



Department of Education  
**SCHOOLS DIVISION OF CITY OF MEYCAUAYAN**  
Pag-asa St., Malhacan, City of Meycauayan, Bulacan



Senior High School

**12**

# **Activity Sheet** **in** **Fundamentals of** **Accountancy, Business and** **Management 2**

**Income Tax Theory**  
**(ABM\_FABM12-IIh-j-15)**



GOVERNMENT PROPERTY  
**NOT FOR SALE**

## INCOME TAX THEORY



### LET US KNOW

As an income earner, it is an obligation to share a part of our income to the government for this will be used for its various project as fund . This activity sheet introduces the fundamentals of income taxation on individual deriving income from compensation, business, and other revenue sources. It is imperative to have a knowledge of taxation. As responsible income earner of the society it is not just about paying our taxes on time but also paying the correct tax due in compliance with tax rules and regulation .



### LET US REVIEW

Choose the letter of the correct answer. Write your answer on a clean sheet of paper.

1. Salaries, honoraria, and emoluments are also known as \_\_\_\_\_.
  - a. Tax
  - b. Compensation
  - c. Fee
  - d. Professional Fees
2. Which of the following describes an employees \_\_\_\_\_.
  - a. It receives a passive income such as , rent and stock dividend.
  - b. Any individual that practices its profession.
  - c. He or she receives compensation whether elected or appointed
  - d. Receives payment for tax due for an individual.
3. It refers to a natural person , whether Filipino citizen or not and whether resident of the Philippines or nonresident of the Philippines is a \_\_\_\_\_.
  - a. Employee
  - b. Corporation
  - c. Professional
  - d. Individual
4. Under the Train Law , lottery winners are tax at \_\_\_\_\_ final tax.
  - a. 20% final tax
  - b. 10% final tax
  - c. 30% final tax
  - d. 12% final Tax
5. An individual earning compensation from employment and income from business, practice of profession and / or other sources of income.
  - a. Mixed Income Earner
  - b. Professionals
  - c. Self-employed
  - d. Non-resident Alien



## LET US STUDY

### Lesson 1. Personal Income Tax

**Individual**, a natural person, whether Filipino citizen or not and whether resident of the Philippines or nonresident of the Philippines.

RA 10963 restructures the **personal income tax (PIT)** with separate schedule for compensation income.

**Compensation Income**, in general means, all the remuneration for services performed by an employee for his employer under an employer-employee relationship, (Cabrera, 2019)

OLD TAX SCHEDULE		For Compensation Income Earners & Self-employed and Professionals	
Net Taxable Income		Tax Rate	
Over	But not over		
	10,000	5%	
10,000	30,000	500 + 10% of excess over 10,000	
30,000	70,000	2,500 + 15% of excess over 30,000	
70,000	140,000	8,500 + 20% of excess over 70,000	
140,000	250,000	22,500 + 25% of excess over 140,000	
250,000	500,000	50,000 + 30% of excess over 250,000	
500,000		125,000 + 32% of excess over 500,000	

NEW TAX SCHEDULE		Effective January 1, 2018	
Net Taxable Income		Tax Rate	
Over	But not over		
	250,000	0%	
250,000	400,000	20% of excess over 250,000	
400,000	800,000	30,000 + 25% of excess over 400,000	
800,000	2,000,000	130,000 + 30% of excess over 800,000	
2,000,000	8,000,000	490,000 + 32% of excess over 2,000,000	
8,000,000		2,410,000 + 35% of excess over 8,000,000	

Effective January 1, 2023 and Onwards	
Net Taxable Income	
Over	But not over
	250,000
250,000	400,000
400,000	800,000
800,000	2,000,000
2,000,000	8,000,000
8,000,000	

Tax Rate	
0%	
15% of excess over 250,000	
22,500 + 20% of excess over 400,000	
102,500 + 25% of excess over 800,000	
402,500 + 30% of excess over 2,000,000	
2,202,500 + 35% of excess over 8,000,000	

For Compensation Income Earners

<http://www.ntrc.gov.ph/images/Publications/train/tax-changes-you-need-to-know.pdf>

**Employees**, any individual performing services under an employer-employee relationship. The term covers all employees including officers and employees, whether elected or appointed of the government of the Philippines. (Cabrera, 2019)

**Employers**, any person for whom an individual performs or performed any service, of whatever nature, under an employer-employee relationship. It paid wages, from whom an employee receives compensation for its services.

