

Page.179-180 : TRUE OR FALSE

1. **FALSE** Foreign corporation, whether engaged in business in the Philippines or not, is taxable on income derived from sources within and without the Philippines.
2. **TRUE** Income derived by offshore banking units authorized by the BSP, from Foreign currency transactions with local commercial banks is subject to 10% final tax.
3. **TRUE** Resident foreign corporations apply to a foreign corporation not engaged in trade or business within the Philippines.
4. **FALSE** A domestic, resident foreign and non-resident foreign corporations may deduct from their business income, itemized deductions under the Tax Code.
5. **FALSE** A return showing the cumulative income and deductions need not be filed if the operations for the quarter and the preceding quarters yielded no income tax due.
6. **FALSE** Non-resident foreign corporation receives the same tax treatment as domestic and resident foreign corporations with regard to capital gains from sale of shares of stock not traded in the stock exchange.
7. **TRUE** The 10% tax on the taxable income of a proprietary educational institution and non-profit hospital is absolute.
8. **TRUE** Foreign corporation is created and organized under the laws of countries other than the Philippines.
9. **TRUE** Dividends received from a domestic corporation by a non-resident foreign corporation are subject to a final withholding tax of 15% on certain condition.
10. **TRUE** Domestic corporation is taxable on all income derived from sources within and outside the Philippines.
11. **TRUE** subject to the provisions of existing special laws or general laws, all corporations, agencies, or instrumentalities owned or controlled by the government shall pay such rate of tax upon their taxable income as are imposed by the Code upon corporations or associations engaged in a similar business, industry or activity.
12. **TRUE** Any profit remitted by a branch to its head office shall be subject to a 15% tax which shall be based on the total profits applied or earmarked for remittance without deduction for the tax component, thereof, except those activities which are registered with the Philippines Economic Zone Authority.
13. **TRUE** Corporations on their income, are taxed, generally, from 30% to 35% depending on the taxable year.
14. **TRUE** Non-resident owner or lessor of vessels chartered by Philippine nationals is taxed at 4.5 of gross rentals, lease or charter fees from leases or charters to Filipino citizens or corporations, as approved by the Maritime Industry Authority.
15. **FALSE** Interests on foreign loans contracted on or after Aug.1, 1986 by a non-resident corporation are taxed at 10%.
16. **FALSE** Non-resident cinematographic film owner, lessor or distributor is taxed at 15% of gross income.
17. **FALSE** International air carrier and international shipper doing business in the Philippines shall pay a tax of 10% on its gross Philippine billings.

18. **TRUE** Every corporation shall file in duplicate a quarterly summary declaration of its gross income and deductions on a cumulative basis for the preceding quarter or quarters upon which the income tax shall be levied, collected and paid'
19. **TRUE** If the gross income from unrelated trade, business or other activity of a proprietary educational institution or non-profit hospital exceeds 50% of the total gross income derived from all sources, the tax prescribed under Section 27(A) shall be imposed on the entire taxable income.
20. **TRUE** Non-resident foreign corporation applies to a foreign corporation engaged in trade or business within the Philippines.
21. **FALSE** For domestic and resident corporations adopting the fiscal-year accounting period, the taxable income shall be computed without regard to the specific date when the specific sales, purchases and other transactions occur such that their income and expenses for the fiscal year shall be deemed to have been earned and spent equally for each month of the period.
22. **TRUE** Non-resident owner or lessor of aircraft, machinery and other equipment is taxed at 7.5 of gross rentals, charters and other fees.
23. **FALSE** corporation may not be income tax-exempt on its other activities the tax rates of which shall be 30% to 35% depending on the taxable year.
24. **TRUE** Partnership other than a general professional partnership is also taxable on its income as a general professional partnership.
25. **TRUE** Domestic corporation is created or organized under Philippine laws.

PAGE 181-186: MULTIPLE CHOICE

1. Guidant Resources Corporation, a corporation registered in Norway, has a 50 MW electric power plant in San Jose, Batangas. Aside from Guidant's income from its power plant, which among the following is considered as part of its income from sources within the Philippines?

Answer:

- a. Gains from the sale to an Ilocos Norte power plant of generators bought from the United States.**

2. Aplets Corporation is registered under the laws of the Virgin Islands. It has extensive operations in Southeast Asia. In the Philippines, its products are imported and sold at a mark-up by its exclusive distributor, Kim's Trading Inc. The BIR compiled a record of all the imports of Kim from Aplets and imposed a tax on Aplets net income derived from its exports to Kim. Is the BIR correct?

Answer:

- a. Yes. Aplets is a non-resident foreign corporation engaged in trade or business in the Philippines.**

3. What is the rule on the taxability of income that a government educational institution derives from its school operations? Such income is

Answer:

- a. Subject to 10% tax on its net taxable income as if it is a proprietary Educational institution.**

4. Zygomite Minerals, Inc., a corporation registered and holding office in Australia, not operating in the Philippines, may be subject to Philippine income taxation on

Answer:

- a. Gains it derived from sale in Australia of an ore crusher it bought from the Philippines with the proceeds converted to pesos.**

5. Lualhati Educational Foundation, Inc., a stock educational institution organized for profit, decided to lease for commercial use a 1,500 sq. m. portion of its school. The school actually, directly, and exclusively used the rents for the maintenance of its school buildings, including payment of janitorial services. Is the leased portion subject to real property tax?

Answer:

- d. Yes, since the leased portion is not actually, directly, and exclusively used for educational purposes.**

6. Which of the following is not an income tax on corporations.

Answer: b. stock transaction tax

7. The following domestic corporations are generally taxed at the same rate. Which is not?

Answer:

- a. taxable partnerships**

8. Which of the following domestic corporation is exempt from income tax?

Answer:

- b. Cemetery company owned and operated not exclusively**

for the benefits of its members.

9. All the statements below are true except one. Which is the exception? Non-Profit, non-stock educational of social welfare

Answer:

d. none of the above

10. corporation does not include

Answer:

d. general professional partnerships

11. Which of the following non-resident foreign corporation is imposed the Highest income tax rate?

Answer:

a. cinematographic film owner, lessor or distributor

12. Double taxation of corporate income may be avoided by

Answer:

b. renting property from shareholders

13. Which is not true about resident foreign corporations?

Answer:

d. none of the above

14. Dividends received by domestic and foreign corporations from a domestic corporation is subject to which income tax rate?

