Test Bank – Income Tax (ballada)

Chapter I

1.Tax law, in general, is composed of three elements, except

1. The Code
2. Decisions of various courts that hear tax cases.
3. Regulations and rulings
4. **Ordinances**

2. Sources of tax laws:

1. Constitution
2. Statutes and Presidential Decrees
3. Revenue Regulations by the Department of Finance
4. Rulings issued by the Commissioner of Internal Revenue and Opinions by the Secretary of Justice
5. Decisions of the Supreme court and the Court of Tax Appeals
6. Provincial, city , municipal, and barangay ordinances subject to limitations set forth in the Local Government Code
7. Treaties or international agreements the purpose of which is to avoid or minimize double taxation.
8. 1, 2, 5 & 6 C. 1, 2, 3, 4, 5 and 6
9. 1, 2, 3, 4 & 5 **D. 1, 2, 3, 4, 5, 6 & 7**

3. National taxes includes:

1. Income taxes 5. Excise tax
2. Estate and donor’s taxes 6. Documentary stamp tax
3. Value-added tax 7. Real property tax
4. Other percentage tax 8. Professional tax
5. **1, 2, 3, 4, 5 and 6** C. 1, 2, 3, 5, 6, 7 & 8
6. 1, 2, 3, 5, 6 and 8 D. 1, 2, 3, 4, 5, 6 & 7

4.Local taxes include:

1. Real property tax 4. Community tax
2. Business taxes fees and charges 5. Tax on banks and other financial
3. Professional tax institutions
4. **1, 2, 3, 4 & 5**  C. 2, 3, 4 & 5
5. 1, 2, 3 & 4 D. 1, 2, 3 & 4

5.I. Revenue law is a law passed for the purpose of authorizing the levy and collection of

taxes in some form to raise revenue.

II- Internal revenue laws are either political or penal in nature although there are penalties in

case of violations.

1. True; True **C. True ; False**
2. False; True D. False; False

6.I. For married individuals, the husband and wife shall compute separately the tax due on their

respective taxable income.

II. If any income cannot be definitely attributed to or identified as income exclusively earned

or realized by either spouses, the same shall be divided in any ratio between the spouses for

the purpose of determining their respective taxable income.

1. True; True **C. True ; False**
2. False; True D. False; False

7.I. In computing for the taxable income, fraction of a peso is disregarded.

II. For the tax due, a fraction amounting to fifty centavos or more is rounded off to a peso,

while a fraction amounting to less than fifty centavos is disregarded.

1. **True; True** C. True ; False
2. False; True D. False; False

8.I. Total family income includes primary income and other income from sources received by all members of the nuclear family.

II. A single person living alone is considered as a nuclear family.

III. For married taxpayers, both spouse are entitled to claim for additional exemption.

1. **True; True; False**  C. True ; False; True
2. False; True; True D. False; False; True

8.Allowable deductions from business income includes:

1. Basic personal and /or additional exemptions.
2. Premium payments on health and/or hospitalization insurance
3. Itemized deductions under the Tax Code
4. Optional Standard Deduction.
5. **1, 2, 3, & 4**  C. 1, 3 & 4
6. 1, 2 & 3 D. 1, 2 & 4

9.I- If the employee should have additional dependents during the taxable year, he may claim not claim the corresponding additional exemption in full for such year.

II - If the taxpayer dies during the taxable year, his death shall affect the amount of personal and additional exemptions his estate may claim.

III – If the spouse dies or any dependents dies or if any such dependent marries, becomes twenty-one years of age, or gets gainfully employed during the taxable year, the taxpayer may still claim the same exemption as if the change occurred at the end of the year.

1. True; True; False C. True ; False; True
2. False; True; True **D. False; False; True**

10. Passive income includes the following

1. Interests 4. Cash and/or property dividends
2. Royalties 5. Sale of real property
3. Prizes and other winnings 6. Sale of shares of stock not traded in stock exchange
4. **1, 2, 3 & 4** C. 1, 2, 3, 4, 5 & 6
5. 1, 2, 3, 5 & 6 D. 1, 2, 3, 4 & 6

11. I - All individual taxpayers are subject 20 % final tax on interests from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements.

II - All individual taxpayers are subject to 20% final on royalties, in general and 10% final tax on books, literary works and musical composition.

III – All individual taxpayers are subject to 20% final tax on prizes and winnings, in general.

1. True; True; False C. True ; False; True
2. False; True; True **D. False; False; False**

12. I - Every corporation shall file in duplicate a quarterly summary declaration of its gross income and deductions on a cumulative basis for the preceding quarter or quarters upon which the income tax shall be levied, collected and paid.

II - The income tax computed decreased by the amount of tax previously paid or assessed during the preceding quarters shall be paid and the return filed not later than thirty (30) days from the close of each of the first three (3) quarters of the taxable year, whether calendar or fiscal.

III - A return showing the cumulative income and deductions shall not be filed even if the operations for the quarter and the preceding quarters yielded no tax due.