**Fringe & Benefits** any good, service or other benefit furnished or granted in cash or in kind other than basic compensation, by an employer to an individual employee (except rank-in-file employee)

- a. Housing
- b. Expense of any kind
- c. Vehicle
- d. Household personnel such as, maid drivers or other
- e. Interest on loan at less than market rate to the extent of difference between the market rate and actual rate granted.
- f. Membership fee, dues, and other expenses.
- g. Expenses for foreign travel
- h. Holiday and vacation
- i. Education Assistance
- j. Life and health insurance

**Professionals** are person formally certified by a professional body belonging to a specific profession by virtue of completing the required licensure examination or practice of competency.

**Self-employed**, as sole proprietor or an independent contractor who reports income earned from self-employment. They were hired under contract of service or job and whose income derived from purely from practice of profession and not under an employer and employee relationship. (Cabrera, 2019).

Effective January 1, 2018	
For Self-employed and Professionals	Gross Sales/Receipts
	Tax Rate
	Not exceeding P3 million
	Option 1: Regular PIT Rates or Option 2: 8% of gross sales/receipts in excess of P250,000*
	Above P3 million
	Regular PIT Rates

\* This is in lieu of income and percentage tax.

<http://www.ntrc.gov.ph/images/Publications/train/tax-changes-you-need-to-know.pdf>

**Mixed income earners**, an individual earning compensation from employment and income from business, practice of profession and / or other sources of income.

Effective January 1, 2018	
For Mixed Income Earners	Type of Income
	Tax Rate
	Compensation Income
	Regular PIT rates
	Income from business or practice of profession:
	a. Gross sales/receipts not exceeding P3 million
	Option 1: Regular PIT Rates or Option 2: 8% of gross sales/receipts*
	b. Gross sales/receipts above P3 million
	Regular PIT Rates

\* This is in lieu of income and percentage tax.

<http://www.ntrc.gov.ph/images/Publications/train/tax-changes-you-need-to-know.pdf>

**TRAIN repeals Section 35 of National Internal Revenue Code** on personal exemptions of individual taxpayers. Whether the taxpayer is single, married, head of the family, with or without dependents, the taxpayer is exempted from paying **personal income tax (PIT)** as long as he / she is earning less than ₱21,000.

#### **Amendments of Personal Income Tax under Train Law**

- a. Reduces number of tax bracket.
- b. Exempt first ₱250,000 annual taxable income of taxpayer.
- c. Set highest amount of taxable income at more than ₱ 8,000,000 and subjects it to a higher marginal rate of 35%.
- d. Repeal the provision on basic personal and additional exemptions and premium paid on health and /or hospitalization insurance which are deemed integrated into ₱250,000 exempt threshold
- e. Retains the income tax exemption of minimum wage owner.
- f. Retains the exemption of tax of the minimis benefits as well as the non -taxability of ,mandatory contributions such as those to the GSIS, SSS, Philhealth, Pag-ibig Fund and union dues.
- g. Increase the amount of tax-exempt benefits ceiling (13<sup>th</sup> month pay and other benefits) from ₱82,000 to ₱90,000.
- h. Imposes 20% final tax on PCSO or lotto winning exceedings ₱10,000.
- i. Removes the preferential tax rate of 15% for employees of regional or area headquarters, offshore banking units, and petroleum service contractors and sub-contractors.
- j. Increases the fringe -benefit tax (FBT) rate from 32%-355
- k. Inserts provision that optional standard deduction by general professional partnership (GPP) may only be availed once , either by GPP or the partners comprising such partnership.

