	180,000

Basing solely on the information provided, what is the tax due and payable respectively in 2018 and 2019?

- a. P120,000; P220,000 c. P120,000; P210,000
b. P120,000; P100,000 d. P110,000; P220,000

9. In the immediately preceding problem, what is the tax due and payable respectively in 2020 and 2021 ? a. P1 90,000; P0 c. P 0; P 0 b. P190,000; P180,000 d. P1 70,000; P 0

10. Shown below are the operating results of Bulalacao Company, a large corporation, since its start of operations: Deductions 2016 P 4,000,000 P 5,000,000 2017 4,500,000 5,200,000 2018 5,500,000 5,000,000 2019 6,000,000 5,800,000 2020 6,500,000 6,100,000 2021 7,000,000 6,200,000 What is the income tax due respectively in 2019 and 2020? a. P1 20,000; P0 c. P0; P97,500 b. P120,000; P70,000 d. P0; P130,000

10. Shown below are the operating results of Bulalacao Company, a large corporation since its start of operations:

	<u>Gross income</u>	<u>Deductions</u>
2016	P 4,000,000	P 5,000,000
2017	4,500,000	5,200,000
2018	5,500,000	5,000,000
2019	6,000,000	5,800,000
2020	6,500,000	6,100,000
2021	7,000,000	6,200,000

What is the income tax due respectively in 2019 and 2020?

- a. P120,000; P 0 c. P0; P97,500
b. P120,000; P70,000 d. P0; P130,000
11. In the immediately preceding problem, what is the income tax due in 2021? a. P240,000 c. P10,000 b. P142,500 d. P102,500
12. A large corporate taxpayer had the following data in operation:

operation:

	<u>Philippines</u>	<u>Abroad</u>	<u>Total</u>
Sales	P 2,000,000	P 3,000,000	P 5,000,000
Less: Cost of services	<u>1,200,000</u>	<u>1,800,000</u>	<u>3,000,000</u>
Gross income from operation	P 800,000	P 1,200,000	P 2,000,000
Interest on deposits	<u>50,000</u>	<u>250,000</u>	<u>300,000</u>
Total Income	P 850,000	P 1,450,000	P 2,300,000
Less: Business expenses	<u>800,000</u>	<u>1,300,000</u>	<u>2,100,000</u>
Net income	<u>P 50,000</u>	<u>P 150,000</u>	<u>P 200,000</u>

What is the MCIT? a. P45,000 c. P 35,500 b. P37,500 d. P 22,500

13. What is the tax due assuming the taxpayer is a domestic corporation? a. P 45,000 c. P34,500 b. P 37,500 d. P22,500

13. In the immediately preceding problem, what is the tax due if the corporation is a resident foreign corporation? a. P 8,000 c. P2,000 b. P 8,500 d. P12,500

15. On this fourth year of operation in 2021, a domestic MSME corporation reported the following income: Within Without Total Gross income P40,000,000 P30,000,000 P70,000,000 Less: Deductions 35,000,000 34,000,000 69,000,000 Gross income P 5,000,000 P 4,000,000 P 1,000,000 Compute the income tax due. a. P 200,000 c. P300,000 b. P 250,000 d. P1,050,000

15. On this fourth year of operation in 2021, a domestic MSME corporation reported the following income:

	<u>Within</u>	<u>Without</u>	<u>Total</u>
Gross income	P40,000,000	P30,000,000	P70,000,000
Less: Deductions	<u>35,000,000</u>	<u>34,000,000</u>	<u>69,000,000</u>
Gross income	<u>P 5,000,000</u>	<u>(P 4,000,000)</u>	<u>P 1,000,000</u>

Compute the income tax due.

- a. P 200,000 c. P300,000
b. P 250,000 d. P1,050,000

16. In the immediately preceding problem, what is the income tax due assuming the taxpayer is a resident foreign corporation? a. P 600,000 c. P1,250,000 b. P 1,000,000 d. P1,500,000

17. A MSME corporation which started operations in 2017 had the following results of operations:

- b. P 1,000,000 d. P1,500,000

17. A MSME corporation which started operations in 2017 had the following results of operations:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Gross income	P 3,500,000	P 5,000,000	P 7,000,000
Less: Business expenses	<u>3,400,000</u>	<u>5,300,000</u>	<u>6,400,000</u>
Net income	<u>P 100,000</u>	<u>(P 300,000)</u>	<u>P 600,000</u>

What is the income tax due in 2020?

- a. P 0 c. P75,000
b. P60,000 d. P100,000

18. in the immediately preceding problem, what is the tax due in 2021?

