# CPA REVIEW SCHOOL OF THE PHILIPPINES
## Manila

**CORPORATIONS** **Dela Cruz / De Vera / Lopez / Llamado**

1. ABC, a corporation registered in Norway, has a 50MW electric power plant in San Jose, Batangas. Aside from ABC's income from its power plant, which among the following is NOT considered as part of its income from sources within the Philippines?
   a. Gains from the sale to an Ilocos Norte power plant of generator bought from the United States.
   b. Interests earned on its dollar deposits in a Philippine bank under the Expanded Foreign Currency Deposit System.
   c. Gain from the sale, in London, of shares of stock and other securities of San Miguel Corporation, a domestic corporation.
   d. Royalties from the use in Brazil of generator sets designed in the Philippines by its engineers.

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's net income derived from its exports to Kim. Is the BIR correct?
   a. Yes. Aplets is a non-resident foreign corporation engaged in trade or business in the Philippines.
   b. No. The tax should have been computed on the basis of gross revenues and not net income.
   c. No. Aplets is a non-resident foreign corporation not engaged in trade or business in the Philippines.
   d. Yes, Aplets is doing business in the Philippines through its exclusive distributor Kim's Trading Inc.

3. ABC Inc., a corporation registered and holding office in Australia, not operating in the Philippines, may be subject to Philippine income taxation on
   a. Gains it derived from sale in Australia of an ore crusher it bought from the Philippines with the proceeds converted to pesos.
   b. Gains it derived from sale in Australia of shares of stock of Philex Mining Corporation, a Philippine corporation.
   c. Dividends earned from investment in a foreign corporation that derived 40% of its gross income from Philippine sources.
   d. Interest derived from its dollar deposits in a Philippine bank under the Expanded Foreign Currency Deposit System.

4. A corporation organized and created under the laws of a foreign country and is authorized to do business/ trade in the Philippines is:
   a. Domestic corporation
   b. Resident foreign corporation
   c. Government owned and controlled corporation
   d. Non-profit hospital

5. A domestic corporation may employ, as a basis for filing its annual corporate income tax return the:
   a. Calendar year only
   b. Fiscal year only
   c. Either calendar or fiscal year
   d. Neither calendar or fiscal year

6. A corporation files a quarterly return within
   a. 30 days after the end of each of the first 3 quarters
   b. 60 days after the end of each of the first 3 quarters
   c. 30 days, after the end of each of the first 4 quarters
   d. 60 days after the end of each of the first 4 quarters

7. A final or annual return is filed on or before the 15th day of the

a. Month following the close of the taxable year
b. $2^{nd}$ month following the close of the taxable year.
c. $3^{rd}$ month following the close of the taxable year
d. $4^{th}$ month following the close of the taxable year

8. One of the general principles of income taxation:
   a. A foreign corporation engaged in business in the Philippines is taxable on all income derived from sources within and without the Philippines.
   b. A foreign corporation engaged in business in the Philippines is taxable on all income derived from sources within the Philippines only
   c. A domestic corporation is taxable on income derived from sources within the Philippines only.
   d. A domestic corporation is taxable on income derived from sources without the Philippines only.

9. One of the following does not fall under the definition of a "*corporation*" for income tax purpose:
   a. General partnership
   b. Joint stock company
   c. Insurance company
   d. Sole proprietorship

10. Which of the following is subject to the income tax?
   a. A non-stock and non-profit educational institution
   b. Public educational institution
   c. Civic league or organization not organized for profit and operated exclusively for the promotion of social welfare
   d. Mutual savings bank and cooperative bank having a capital stock represented by shares organized and operated for mutual purposes and profit.

11. The Philippine Health Insurance Corporation (Philhealth), a government-owned corporation is:
   a. Exempt from the corporate income tax.
   b. Subject to the preferential corporate income tax for special corporations.
   c. Subject to the basic corporate income tax
   d. Subject to final tax

12. Public educational institutions, like the University of the Philippines is deemed by law:
   a. Subject to the preferential corporate income tax for special corporations.
   b. Subject to the basic corporate income tax.
   c. Subject to both the preferential income tax and the basic corporate income tax.
   d. Exempt from the corporate income tax

13. Which is not correct? The following are exempt from the corporate income tax:
   a. Local water districts
   b. Bureau of Internal Revenue
   c. Government owned or controlled corporation
   d. Social Security System