#### **How to determine income within and outside Philippines.**

<b>INCOME</b>	<b>TEST SOURCE OF INCOME</b>
Interest Income from loans	Residence Debtor
Income for Service	Place of performance
Rent	Location of property
Royalty	Place use of intangible
Sales of Real Property	Location of property
Sales of Personal Property	Place of Sale

<b>DIVIDENDS</b>	
From Domestic Corp	Income within the Philippines
From Foreign Corp	Income outside the Philippines



## GENERAL CATEGORIES OF INDIVIDUAL TAXPAYER

General Categories of Individual Tax Payer	Definition	Source of Taxable Income
<b>1. Resident Citizen</b>	a. Those whose father and mother are citizen b. Those who are naturalized in accordance with Law c. Whose residence is within the Philippines	Within and outside Philippines
<b>2. Non-Resident Citizen</b>	a. Citizen who establishes the fact of his physical presence abroad with definite intention to reside therein b. Citizen who leaves for abroad either as an immigrant, or for employment on a permanent basis. c. Citizen who derives income from abroad which requires him to be physically present abroad most of the time (more than 183 days) during the year (Sec. 22(E)).	Within the Philippines
<b>3. Resident Alien</b>	a. His purpose in coming to the Philippines requires an extended stay in the country, and make his home temporarily in the Philippines.	Within the Philippines
<b>4. Non-resident Alien - ETB</b>	Not a citizen and not a resident in the Philippines.	Within the Philippines
Engage in Trade or Business	a. If stay in the Philippines is for > 180 days, during the year.	Within the Philippines
Not engage in Trade or Business	b. If stay in the Philippines is for < 180 days, during the year.	Within the Philippines

(source : [www.upcloudaccounting.com](http://www.upcloudaccounting.com) )

### Situs (Place) of Income (one or more, or all)

a. The place where the taxpayer is a citizen. b. The place where the taxpayer is a resident. c. The place where the income is earned or derived.

**Taxable Income** -refers to a pertinent item of gross income specified in code , less deductions if any authorized for such types of income by the code or other special laws.

### Who should file an Income Tax Return (ITR) ?

Individual who derives income from employment , business, practice of profession or other sources (eg. Interest on bank deposits) is required to file an Income Tax Return (ITR).

**Gross Income**, means all income earned from whatever source (but not limited) to the following

- Compensation
- Trade or business or the exercise of a profession.
- Gains derived from dealing in property
- Interest
- Rents
- Royalties
- Dividends
- Annuities
- Prizes and winnings
- Pensions
- Net income from general professional partnership.

### Kinds of Income

- Compensation Income** is the income received by employees working different companies. This is usually in the form of salaries, bonuses, and allowances. Tax ranges from 5% to 32% taxable income
- Business Income** is an income generated by entrepreneurs (business) or by different professionals like lawyers, doctors, and accountant (Professional income). They do not work as employee's pf other people. Tax ranges from 5% to 32% taxable income

- c. **Passive income** is an income generated by different investment made by individuals.
- d. Others prize, winning and pensions.



## LET US PRACTICE

**Activity 1.** Indicate the classification of the following individual whether they are RC (Resident Citizen), NRC (Non-Resident Citizen), NRA-ETB Non-Resident Alien Engaged in Trade or Business, NRA-NETB(Non-Resident Alien not Engaged in Trade or Business) . Write your answer on separate sheet of paper

1. \_\_\_\_\_ **Al Quin Carter**, an American citizen and a resident of Sweden stayed here in the Philippines from February 2019 to December 2019. he is working for a certain project in Taguig-a local company.
2. \_\_\_\_\_ **Jeffrey Lapuz**, a filipino residing in Intramuros, manila visited Thailand for a three day leisure trip.
3. \_\_\_\_\_ **Mervin Smith**, an American member of a famous international boy band, performed in a two-day concert held in Montalban, Rizal.
4. \_\_\_\_\_ **Alvin Co** a Chinese national, has been living and working here in the Philippines since 1994.
5. \_\_\_\_\_ **Joan Caraballo**, a filipina who was born in ormoc, is now working as a teacher in one of the leading schools in spain.



