

CPA REVIEW SCHOOL OF THE PHILIPPINES
Manila

INDIVIDUAL TAXPAYER

Dela Cruz / De Vera / Lopez / Llamado

1. Annakin, a French citizen permanently residing in the Philippines, received several items during the taxable year. Which among the following is **NOT** subject to Philippine income taxation?
 - a. Consultancy fees received for designing a computer program and installing the same in the Shanghai facility of a Chinese firm.
 - b. Interest from his deposits in a local bank of foreign currency earned abroad converted to Philippine pesos.
 - c. 60% of the dividends received from an American corporation which derived 60% of its annual gross receipts from the Philippine sources for the past 3 years.
 - d. Gains derived from the sale of his condominium unit located in The Fort, Taguig City to another resident alien.

2. Noah Reed, a Canadian, arrived in the Philippines on January 1, 2018 and continued to live and engage in business in the Philippines. He went on a tour of India and Pakistan from April 1 to November 5, 2018. He returned to the Philippines on November 6, 2018 and stayed until April 15, 2019 when he returned to Quebec, Canada. From his investments in the Philippines, he earned a gross income of ₱2.5 million. For the year 2018, Noah's taxable status is that of
 - a. A non-resident alien not engaged in trade or business in the Philippines.
 - b. A non-resident alien engaged in trade or business in the Philippines.
 - c. A resident alien not engaged in trade or business in the Philippines.
 - d. A resident alien engaged in trade or business in the Philippines.

3. Which of the following is not correct? A non-resident citizen means, a citizen of the Philippines
 - a. Who establishes to the satisfaction of the Commissioner the fact of his physical presence abroad with a definite intention to reside therein.
 - b. Who leaves the Philippines during the taxable year to reside abroad, either as an immigrant or for employment on a permanent basis.
 - c. Who works and derives income from abroad and whose employment thereat requires him to be physically present abroad most of the time during the taxable year.
 - d. Who has been previously considered a non-resident citizen and who arrives in the Philippines at anytime during the taxable year to reside permanently in the Philippines and who is treated as a non-resident citizen with respect to his income derived from sources abroad for the entire taxable year.

4. Which of the following statement is not correct?
 - a. An individual citizen of the Philippines who is working and deriving income from abroad as an overseas contract worker is taxable only on income from sources within the Philippines.
 - b. A seaman who is a citizen of the Philippines and who receives compensation for services rendered abroad as a member of the complement of a vessel engaged exclusively in international trade shall be treated as a non-resident citizen.
 - c. A non-resident citizen who is not engaged in business in the Philippines is treated as a non-resident alien who is not engaged in business in the Philippines.
 - d. An alien individual, whether a resident or not of the Philippines, is taxable only on income derived from sources within the Philippines.

5. A citizen of the Philippines who works and derives income from abroad is a resident citizen if he stayed outside the Philippines
 - a. For less than 180 days
 - b. For more than 180 days
 - c. For 183 days or more
 - d. For less than 183 days
6. A citizen of a foreign country is considered a non-resident alien engaged in business in the Philippines if he stayed inside the Philippines
 - a. For 183 days or more
 - b. For less than 183 days
 - c. For more than 180 days
 - d. For less than 180 days
7. A resident citizen is taxable on all income derived from sources
 - a. Within the Philippines only
 - b. Without the Philippines only
 - c. Partly within and partly without
 - d. Within and without the Philippines
8. A non-resident citizen is taxable on all income derived from sources
 - a. Within the Philippines
 - b. Without the Philippines
 - c. Partly within and partly without
 - d. Within and without the Philippines
9. A resident alien is taxable on all income derived from sources
 - a. Within the Philippines
 - b. Without the Philippines
 - c. Partly within and partly without
 - d. Within and without the Philippines
10. A non-resident alien is taxable on all income derived from sources
 - a. Within the Philippines
 - b. Without the Philippines
 - c. Partly within and partly without
 - d. Within and without the Philippines
11. A citizen of the Philippines who works abroad and whose employment requires him to be physically present abroad most of the time during the taxable year is
 - a. Taxable on income within and without the Philippines
 - b. Taxable income from without the Philippines
 - c. Exempt from the income tax
 - d. Taxable on income from within the Philippines
12. A non-resident alien is deemed doing business in the Philippines if he
 - a. Is an individual whose residence is within the Philippines.
 - b. Is an individual whose father or mother is an alien who is engaged in business in the Philippines.
 - c. Is an individual who is naturalized in accordance with law.
 - d. Shall come to the Philippines and stay therein for an aggregate period of more than 180 days during a calendar year.

