

Chapter 1

Taxation - is the process or means by which the sovereign, through its lawmaking body, raises income to defray the necessary expenses of the government.

Taxes - are the lifeblood of the government and their prompt and certain availability are imperious need.

Eminent Domain - The power of state to take private property for public use upon payment of just compensation.

Police Power - The power of state to enact laws to promote *public health, public morals, public safety and the general welfare of the people*

Levying of the tax - The imposition of tax requires legislative intervention. In the Philippines, *it is Congress that levies taxes.*

Collection of the tax levied - This is essentially an administrative function

Fiscal adequacy - Sources of revenue are sufficient to meet government expenditures;

Equality or theoretical justice - The tax imposed must be proportionate to taxpayer's ability to pay

Administrative feasibility - The law must be capable of convenient, just and effective administration.

Constitutional limitations - are those provided for the constitution or implied from its provisions

Inherent limitations - are restrictions to the power of tax attached to its nature.

Purpose - Taxes may be levied only for the public purpose;

Territoriality - The State may tax persons and properties under its jurisdiction;

International comity - The property of a foreign State may not be taxed by another;

Exemption - Governmental agencies performing governmental functions are exempt from taxation;

Non-delegation - The power to tax being legislative in nature may not be delegated.

Double taxation - standing alone and not being forbidden by our fundamental law is not a valid defense against the legality of a tax measure.

Direct duplicate taxation - in that the same subject is taxed twice when it should be taxed but once, in a fashion that both taxes are imposed for the same purpose by the same taxing authority, within the same jurisdiction of taxing district, for the same taxable period and for the same kind of character of a tax, then it becomes legally objectionable for being oppressive and inequitable.

Indirect double taxation - is one other than the direct double taxation. Through this type may not prove unconstitutional, it is being avoided so as not to bring injustice to the taxpayer

Tax avoidance - happens when the taxpayers minimizes his tax liability by taking advantage of legally available tax planning opportunities

Tax evasion - occurs when the taxpayer resorts to unlawful means to lessen or to get away with his tax liability.

Subject matter - or what is being taxed. He may be a person or it may be a property, an act or activity;

Nature of tax - or which tax to impose. It may be an income tax, and import duty or a real property tax;
Citizenship of the taxpayer; and
Residence of the taxpayer.

Situs of Taxation Apply

Persons - Residence of the taxpayer

Real Property or **tangible personal property**
- Location of the property.

Intangible personal property - as a rule, situs is the domicile of the owner unless he has acquired a situs elsewhere.

Income – taxpayer's residence or citizenship, or place where the income was earned.

Business, occupation and transaction – Place where business is being operated, occupation being practiced and transaction completed.

Gratuitous transfer of property – Taxpayer's residence or citizenship, or location of the property.

Personal, poll or capitation – tax of affixed amount imposed on individuals, whether citizens or not, residing within a specified territory without regard to their property or the occupation in which they may be engaged. Example community tax.

Property – tax imposed on property, whether real or personal, in proportion either to its value or in accordance with some other reasonable method of apportionment. Example: real estate tax

Excise tax – tax imposed upon the performance of an act, the enjoyment of a privilege or the engaging in an occupation. Examples: estate tax, donor's tax, income tax, value-added tax.

Direct- tax – demanded from a person who intended or bound by law to pay the tax. Examples: community tax, income tax, estate tax, donor's tax

Indirect – tax – which the taxpayer can shift to another. Examples: customs duties, value-added tax, some percentage taxes.

Specific- tax – imposed based on a physical unit of measurement, as by head or number, weight, or length or volume. Examples: tax on distilled spirits, fermented liquors. Cigars, wines, fireworks, etc.

Ad Valorem – tax of a fixed proportion of the value of property, needs an independent appraiser to determine its value. Examples: real estate tax, certain customs duties, excise tax on cigarettes, gasolines and others.

Special Assessment – is an enforced proportional contribution from owners of lands for special benefits resulting from public improvements. Permit or license fee is a charge imposed under the police power for purposes of regulation.

Permit or license – fee is a charge imposed under the police power for purposes of regulation.

Debt – is generally based on contract, is assignable and may be paid in kind while tax is based on law, cannot generally be assigned and is generally payable in money. A person cannot be imprisoned for non-payment of debt while he can be for non-payment of tax.

Revenue is broader than tax since it refers to all funds or income derived by the government. Taxes include, other sources of revenues are government services, income from public enterprises and foreign loans.

Customs duties are taxes imposed on goods exported from or imported to a country. Customs duties are actually taxes but the latter is broader in scope.

Income Tax is a tax on all yearly profits arising from property, profession, trade or business, or is tax on a person's income, emoluments, profits and the like.

-generally regarded as an excise (privilege) tax.

Chapter 2

Citizen - those who are citizens of the Philippines at the time of the adoption of the February 2, 1987, Constitution.

Resident citizen - a Filipino citizen who permanently resides in the Philippines.

Non-resident Citizen - a citizen of the Philippines who establishes to the satisfaction of the commissioner the fact of his physical presence abroad with a definite intention to reside therein.

Resident alien - means an individual whose residence within the Philippines and who is not a resident thereof.

