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CPA REVIEW SCHOOL OF THE PHILIPPINES
Manila

GROSS INCOME

Dela Cruz / De Vera / Lopez / Llamado

1. Exclusions from gross income, except:
 - a. Interest on the price of land covered by the Presidential Decree on land reform
 - b. Interest payments on proceeds of life insurance held by the insurer.
 - c. GSIS, SSS, Philhealth and Pag-ibig contributions and union dues of individuals.
 - d. Gains realized by an investor upon redemption of shares of stock in a mutual fund company.
2. Which of the following statements is correct?
 - a. The power of taxation reaches even the citizens abroad and their income earned from sources outside the Philippines.
 - b. Priests and religious institutions are exempt from income and property taxes.
 - c. Separation benefits received by terminated employees resulting from a deadlock in their collective bargaining agreement are exempt from income tax.
 - d. The value of property received as gift, or under a will or testament or through legal succession is exempt from taxation.
3. One of the following is taxable income:
 - a. Gifts, bequests and devices
 - b. Amounts received as rewards from giving information instrumental in the discovery of violations of the Tax Code and seizure of smuggled goods.
 - c. Proceeds from life insurance
 - d. Separation pay received by an employee due to a cause beyond his control.
4. Which of the following statements is not correct?
 - a. Proceeds of life insurance policies paid to beneficiaries upon the death of the insured are excluded from gross income regardless of whether the proceeds are received as a single sum or in installments.
 - b. In case of transfer for a valuable consideration by assignment or otherwise of a life insurance, endowment or annuity contract or any interest therein, only the actual value of such consideration and the amount of the premium and the sums subsequently paid by the transferee are exempt from income tax.
 - c. Marriage fees, baptismal offerings, sums paid for saying masses for the dead and other contributions received by a clergyman, evangelist or religious worker for services rendered is taxable income.
 - d. Monetization of leave credits of employees who were unable to go on leave due to exigencies of the service constitutes taxable income.
5. Which of the following statements is correct as regards a resident citizen?
 - a. Income from illegal activities are subject to final tax.
 - b. Income tax refunds constitute taxable income to the taxpayer.
 - c. Recovery of bad debts previously written off is part of taxable income.
 - d. As a rule, contest awards and prizes are subject to 20% final tax if they amount to more than P10,000, otherwise they will be part of taxable income.
6. Which of the following statements is not correct?
 - a. Minimum wage earners shall be exempt from the payment of income tax on their SMW.
 - b. Holiday pay, overtime pay, night shift differential and hazard pay shall be exempt from income tax.
 - c. Prizes and awards granted to athletes in local and international sports competitions and tournaments whether held in the Philippines or abroad, and sanctioned by their national sports associations are exclusions from gross income.
 - d. Benefits received from or enjoyed under the Social Security System are exclusions from gross income.

7. One of the following is part of taxable income subject to schedular (graduated/progressive) rates:
- Compensation for damages
 - The share of a partner in the undistributed net income of a general co-partnership
 - Living quarters and meals furnished and given to a rank and file employee for the convenience of the employee
 - Facilities or privilege of relatively small value offered by the employer as a means of promoting the health, goodwill, contentment, or efficiency of the employee.
8. Which is not a creditable withholding income tax?
- Expanded withholding income tax
 - Withholding income tax at source
 - Withholding income tax on passive income
 - Withholding income tax on compensation income
9. As a rule, this is not part of taxable income
- Profit sharing
 - Hazard pay
 - Overtime pay
 - 13th month pay
10. This is taxable income
- Retrenchment pay
 - SSS / GSIS benefits
 - Separation pay due to resignation
 - Refund of Philippine income tax
11. Which of the following is taxable income?
- Prizes and awards as an awardee of Ramon Magsaysay Award Foundation
 - Damages awarded as a consequence of libel and slander suits
 - Interest on Philippine lotto winnings
 - Amount received as returns of premiums
12. Which of the following statements regarding dividends is correct?
- Exempt from tax if received by a resident citizen from a domestic corporation
 - Exempt from tax if received by a resident alien from a domestic corporation
 - Taxable subject to year-end tax if received by a resident citizen from a non-resident foreign corporation
 - Taxable subject to final tax if received by a non-resident citizen from a non-resident foreign corporation
13. The following items are exclusions from gross income, except
- Labor union dues
 - SSS/GSIS premiums contribution
 - IOUs
 - Pag-ibig premium contribution
14. Which of the following is part of gross income in the ITR?
- PCSO and Philippine Lotto winnings
 - Bank interest on long term deposit
 - Proceeds of life insurance upon death of the insured