14. Which of the following may be subject to the corporate income tax?
   a. A non-stock and non-profit educational institution
   b. A public educational institution
   c. A private educational institution
   d. Government Service Insurance System

15. The improperly accumulated earnings tax shall apply to

a. Publicly held corporation
b. Banks and other non-bank financial intermediaries
c. Insurance companies
d. Closely held domestic corporations

16. Which of the following statements is not correct?
   a. MCIT is not applicable to resident foreign corporations.
   b. The corporate quarterly return shall be filed within 60 days following the close of each of the first three quarters of the taxable year.
   c. Resident foreign corporations would be taxed on net income from within the Philippines only.
   d. Non-resident foreign corporations are taxed on gross income from within the Philippines only.

17. The following income are subject to final tax, except
   a. Royalty income received by a domestic corporation from a domestic corporation.
   b. Cash dividends received by a non-resident foreign corporation from a domestic corporation
   c. Cash dividends received by a domestic corporation from a domestic corporation.
   d. Interest income from a Peso deposit received by resident foreign corporation from a Philippine bank.
   e. Branch profit remitted by a branch to the head office of a resident foreign corporation.

18. The MCIT shall not apply to the following resident foreign corporations, except
   a. RFC engaged in business as international carrier subject to 2 1/2 % of their Gross Philippine Billings
   b. RFC engaged in business as Offshore Banking Units on their income from foreign currency transactions with local commercial banks
   c. RFC engaged in business as regional operating headquarters
   d. RFC engaged in hotel, motel and resort operations

19. The president, upon recommendation of the Secretary of Finance, may allow corporations the option to be taxed at 15% of gross income, after the following conditions, except one, have been satisfied. Which is the exception?
   a. A tax effort ratio of 20% of Gross National Product (GNP)
   b. A ratio of 20% of income tax collection to total tax revenue
   c. A vat tax effort of 4% of GNP
   d. A 0.9% ratio of consolidated public sector financial position to GNP

20. Which of the following is not correct? The 15% gross income tax
   a. Is optional to a qualified corporation
   b. Is available if the ratio of cost of sales to gross sales or receipts from all sources does not exceed 55%
   c. Shall be irrevocable for three consecutive taxable years that the corporation is qualified under the scheme
   d. Is compared with the normal income tax and minimum corporate income tax, and whichever is the highest shall be paid.

21. If the gross income from unrelated activity exceeds 50% of the total gross income derived by any private educational institution, the tax rate shall be the regular 30% based on the entire taxable income. This is known as the
   a. Constructive receipt
   b. Tax benefit rule
   c. End trust doctrine
   d. Predominance test

22. For income taxation purposes, the term "*corporation*" excludes one of the following:
    a. Ordinary partnership
    b. An incorporated business organization
    c. General professional partnership
    d. Business partnership

23. A Corporation's record show:

| Quarter | Normal Income Tax per Quarter | MCIT per Quarter | Taxes Withheld per Quarter | Excess MCIT Prior Year | Excess Withholding Tax Prior Year |
|---|---|---|---|---|---|
| First | P 100,000 | P 80,000 | P20,000 | P 30,000 | P 10,000 |
| Second | 120,000 | 250,000 | 30,000 | | |
| Third | 250,000 | 100,000 | 40,000 | | |
| Fourth | 200,000 | 100,000 | 35,000 | | |

The income tax due and income tax payable, respectively, for the first quarter are
    a. ₱100,000; ₱100,000
    b. ₱100,000; ₱80,000
    c. ₱100,000; ₱50,000
    d. ₱100,000; ₱40,000

24. The income tax due and income tax payable, respectively, for the second quarter are
    a. ₱330,000; ₱ 120,000
    b. ₱330,000; ₱ 250,000
    c. ₱330,000; ₱ 150,000
    d. ₱330,000; ₱ 230,000

25. The income tax due and income tax payable, respectively, for the third quarter are
    a. ₱470,000; ₱ 250,000
    b. ₱470,000; ₱ 100,000
    c. ₱470,000; ₱ 140,000
    d. ₱470,000; ₱ 70,000

26. The income tax due and income tax payable, respectively, for the year are
    a. ₱670,000; ₱ 200,000
    b. ₱670,000; ₱ 100,000
    c. ₱670,000; ₱ 135,000
    d. ₱670,000; ₱ 165,000