Non-resident alien - means an individual whose residence is not within the Philippines and who is not a citizen thereof.

Non resident alien engaged in trade or business (NRA ETB) Means that the alien is carrying on a business in the Philippines. It connotes more than a single act or isolated transactions.

Non resident alien not engaged in trade or business (NRA-NETB) If he stayed for 180 days or less.

Compensation income - Mean remuneration from services performed by an employee for his employer under an employer employee relationship.

Mixed income earner - refers to a compensation earner who at the same time is engaged in business or practice of profession.

Marginal income earner - refers to an individual whose business does not realize gross sales or receipts.

Self employed individual – who may be a single proprietor engaged in business or practice of profession.

Resident citizens are taxable on all income derived from sources within and without.

Non-resident citizen and alien individuals- resident and non-resident are taxable only on income derived from sources within the Philippines.

Passive income- are subject to separate and final tax. These are taxed at fixed rates ranging from 5-25%

Business income- arises from self-employment or practice of profession. This shall not include income from performance of services by the taxpayer as an employee

Capital gains- from sale of shares of stock, not traded through the local stock exchange.

Capital gains from sale of real property- taxed at 6% final tax on the gross selling price or current fair market value at the time of sale.

Fringe Benefits - means any good or services or other benefit furnished or granted by an employer in cash or in kind in addition to basic salaries, to an individual employee under an employer-employee relationship.

Chapter 3

GENERAL PROFESSIONAL PARTNERSHIP (GPP)

optional standard deductions (OSD).

BUSINESS TAXABLE PARTNERSHIP(BTP)

RATES OF TAX PASSIVE INCOME

Passive Income Tax Rate

1. Interests from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements = **20%**
2. Interest income received by an individual taxpayer (except a non-resident individual) from a depository bank under the expanded foreign currency deposit system = **15%**
3. Proceeds of pre-terminated long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form as prescribed by the Bangko Sentral ng Pilipinas (BSP) -- the final tax shall be based on the remaining maturity of the investment:
 - a. Four (4) years but less than five (5) years = **5%**
 - b. Three (3) years but less than four (4) years = **12%**
 - c. Less than three (3) years = **20%**
4. Royalties (except royalties on books and other literary works and musical compositions) **20%**
5. Royalties on books and other literary works and musical compositions = **10%**
6. Prizes (except prizes amounting to P10,000 or less) = **20%**
7. Winnings (except Philippine Charity Sweepstakes and Lotto winnings amounting to P10,000 or less) = **20%**
8. Cash and Property Dividends = **10%**
9. Capital Gains from Sale of Shares of Stock not Traded in the Stock Exchange = **15%**
- Note: If traded in the stock exchange 6%**
10. Capital Gains from sale of Real Property located in the Philippines = **6%**

Taxable Income per Year	Income Tax Rate (Year 2023 onwards)
P250,000 and below	0%
P250,000 to P400,000	15% of the excess over P250,000
P400,000 to P800,000	P22,500 + 20 % of the excess over P400,000
P800,000 to P2,000,000	P102,500 + 25% of the excess over P800,000
P2,000,000 to P8,000,000	P402,500 + 30% of the excess over P2,000,000
Above P8,000,000	P2,202,500 + 35% of the excess over P5,000,000

Optional Standard deductions (OSD) 40%

The share of an individual partner in a taxable partnership is subject to a final tax of 10%.

Example Ratio: 5:4:3 = 5+4+3 = 12

Business Taxable partnership = 20%

Salary 250,000 below tax free
Bonus 90,000 below tax free
Income (net income)
Salary
Bonus 13th
Business income
Total

Less Deduction
Limit

Taxable Income

Tax Due
Excess

Tax Due
Withholding Tax
Passive income

Income
Itemized deductions
OSD(40%)
Net Income

Division of Net Income
Income of Individual
Less Limit
First
Excess
Tax Due

Gross Income
Deductions

Taxable income
Tax due

Gross Income
Expenses
Net Income before Tax
Tax 20%
Net Income after Tax

Final Tax

Problem Example:

Salary —>	300,000
Bonus 13th —>	500,000
Business Income —>	400,000
Dividend —>	200,000
Passive Income(Royalty on book) —>	150,000

Since both hindi tax free ung Salary and Bonus mag minus tayo ng 340,000 san nakuha ung 340,000 sa 250,000 + 90,000.

Note: kapag below 90,000 ang bonus or below 250,000 ang salary meaning tax free siya ang gagawin nalang natin ay kung ano lang ung pasok sa tax un lang ung i miminus natin.

