CPA REVIEW SCHOOL OF THE PHILIPPINES
Manila

PARTNERSHIPS, JOINT VENTURE AND CO-OWNERSHIP

Dela Cruz / De Vera / Lopez / Llamado

1. As regards a business partnership, which of the following is not correct?
   a. The partnership must file quarterly and year end income tax returns.
   b. The distributable income available to the partners is the taxable income less the income tax thereon.
   c. The share of a partner in the distributable net income, even if not actually received is considered constructively received by the partner.
   d. The share of a partner in the distributive net income whether actually received or not is subject to a final withholding tax on dividends.

2. The following statements regarding taxable partnerships are correct, except
   a. They file quarterly and year-end income tax returns.
   b. They are subject to the rules on corporation for capital gains tax, final tax on passive income, normal income tax, MCIT and gross income tax.
   c. The partners' share in the distributable net income is subject to final tax.
   d. They are subject to the improperly accumulated earnings tax.

3. As regard a general professional partnership, which of the following is not correct?
   a. It shall not be subject to income tax.
   b. The partners shall be liable for income tax on their respective distributive shares.
   c. Each partner shall report as gross income his distributive share in the partnership net income.
   d. The share of a partner shall be subject to a creditable withholding tax of 10% if his distributive share is below P720,000 and 15% if at least P720,000.

4. If a partner, on his own transactions, is on the cash method of accounting while the general professional partnership is on the accrual method of accounting, in the partner's determination of his taxable income for the year, he
   a. Must convert his income from the partnership into cash method.
   b. Must convert his own income into accrual method.
   c. Does not report his income from the partnership because the partnership is exempt from income tax.
   d. Can consolidate his share in the net income of the partnership under accrual method with his own income under the cash method.

5. Which of the following statements is *not correct*?
   a. When the co-owners invest the income of the property co-owned in a business or in any income producing properties or activities constituting themselves into a business partnership, such partnership is consequently subject to tax as a corporation.
   b. As a rule, a co-ownership is not subject to income tax because the activities of the co-owners are limited to the preservation and enjoyment of the property and the collection of the income therefrom.
   c. A co-owner is subject to income tax on his share in the net income of the co-ownership actually or constructively received.
   d. All partnerships, no matter how created or organized are considered corporations subject to corporate income tax.

6. As regards an ordinary partnership, which of the following statements is correct?
   a. Partners' shares are subject to final tax, hence the partnership need not file an ITR.
   b. Subject to improperly accumulated earnings tax.
   c. Treated like corporations, hence partners have limited liability.
   d. Partners' shares even if distributed will not be included in their ITR.

7. As regards a general professional partnership, which of the following statements is correct?
   a. Treated like a corporation, hence it is subject to the corporate income tax.
   b. It is exempt from income tax, hence it need not file an ITR.
   c. Partners' shares are subject to final tax.
   d. Partners' shares will be included in their respective ITRs whether distributed or not.

8. **Statement 1** – A CPA and a Lawyer may form a general co-partnership to sell law and accounting books.
   Statement 2 – Partnerships and Corporations have separate juridical personalities distinct from the owners. Therefore, partners and stockholders are not liable to creditors of the business.
   a. True; true
   b. False; false
   c. False; true
   d. True; false

9. **Statement 1** – The general professional partnership may claim itemized deductions in computing its net income and a partner may also claim itemized deductions in computing his net income.
   Statement 2 – The general professional partnership may claim the optional standard deduction in computing its net income while a partner may claim itemized deductions in computing his net income.
   a. True; true
   b. True; false
   c. False; true
   d. False; false

10. **Statement 1** – The general professional partnership may claim itemized deductions in computing its net income while a partner may claim the optional standard deduction in computing his net income.
    Statement 2 - The general professional partnership may claim the optional standard deduction in computing its net income and a partner may also claim the optional standard deduction in computing his net income.
    a. True; true
    b. True; false
    c. False; true
    d. False; false

11. The net share received by a partner in a general professional partnership is
    a. Part of his taxable income.
    b. Exempt from income tax
    c. Subject to 10% creditable withholding tax
    d. Subject to final tax

12. The net share received by a partner in a general co-partnership is
    a. Part of his taxable income
    b. Exempt from income tax
    c. Subject to 10% creditable withholding tax
    d. Subject to final tax

13. – 16. AB partnership with A and B as partners (both resident citizens) had a net professional income amounting to P500,000 for 2018. Its other income included bank interest income of P8,000, net of final withholding tax and royalty income of P10,000, net of the final withholding tax.

A is single and has his own separate eatery business. In 2018, his business had net sales of ₱1,000,000, cost of sales of ₱500,000, and operating expenses of ₱300,000.

13. The net share of A in the income of the GPP is
    a. Php250,000 c. Php225,000
    b. Php259,000 d. Php233,100

14. The net taxable income and income tax payable of A who shares profit and loss equally with B in their GPP is:
    a. P450,000; P16,600
    b. P400,000; P10,450
    c. P439,000; P9,670
    d. None of the above.