- d. Raffle prize not exceeding P10,000
15. If refunded, this is taxable
- Estate tax
 - Donor's Tax
 - Special Assessment
 - Fringe Benefit tax
16. A) PCSO and Philippine lotto winnings (of more than P10,000) of citizens and resident aliens are excluded from gross income in the ITR because they are exempt from tax.
B) All prizes, awards, winnings are excluded from gross income in the ITR because they are subject to final tax.
- Both are true
 - Both are false
 - Only the first is true
 - Only the second is true
17. Which of the following is taxable?
- P 100,000 interest on long-term deposit or investment
 - P 200,000 gain on sale of 10-year bonds
 - P 12,000 prize in supermarket raffle
 - P 10,000 winnings in Philippine Lotto
18. Gain realized from the sale or exchange or retirement of bonds, debentures or other certificate of indebtedness is excluded from gross income if the same have a maturity of
- More than 5 years
 - More than 7 years
 - More than 8 years
 - More than 10 years
19. Gross benefits received by officials and employees of public and private entities as 13th month pay and other benefits such as productivity bonus, services incentive pay and Christmas bonus shall be excluded from taxable income up to
- P20,000
 - P90,000
 - P40,000
 - P50,000
20. Advance rental in the nature of prepaid rental, received by the lessor under a claim or right, and without restriction as to use is
- Taxable income of the lessor in the year received if he is on the cash method of accounting.
 - Taxable income of the lessor in the year received if he is on the accrual method of accounting.
 - Taxable income of the lessor in the year received whether he is on the cash or accrual method of accounting.
 - Taxable income of the lessor up to the amount earned in the year the rental is received.
21. Which payments made by the lessee under such terms of the lease contract should be considered as additional rent income of the lessor?
- If a lessee paid directly to the government the real estate tax on the property of the lessor
 - If the amount received by the lessor is in the nature of a security deposit for the faithful compliance by the lessee of the terms of the contract
 - If the amount received by the lessor is in nature of a loan extended by the lessee to the lessor.
- Only A
 - Only A and C

- c. Only B and C
 - d. A, B and C
22. Should the lessee make permanent improvements on the property leased under an agreement that upon the expiration of the lease contract the improvements shall belong to the lessor, the lessor may recognize income from the leasehold improvements
- A. At the time when such improvements are completed, the fair market value of such improvements.
 - B. By spreading over the remaining term of the lease the estimated depreciated value of such improvements at the termination of the lease and report as income for each year of the lease an aliquot part thereof.
- a. A but not B is allowed
 - b. B but not A is allowed
 - c. Either A or B is allowed
 - d. Neither A nor B is allowed
23. After 10 years of romantic relationship, A decided to end his relationship with B which made B very angry. B with anger in her eyes boxed, kicked and berated A. A tried to pacify B, but B slipped, lost control and fell to the ground requiring hospitalization. To buy peace, A decided to shoulder the medical expenses for the injuries suffered by B. The amount is
- a. Taxable income B
 - b. Deductible expense of A
 - c. Subject to final tax
 - d. Exempt from income tax
24. In 2018, A inherited pieces of jewelry from her father with a FMV of ₱500,000. Her father acquired the property in 1985 for ₱200,000. If A sells these pieces of jewelry in 2019 for ₱550,000, A's gross profit is
- a. ₱350,000
 - b. ₱50,000
 - c. ₱550,000
 - d. ₱300,000
25. Using the preceding number, except that A acquired the property as a birthday gift from her father, A's gross profit is
- a. ₱350,000
 - b. ₱50,000
 - c. ₱550,000
 - d. ₱300,000
26. One of the following may be a taxable income for a resident individual:
- a. Property received as gifts
 - b. Cash received as inheritance
 - c. Interest on Philippine lotto winnings
 - d. Benefits from the SSS and/or GSIS
27. One of the following represents taxable income:
- a. Refund of overpaid rental expense in prior year
 - b. Refund of donors' tax paid in prior year
 - c. Refund of income tax in prior year
 - d. Refund of special assessment paid in prior year
28. Cash allowance of ₱250 per month given to Central Bank employee to cover the medical expenses of their dependents shall be
- a. Included as part of gross compensation income
 - b. Excluded from gross compensation income
 - c. Partly include, partly excluded from gross compensation income