Answer: c. exempt

15. The following corporations are exempt. Which one is not?

Answer:

a. PCSO

16. Which of the following is authorized to issue permit to operate proprietary educational institutions?

Answer:

d. all of the above

17. The normal tax of an ordinary corporation is

Answer:

a. 30%

18. It is important to know the source of income for tax purposes (I.e., from within or without the Philippines) because

Answer:

d. some individual and corporate tax payers are taxed on their worldwide income while others are taxable only upon income from sources within the Philippines.

19. Which is not true?

Answer:

d. none of the above

20. Interest received as passive income by domestic and resident foreign corporations may be subject to which tax rate?

Answer:

a. 20%

21. Which of the following corporations is imposed the least income tax rate?

Answer:

b. international carriers

22. One of the statements is false. Which is it? Non-stock, non-profit, corporations are

Answer:

c. not exempt from internal revenue taxes on their income derived from any activity conducted for profit.

23. If the sum of the quarterly tax payments made during the said taxable year is not equal to the total tax due on the entire taxable income of that year, the corporation shall either

Answer:

d. all of the above

24. To be exempt from taxation revenues derived from assets used in the operation of cafeteria's/canteens and bookstores by non-profit, non-stock educational institutions should be

Answer:

d. all of the above

25. The following may constitute gross income of a non-resident foreign corporation. Which is not?

Answer:

b. reinsurance premiums

26. Which corporation does not receive the same treatment with regard to the income tax imposed on the net capital gain from sale, exchange or other disposition of shares of stock in a domestic corporation not traded in the stock exchange?

Answer:

c. domestic corporations

PAGE 189: PROBLEM

QUARTERLY TAXES ON DOMESTIC CORPORATION

Regime Inc. is a trading company created under Philippine laws. For the quarter ending June 30, 2015, it has the following results of operations:

Gross Sales for the Quarter	980,000
Cost of Sales for the Quarter	492,800
Total Deductions Claimed for the Quarter	315,000
Gross Sales for the 1st Quarter	630,000
Cost of Sales for the 1st Quarter	318,150
Total Deductions Claimed for the 1st Quarter	215,932
Tax Payment for the 1st Quarter	28,775
Creditable Tax Withheld	17,850

The company fails to file its 2nd Quarter income tax return on the due date, Aug.29, 2015. Its files its return on Sept. 6, 2015. Compromise penalty is P10,500.

1. Gross Income this quarter: answer: 799,050
2. Taxable Income this quarter: answer: 95,918
3. Gross Income 1st quarter: answer: 311,850
4. Total taxable income to date: answer: 268,118
5. Tax due: answer: 80,435.40
6. Tax payable: answer: 33,810.40
7. Penalties: answer: 10,500
8. Total amount payable: answer: 44,310.40

Solution:

1st Quarter

Gross Sales	P630,000
Less: Cost Sales	<u>(318,150)</u>
Gross Income	311,850
Less: Deduction claimed	<u>(215,932)</u>
Taxable Income	95,918
Multiply: Tax rate	<u>30%</u>
Tax due	<u>P28,775.40</u>

2nd Quarter

Gross Sales for this quarter	P980,000
Gross Sales for 1 st Quarter	<u>630,000</u>
Total Gross Sales for 1 st qtr. & 2 nd qtr.	1,610,000
Less: Cost of sales for this quarter	(492,800)
Cost of sales for 1 st quarter	<u>(318,150)</u>
Gross Income this quarter	799,050
Less: Deduction claimed for this qtr.	(315,000)
Deduction claimed for 1 st qtr.	<u>(215,932)</u>
Taxable Income to date	268,118
Multiply: Tax Rate	<u>30%</u>
Tax due	80,435.40
Less: Creditable tax withheld	(17,850)
Previous payment for 1 st quarter	<u>(28,775)</u>
Tax payable	33,810.40
Add: Penalties	<u>10,500</u>
Total amount payable	<u>P44,310.40</u>

Page 191- Problem

Quarterly Taxes on Domestic Corporation

For taxable 2014, the following cumulation balances appear in the records of Kingdom Corporation, a domestic corporation. 2014 is its third year of operations. For 2013, Kingdom has an income tax refund of P32,000.

	1st Quarter	2nd Quarter	3rd Quarter	YEAR
Gross Income	2,560,000	5,120,000	7,680,000	9,920,000
Interest on Philippine Currency				
Bank Deposit	16,000	32,000	48,000	64,000
Business Expenses	1,920,000	3,840,000	5,440,000	6,720,000
Income Tax Withheld	48,000	112,000	208,000	368,000

5. Income tax for the first quarter: **Ans: 144,000**
6. Income tax due at the end of the second quarter: **Ans: 350,000**
7. Income tax for the third quarter: **Ans: 690,000**
8. income tax due at year-end: **Ans: 1,118,000**
9. Final tax due on Philippine currency bank deposit: **Ans: 32,000**

SOLUTION

1ST Quarter

Gross Income	P 2,560,000
Less Business Expense	(1,920,000)
Taxable Income	640,000
Multiply: Tax rate	30%
Tax due	192,000
Less: Income tax withheld	(48,000)
Tax liability for 1 st quarter	<u><u>P144,000</u></u>

2nd Quarter

Gross Income for 2 nd quarter		P5,120,000
Gross Income for 1 st quarter		<u>2,560,000</u>
Gross Income for 1 st & 2 nd quarter		7,680,000
Less: Business Expense for 2 nd qtr.	(3,840,000)	
Business Expense for 1 st qtr.	<u>(1,920,000)</u>	<u>(5,760,000)</u>
Taxable Income		1,920,000
Multiply: Tax rate		<u>30%</u>
Tax due		576,000
Less: Income tax withheld		<u>(112,000)</u>
Tax payable		464,000
Less: Previous Income Tax 1 st qtr.		<u>(144,000)</u>
Income tax for 2 nd quarter		<u><u>P350,000</u></u>