13. In 2018, Nelia Gomez, an MWE, received from her employer an annual minimum wage salary of ₱99,702. Aside from this, she also received ₱8,000 for holiday pay, overtime pay, and night shift differential pay. Furthermore, she received ₱8,303 as her 13th month pay. What amounts shall she be taxable on?
- ₱8,000.
 - ₱107,702.
 - ₱8,303.
 - None.
14. Nelia in the immediately preceding number was promoted in June 2018, and starting the same month was given a raise in salary which was more than the statutory minimum wage. Will her entire compensation during 2018 be taxable and subject to withholding tax?
- Yes. Her entire earnings shall be taxable.
 - No. Her entire earnings shall not be taxable.
 - Only her earnings from June 2018 to December 2018 shall be taxable and subject to withholding tax.
 - None of the above.
15. Virginia Pecson is an MWE working in Quezon City. As such, her employer did not withhold any tax from her compensation. In addition to her Statutory Minimum Wage, she also earned a one-time commission from her employer in September of taxable year 2018.
- In what months of the taxable year shall her employer withhold income tax from her SMW?
- When she received the commission in September, she ceased to be a MWE. Her employer shall withhold income taxes from her compensation (which includes the SMW) received in the months of September thru December 2018.
 - None. Her employer may not withhold income taxes from the SMW she received in all the 12 months of 2018. Her employer shall withhold the CWT only from the commission she received in September 2018.
 - In all the months of 2018.
 - None of the above.
16. Mario is a minimum wage earner ("MWE") employed in a fast food restaurant in Metro Manila. Aside from this, he also earns income from the operation of a small "barbeque stand" in front of his house. What should be included in his taxable income for the year?
- His taxable income shall include his entire salary earned from the fast food restaurant, and the income from his barbeque stand.
 - His taxable income shall include only his income from the barbeque stand. As far as his minimum wage is concerned, Mario is still an MWE who is entitled to exemption as such.
 - Both his minimum wages and his income from his business shall be exempt from tax.
 - None of the above.
17. Angelo Bato is an MWE employed with the Philippine National Police. He was assigned in the National Capital Region from January 1, 2018 to April 30, 2018, earning the SMW of ₱492 per day. Beginning May 1, 2018, he was transferred to PNP-Region V, receiving the same rate of ₱492 per day. The SMW in Region V for the period May 2018 to December 2018 was just ₱450 per day.

Should PNP-Region V withhold tax from the salary of Angelo?

- a) I don't know.
- b) No.
- c) Yes. His daily wage rate is above the prevailing SMW in Region V which makes it taxable and subject to withholding.
- d) None of the above.

18. Mr. Gigolo (resident citizen) appoints the Trust Department of Tyra Bank to manage his money pursuant to a trust agreement. The Trust Department proceeds to invest the money in a 5-year corporate bond.

If Mr. Gigolo withdraws his money from the trust account after 8 years, the interest income from the corporate bond is:

- a) Exempt from income tax
- b) Subject to the 20% final tax
- c) All of the above
- d) None of the above

19. If instead, the bank in the immediately preceding number, in the name of Mr. Gigolo, invests the money in a 20-year long-term investment certificate issued by Bank of Ruptcy, will the interest income therefrom be exempt from income tax?

- a) Yes, regardless of the holding periods of Mr. Gigolo and the trust.
- b) Yes, provided the holding period of Mr. Gigolo and the holding period of the trust in the LT investment certificate are both at least 5 years.
- c) All of the above.
- d) None of the above.

20. Kaino sold his residential house and lot located in Manila on January 5, 2018 for ₱8,000,000. The property was purchased in 2005 for ₱3,000,000. The current market value of the property at the time of sale was:

BIR Commissioner's zonal valuation - ₱ 9,000,000
City Assessor's schedule of values - 6,000,000

What is the capital gains tax on the sale?