27. Using the preceding problem except that the normal income tax for the fourth quarter is P50,000 (instead of P200,000), the income tax still due for the year is
    a. ₱ 120,000
    b. ₱ 55,000
    c. ₱ 45,000
    d. ₱ 75,000

28. CPA University, a proprietary educational institution organized in 2006, had the following data for 2018.

| | |
|---|---|
| Tuition Fees | P 850,000 |
| Rental Income ( net of 5% cwt) | 142,500 |
| School related expenses | 820,000 |

The income tax still due for 2018 is

a. P 54,000
b. P 10,500
c. P 18,000
d. P 46,500

29. CPA College, a proprietary educational institution organized in 2006, had the following data for 2018.

| | |
|---|---|
| Tuition Fees | P 480,000 |
| Rental Income ( net of 5% cwt) | 494,000 |
| School related expenses | 945,000 |

The income tax still due for 2018 is

a. P 16,500
b. (P 9,500)
c. (P6,000)
d. P 20,000

30. CPA Airlines, a resident foreign international carrier has the following records of income for the period. ( The income represents gross billings.)

a. Continuous flight from Manila to Tokyo = 1,000 tickets at P2,000 per ticket
b. Flight from Manila to Taipei; transfer flight (on CPAR Airlines) from Taipei to Tokyo = 2,000 tickets at P2,000 per ticket
c. Continuous flight from Manila to Taipei = 3,000 tickets at P1,000 per ticket

The income tax due is

a. P 225,000
b. P 125,000
c. P 100,000
d. P 175,000

*31 – 40.* The A Corporation provided the following data for the calendar year ending December 31, 2018 ($ 1 = P50)

| | Philippines | U.S.A. |
|---|---|---|
| Gross Income | ₱4,000,000 | $40,000 |
| Deductions | ₱2,500,000 | $15,000 |
| Income Tax Paid | | $ 3,000 |

31. If it is a domestic corporation, its income tax after tax credit is

a. P 812,500
b. P 675,000
c. P 962,500
d. P 480,000

32. If it is a resident foreign corporation, its income tax is
  a. P 730,000
  b. P 450,000
  c. P 480,000
  d. P 525,000

33. If it is a non-resident foreign corporation, its income tax is
  a. P 730,000
  b. P 1,280,000
  c. P 1,200,000
  d. P 1,400,000

34. Under No. 31, but it opts to claim the tax paid abroad as deduction from gross income, its income tax is
  a. P910,000 c. P237,000
  b. P832,000 d. P780,000

35. If it is a resident international carrier, its income tax is s
  a. P100,000 c. P 37,000
  b. P 10,000 d. P125,000

36. If it is a non-resident cinematographic film owner/lessor, its income tax is
  a. P1,000,000 c. P300,000
  b. P 100,000 d. P128,000

37. If it is a non-resident lessor of vessels, its income tax is
  a. P100,000 c. P300,000
  b. P180,000 d. P128,000

38. If it is a non-resident lessor of aircrafts, machineries and equipment, its income tax is
  a. P100,000 c. P300,000
  b. P180,000 d. P128,000

39. If it is a resident foreign corporation but its expenses within and outside the Philippines is P3m, unallocated (disregard original data on expense) its income tax is
  a. P640,000
  b. P700,000
  c. P480,000
  d. P600,000

40. If it is a resident foreign corporation and it remitted 60% of its net profit to its head office abroad, its total tax liability is (Original data)
  a. P480,000
  b. P571,800
  c. P544,500
  d. P612,750

41. A Corporation, a resident foreign corporation, provided the following data for taxable year 2018:

| | Philippines | USA |
|---|---|---|
| Gross Income | P40M | P20M |
| Dividend from: | | |
| Domestic corporation | 5M | |
| Foreign corporation (100% of its business is in the Phils.) | 4M | |
| Business expenses | 12M | 8M |

A's investment in the foreign corporation was deemed necessary for its own business.