3rd Quarter

Gross Income for 3 rd quarter		P7,680,000
Gross Income for 2 nd quarter		5,120,000
Gross Income for 1 st quarter		<u>2,560,000</u>
Gross Income for 1 st , 2 nd , 3 rd quarter		15,360,000
Less: Business Expense for 3 rd qtr.	(5,440,000)	
Business Expense for 2 nd qtr.	(3,840,000)	
Business Expense for 1 st qtr.	<u>(1,920,000)</u>	<u>(11,200,000)</u>
Taxable Income		4,160,000
Multiply: Tax rate		<u>30%</u>
Tax due		1,248,000
Less: Income tax withheld		<u>(208,000)</u>
Tax payable		1,040,000
Less: Previous quarter		<u>(350,000)</u>
Income tax for 3 rd quarter		<u><u>P690,000</u></u>

4th Quarter

Gross Income for 4 th quarter		P9,920,000
Gross Income for 3 rd quarter		7,680,000
Gross Income for 2 nd quarter		5,120,000
Gross Income for 1 st quarter		<u>2,560,000</u>
Gross Income for 1 st , 2 nd , 3 rd , 4 th qtr.		25,280,000
Less: Business Expense for 4 th qtr.	(6,720,000)	
Business Expense for 3 rd qtr.	(5,440,000)	
Business Expense for 2 nd qtr.	(3,840,000)	
Business Expense for 1 st qtr.	<u>(1,920,000)</u>	<u>(17,920,000)</u>
Taxable income		7,360,000
Multiply: Tax rate		<u>30%</u>
Tax due for this year		2,208,000
Less: Income tax withheld		<u>(368,000)</u>
		1,840,000
Less: Previous previous 3 rd quarter		<u>(690,000)</u>
Tax payable		1,150,000
Less: Income tax refund		<u>(32,000)</u>
Tax liability for this year		<u><u>P1,118,000</u></u>

Page 192- Problem
Quarter Taxes on Domestic Corporations

PBC Corporation, a domestic corporation, is on its third year of operations in 2014, it has, for taxable year 2013, an income tax refundable of P40,000 for which the BIR has issued a certificate of tax credit. The records of PBC show the following cumulation balances for 2014:

	1 st Quarter	2 nd Quarter	3 rd Quarter	Year
Gross Income	3,200,000	6,400,000	9,600,000	12,400,000
Capital Gain on Sales directly To buyer of shares of a Domestic Corporation	200,000	200,000	200,000	200,000
Interest on Philippines Currency Bank Deposit	20,000	40,000	60,000	80,000
Business Expense	2,400,000	4,800,000	6,800,000	8,400,000
Income tax Withheld	60,000	140,000	260,000	460,000

1. income tax due at the of the first quarter: **Ans: 180,000**
2. Income tax due at the end of the second quarter: **Ans: 400,000**
3. Income tax due at the end of the third quarter: **Ans: 900,000**
4. Income tax due (or refundable) at the end of the year: **Ans: 1,400,000**
5. capital gains tax on the sale of shares: **Ans: 80,000**
6. Final tax on the dividends received from domestic corporation: **Ans: EXEMPT**
7. Final tax on the interest on bank deposit: **Ans: 40,000**

SOLUTION:

1ST Quarter

Gross Income for 1 st Quarter	P3,200,000
Business Expense	(2,400,000)
Taxable Income	800,000
Multiply: Tax rate	30%
Tax due	240,000
Less: Income tax withheld	(60,000)
Tax liability for 1 st quarter	<u><u>P180,000</u></u>

2ND Quarter

Gross Income for 2 nd quarter		P6,400,000
Gross Income for 1 st quarter		<u>3,200,000</u>
Total gross income for 1 st , 2 nd qtr.		9,600,000
Less: Business Expense for 2 nd qtr.	(4,800,000)	
Business Expense for 1 st qtr.	<u>(2,400,000)</u>	<u>(7,200,000)</u>
Taxable income		2,400,000
Multiply: Tax rate		<u>30%</u>
Tax Due		720,000
Less: Income tax withheld		<u>(140,000)</u>
Tax payable		580,000
Less: Previous for 1 st quarter		<u>(180,000)</u>
Tax liability for 2 nd quarter		<u><u>P400,000</u></u>

3RD Quarter

Gross income for 3 rd quarter		P9,600,000
Gross Income for 2 nd quarter		6,400,000
Gross Income for 1 st quarter		<u>3,200,000</u>
Total gross income for 1 st , 2 nd , 3 rd qtr.		19,200,000
Less: Business Expense for 3 rd qtr.	(6,800,000)	
Business Expense for 2 nd qtr.	(6,400,000)	
Business Expense for 1 st quarter	<u>(3,200,000)</u>	<u>(14,000,000)</u>
Taxable income		5,200,000
Multiply: Tax rate		<u>30%</u>
		1,560,000
Less: Income tax withheld		<u>(260,000)</u>
		1,300,000
Less: Previous payment for 2 nd quarter		<u>(400,000)</u>
Tax liability for 3 rd quarter		<u><u>900,000</u></u>

End Year

Gross Income for end year		P12,400,000
Gross income for 3 rd quarter		9,600,000
Gross income for 2 nd quarter		6,400,000
Gross income for 1 st quarter		<u>3,200,000</u>
Total gross income for 1 st , 2 nd , 3 rd , 4 th qtr.		31,600,000
Less: Business expense for end year	(8,400,000)	
Business expense for 3 rd qtr.	(9,600,000)	
Business expense for 2 nd qtr.	(4,800,000)	
Business expense for 1 st qtr.	<u>(2,400,000)</u>	<u>(22,400,000)</u>
Taxable income		9,200,000
Multiply: Tax rate		<u>30%</u>
Tax due		2,760,000
Less: Income tax withheld		<u>(460,000)</u>
		2,300,000
Less: previous payment for 3 rd quarter		<u>(900,000)</u>
Income tax liability		<u><u>1,400,000</u></u>

Other Gross Income

Dividends from domestic Corporation from 1 st quarter to end year	
	P240,000
	(Exempt)