- a) ₱300,000 b) ₱360,000 c) ₱480,000 d) ₱540,000

21. If Kaino in the preceding number, within 6 months after the sale, purchases another residence for ₱8,000,000, what will be the capital gains tax on the sale and what would be the cost (basis) of the new residence for income tax purposes?

- a) ₱540,000; ₱8,000,000
- b) ₱0; ₱6,000,000
- c) ₱540,000; ₱9,000,000
- d) ₱0; ₱3,000,000

22. Suppose Kaino in number 20, within the 18-month reglementary period, instead purchases a new principal residence at a cost of ₱10,000,000. What will be the capital gains tax on the sale and what would be the cost (adjusted basis) of the new residence for income tax purposes?

- a) P0; P3,000,000
 - b) P0; P10,000,000
 - c) P0; P9,000,000
 - d) P0; P5,000,000
23. Suppose Kaino in number 20, within the 18-month reglementary period instead purchases a new residence at a cost of P5,000,000. What will be the capital gains tax on the sale?
- a) P202,500
 - b) P300,000
 - c) P480,000
 - d) P337,500
24. In number 23, what would be the cost (adjusted basis) of the new residence for income tax purposes?
- a) P3,000,000
 - b) P1,875,000
 - c) P0
 - d) P5,000,000
25. The following are taxed at a final rate of 20% except:
- a) Cash or property dividend payment by a domestic corporation to a NRAETB.
 - b) Share of a NRAETB in the distributable after-tax net income of a business partnership where he is a partner, or share in the after-tax net income of an association or joint venture taxable as a corporation of which he is a member.
 - c) Royalty payments (except royalties on books, literary works and musical compositions) to citizens, RAs, and NRAETB, and prizes exceeding P10,000 paid to the same persons
 - d) Interest and other payments upon tax-free covenant bonds, mortgages, deeds of trust, or other obligations under Section 57(C) of the Tax Code.
26. A Corporation declared and distributed to its stockholder shares of B Corporation. One of its stockholders, W, received 100 shares of B Corporation shares as dividends. At the date of dividend declaration, the fair market value of B Corporation shares was P120 per share and by the time W received the dividend, the fair market value per share was P180. Which of the following is correct? The dividend is
- a. A stock dividend, hence exempt from tax
 - b. A property dividend, hence part of taxable income of W
 - c. A property dividend, hence subject to final tax based on its fair market value of P120 per share at the time of declaration.
 - d. A property dividend, hence subject to final tax based on its fair market value of P180 per share
27. All of the following statements are correct, except one. Which is the exception?
- a. The source of interest income is the country where the debtor resides.
 - b. The source of dividend income is the country where the corporation was incorporated.
 - c. Rents are considered derived from the country where the property is located.
 - d. Income from personal services is considered derived from the country where the services were rendered.
28. **Statement 1** -- A gain from sale of shares of a domestic corporation shall be considered derived from the Philippines regardless of where the shares were sold.

Statement 2 – A gain from sale of shares of a foreign corporation shall be considered derived from the country where the corporation was created or organized.

- a. True, True
- b. True, False
- c. False, True
- d. False, False.

29-33. Allan Reyes, married, VAT-registered, had the following data for the taxable year:

Gross sales, Phils.	₱2,000,000
Cost of sales, Phils.	1,600,000
Gross sales, USA	1,500,000
Cost of sales, USA	1,200,000
Operating expenses, Phils.	10,000
Operating expenses, USA	35,000

29. (a) If the taxpayer is a resident citizen, his tax due is:

- a. ₱93,750
- b. ₱75,000
- c. ₱81,250
- d. None of the above

(b) If the taxpayer is a resident citizen, not VAT-registered, can he avail of the 8% income tax rate on gross sales plus non-operating income?

30. If the taxpayer is a non-resident citizen, VAT-registered, his tax due is:

- a. ₱15,000
- b. ₱18,000
- c. ₱28,000
- d. None of the above.

31. If the taxpayer is a resident alien, VAT-registered, his tax due is:

- a. ₱14,000
- b. ₱18,000
- c. ₱28,000
- d. None of the above.

32. (a) If the taxpayer is a non-resident alien engaged in business in the Philippines, married, VAT-registered and his country allows reciprocity of ₱30,000 as personal exemption for married individuals, his tax due is:

- a. ₱22,000
- b. ₱28,000
- c. ₱25,600
- d. None of the above.