19. A MSME corporation which started operations in 2016 reported the following

19. A MSME corporation which started operations in 2016 reported the following:

	<u>2020</u>	<u>2021</u>
Gross income from operations	P 500,000	P 10,000,000
Rent income	200,000	2,000,000
Less: Business expenses	<u>820,000</u>	<u>6,500,000</u>

What is the tax due in 2020?

- a. P 0 c. P10,500
b. P7,500 d. P14,000

20. In the immediately preceding problem, what is the tax due and payable in 202 ? a. P 1,065,500 c. P 1,345,000 L b. P 1,334,500 d. P 1,364,500

21. Enteng Unlimited, a MSME, started operations in 2014. The following shows details of its income in 2021:
 Gross income P 1,000,000 P 2,000,000 P 8,000,000
 Expenses 2,000,000 2,500,000 6,000,000
 Operation had been profitable since start of operation except that a major strike in 2019 and 2020 caused major problems in business operations. Enteng Unlimited requested for lifting of the MCIT which was granted for the years 2019 and 2020. Compute the income tax payable in 2021. a. P 100,000 c. P 100,000 b. P 25,000 d. P 80,000

21. Enteng Unlimited, a MSME, started operations in 2014. The following shows details of its income in 2021:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Gross income	P 1,000,000	P 2,000,000	P 8,000,000
Expenses	2,000,000	2,500,000	6,000,000

Operation had been profitable since start of operation except that a major strike in 2019 and 2020 caused major problems in business operations. Enteng Unlimited requested for lifting of the MCIT which was granted for the years 2019 and 2020. Compute the income tax payable in 2021.

- a. P 400,000 c. P 100,000
 b. P 125,000 d. P 80,000

22. Compute the tax due of Excellence Unlimited in 2021 if it opted to use optional standard deduction.
 a. P 450,000 c. P 960,000 b. P 600,000 d. P 1,200,000

Multiple Choice: Problems - Part 2

1. A resident foreign corporation branch had the following results of operations in 2021, the fifth year of its operations: Gross income from sales of goods Less: Allowable deductions Net income P 5,000,000 4,850,000 P 150,000 The branch intends to remit all profits after applicable taxes to the home office. What is the branch profit remittance tax? a. P0 c. P15,000 b. P 7,500 d. P16,875

1. A resident foreign corporation branch had the following results of operations in 2021, the fifth year of its operations:

Gross income from sales of goods	P 5,000,000
Less: Allowable deductions	<u>4,850,000</u>
Net income	<u>P 150,000</u>

The branch intends to remit all profits after applicable taxes to the home office.

What is the branch profit remittance tax?

- a. P 0
 - b. P 7,500
 - c. P15,000
 - d. P16,875
2. Calatrava Corporation had the following data in 2021: MCIT RCIT CWTs First quarter P 500,000 P 480,000 P 150,000 Second quarter 450,000 490,000 120,000 Third quarter 500,000 520,000 140,000 Fourth quarter 700,000 480,000 160,000

2. Calatrava Corporation had the following data in 2021:

	<u>MCIT</u>	<u>RCIT</u>	<u>CWTs</u>
First quarter	P 500,000	P 480,000	P 150,000
Second quarter	450,000	490,000	120,000
Third quarter	500,000	520,000	140,000
Fourth quarter	700,000	480,000	160,000

There were excess MCIT of P70,000 and P130,000 respectively in 2018 and 2019.

What is the income tax payable in the second quarter?

- a. P350,000
 - b. P240,000
 - c. P150,000
 - d. P120,000
- There were excess MCIT of P70,000 and P130,000 respectively in 2018 and 2019. What is the income tax payable in the second quarter?
3. What is the income tax payable in the fourth quarter? a. P380,000 c. P600,000 b. P400,000 d. P700,000

3. A proprietary school reported a net operating loss on its fifth year of operations. Gross receipts P 4,000,000 Less: Direct cost of services 2,800,000 Other business expenses 1,500,000 What is the tax due? a. P0 c. P100,000 b. P24,000 d. P120,000
5. The following relates to the MCIT and RCIT of Tamparan Corporation:

5. The following relates to the MCIT and RCIT of Tamparan Corporation:

	MCIT	RCIT
2017	P 80,000	P 0
2018	120,000	50,000
2019	110,000	90,000
2020	100,000	105,000
2021	120,000	140,000

What is the tax still due in 2020?

- a. P 100,000 c. P 25,000
b. P 75,000 d. P 0

6 In the immediately preceding problem, what is the tax still due In 2021? a P 95,000 c.P 20,000 b. P 75,000 d. P 0

7. The following were the MCIT and RCIT of a corporation from 2015 through 2020:

	MCIT	RCIT
2015	P 90,000	P 0
2016	120,000	60,000
2017	115,000	80,000
2018	70,000	75,000
2019	35,000	40,000
2020	85,000	100,000

What is the tax still due in 2020?