Final tax on Passive Income

Interest on Philippine currency	
Bank deposit (200,000x20%) =	40,000
Capital gains (800,000x10%) =	<u>80,000</u>
	P120,000

PAGE 193: PROBLEM**Quarterly Taxes on Domestic Corporations**

In the year 2014, the following cumulative data appear in the records of Family Company, a domestic corporation. 2014 its second year of operations:

	1 st Quarter P180, 000	2 ND Quarter P405, 000	3 RD Quarter P675, 000	YEAR P1,080,000
Sales				
Dividends Income from a resident Corp.	1,800	3,600	5,400	7,200
Rent Income	7,200	14,200	21,600	28,800
Cost of Sale	45,000	108,000	166,500	270,000
Municipal Taxes	4,500	9,000	13,500	18,000
Business Expenses	108,000	234,000	369,000	657,000

- | | |
|---|-------------------------------|
| 1. Income tax due at the end of the 1 st quarter : | <u>Answer: 15,300</u> |
| 2. Normal income tax for the 2 nd quarter: | <u>Answer: 32,400</u> |
| 3. Normal tax taxable income for the 3 rd quarter: | <u>Answer: 256,500</u> |
| 4. Income tax due at the end of the year: | <u>Answer: 52,400</u> |

SOLUTION:**1st Quarter**

Sales	P180, 000
Additional income	
Dividend	1,800
Rent	7,200
Gross sales	189,000
Less: Cost of good sold	(45,000)
Gross income	144,000
Less: Business expense	(108,000)
Taxable income	36,000
Multiply: Tax rate	30%
Tax due	10,800
Add: Municipal taxes	4,500
Tax liability for 1 st quarter	<u><u>15,300</u></u>

2nd Quarter

Sales for 2 nd Quarter		P405, 000
Sales for 1 st Quarter		180,000
Add: Other income		
Dividend		3,600
Rent		<u>14,400</u>
Gross sales		603,000
Less: Cost of good sold for 2 nd qtr.	(108,000)	
Cost of good sold for 1 st qtr.	<u>(45,000)</u>	<u>(153,000)</u>
Gross income		450,000
Less: Deduction for 2 nd quarter	(234,000)	
Deduction foe 1 st quarter	<u>(108,000)</u>	<u>(342,000)</u>
Taxable income to date		108,000
Multiply: Tax rate		<u>30%</u>
Tax due		32,400
Less: Municipal taxes		<u>(9,000)</u>
Tax payable		23,400
Less: Previous payment		<u>(15,300)</u>
Tax liability for 2 nd quarter		<u><u>P8, 100</u></u>

3rd Quarter

Sales for 3 rd quarter		P675, 000
Sales for 2 nd quarter		405,000
Sales for 1 st quarter		180,000
Add other income:		
Dividend		5,400
Rent		<u>21,600</u>
Gross sales		1,287,000
Less: Cost services		
3 rd quarter	(166,500)	
2d quarter	(108,000)	
1 st quarter	<u>(45,000)</u>	<u>(319,000)</u>
Gross income		967,500
Less: Deductions		
3 rd quarter	(369,000)	
2 nd quarter	(234,000)	
1 st quarter	<u>(108,000)</u>	<u>(711,000)</u>
Taxable income		256,500
Multiply: Tax rate		<u>30%</u>
		76,950
Less: Municipal taxes		<u>(13,500)</u>
Tax payable		63,450
Less: Previous payment		<u>(8,100)</u>
Total tax payable		<u><u>P55,350</u></u>

4th Quarter

Sales: Year end	(1,080,000)	
3 RD Quarter	(675,000)	
2 nd Quarter	(405,000)	
1 st Quarter	(180,000)	2,340,000
Add: Income		
Dividend		7,200
Rent		28,800
Gross sales		<u>2,376,000</u>
Less: Cost of sales		
Year end	(270,000)	
3 rd quarter	(166,000)	
2 nd quarter	(108,000)	
1 st quarter	<u>(45,000)</u>	<u>(589,500)</u>
Gross income		1,786,500
Less: Deduction business expense		
End year	(657,000)	
3 rd quarter	(369,000)	
2 nd quarter	(234,000)	
1 st quarter	<u>(108,000)</u>	<u>(1,368,000)</u>
Taxable income		418,500
Multiply: Tax rate		<u>30%</u>
Tax due		125,550
Less: Municipal taxes		<u>(18,000)</u>
Tax payable		107,550
Less: Previous payment		<u>(55,350)</u>
Total tax payable		<u><u>P52, 200</u></u>

Page 193 Problem
Quarterly Taxes on Domestic corporation

Line Corporation, a domestic corporation, is on its third year operations in 2014. The following cumulative data appear in its records.

	1st Quarter	2ND Quarter	3RD Quarter	YEAR
Sales	P220,000	P495,000	P825,000	P1,320,000
Dividends Income from a resident Corp.	2,200	4,400	6,600	8,800
Dividends income from a domestic Corp.	11,000	11,000	22,000	20,000
Rent income	8,800	17,600	26,400	35,200
Cost of sales	55,000	132,000	203,500	330,000
City Taxes	5,500	11,000	16,500	22,000
Refund of City Taxes				13,200
Deficiency Income Taxes, CY 2012			11,000	11,000
Business Expenses	132,000	286,000	451,000	803,000

5. Gross income for the 1st quarter: **Ans. 187,000**
6. Normal Tax Taxable Income for the 1st quarter: **Ans. 55,000**
7. Allowable deductions for the 2nd quarter: **Ans. 11,000**
8. Income tax due at the end of the 2nd quarter: **Ans. 20,900**
9. Normal Income Tax for the 3rd quarter: **Ans. 100,650**
10. Normal tax taxable income for the year: **Ans. 533,500**
11. Income tax due at the end of the year: **Ans. 39,600**

Multiple Choices

1. which of the following may not be deducted from gross receipt to arrive at gross income for purposes of computing MCIT of a taxpayer engaged in the sale of services under the cash basis?

Answer. D

2. One of the following statements is wrong . Which is it? Gross Income tax on corporation is

Answer. D

3. For purposes of determining the improperly accumulated taxable income for a taxable year, the following, except one ,are added to that years taxable income . Which one?