- d. Subject to final tax
29. At the testimonial dinner for new CPAs, Christian, a reviewer was requested to sing the theme song of the movie "Ghost". Pauline, a new CPA, was so delighted that she felt she was falling in love with Christian so she decided to cancel Christian's indebtedness to her. As a result,
- Christian realized a taxable income as compensation for services
 - If Christian accepts the cancellation, he will pay donor's tax
 - Christian received a gift from Pauline and therefore is not part of his taxable income
 - The amount of indebtedness cancelled is partly taxable, partly exempt
30. A, was adjudged the best boxer in the recently concluded Asian games. In recognition of his splendid performance, he was awarded a trophy and a cash prize of P1M. As a result,
- The value of the trophy and the cash prize are part of his taxable income
 - Only the value of the trophy is taxable
 - Only the cash prize is taxable
 - Both are exempt from income tax
31. A purchased a life annuity for P1,000,000 which will pay him P100,000 a year. The life expectancy of A is 12 years. Which of the following will A be able to exclude from his income?
- P 1,000,000
 - P 1,200,000
 - P 200,000
 - P 100,000
32. If an individual performs services for a creditor who in consideration thereof cancels the debt, the cancellation of indebtedness may amount to
- A gift
 - A donation inter-vivos
 - A capital contribution
 - A payment of income
33. This is not part of gross compensation income
- Salary of P10,000 a month of an employee
 - Fringe benefits of P10,000 a month
 - Salary of P10,000 a month of a partner in a general professional partnership
 - Honorarium and allowances of P10,000 of a member of the board of directors of a corporation who is also an employee of the corporation.
34. Mr. A, a farmer, had the following data for the year:
- | | |
|--|-----------|
| Sales of livestock and farm products raised | P 270,000 |
| Sales of livestock and farm products purchased | 160,000 |
| Cost of raising livestock and farm products | 190,000 |
| Cost of livestock and farm products purchased and sold | 140,000 |
| Rental income of farm equipment | 105,000 |
| Inventory of livestock and farm products, January 1 | 110,000 |
| Inventory of livestock and farm products, December 31 | 113,000 |
- A. Using cash method of accounting, the income is:
- P 205,000
 - P 208,000
 - P 395,000
 - P 202,000
- B. Using accrual method of accounting, the income is:
- P 205,000
 - P 208,000

- c. P 395,000
- d. P 202,000

35. Give the income tax due (refund) for the taxable year 2018:

a. A, a resident alien, single had the following during the year:

1. Salaries (net of payroll deduction), P200,000
2. Allowances. P25,000
3. 13th month pay, P26,000
4. Christmas cash gift P10,000
5. 14th month pay, P26,000
6. Payroll Deductions
 - a. Withholding tax on salary, P16,500
 - b. Contributions for SSS, PHIC, PAG-IBIG, and labor union dues, P16,000
 - c. Advances/Loans, P30,000
7. Premium on health and hospitalization insurance, P2,750
8. Bank interest income, net of 20% WT, P1,400

b. A, resident citizen, single had the following during the year 2018:

Gross compensation income	P480,000
Deductions from compensation income:	
SSS contributions	P3,600
Pag-ibig Contributions	1,200
Philhealth Contributions	1,800
Union dues	2,400
Premium payments on health insurance (P250/month)	3,000
Other income:	
Prizes and awards received as best athlete in the Palarong Pambansa	10,000
Prizes and awards received for the silver medal in the South East Asian games	25,000
Prize won in a Supermarket raffle	10,000
Prize won as a Luck Home Viewer	20,000
13 th month pay	45,000
Christmas cash gift	10,000
Mid-year bonus	45,000
Interest on bank deposit (net of 20% WT)	16,000
Interest on foreign currency deposit (net of 15% WT)	10,000

c. D, a resident citizen, married, with 2 qualified dependent children, had the following:

Professional fees	P400,000
Gross Income from rental of conjugal properties	600,000
Expenses connected with profession	180,000
Expenses connected with rental properties	200,000
Tax withheld on professional fees	40,000
Tax withheld on rental of properties	30,000

- d. D, married with 4 qualified dependent children, had the following:

Salary (net of P19,000 SSS, Philhealth and Pag-ibig contributions & Php 80,000 CWT)	P400,000
13 th month pay	42,000
Productivity bonus	42,000
Premium payments on health insurance	2,400
Personal, family and living expenses	200,000

36. RA 9505, otherwise known as PERA Act of 2008, is

- Personal equity and retirement account
- Personal exemption and reciprocity action
- Personal exemption and retirement account
- Personal equity and reciprocity action

37. The following income received by officials and employees in the public sector are not subject to income tax and withholding tax on compensation, except

- The excess of the 13th month pay and other benefits paid or accrued during the year over P90,000
- Representation and transportation allowance (RATA) granted under the General Appropriations Act
- Personnel Economic Relief Allowance (PERA) granted to government personnel
- Monetized value of leave credits paid to government officials and employees

38. A holds 1,000 common shares of ABC, a domestic corporation, acquired at P110 per share. Later, he received a 10% stock dividend in common shares and thereafter, sold directly to a buyer 500 shares at 120 per share. Determine the gain (loss) assuming the shares are ordinary assets.