(b) If the taxpayer in numbers 30, 31, and 32, was not VAT-registered, can he avail of the 8% income tax rate option?

33. If the taxpayer is a non-resident alien not engaged in business in the Philippines, married, and his country grants P35,000 as personal exemption for married individuals, his tax due is:

- a. P100,000
- b. P93,750
- c. P400,000
- d. None of the above.

34. Sally Rafa, an MWE, works for McDonny's, Inc. She has no other source of income. For the taxable year, her total regular compensation income, inclusive of the 13th month pay, amounted to P180,000. During the year, she received a 13th month pay equivalent to P10,000, and contributed to SSS, Philhealth, and Pag-ibig a total amount of P3,000.

In addition to the abovementioned amounts, she received the following amounts: P90,000 for overtime pay, P10,000 for night shift differential pay, P25,000 for hazard pay, and P35,000 for holiday pay. The tax due from her compensation income is:

- a. P10,000
- b. P13,200
- c. P14,200
- d. None.

35-38) Taxpayer earning income purely from self-employment/practice of profession.

35. Elena Putito, a part-time exercise trainer, also operates a shoe store while offering her services to clients living in Metro Manila. In 2018, the gross sales of her shoe store amounted to P1,100,000 while her receipts from her training services amounted to P400,000. Her total cost of sales and operating expenses amounted to P150,000 and P35,000, respectively.

She signified in her 1st Quarterly ITR her intention to be taxed at the 8% income tax rate.

Compute her income tax due for 2018.

- a. P100,000
- b. P120,000
- c. P 68,000
- d. None of the above.

36. If Elena Putito, in number 35, failed to signify her intention to be taxed at the 8% income tax rate, what will be her income tax due in 2018?

- a. P566,879
- b. P356,780
- c. P284,500
- d. None of the above.

37. Amyjo Perez owns a pet store specializing in reptiles which is her only source of income. She signified her intention to be taxed at 8% of gross sales in her 1st Quarterly ITR of the taxable year. Her sales, cost of sales, and operating expenses for the 4 quarters are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	400,000	600,000	2,000,000	3,500,000
Cost of sales	(100,000)	(200,000)	(600,000)	(800,000)
Gross income	300,000	400,000	1,400,000	2,700,000
Operating expenses	(170,000)	(190,000)	(500,000)	(820,000)
Net income	130,000	210,000	900,000	1,880,000

Compute her income tax payable in her 1st, 2nd, 3rd Quarterly ITRs and in her Annual ITR.

	1 st Quarterly ITR	2 nd Quarterly ITR	3 rd Quarterly ITR	Annual ITR
a)	₱12,000	₱48,000	₱160,000	₱628,400
b)	12,000	48,000	150,000	638,400
c)	12,000	60,000	78,000	638,560
d)	None of the above.			

38. Mr. Rolly Gomez operates a small night club in which he employs dancers to dance with the patrons of his night club. In 2018, his gross receipts, cost of services, and operating expenses amounted ₱2,800,000, ₱100,000, and ₱35,000, respectively. The night club also earned other non-operating income of ₱150,000 in 2018.

Can he avail of the 8% income tax rate option? What is his income tax due for 2018?

- Yes, because his gross receipts plus non-operating income do not exceed ₱3,000,000; Tax due is ₱216,000 under the 8% tax regime.
- No, because his business is subject to the 18% OPT under Section 125 and not to the 3% OPT under Section 116. Tax due is ₱750,800 under the graduated rates.
- Yes and No. He can avail of the 8% income tax rate option if he chooses this option in his 1st Quarterly ITR. Otherwise, he will be taxed under the graduated rates.
- None of the above.

39-42. Taxpayer earning income from Employment and from Self-Employment (business or practice of profession) – Mixed Income Earners

- 39) In 2018, Maginoo M. Henyo, the CEO of the Philippine Nuclear Fusion Corporation, earned compensation income of ₱4,000,500. This amount is inclusive of his 13th month pay and other benefits of ₱250,000, but net of the mandatory contributions to SSS and Philhealth.

Aside from his employment, he also owns a cafeteria. In 2018, the cafeteria had gross sales of ₱1,500,000, cost of sales of ₱500,000, and operating expenses of ₱300,000. It also had non-operating income of ₱700,000.