15. Using the preceding number, but it is a business partnership, the taxable income of the partnership is
    a. P518,000
    b. P500,000
    c. P510,000
    d. P508,000

16. Using the preceding number, the net distributable share of B (resident citizen) is
    a. P162,500
    b. P157,500
    c. P165,600
    d. P154,350

17. A and B are partners in a Partnership which realized a gross income of P800,000 with a corresponding P350,000 in expenses in the year 2018. A is married with 2 qualified dependent children, with his own business generating net sales of P400,000, and incurring cost of sales and deductible expenses of ₱30,000 and P230,000, respectively. B, single, also has his own business generating P450,000 in net sales, and incurring cost of sales and deductible expenses of ₱200,000 and P50,000, respectively. They share profits and losses of their partnership at 4:6.

    If the partnership is a GPP, the taxable income of A who avails of the OSD is:
    a. P 420,000
    b. P 70,000
    c. P 302,000
    d. None of the above

18. And the taxable income of B who itemizes deductions is:
    a. P 150,000
    b. P 470,000
    c. P 450,000
    d. None of the above.

19. If the partnership is an OP, its tax due is
    a. P 144,000
    b. P 148,500
    c. P 135,000
    d. P 157,500

20. A lawyer was rejected by his extremely sexy and gorgeous secretary. He became so enraged that he raped her 10 times within 15 minutes. Since then, he became known in the media as the "Machine Gun Rapist." For his defense, he obtained the services of ACCRA, the biggest law partnership in the Philippines. ACCRA asked for a fee of ₱10,000,000 for its legal services in defending him. How much should the lawyer withhold as CWT from ACCRA's fee?
    a) 10% b) 15% c) 5% d) None.

21. A and B are co-owners by virtue of a property given to them by their father. The co –ownership had a gross rental income of P500,000 (gross of 5% tax) and expenses related to rental activity of P300,000 but 10% is not deductible for the year 2018. A and B share in the profits at 75% and 25%, respectively. A withdrew P50,000 from the co-ownership net income for the year; B did not withdraw any amount. A and B are both single. The income tax liability of the co-ownership is
    a. ₱ 102,400 c. ₱ 80,000
    b. ₱ 76,800 d. ₱ -0-

22. A's share in the net income of the co-ownership is:
    a. P 172,500
    b. P 150,000
    c. P 122,500
    d. P – 0 –

23. Suppose A and B did not divide but instead invested the entire profit in another business venture where they earned a net income after deductions of P450,000, the tax due of the co-ownership is
    a. P 135,000
    b. P 144,000
    c. P 157,500
    d. P – 0 –

24. X and Y are partners (both resident citizens) in the following partnerships:

	Ordinary Partnership	General Professional Partnership
Gross Income	P 500,000	P 400,000
Deductible expenses	300,000	180,000

Personal Income and Expenses

	X	Y
Gross Income	P 400,000	P 280,000
Deductible expenses	250,000	120,000
Dividend from domestic corporation	20,000	30,000
Dividend from foreign corporation	10,000	8,000
Prize, supermarket raffle	15,000	8,000
Royalty, books	10,000	12,000

Partners agreed to share partnership income and losses as follows:
X = 40% (Partner X is married with 2 qualified dependent children)
Y = 60% (Partner Y is single but supporting her 18 year old boyfriend living with and dependent upon her for his chief support)

Determine the respective taxable incomes of partners X and Y in their ITRs:

a. P148,000, P258,000
b. P88,000, P132,000
c. P248,000, P308,000
d. None of the above.

25. A Co. and B Co., domestic corporations, both in the construction business, formed a joint venture to build houses for the poor, a government project, with an agreed equal sharing in net income. Data on income and expenses for the year show:

	Joint Venture	A Co.	B Co.
Gross Income	P 80,000,000	P 2,000,000	P 3,000,000
Expenses	60,000,000	1,200,000	2,000,000

Determine:

i) The income tax liability of the joint venture.
   a. P 6,000,000   c. P1,800,000
   b. P 20,000,000   d. P 0

ii) The income tax liability before tax credits of A Co:
   a. P 3,240,000   c. P 7,560,000
   b. P 10,800,000   d. P 6,000,000

26. A Co. and B Co., domestic corporations, both engaged in the transportation business with operations in Northern and Central Luzon formed a joint venture agreeing to distribute the net income of the joint venture equally. In a taxable year, the joint venture had a gross income of P5,000,000 and expenses of P3,500,000.

Determine:

i) The income tax liability of the joint venture.
   a. P 450,000   c. P1,050,000
   b. P 5,000,000   d. P 0

ii) The share of A Co. in the distributable net income of the JV:
   a. P 525,000   c. P 472,500
   b. P 52,500   d. P1,050,000

iii) Final tax on the share of A Co. in the distributable net income of the JV:
   a. P 52,500   c. P78,750
   b. P105,000   d. 0

The End!!!