Answer.D

4. Which of the following is not a prima facie instance that is indicative of purpose avoid income tax upon shareholders?

Answer.B

5.The minimum corporate income tax of a domestic or resident of manufacturing corporation is

Answer. B

6. Which of the following is not true?

Answer. E

7. Which statements is correct? The gross income tax corporation is

Answer. A

8. The term “ normal income tax” shall mean the income tax rate prescribed

Answer. D

9. Legitimate business reverses shall include substantial losses sustained

Answer. C

10. Reasonable needs of business is inconsistent with the concept IAET when

Answer. C

11. Which statement is wrong? The gross income tax

Answer. C

12. Which of the following may not deducted from gross receipt to arrive at gross income for purposes of computing MCIT of taxpayer engaged in the sale of services under accrual basis?

Answer. D

13. Force majeure includes

Answer. D

14. Which of the following statements about IAET is false?

Answer. C

15. A minimum corporate income tax of 2% of the gross income as of the end of the taxable years imposed upon any domestic and resident foreign corporation subject to the normal tax

Answer. D

16. One of the following statements is correct. Which is it? The minimum corporate income tax of a corporation is computed

Answer: A

17. The following, except one, give rise to the presumption that a corporation is improperly accumulating profits. Identify the exception.

Answer: D

18. Cost of services for MCIT purposes means all direct costs and expenses necessarily incurred to provide the services required by the customers and clients including

Answer: B

19. Which of the following does not constitute accumulation of earnings for the reasonable needs of the business?

Answer: A

20. A BOI- registered enterprise has a “registered” and an “unregistered” activity. The MCIT shall apply to the

Answer: C

21. Which of the following statements about improperly accumulated earnings tax (IAET) is false?

Answer: A

22. In the case of a domestic corporation whose operations or activities are partly covered by the regular income tax system and partly covered under a special income tax system, the MCIT shall apply on

Answer; C

23. Which of the following may be not deducted from gross sales to arrive at gross income tax for purposes of computing the gross income tax of a merchandising/manufacturing concern?

Answer: D

24. Improperly accumulated earnings tax shall not apply to the following corporations except one. Which is one?

Answer: A

25. Which of the following may not be deducted from gross sales to arrive at gross income for purposes of computing the MCIT of a merchandising/manufacturing concern?

Answer: D

26. For purposes of determining the improperly Accumulated Taxable Income for a taxable year, the following, except one, are reduced from that years taxable income after appropriately adding certain items. Which one?

Answer: A

27. The minimum corporate income tax of a domestic or resident service corporation is

Answer: A

28. the tax rate on improperly accumulated earnings

Answer: B

29. The MCIT applies to which of the following domestic corporations?

Answer: E

30. The MCIT shall not apply to which of the following resident foreign corporations?

Answer: F

31. Which of the following statements is false?

Answer: C

32. One of the following statements is wrong. Identify. The improperly accumulated earnings tax imposed on corporations

Answer: D

33. Improperly accumulated taxable income means taxable income adjusted by

Answer: E

34. Improperly accumulated taxable income means taxable income reduced by the sum of

Answer: B

35. All, except one, of the following are not subject to the improperly accumulated earnings tax. Which is the exception?

Answer: A

36. substantial losses from a prolonged labor dispute means

Answer: B

Multiple Choice – Problems

MCIT of a Manufacturing Concern

Taxable year 2014, the company's sixth year of operations, the records of Mega Specialties Corp., a domestic corporation, show the following:

Gross Sales	P2,463,500
Sales returns & allowances	27,500
Sales discounts	42,750
Cost of goods manufactured & sold	1,313,600
Operating expenses	586,000

1. Net sales

Answer: D- P2,393,250

2. Gross Income

Answer. D – P1,079,560

3. Minimum Corporate income tax

Answer. A – P21,593

SOLUTION:

MCIT of a Manufacturing Concern

Gross sales		P2,463,500
Less: Sales return & allowances	(27,500)	
Discounts	(42,750)	<u>(70,250)</u>
Net Sales		2,393,250
Less: Cost of Good sold		<u>(1,313,600)</u>
Gross Income		1,079,650
Less: Operating expenses		<u>(586,040)</u>
Taxable income		P493,610

For MCIT:

Gross Income	P1,079,650
Multiply: Tax rate	<u>2%</u>
	P21,593

Charity Inc, a domestic company , has the following financial data for 2014, its 5th year of operations:

Gross Sales	P2,956,200
Sales Returns & allowances	33,000
Sales Discounts	51,300
Operating Expenses	703,248
Minimum Corporate Income tax	25,912

4. Net sales

Answer. A – P2,871,900

5. Cost of goods manufactured and sold

Answer. C – P1,576,320

6, Gross Income

Answer. D – P1,295,580

SOLUTION:

Gross Sales	P2,956,200
Less: Sales return & allowances (33,000)	
Sales discounts (51,300)	(84,300)
Net sales	2,871,900
Less: Cost of Good Sold	(1,576,320)
Gross Income	P1,295,580

For MCIT:

Gross Income	P1,295,580
Multiply: Tax rate	2%

MCIT

P25,911.6 or 25,912

PAGE229

Multiple Choice – Problems

MCIT of a Service Concern Under Cash & accrual Bases

Demi Bridal Consultancy , a domestic corporation , adopts the cash –basis of accounting. It has the following financial data for the year 2014. Its 5th year of operations:

Gross Receipts	P250,000
Sales returns & allowances	5,000
Sales discounts	7,500
Cost of Services	95,000
Operating Expenses	62,500

1. Gross Income

Answer. D- P142,500

2. Minimum Corporate Income Tax

Answer. A – P2,850

3. Minimum Corporate Income Tax under the Accrual basis

Answer. B- P5,000

SOLUTION:

Gross Receipt	P250,000
Sales Return Allowances (5,000)	
Sales Discounts (7,500)	<u>12,500</u>
Net Sales	237,500
Cost of Service	<u>(95,000)</u>
Gross Income	142,500
Operating Expenses	<u>(62,500)</u>
Taxable Income	80,000
Gross Receipt/ if accrual basis	250,000
	<u>X 2%</u>
MCIT/UAB	P5,000
Gross Income	142,500
	<u>X 2%</u>

MCIT

P2,850

AUSTERITY INC., a domestic company, employs the cash-basis method. The following financial data appear in its records for the year 2014, its 6th year of corporations.