## LET US REMEMBER

- a. **Individual**, is a natural person, whether Filipino citizen or not and whether resident of the Philippines or nonresident of the Philippines who is subject to tax, imposed by National Internal Revenue Code or (NIRC).
- b. **Under the RA 10963 also known as TRAIN LAW** , restructures the personal income tax (PIT) with separate schedule for compensation income.
- c. **Situs is the place** where the taxpayer is a citizen. Resident and income are earned or derived.
- d. **Compensation Income** is the income received by employees working different companies.
- e. **Business Income** is an income generated by entrepreneurs (business) or by different professionals like lawyers, doctors, and accountant (Professional income).
- f. **Passive income** is an income generated by different investment made by individuals.
- g. Other incomes such as **prize, winning and pensions**.
- h. Individual who derives income from employment , business, practice of profession or other sources (eg. Interest on bank deposits) is required to file an Income Tax Return (ITR).
- i. **Taxable Income** -refers to a pertinent item of gross income specified in code , less deductions if any authorized for such types of income by the code or other special laws.
- j. **Gross Income** means all income earned.
- k. **TRAIN repeals Section 35 of National Internal Revenue Code** on personal exemptions of individual taxpayers. Whether the taxpayer is single, married, head of the family, with or without dependents, the taxpayer is exempted from paying **personal income tax (PIT)** as long as he / she is earning less than ₱21,000.



## LET US PRACTICE

Complete the table below. Determine the situs does an income will be taxed. Write your answer on separate sheet of paper.

Source of Income	Situs (Place) where income is taxable
a. Rent Revenue from Makati Katy lives in Manila.	
b. Charmaine Tumangan lives in San Jose Del Monte Bulacan and aws employed at Meycauayan National High School, in Meycauayan Bulacan.	
c. Kevin is an OFW living in Valenzuela City.	
d. A nonresident citizen whose all income derived from sources within the Philippines.	
e. Erickson Serrano, received a dividend from a domestic corporation	



## LET US APPRECIATE

Read and analyze the problem below. Write your answer on separate sheet of paper

I. For instance that you have the following client that need tax advise as to the source of their income. Determine the category of income received by the following and refer to the the tax table to determine the tax rate of their compensation or income. Write your answer on a separate sheet of paper .

- Daniel Padilla, an intelligent a cpa, mba graduate and receiving a monthly salary of 70,000 plus transportation allowance of P5,000.
- Greg Gallego, talented friend who is receiving a monthly royalty for his literary works and musical compositions.
- Raul Mitra, an expert and medical practitioner whose receiving fees from the practice of his profession.
- Wella Fan, a very respectable and caring landlady who bought properties and receiving a monthly rental income
- Edison Tan , a retired engineer who received his retirement pay.





## LET US PRACTICE MORE

Write  $\checkmark$  if the statement is a correct concept and  $\times$  if the statement is a wrong concept about Income taxation. Write your answer on separate sheet of paper.