The corporation remitted to its head office the P5M dividend income and 40% of its net profit to its head office in USA. The corporation's total tax liability including the tax on the profit remitted is

a. P10,240,000 c. P12,960,000
b. P12,448,000 d. P10,944,000

42. A Corporation has the following data for the year 2018:

| | |
|---|---|
| Gross Income, Philippines | P1,000,000 |
| Gross income, USA | 500,000 |
| Gross income, Japan | 500,000 |
| Expenses, Philippines | 300,000 |
| Expenses, USA | 200,000 |
| Expenses, Japan | 100,000 |
| Other Income: | |
| Dividend from San Miguel Corp. | 70,000 |
| Dividend from Ford Motors, USA | 120,000 |
| Gain, sale of San Miguel shares directly to buyer | 150,000 |
| Royalties, Philippines | 50,000 |
| Royalties, USA | 100,000 |
| Interest income (other than from bank deposit) | 60,000 |
| Rent, land in USA | 250,000 |
| Other rental income (Phils.) | 100,000 |
| Prize, contest in Manila | 200,000 |
| Interest income ($ deposit in BDO) | 50,000 |

The total tax liability as a domestic corporation is:

a. P709,000 c. P679,750
b. P669,000 d. None of the above

43. Based on the above problem, its total tax liability if it is resident foreign corporation is

a. ₱318,000 c. ₱328,750
b. ₱341,750 d. None of the above.

44. And if it is a non-resident foreign corporation, its total tax liability is

a. ₱433,500 c. ₱338,500
b. ₱443,500 d. None of the above.

45. Any income from transactions with depository banks under the expanded foreign currency deposit system shall be exempt from income tax if derived by a
   a. Domestic corporation
   b. Resident foreign corporation
   c. Non-resident foreign corporation
   d. Resident alien

46. Selected cumulative balances were taken from the record of ABC Co., a domestic corporation, in its fifth year of operations in 2018, which had an income tax refundable of P10,000 for the preceding year for which there is a tax credit:

| | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| Gross profit from sale | P800,000 | P1,600,000 | P2,400,000 | P3,100,000 |
| Capital gain on sale directly to buyer of shares of domestic corporation | 50,000 | 50,000 | 50,000 | 100,000 |
| Dividend from domestic corporation | 10,000 | 10,000 | 20,000 | 20,000 |
| Interest income on Philippine Peso bank deposits | 5,000 | 10,000 | 15,000 | 20,000 |
| Business expenses | 600,000 | 1,200,000 | 1,700,000 | 2,100,000 |
| Income tax withheld | 15,000 | 35,000 | 65,000 | 115,000 |

The income tax due and the income tax payable, respectively, at the end of first quarter
   a. ₱16,000; ₱35,000
   b. ₱60,000; ₱60,000
   c. ₱60,000; ₱35,000
   d. ₱16,000; ₱16,000

47. The income tax due and income tax payable, respectively, at the end of second quarter
   a. ₱120,000; ₱75,000
   b. ₱120,000; ₱85,000
   c. ₱120,000; ₱40,000
   d. ₱85,000; ₱85,000

48. The income tax due and income tax payable, respectively, at the end of third quarter
   a. ₱210,000; ₱135,000
   b. ₱210,000; ₱60,000
   c. ₱48,000; (₱102,000)
   d. ₱48,000; (₱38,000)

49. The income tax due and income tax payable, respectively, at the end of the year
   a. ₱300,000; ₱52,000
   b. ₱300,000; ₱30,000
   c. ₱300,000; ₱260,000
   d. ₱300,000; ₱40,000

50. A domestic corporation has the following data for 2018:

Excess MCIT 2017 - P10,000

| | Q1 | Q2 |
|---|---|---|
| Income, net of 1% withholding tax | P495,000 | P792,000 |
| Deductions | 480,000 | 700,000 |

How much is the income tax still due and payable in the second quarterly return?

a. P 4,000
b. P8,000
c. P9,000
d. P13,000

51. The record of a closely-held domestic corporation show the following data for 2018:

| | |
|---|---|
| Gross income | P1,500,000 |
| Business expenses | 600,000 |
| Gain on sale of business asset | 60,000 |
| Interest on deposits with Metrobank, net of tax | 5,000 |
| Sale of shares of stocks, not listed and traded: | |
| Selling price | 150,000 |
| Cost | 115,000 |
| Dividends from Victory Corporation, domestic | 35,000 |
| Dividends paid during the year | 120,000 |
| Reserved for building acquisition | 300,000 |