Gross receipts	P187,500
Sales returns & Allowances	3,750
Sales discounts	5,625
Operating Expenses	46,875
Minimum corporate income tax under the cash-basis	2,138

4. Cost of Services

Answer. A – P71,250

5. Gross Income

Ans. B – P106,875

6. Minimum corporate income tax under the accrual basis

Answer. D – P3,750

SOLUTION:

Gross Receipts		P187,500
Less: Sales return & allowances	(3,750)	
Sales discount	(5,625)	<u>(9,375)</u>
Net sales		178,125
Less: Cost of services		<u>(71,250)</u>
Gross Income		106,875
Multiply: Tax rate		<u>2%</u>
MCIT under accrual basis		P2,137.50 or 2,138

For MCIT under accrual basis

Gross receipt	P187,500
Multiply: Tax rate	<u>2%</u>
MCIT under accrual basis	P3,750

PAGE 230: Problems

Normal Tax Versus MCIT

Miscellaneous Corp., a domestic corporation, is on its fifth year of operations in 2014. It has the following data:

Sales	P2,350,000
Cost of Sales	1,075,000
Business Expenses	1,125,000

1. Gross Income: **Answer: 1,275,00**
2. Normal tax taxable income: **Answer: P150,000**
3. Income tax due: **Answer: P45,000**

In 2014, the company's fourth year of operations, Destiny Inc., a domestic corporation, has the following financial data:

Business Expenses	P975,000
Minimum corporate income tax	25,000

4. Gross Income
Answer: P1,275,000
5. Normal tax taxable income
Answer: P300,000
6. Income tax due
Answer: P90,000

PAGE 231-232: Problems

Normal Tax Versus MCIT

In 2014, Variety corp., a resident foreign corporation, was on its sixth year of operations. The following data pertain to its operations in the Philippines for the years 2014 & 2015:

	2014	2015
Gross profit from sale	P620,000	P720,000
Business Expenses	530,000	612,000

1. Normal income tax for 2014: **Answer: P 27,000**
2. Income tax due for 2014: **Answer: P27,000**
3. Minimum corporate income tax for 2015: **Answer: P14,400**
4. income tax due for 2015: **Answer: P 32,400**

Fulfillment Inc., a resident foreign corporation , is on its 6th year of operation in 2014.

For its operation in the Philippines, the following appear in its 2014 and 2015 records:

	2014	2015
Business Expenses	P795,000	P918,000
Normal income tax	31,500	39,600

5. Gross Profit from sales from 2014: **Ans. 620,000**
6. Income tax due for 2014: **Answer. P31,500**
- Gross profit from sales for 2015: **Answer. P720,000**
- Income tax due for 2015: **Answer. P 39,600**

Grace Company is a resident foreign corporation. Taxable year 2014 is its fourth year of operations. For the years 2014 and 2015. Grace's Philippine operations yield the following financial data:

	2014	2015
Business Expenses	P325,000	P360,000
Minimum corporate income tax	7,000	8,000

9. Normal tax taxable income for 2014: **Answer. P 295,000**
10. Income tax due for 2014: **Answer. P88,500**
11. Normal tax taxable income for 2015: **Answer. P360,000**

12. Income tax due for 2015: **Answer.P108,000**

PAGE 233: Problems

MCIT vs. Normal Tax of a Merchandising Business

Humility Inc., a domestic corporation engaged in merchandising business. For the calendar year 2014, the company's sixth year of operations, the following financial data appear in its records:

Dividend received from a domestic corporation	P11,500
Provision for bad debts	5,750

After considering the above items, Humility has a gross profit from sales of P517,500 and net income per books of P207,000.

For the first three quarters, Humility pays P32,775 IN INCOME TAXES. ON Apr. 20, 2015, Humility files its income tax return. Due date is Apr. 15, 2015. The BIR imposes a compromise penalty og P8,000.

1.Taxable income: **Answer: P730,250**

2. Minimum corporate income tax: **Answer.:P14,200**

3. Income tax still due: **Answer: P219,075**

4. Surcharge for late filing of return:**Answer: P8,000**

5. Total amount payable: **Answer:P194,300**

PAGE 234: Problems

MCIT vs. Normal Tax of a Merchandising Business

Hope corporation is a trading company organized in the Philippines. Calendar year 2014 is its fifth year of operations. It has the following financial data for 2014:

Dividend received from a domestic corporation	P8,500
Interest received on government bonds, net of 20% tax	7,395
Interest on money borrowed to buy government bonds	255
Income tax payments for the first three quarters	24,225
Provision for bad debts	4,250

After considering the above items, the following balances appear in the company records:

Gross profit from sales	382,500
Net income per books	153,000

Hope was a charged a compromise penalty of P5,500 after failing to file its income tax return on the due date, Apr. 15,2015. The return was filed on Apr. 22,2015.

1. Taxable income:
2. Minimum corporate income tax;
3. Normal income tax:
4. Income tax still due:
5. Interest for late filing of return:
6. Total penalties: Ans. 5,500
- 7.Total amount payable:

PAGE 235: Problems

Normal Tax, MCIT & Improperly Accumulated Earnings Tax

For taxable year 2014, the BIR declares the accumulated earnings of Jubilation Inc., a domestic corporation, to be improper. Company records show the following financial data:

Sales	P8,100,000
Cost of sales	2,700,000
Business expenses	1,350,000
Interest on Philippine currency bank deposit	67,500
Capital gain on sale directly to buyer of shares Of a domestic corporation	162,000
Dividend income from a domestic corporation	81,000
Dividend declared and paid during the year	675,000

1. Income tax due:
- 2.Capital gains tax on shares of stock of a domestic corporation:
3. Improperly accumulated earnings tax:

PAGE 236: Problems

Normal Tax, MCIT & Improperly Accumulated Earning Tax

For taxable year 2014, records of Ingenuity Inc., a domestic corporation, show the following financial data:

Dividend income from a domestic corporation	P33,000
Interest Income;	
From long-term investment (maturity of more than five years)	9,900
From Philippine currency bank deposits	13,200
Capital gain on sale of land in the Philippines held	
For twelve years, selling price is P6,600,000	165,000
Capital gain on sale of shares of stock of a domestic corporation	
Held for ten months, sold directly to buyer	19,800
Income from trust indenture with Metro Bank	6,600
Income tax (three quarterly income taxes)	132,330
Capital loss on sale of bonds of a domestic corporation	
Held for three years	9,075
Dividends declared and paid	330,000

After considering the above items, Ingenuity has the following balances:

Gross profit from sales	P4,125,000
Net income per books	1,155,000

1. Minimum corporate income tax:
2. Applicable income tax;
3. Income tax still due:
4. Improperly accumulated earnings if accumulation of profits in 2014 is adjudged to be improper:
5. Improperly accumulated earnings tax:

PAGE 238: Multiple Choice-Problems

Gross Income Tax

In year 2014, Towers corporation, a domestic corporation, is engaged in architectural design services. The following pertinent data;

Gross receipts	P5,000,000
Sales return & allowances	200,000
Sales discounts	250,000
Cost of services	2,250,000
Deductions	1,000,000

1. The gross income tax of Towers for the year is

Answer:

In year 2014, Eastwood Corp., a domestic corporation, has the following data:

Sales	P4,000,000
Cost of sales	1,500,000
Business expenses	1,000,000

2. The gross income tax of the corporation

Answer:

The income statement of Mars Corp., a resident foreign corporation, for the year 2014 shows the following:

Gross sales	P2,676,000
Sales returns & allowances	26,000
Sales discounts	23,000
Cost of goods sold	1,070,000
Business expenses	414,000

3. The gross income tax of the corporation is

Answer;

4. If cost of goods sold is P1,605,000, the gross income tax of the corporation is

Answer:

PAGE 245: True or False

1. **TRUE** Estates and trusts are allowed a personal exemption of P20,000 regardless of the number of trusts a beneficiary may receive income from.
2. **FALSE** The items of gross income of estates and trusts are different from the gross income of individuals as provided in the Tax Code.
3. **TRUE** The income tax rates for corporate taxpayers apply to taxable estates and trusts.
4. **FALSE** Income received by estates of deceased persons during the period of administration or settlement of the estate, and income which, in the discretion of the fiduciary, may be either distributed to the beneficiaries or accumulated, are taxable to the fiduciary.
5. **FALSE** For a trust to be taxable, it must be revocable both as to corpus and income.
6. **FALSE** Income which is to be distributed currently by the fiduciary to the beneficiaries, and income collected by a guardian of an infant which is to be held or distributed as the court may direct, are not deductible from the gross income of the fiduciary.
7. **FALSE** The taxable year of estates and trusts shall be the fiscal year.
8. **FALSE** Estates and trusts are required to file a declaration of estimated income for the current taxable year on or before Dec.31 of the same taxable year.
9. **FALSE** The taxable income of an estate or trust shall be computed in the same manner and on the same basis as in the case of a corporation.
10. **TRUE** Taxable estates are estates of deceased persons judicially settled.

PAGE 246-247: Multiple Choice

1. When an individual dies, future income on his property will be taxed to
Answer. C
2. When an individual dies, whom is taxed on income from his property between the time of his death until his estate is finally settled?
Answer. B
3. In which of the following cases is a taxpayer required to file an income tax return?
Answer. C
4. The general term which applies to all persons or corporations that occupy positions of peculiar confidence towards others, such as trustees, executors, guardians, or administrators, receivers, or conservators
Answer. C
5. The person for whose benefit the trust has been created
Answer: D
6. An agreement created by will or an agreement under which title to property is passed to another for conservation or investment with the income therefrom and ultimately the corpus

to be distributed in accordance with the directives of the creator as expressed in the governing instrument

Answer: A

7. Legal entity that exists for the purpose of managing and distributing the deceased person's property to the heirs.

Answer: A

8. Gross income of estates and trusts include

Answer: E

9. Property, rights and obligation of a person which are not extinguished by his death and also those which have accrued thereto since the opening of the succession.

Answer: A

10. The person who establishes a trust

Answer: C & D

Page. 248

- 1) Mr. Demitrio passed away on June 30, 2014. His estate, which is under judicial settlement, accumulated P800,000 gross income for the remaining half of the year. Deductions attributable to the income amount to P400,000. How much was the tax payable by the estate for 2014?

- 2) Lady Morgana created two irrevocable trusts naming her favorite granddaughter, Alyssa as beneficiary of both trusts. It is provided in the trust document that starting the year 2014, when Alyssa turns 18, she is to receive 25% of the net income of both trusts for her education. Below are the additional information.

	Trust 1	Trust 2
Gross income	P600,000	P900,000
Deductions	180,000	280,000

How much is the consolidated tax due? How much is the share of each trust on the consolidated tax due?

Page.249

Johnny transferred a valuable 10-door commercial apartment to a designated trustee, Miriam, naming in the trust instrument Santino, Johnny's 10-year old son, as the sole beneficiary. The trustee is instructed to distribute the yearly rentals amounting to P720, 000.00. The trustee consults you if she has to pay the annual income tax on the rentals received from the commercial apartment.

1. What advice will you give the trustee? Explain.
2. Will your advice be the same if the trustee is directed to accumulate the rental income and distribute the same only when the beneficiary reaches the age of majority? Why or why not?

Page.261

True or False

1. A General Professional Partnership (GPP) is subject to income tax just like a corporation. **Answer: FALSE**
2. General Professional Partnership is non-taxable "pass through" entity the income of which is ultimately taxed to its partners. **Answer: TRUE**
3. For purposes of computing the distributive share of the partners, the net income of General Professional Partnership shall be computed in the same manner as a corporation. **Answer: TRUE**

Multiple Choice

1. A General Professional Partnership (GPP)
Answer: D. either b nor c

2. The partner in the General Professional Partnership

Answer: B. can no longer claim further deduction from his distributive share in the net income of the partnership.