Since may business income tayo i iinclude natin siya sa computation.

$$300,000 + 500,000 + 400,000 = 1,200,000$$

Nakuha na natin ung total next na gagawin natin is i miminus naman natin siya sa 340,000 since parehong hindi tax free ang salary and bonus

$$1,200,000 - 340,000 = 860,000$$

Dahil 860,000 ang nakuha natin sagot, mag fafall siya sa table under ng 800,000 - 2,000,000

$$\text{So: } 860,000 - 800,000 = 60,000$$

Ngayon nakuha na natin ang 60,000 i multiply naman natin siya sa 25% na nakagalay din sa table ng 800,000 - 2,000,000

$$60,000 \times 25\% = 15,000$$

Nakuha na natin ang 15,000 ngayon naman ay i dagdag na natin ang P102,500 na nakuha rin natin sa table

$$102,500 + 15,000 = 117,500$$

Ngayon nakuha na natin ang unang sagot, i sunod naman natin ang Passive income

$(150,000 \times 10\% = 15,000)$

$(200,000 \times 10\% = 20,000)$

Naka base sa RATES OF TAX PASSIVE INCOME ang mga % na ginamit natin sa Dividends and Royalty on books

Format:

Salary —>	+300,000
Bonus 13th —>	+500,000
Business Income —>	+400,000
Total	=1,200,000

Less Deduction	
Limit	+250,000
	90,000 340,000
Taxable Income	860,000

Tax Due		
Excess	$(800,000 - 860,000)$	+102,500
	$60,000 \times 25\%)=$	15,000
Tax Due		=117,500

Passive Income

$(150,000 \times 10\% = 15,000)$

$(200,000 \times 10\% = 20,000)$

Note for Sale of stock problem example

If not Traded:

Sale of Stock = 20,000

Shares = 15

Per value = 12

(Passive income)

$20,000(\text{sales of stocks}) \times 15(\text{shares}) = 300,000$

$$300,000 \times 15\% (\text{based on rates of tax passive income}) = 45,000$$

If Traded example :

Sale Price

$$20,000 (\text{sales of stocks}) \times 15 (\text{shares}) = 300,000$$

Per value

$$20,000 (\text{sales of stocks}) \times 12 (\text{per value}) = 240,000$$

$$\text{Sale price} = -300,000$$

$$\text{Per Value} = 240,000$$

$$60,000$$

$$\text{Capital Gains Tax} = \text{Gains} \times \text{tax rate}$$

$$\text{Gain} = 60,000$$

$$\text{Tax rate} = 6\% (\text{based on rates of tax passive income})$$

$$\text{Capital gains tax} = 60,000 \times 6\%$$

$$\text{Capital Gains tax} = 3,600$$

Problem Example

Net Income of A and B 60:40 (GPP)

Income =	-700,000
Itemized Deduction =	150,000
Net Income	550,000

Division of Net Income

$$\text{Partner A } (550,000 \times 60\% = 370,000)$$

$$\text{Partner B } (550,000 \times 40\% = 220,000)$$

Partner A needs to pay tax

Partner B is tax free

Because of the limit of Salary 250,000 below

Income of A =	-370,000
Less limit	250,000
	80,000
First	250,000 (based on table)
Excess	80,000 x 15% = 12,000
Tax Due	12,000

Note: Kapag may OSD(40%) tapos wala naman less deduction, kuhain lang natin ung 40% ng income tapos i minus natin sa kanya, pero kapag may less deduction, computin muna natin ung Income pati less deduction after non dun palang natin kukuhain ung 40% na OSD tas tiyaka natin i minus, always remember na kapag 250,000 below ang salary ng isang individual tax free na siya meaning hindi na tayo mag cocompute pa ng tax para sa kanya.

Problem Example: Paano kung may side job si B paano naman siya kukuhain

Income	-3,000,000
Itemized deductions	500,000
Net Income	2,500,000
Salary	+400,000
Bonus 13th	150,000
Withholding	15,000
Net Income	550,000

Division of Net income

Partner A = $(2,500,000 \times 60\% = 1,500,000)$

Partner B = $(2,500,000 \times 40\% = 1,000,000)$

Compute the total income of B

Income of B	$= 1,000,000 + 550,000 = 1,550,000$		
Less Limit	250,000		
	90,000		$= 340,00$

Net Income		-1,210,000
First	=	800,000
Excess	= (410,000 x 25%) =	+102,500
		102,500
Tax Due		205,000
Withholding		15,000
Tax Due		190,000

Problem Example: G:75 % R:25%

Gross Income		=1,000,000
Expenses		=300,000
Net Income Before Tax		=700,000
Tax 20%	(700,000 x 20%)	=140,000
Net Income after tax		=560,000

Division of Net Income

$$G=75\% \times 560,000 = 420,000$$

$$R=25\% \times 560,000 = 140,000$$

Final Tax

$$G=420,000 \times 10\% = 42,000$$

$$R=140,000 \times 10\% = 14,000$$

Another Problem example: A,B and C ratio of 5:4:3(5+4+3 = 12) (5/12 , 4/12, 3/12)

Gross Income	3,000,000
Expenses	700,000
Net Income before tax	2,300,000
Tax rate 20%(2,300,000 x 20%)	460,000
Net Income after tax	1,840,000

Division of Net Income

$$A(1,840,000 \times 5/12 = 766,666.67$$

$$B(1,840,000 \times 4/12 = 613,333.33$$

$$C(1,840,000 \times 3/12 = 460,000$$

Final Tax

$$A=766,666.67 \times 10\% = 76,666.67$$

$$B=613,333.33 \times 10\% = 61,333.33$$

$$C=460,000 \times 10\% = 46,000$$