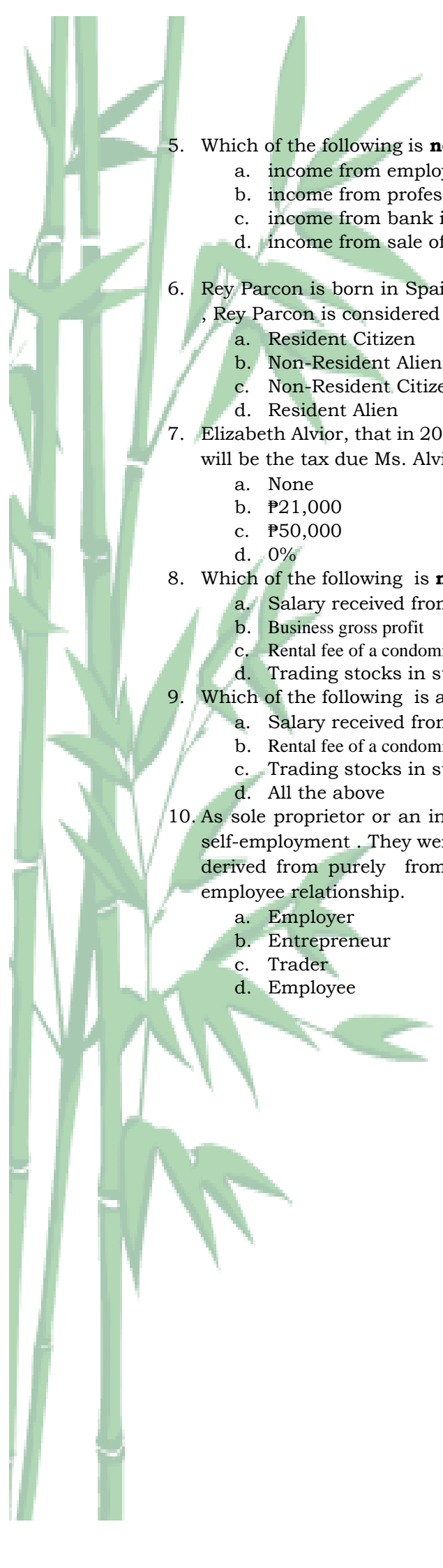
1. \_\_\_\_\_ Income tax means all wealth which flows into the taxpayer other than mere return of capital.
2. \_\_\_\_\_ Aliens, whether resident or not, receiving income from sources outside the Philippines is required to file an income tax.
3. \_\_\_\_\_ Non-resident citizens receiving income from sources within the Philippines is required to file an income tax.
4. \_\_\_\_\_ Resident citizens receiving income from sources within or outside the Philippines is not required to file an income in the Philippines.
5. Under the Train Law, starting January 1, 2018, compensation earners, self-employed and professional taxpayers SEP whose annual taxable income are ₱ 250,000 and below or less than ₱21,000 a month is exempted from personal income tax (PIT).



## EVALUATION

Choose the letter of the best answer. Write your answer on a separate sheet of paper.

1. \_\_\_\_\_ is the income received by employees working different companies. This is usually in the form of salaries, bonuses, and allowances.
  - a. Sales
  - b. Profit
  - c. Compensation
  - d. Statutory Deductions
2. It is an income generated by entrepreneurs (business) or by different professionals like lawyers, doctors, and accountant (Professional income).
  - a. Compensation
  - b. Business Income
  - c. Sales
  - d. Profit
3. Rental space income will be taxed at \_\_\_\_\_.
  - a. Within its vicinity
  - b. the place where building is located
  - c. Place of Sales
  - d. Local Places
4. It refers to a pertinent item of gross income specified in code, less deductions if any authorized for such types of income by the code or other special laws.
  - a. Income tax return
  - b. Gross Income
  - c. Gross Profit
  - d. Taxable Income

- 
5. Which of the following is **not** required to file an Income Tax Return?
    - a. income from employment
    - b. income from professional services
    - c. income from bank interest
    - d. income from sale of halo-halo during summertime.
  6. Rey Parcon is born in Spain but naturalized by law in the Philippine after 10 years, Rey Parcon is considered as \_\_\_\_\_?
    - a. Resident Citizen
    - b. Non-Resident Alien -ETB
    - c. Non-Resident Citizen
    - d. Resident Alien
  7. Elizabeth Alvior, that in 2019 she has an annual net income of ₱250,000. How much will be the tax due Ms. Alvior need to pay ?
    - a. None
    - b. ₱21,000
    - c. ₱50,000
    - d. 0%
  8. Which of the following is **not** a passive income?
    - a. Salary received from an employer
    - b. Business gross profit
    - c. Rental fee of a condominium
    - d. Trading stocks in stock market
  9. Which of the following is a gross income?
    - a. Salary received from an employer
    - b. Rental fee of a condominium
    - c. Trading stocks in stock market
    - d. All the above
  10. As sole proprietor or an independent contractor who reports income earned from self-employment. They were hired under contract of service or job and whose income derived from purely from practice of profession and not under an employer and employee relationship.
    - a. Employer
    - b. Entrepreneur
    - c. Trader
    - d. Employee



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