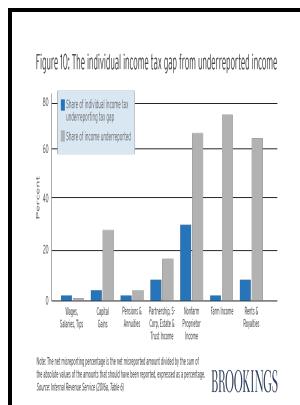


# Tax aspects of forming and operating closely held corporations

**Shepards/McGraw-Hill - Trusts and the Corporate Lawyer**



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## Income Tax Issues When Planning for the Sale of a Closely Held Business

Following the general way business is done in the Philippines, closely held businesses would usually operate in corporate form. It will trigger capital gain income on appreciated assets owned by the corporation and the shareholders will recognize gain on the receipt of corporate assets.

## Income Tax Issues When Planning for the Sale of a Closely Held Business

However, there can't be any deduction related to compensation of personal services that were rendered by the shareholders. No other member of an affiliated group will be considered to meet this adjusted ordinary gross income with the exception that the affiliated group meets the requirement. The taxpayer may opt to treat interest incurred to acquire property used in business as a deduction or as a capital expenditure.

### Beware the personal holding company tax

It is important to monitor all accrued earnings and types of income received from investments to ensure that your PHC isn't taxed. Therefore, the undistributed income, which may, in fact, be all of it, could potentially be taxed.

### Avoiding Personal Holding Company Tax

Information provided should not be the sole basis in making any decisions and is not intended to replace the advice of a qualified professional, such as a tax consultant, insurance adviser or attorney.

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