Problem 1A

Optional Standard Deduction-General Professional Partnership

Mr. Brion is a partner of BINH & Co., a general professional partnership (GPP), who owns 30% interest therein. The 2018 gross receipts of the partnership amounted to P8, 500,000.00; cost of services and operating expenses were P2, 200,000.00 and P1, 300,000.00 respectively. Determine the income tax liability of Mr. Brion for 2018.

The Net Income of BINH & Co., will be computed as follows:

Gross Receipts:	P 8, 500, 000.00
Less: Cost of Services:	<u>(2, 200, 000.00)</u>
Gross Income:	P 6, 300,000.00
Less: Operating Expenses:	<u>(1, 300, 000.00)</u>
Net Income for Distribution to Partners	<u><u>P 5, 000, 000.00</u></u>

The Income tax liability of Mr. Brion will be computed as follows:

Share in Distributive Profit (P 5, 000, 000.00 x 30%)	<u>P 1, 500, 000.00</u>
Tax Due:	
On P 800, 000	P 130, 000
On Excess (P 1, 500, 000 – P 800, 000) x 30%	<u>210, 000</u>
Tax Liability:	<u><u>P 340, 000.00</u></u>

Problem 1B

Optional Standard Deductions-General Professional Partnership

ANH & Co. is a general professional partnership (GPP) whose partner, Mr. Antares, owns 45% interest therein. For 2018, the partnership recorded the following: gross receipts- P11, 500,000.00; cost of service- P3, 600,000.00; and operating expenses-P1, 800,000.00. Find Mr. Antares' income tax liability for 2018.

The Net Income of ANH & Co., will be computed as follows:

Gross Receipts:	P 11, 500, 000.00
Less: Cost of Services:	<u>(3, 600, 000.00)</u>
Gross Income:	P 7, 900,000.00
Less: Operating Expenses:	<u>(1, 800, 000.00)</u>
Net Income for Distribution to Partners	<u><u>P 6, 100, 000.00</u></u>

The Income tax liability of Mr. Antares' will be computed as follows:

Share in Distributive Profit ($\text{P } 6,100,000.00 \times 45\%$)	<u><u>P 2,745,000.00</u></u>
Tax Due:	
On P 800,000	P 130,000
On Excess ($\text{P } 2,745,000.00 - \text{P } 800,000$) $\times 30\%$	<u>583,500</u>
Tax Liability:	<u><u>P 713,500.00</u></u>

P.263

Problem 2A

Itemized Deductions-General Professional Partnership

Ms. Cara is a partner of CAM & Co; a general professional partnership, who owns 35% therein. For taxable year 2018, the gross receipts of the partnership amounted to P9,500,000.00; cost of services and operating expenses were P2,800,000.00 and P1,500,000.00, respectively. Determine the income tax liability of Ms. Cara for 2018.

Problem 2B

Itemized Deductions- General Professional Partnership

BEL & Co. is a general professional partnership (GPP). Its partner, Ms. Briona, owns 40% interest in the partnership. In 2018, records show the following: gross receipts-P12,500,000.00; cost of services- P3,700,000.00; and operating expenses-P1,900,000.00. Find the income tax liability of Ms. Briona for the taxable year 2018.

P.264

True or False

- 1) **TRUE** If a taxable partnership sustains a net operating loss, the partnerships shall be entitled to deduct their respective shares in the net operating loss from their individual gross income.
- 2) **TRUE** The share of an individual partner in a taxable partnership is subject to a final tax of 6% to be increased to 8% in 1999 and 10% in 2000.
- 3) **TRUE** A co-ownership shall not be subject to income tax if the activities of the co-owners are limited to the preservation of the property and the collection of the income thereof.
- 4) **TRUE** Co-owners are taxed individually on their distributive share in the income of the co-ownership.
- 5) **TRUE** The distributive share of a partner in the net income of taxable partnership is equal to each partners' distributive share of the net income declared by the partnership for the taxable year before deducting the corresponding corporate income tax.
- 6) **TRUE** Where the result of partnership operation is a loss, the loss will be divided as agreed upon by the partners but if there is no agreement as to division of losses but

there is as to profits, the losses shall be distributed according to the profit sharing ratio.

- 7) **TRUE** Persons engaging in business as partners in a general professional partnership shall be liable for income tax in their separate and individual capacities.
- 8) **TRUE** If co-owners invest the income in a co-ownership in business in profit, they would constitute themselves into a partnership and as such shall be taxable as a corporation.
- 9) **TRUE** Partners of a taxable partnership are considered as stock holders and profits distributed to them by the partnership are considered as dividends.
- 10) **FALSE** A general professional partnership as such is not subject to income tax but is required to file returns of its income.
- 11) **TRUE** For purposes of computing the distributive share of the partners of a general professional partnership, the net income of the partnership shall be computed in the same manner as a corporation.
- 12) **TRUE** In a contract of partnership, the partners agree to contribute money, property or industry to a common fund with the intention of dividing the profits among themselves.
- 13) A general co-partnership is one which is not a general professional partnership.
- 14) Partnerships (other than general professional partnerships), whether registered or not, are considered as corporations and are therefore taxed as corporations.

P.265

Comprehensive Problem

For the taxable year 2014, Gally and Nilo, partners of general professional partnership agreed to divide profits and losses 60:40, respectively. Both are married without qualified dependents. The following are the details of the account:

Sale of Service	P2,450,000	
Cost of Services	720,000	
Itemized Deduction	580,000	
	<i>Partner Gally</i>	<i>Partner Nilo</i>
Travelling Expenses (not liquidated by the GPP)	P45,000	P35,000
Representation Expenses (personal credit card of partner used)	52,500	63,000

Cost of Car, to be depreciated over 5 yrs. (used in the practice registered under the Partner)	850,000	900,000
Interest on Bank Deposits	5,000	16,000
Salaries from the GPP	240,000	180,000
Book Royalties		160,000
Gross Receipts from Business (not the GPP)	450,000	
Cost of Sales-Business		230,000
Itemized Deductions-Business		145,000

Required:

Compute in good form the distributable net income of the GPP, share of each partner and taxable income assuming that the GPP used: (1) itemized deductions; (2) optional standard deduction.