- a. P100,000 c. P45,000
b. P 65,000 d. P 0

8. The income statement of Tubigon Corporation, a large corporation, is shown below: Sales, net of 2% creditable withholding tax Cost of sales Gross income Rental income, net of P5,000 Total gross income Less: Allowable deductions Net income P 2,940,000 1,900,000 P 1,040,000 95,000 P 1,135,000 1,000,000 P 135,000 The corporation made an estimated tax payment of P10,000 during the year. What is the income tax refundable? a. P 31,250 refundable c. P 15,000 refundable b. P 12,000 payable d. P 25,000 refundable

8. The income statement of Tubigon Corporation, a large corporation, is shown below:

Sales, net of 2% creditable withholding tax	P 2,940,000
Cost of sales	<u>1,900,000</u>
Gross income	P 1,040,000
Rental income, net of P5,000	<u>95,000</u>
Total gross income	P 1,135,000
Less: Allowable deductions	<u>1,000,000</u>
Net income	<u>P 135,000</u>

The corporation made an estimated tax payment of P10,000 during the year. What is the income tax refundable?

- a. P 31,250 refundable c. P 15,000 refundable
b. P 12,000 payable d. P 25,000 refundable
9. The Paluan Corporation had the following excess MCIT in prior years: Excess MCIT - 2017 P 80,000 Excess MCIT - 2018 40,000 Excess MCIT-2019 50,000 Excess MCIT - 2020 10,000 In 2021, the RCIT and MCIT were respectively P230,000 and P210,000. What is the income tax due and payable? a. P 30,000 c. P10,000 b. P 50,000 d. P130,000
10. The quarterly MCIT, RCIT and creditable withholding tax of Taraka Corporation are shown below:
- | | | | | | | |
|---------------|----------------|---------------|----------------|---------|-----------|---------|
| First quarter | Second quarter | Third quarter | Fourth quarter | MCIT | P 800,000 | 600,000 |
| 1,000,000 | 500,000 | RCIT | P 700,000 | 900,000 | 600,000 | 800,000 |
| 340,000 | 260,000 | CWTs | P 250,000 | 220,000 | | |

b. P 50,000

d. P130,000

10. The quarterly MCIT, RCIT and creditable withholding tax of Taraka Corporation are shown below:

	MCIT	RCIT	CWTs
First quarter	P 800,000	P 700,000	P 250,000
Second quarter	600,000	900,000	220,000
Third quarter	1,000,000	600,000	340,000
Fourth quarter	500,000	800,000	260,000

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Taraka Corporation also had P120,000 excess creditable withholding tax and P180,000 excess MCIT still outstanding from the prior year. What is the income tax payable in the second quarter? a. P400,000 c. P470,000 b. P430,000 d. P5

11. What is the income tax payable in the fourth quarter? a. P10,000 c. P180,000 b. P160,000 d. P210,000

12. 12. A foreign branch remitted the following profits to its head office abroad: Taxable income P 1,200,000 Dividend income 100,000 Capital gains on sale of domestic stocks, net of CGT 135,000 What is the branch profit remittance tax? a. P0 c. P180,000 b. P135,000 d. P200,250
13. A closely-held large corporation which started operation in 2016 reported the following data:
 Year 2020: Gross income from operations Less: expenses Net operating loss
 Year 2021: Gross income Less: Expenses Rent income, gross of 5% withholding tax Interest on money market placement, net of 20% final tax Inter-corporate dividends received Tax paid, first three quarters
 P 2,000,000 2,800,000 (P 800,000) P 6,000,000 5,000,000 100,000 160,000 800,000 45,000
 Compute the income tax still due respectively in 2020 and 2021. a. P 0; P 25,000 c. P 30,000; P 25,000
 25,000 b. P 0; P 72,000 d. P 30,000; (P 5,000)

13. A closely-held large corporation which started operation in 2016 reported the following data:

Year 2020:

Gross income from operations	P 2,000,000
Less: expenses	<u>2,800,000</u>
Net operating loss	<u>(P 800,000)</u>

Year 2021:

Gross income	P 6,000,000
Less: Expenses	5,000,000
Rent income, gross of 5% withholding tax	100,000
Interest on money market placement, net of 20% final tax	160,000
Inter-corporate dividends received	800,000
Tax paid, first three quarters	45,000

Compute the income tax still due respectively in 2020 and 2021.

- a. P 0; P 25,000 c. P 30,000; P 25,000
 b. P 0; P 72,000 d. P 30,000; (P 5,000)