Compute his income tax due for 2018 if he avails of the 8% income tax rate option on his gross sales plus non-operating income arising from his cafeteria business.

- ₱1,101,360
 - ₱1,277,360
 - ₱1,257,360
 - None of the above.
40. In the previous number, what would be Maginoo's total income tax due if he did not avail of the 8% income tax rate on gross sales plus non-operating income arising from his business?
- ₱ 696,969
 - ₱2,453,450
 - ₱1,549,360
 - None of the above.

41. Maginoo in number 39 resigned from Philippine Nuclear Fusion in the first week of January 2019 to concentrate in his cafeteria business. His total compensation income in 2019 amounted to ₱180,000 inclusive of other benefits (productivity bonus) of ₱30,000.

In 2019, the bakery had gross sales of ₱2,300,000, cost of sales of ₱750,000, and operating expenses of ₱450,000. It also had non-operating income of ₱235,000.

What is his income tax due for 2019 if he avails of the 8% income tax rate option on his gross sales plus non-operating income arising from his business?

- (a) ₱202,800
 - (b) ₱194,800
 - (c) ₱182,800
 - (d) None of the above.
42. Pong Pagong is the CEO of Sesame Zoo Corporation. In 2018, he received total compensation of ₱10,000,000 inclusive of 13th month pay and other benefits in the amount of ₱800,000.

He also owns a poultry farm which supplies the wet market in his province. Its gross sales totalled ₱5,000,000. The farm's cost of sales and operating expenses amounted ₱2,300,000 and ₱580,000, respectively. Its non-operating income amounted to ₱230,000.

Compute his income tax due in 2018.

- (a) ₱3,910,000
 - (b) ₱3,109,000
 - (c) ₱3,901,000
 - (d) None of the above.
43. Sally, the MWE in number 34, also has a small business with the following data: sales of ₱500,000, cost of goods sold of ₱100,000, operating expenses of ₱60,000, and non-operating income of ₱10,000. What would be the income tax due under the graduated rates, and under the 8% income tax rate option?
- a. ₱23,600; ₱54,564
 - b. ₱18,000; ₱42,350
 - c. ₱20,000; ₱40,800
 - d. None of the above.

Withholding

44. **First Statement:** All income payments which are required to be subjected to withholding tax shall be subject to the corresponding withholding tax rate to be withheld by the person having control over the payment and who, at the same time claims the expenses.

Second Statement: The obligation to withhold is imposed upon the buyer-payor of income although the burden of tax is really upon the seller-income earner. Hence, unjustifiable refusal of the latter to be subjected to withholding shall be a ground for the mandatory audit of all internal revenue tax liabilities, as well as the imposition of penalties under the Tax Code, upon verified complaint of the buyer-payor.

- a. True, True
- b. True, False
- c. False, True
- d. False, False

45. **First Statement:** All income payments received by a Minimum Wage Earner (MWE) are exempt from withholding.

Second Statement: An individual payee shall not be subjected to withholding if the total of the income payments he receives is not more than ₱250,000.

- a. True, True b. False, True c. True, False d. False, False

46. **Statement 1:** If the tax has actually been withheld at source, a credit or a refund shall be made to the recipient of the income (e.g., the employee) even though such withheld tax has not been paid to the government by the employer.

Statement 2: Any income subject to income tax may be subject to withholding tax. However, income exempt from income tax is consequently exempt from withholding tax. Further, income not subject to withholding tax does not necessarily mean that it is not subject to income tax.

- a. True, True b. False, True c. True, False d. False, False

Illustration of Computations in Quarterly ITRs:

47. For the taxable year 2018, Chris, single, Filipino with 1 dependent child, received the following as professional fees as a CPA and consultant.

Monthly Fees	Less 5% CWT	= Net Monthly Fees Received
₱250,000	₱12,500	= ₱237,500

He is not VAT-registered and instead pays 3% OPT on his gross receipts under Section 116 of the Tax Code.

Aside from his CPA/consultancy business, he is a faculty member of Belt University from which he received the following employment income for the same year:

	Gross pay	Less CWT	Less SSS premiums and union dues	Net Pay
Belt University	₱900,000	₱75,000	₱5,600	₱819,400

The amount he received from Belt University is inclusive of 13th Month Pay and other benefits of ₱65,000.