39. "Mr. Right" Realty, a domestic corporation, leased its building to Mr. Cruz for a term of 5 years, beginning 2018. Under the terms of the lease contract, Mr. Cruz, instead of paying rentals to the corporation, agreed to pay yearly to the 6 stockholders of "Mr. Right" Realty an amount equivalent to 10% of their stockholdings. In 2018, the following payments were received by the stockholders of "Mr. Right" Realty from Mr. Cruz:

Shareholders:

Mr. Billionaire	P10,000
Mr. Handsome	10,000
Mr. Macho	30,000
Mr. Gentleman	20,000
Mr. Kind	20,000
Mr. Intelligent	10,000
TOTAL	P100,000

Which of the following statements is true?

- "Mr. Right" Realty shall not recognize any rental income in 2015.
- The shareholders shall recognize dividend income which shall be included in their respective ITRs.
- "Mr. Right" Realty shall recognize rental income which shall be included in its ITR, while the amounts received by the shareholders from Mr. Cruz shall be subject to final tax.
- None of the above.

40-41. The records of ABC Corporation, organized in 2007 showed the following data for 2017.

Gross Income		P2,000,000
Less: Allowable business expenses (other than bad debts)	P1,850,000	
Bad debts written off	<u>100,000</u>	<u>1,950,000</u>
Taxable net income		<u>P 50,000</u>

In 2018, 80% of the bad debts written off in 2017 was collected

40. The income tax due in 2017 is

- P40,000
- P45,000
- P15,000
- P25,000

41. In 2018, which of the following statement is correct?

- There is a deficiency income tax of P24,000 for 2017
- The taxable net income should be corrected to P130,000
- There is a taxable recovery amounting to P80,000 in 2018
- The bad debts expense in 2017 should be reduced to P20,000

42. "A" leased his land as follows

Lessee	"X"
Agreed annual rental	P200,000
Start of lease	1-1-14
Rentals received by the lessor on 1-1-14 (for 3 years' rent)	600,000
Security deposit	200,000
Improvements introduced by the lessee (will belong to the lessor upon expiration/termination)	10M
Estimated useful life of improvements	25 years
Date of completion of improvements	7-1-14
Term of lease	20 years

Determine the:

- Income to be reported by the lessor in 2014 and 2015 assuming he will spread his income on the improvement over the term of the lease.

Answers:

- Deductible expense of lessee X in 2014 and 2015.

Answers:

- Suppose the lease was terminated thru the fault of the lessee at the start of the 19th year, determine the:
 - Income to be reported by the lessor on the improvements
 - Deductible expense of lessee X
- Suppose the improvements were destroyed by fire on January 1 of the 15th year of the lease, determine the deductible loss of the lessor on the improvements, if the salvage value is P50,000.

Answer:

43. A, dedicated and honest employee of ABC Corp. for the past 20 years was advised that he is to be retrenched as the company was losing heavily but that he would be given the separation pay provided by law. To avoid implication of inefficiency, A was advised to file a letter of resignation instead of being retrenched. If A files a letter of resignation and receives the separation pay, such amount is
- Taxable in full
 - Partly taxable, partly exempt
 - Exempt from income tax
 - Subject to final tax

44. Using the preceding number, if A is retrenched and receives the separation pay, such amount is

- Taxable in full
- Partly taxable, partly exempt
- Exempt from income tax
- Subject to final tax

45. A is engaged in the marketing of cars. When A's son got married to the daughter of a senator, he gave the newly-wedded couple a brand new car worth P800,000 as a wedding gift. The value of the car is

- Taxable income to the newly-wedded couple
- Deductible expense of A
- Not taxable income to the newly-wedded couple
- Taxable income to the couple and deductible expense of A

46. **Statement 1:** Income derived from investments in the Philippines in loans, stocks, bonds, or other domestic securities, or from interest on deposits in banks in the Philippines, including sale of investments, by foreign governments and financial institutions wholly-owned, controlled, or enjoying financing from foreign governments, shall be exempt from income tax, and consequently from withholding tax.

Statement 2: Gains realized from the sale or exchange or retirement of bonds, debentures, or other certificates of indebtedness with a maturity of at least 5 years, shall not be taxable to the investor-seller.

- Statement 1 is true.
- Statement 2 is true.
- Both statements are false.
- Both statements are true.

47. Mike Reyes has been an employee of Matatag Steelworks Inc. for the last 25 years. His employer set up a BIR-approved private benefit plan primarily for retirement payments to its retiring employees.

His employer also set up a trust fund for the exclusive benefit of its employees, and to which the employees can make contributions. So far, Mike has contributed a total of P40,000 to this trust fund.

When he retired at age 55, he received the following amounts from his employer: (1) P125,000 representing his retirement benefits and which was paid out of the BIR-approved benefit plan; and (2) a dividend of P140,000 from the trust fund.

Which statement is correct?

- Only Mike's retirement benefits are tax-exempt.
- Both the retirement benefits and the dividend from the trust fund are tax-exempt.
- The excess of the dividend over his contribution to the trust fund shall be taxable, and includible in gross income in his income tax return.
- None of the above.

The End!!!