1. True; True; False C. True ; False; True
2. True; True; True **D. True; False; False**

13. I - The minimum corporate income tax (MCIT) shall apply to all domestic corporations subject to normal corporate income tax.

II – The minimum corporate income tax (MCIT) shall apply to all resident foreign corporations subject to normal corporate income tax.

III – The 10% Improperly Accumulated Earnings Tax (IAET) is imposed on improperly accumulated taxable income earned starting Jan 1, 1998 by all domestic corporations and which are classified as closely-held corporations.

1. **True; True; False** C. True ; False; True
2. False; True; True D. False; False; False

14. If the sum of the quarterly tax payments made during the said taxable year is not equal to the total tax due on the entire taxable income of that year, the corporation shall either:

1. Pay the balance of tax still due
2. Carry over the excess credit
3. Be credited or refunded with the excess amount paid.
4. **1, 2 & 3** C. 1& 2
5. 1 & 3 D. none of the above

15. Improperly Accumulated Taxable Income means taxable income adjusted by

1. Income exempt from tax
2. Income excluded from gross income
3. Income subject to final tax
4. The amount of net operating loss carry-over (NOLCO) deducted
5. Income tax paid/ payable for the taxable year
6. Dividends actually or constructively paid/issued from the applicable year’s taxable income
7. Amount reserved for the reasonable needs of the business emanating from the covered year’s taxable income.
8. 1, 2, 3 & 4 **C. 1, 2, 3, 4, 5, 6 & 7**
9. 1, 2, 3, 5 & 6 D. 1, 2, 3, 4 & 6

16. I. In general, the situs of the income whether within or without the Philippines, is

determined by the place where the service is rendered.

II. Source of income is either within the Philippines, without the Philippines or partly within

and partly without the Philippines.

A. True; False C. False; False

B**. True; True** D. False; True

17. I- Remuneration for services performed outside the Philippines by a resident citizen for a

domestic or resident foreign corporation or partnership, or for a nonresident corporation

or partnership, or for a non-resident individual not engaged in trade ore business in trade

business in the Philippines shall be treated as compensation which is subject to tax.

II - Remuneration for services as employee of a nonresident alien individual, foreign

partnership or foreign corporation constitute compensation only if such employer is

engaged in trade or business within the Philippines.

A. **True; False** C. False; False

B. True; True D. False; True

18. I - Net operating loss means the excess of allowable deduction over gross income of the

business in a taxable year.

II- Losses of property arising from fire, storms, shipwreck, or other casualties, robbery, theft

or embezzlement, and other losses, if incurred in connection with trade, business or

profession actually sustained during the taxable year and compensated for by insurance or

other forms of indemnity, shall be allowed as deductions.

A. **True; False** C. False; False

B. True; True D. False; True

19. I - If the property sold is subject to a mortgage which is assumed by the buyer, and the

mortgage exceeds the basis of the property sold, the excess shall form part of the initial

payments in which case, the contract price is equal to selling price less mortgage assumed

plus the excess of the mortgage over the basis of the property sold.

II- Initial payment means the payment which the seller receives before or upon execution of

the instrument of sale plus other payments which he expects or is scheduled to receive in

cash or property during the taxable year of sale or disposition.

A. True; False C. False; False

B. **True; True** D. False; True

20. I – The gross-up monetary value of the fringe benefit shall be determined by dividing the

monetary value of the fringe benefit by 32%, 33%, and 34% depending on the applicable

year.

II –The monetary value of the fringe benefit is always equal to the actual amount received by

the employee when the fringe benefit is beneficial to both the employee and the employer.

A. True; False **C. False; False**

B. True; True D. False; True

21. I - Generally, the amount of taxable fringe benefit and the fringe benefit tax constitute

allowable deductions from the gross income of the employee.

II- Contributions of the employer for the benefit of the employee to retirement, insurance

and hospitalization benefit plans are subject to the fringe benefit tax.

A. True; False **C. False; False**

B. True; True D. False; True

22. I - In accounting for gross income of farmers under the accrual basis in contrast to cash basis,

beginning and ending inventories of livestock and farm products raised and purchased are

considered.

II- Income derived from illegal sources, such as gambling, extortion, theft, bribes,

embezzlement, and smuggling are taxable.

A. True; False C. False; False

B. **True; True** D. False; True

23. I - Thirteenth month pay and other benefits received by officials and employees of public

and private entities are exempt provided, however, that the total exclusion shall not

exceed P20,000.

II- GSIS, SSS, Medicare and Pag-ibig contributions, and union dues of individuals are not

exempt from income tax.

A. True; False **C. False; False**

B. True; True D. False; True

24. I - Holiday pay and hazard pay are not exempt from income tax.

II- Tips or gratuities paid directly to an employee by a customer of the employer which are

not accounted for by the employee to the employer are considered as taxable income.

A. True; False C. False; False

B. **True; True** D. False; True

25. I – If services are paid for in a medium other than money, it is not to be included as

compensation.

II - Passive income subject to final tax shall not form part of the gross income for purposes

of computing the normal income tax liability of individuals and corporations.

A. True; False C. False; False

B. True; True **D. False; True**