During the year he also received ₱3,000 interest income from his BPI deposit, and ₱250,000 in royalties from the publication of his book entitled "The Hungry Eyes".

He has excess tax credits from the prior year of ₱15,500.

- (a) Calculate his tax payable in the Quarterly and Annual ITRs if he does not avail of the 8% income tax option, and if he chooses the 40% Optional Standard Deduction instead of itemizing deductions.

	1 st Quarterly ITR	2 nd Quarterly ITR	3 rd Quarterly ITR	Annual ITR
a)	0	₱69,500	₱97,500	₱283,908
b)	(₱10,500)	₱59,000	₱28,000	₱186,408
c)	₱10,500	₱80,000	₱7,500	₱ 63,817
d)	None of the above			

- (b) Calculate his tax payable in the Quarterly and Annual ITRs if he avails of the 8% income tax option.

	1 st Quarterly ITR	2 nd Quarterly ITR	3 rd Quarterly ITR	Annual ITR
a)	₱7,000	₱22,500	₱22,500	₱86,320
b)	₱0	₱23,595	₱24,343	₱86,483
c)	₱10,434	₱80,348	₱7,534	₱234,455
d)	None of the above			

48. Mr. Al Dabog elected the 8% income tax rate option on February 2, 2018 by updating his Registration Information using BIR Form No. 1905. Later, a month before the due date for filing either the 1st Quarter Income Tax Return or 1st Quarter Percentage Tax Return, he decided that it would be better for him to be taxed at the graduated rates.

Can he signify his decision to be taxed under the graduated rates in either his 1st Quarter Income Tax Return or 1st Quarter Percentage Tax Return, or by filing another BIR Form No. 1905?

- (a) Yes, that is his right under the Tax Code.
- (b) **No. The election made on February 2, 2018 is irrevocable. No amendment of the option shall be made for taxable year 2018. Beginning 2019, he shall be automatically subjected to the graduated rates unless he opts to avail the 8% income tax rate by signifying his intention in BIR Form No. 1905, in his 1st Quarter Income Tax Return, or in his 1st Quarter Percentage Tax Return.**
- (c) It depends if the first Form No. 1905 has already been processed by the BIR.
- (d) None of the above.

49. In his first year of business, Manny Durugas did not derive any income nor any gain as he had not yet started operations of his on-line store. However, he was assessed a deficiency tax by the BIR. The BIR found that he overstated its pre-operating expenses, some of which were unsubstantiated. Should such disallowed expenses give rise to income tax?

- (a) Yes, he should not have overstated his expenses in the first place increasing his deductions in the process.
- (b) **No. In order for income tax to be imposed, 3 elements should be present: (1) there must be gain or profit; (2) the gain or profit is realized or received, actually or constructively; and (3) such gain or profit is not exempted by law or treaty from income tax. In this case, no income tax shall be imposed in the absence of the first 2 elements above. (CTA Case No. 8864, April 2, 2018).**
- (c) All of the above.
- (d) None of the above.

Tax Rates: Effective January 1, 2018 to December 31, 2022:

On citizens, resident aliens, non-resident aliens engaged in business in the Philippines
On Compensation, Business and Other Income

Range of Taxable Income (TI)		Tax Due = a + [b x (TI - c)]		
Over	Not Over	Basic Amount (a)	Additional Rate (b)	Of Excess Over (c)
-	250,000	-		-
250,000	400,000	-		250,000
400,000	800,000	30,000	20%	400,000
800,000	2,000,000	130,000	25%	800,000
2,000,000	8,000,000	490,000	30%	2,000,000
8,000,000	-	2,410,000	35%	8,000,000

Tax Rates: Effective January 1, 2023 onwards

On citizens, resident aliens, non-resident aliens engaged in business in the Philippines
On Compensation, Business and Other Income

Range of Taxable Income (TI)		Tax Due = a + [b x (TI - c)]		
Over	Not Over	Basic Amount (a)	Additional Rate (b)	Of Excess Over (c)
-	250,000	-		-
250,000	400,000	-		250,000
400,000	800,000	22,500	15%	400,000
800,000	2,000,000	102,500	20%	800,000
2,000,000	8,000,000	402,500	25%	2,000,000
8,000,000	-	2,202,500	30%	8,000,000