In 2017, the corporation suffered an operating loss of P130,000. This amount was carried forward and claimed as deduction from gross income 2018. The income tax due in 2018 is

a. P234,375
b. P249,000
c. P273,937
d. P288,000

52. The improperly accumulated earnings tax

a. P36,075
b. P34,765
c. P35,640
d. None of the above

53-57. The records of a domestic corporation organized in 2000 show:

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Gross income | P2,000,000 | P3,000,000 | P4,000,000 |
| Other income: | | | |
| Capital gain from sale of commercial land | 400,000 | | 500,000 |
| Interest income from bank deposit | 80,000 | | 96,000 |
| Capital gain from sale of shares of stock – not listed | 60,000 | | 70,000 |
| Allowable deduction | 1,940,000 | 3,100,000 | 3,500,000 |

53. The income tax payable in 2016 is

a. P138,000
b. P 40,000
c. P 42,000
d. P 18,000

54. What is the accounting entry for the excess MCIT in 2016?

a) Provision for income tax ₱18,000
Deferred charges – MCIT (2016) 22,000
Income tax payable ₱40,000

b) MCIT (2016) ₱18,000
Income tax payable ₱18,000

c) Income tax payable ₱40,000
Excess MCIT (2016) ₱22,000
Cash 18,000

d) None of the above

55. The taxable income in 2018 is
a. P400,000
b. P900,000
c. P1,000,000
d. P500,000

56. The income tax payable in 2018 is
a. P150,000
b. P120,000
c. P38,000
d. P68,000

57. What are the accounting entries to properly record the income tax payable in 2018?

a. Provision for income tax ₱120,000
Deferred charges – MCIT (2016, 2017) ₱82,000
Income tax payable 38,000

b. Provision for income tax ₱38,000
Income tax payable ₱38,000

c. Income tax payable ₱120,000
Cash ₱120,000

d. None of the above

58. A calendar-year BOI-registered enterprise has the following data from its registered activity for 2018:

| | |
|---|---|
| Total sales for year | ₱90,000,000 |
| Cost of sales | 45,000,000 |
| Other business expenses | 30,000,000 |
| Taxable income for the year | 15,000,000 |
| Regular corporate tax rate | 30% |

I. If the enterprise is under the Income Tax Holiday (ITH) regime, compute the tax covered by the ITH for the entire taxable year 2018.

a. ₱ 4,500,000
b. ₱27,000,000
c. ₱13,500,000
d. None of the above.

II. If the enterprise is a PEZA-registered and under the 5% GIT, compute the tax payable:

a. ₱2,250,000
b. ₱2,700,000
c. ₱1,350,000
d. None of the above.

59. James Lustre is the manager of a PEZA-registered enterprise availing of the preferential 5% GIT in lieu of all other taxes, national or local. Besides his salary, he also receives fringe benefits which are normally subject to the fringe benefits tax (FBT).

Statement 1: The manager's salary is also subject to the 5% GIT.
Statement 2: The PEZA-registered enterprise is exempt from remitting the CWT on the manager's salary, and from payment of the FBT.

a. Both statements are true.
b. Both statements are false.
c. Only Statement 1 is true.
d. Only Statement 2 is true.

60. Statement 1: Once the profit has been subjected to IAET, the same shall no longer be subjected to IAET in later years even if not declared as dividend.

Statement 2: Notwithstanding the imposition of IAET, profits which have been subjected to IAET, when finally declared as dividends, shall nevertheless be subject to tax on dividends imposed under the Tax Code except in those instances where the recipient is not subject thereto.

a. Both statements are true.
b. Both statements are false.
c. Only Statement 1 is true.
d. Only Statement 2 is true.

61. Income payments were made by Superman Corporation (domestic) to Darna Corporation, a PEZA-registered entity under the 5% GIT Regime. The payments made were related to Darna's registered activities. Superman withheld CWT from its payments. Darna claims that no tax should have been withheld. Superman claims that withholding is proper because Darna is not under the ITH regime. Who is correct?

(a) Superman is correct. Only those PEZA-registered entities under the ITH are exempt from withholding on their receipt of income.
(b) Darna is correct. Under the 5% GIT regime, it is exempt from all local and national taxes (including withholding taxes on its income) and in lieu thereof, is only subject to the 5% special tax on gross income.
(c) Superman loves Wonder Woman.
(d) No comment.

**END**