



Tax 1 Day 1 lesson

BS Accountancy (San Sebastian College-Recoletos de Cavite)

CHAPTER 2. TAX ON DOMESTIC CORPORATIONS

EXERCISES

2-1. A domestic corporation had in its second taxable year:

| | |
|-------------------------------------------------------------|-------------|
| Gross profit from sales | P 4,000,000 |
| Expenses of operations | 3,000,000 |
| (Disregard considerations of quarterly income tax payments) | |
| Income tax of the year? | _____ |

| | |
|---------------------------------------|--------------------|
| Gross profit from sales | P 4,000,000 |
| Less: Expenses of operations | <u>3,000,000</u> |
| Taxable income | <u>P 1,000,000</u> |
| Normal income tax (P 1,000,000 x 30%) | <u>P 300,000</u> |

2-2. A domestic corporation had the following data in its sixth year of operations:

| | |
|-------------------------------------------------------------|-------------|
| Gross profit from sales | P 2,000,000 |
| Interest income from trade of notes receivable | 50,000 |
| Expenses of operations | 2,020,000 |
| (Disregard considerations of quarterly income tax payments) | |
| Minimum corporate income tax? | _____ |
| Normal income tax? | _____ |
| Income tax of the year? | _____ |

| | |
|------------------------------------------------|------------------|
| Gross profit from sales | P 2,000,000 |
| Interest income | <u>50,000</u> |
| Gross income | P 2,050,000 |
| Less: Expenses of operations | <u>2,020,000</u> |
| Taxable income | <u>P 30,000</u> |
| Minimum corporate income tax (P2,050,000 x 2%) | <u>P 41,000</u> |
| Normal income tax (P 30,000 x 30%) | <u>P 9,000</u> |
| Income tax of the year | <u>P 41,000</u> |

2-3. In its seventh year of operations, a domestic corporation, a service provider, had:

| | |
|-------------------------------------------------------------|-------------|
| Gross revenue | P 5,000,000 |
| Costs and expenses: | |
| Direct costs of the services | 2,000,000 |
| Other operating expenses | 500,000 |
| (Disregard considerations of quarterly income tax payments) | |
| Income tax of the year? | _____ |

| | |
|------------------------------------|------------------|
| Gross revenue | P 5,000,000 |
| Less: Direct costs of the services | <u>2,000,000</u> |

| | |
|------------------------------------------------|--------------------|
| Gross income | P 3,000,000 |
| Other operating expenses | <u>500,000</u> |
| Taxable income | <u>P 2,500,000</u> |
| Minimum corporate income tax (P3,000,000 x 2%) | <u>P 60,000</u> |
| Normal income tax (P 2,500,000 x 30%) | <u>P 750,000</u> |
| Income tax of the year | <u>P 750,000</u> |

2-4. The following were computed income taxes (MCIT for minimum corporate income tax and NT for normal tax) of a domestic corporation:

| | MCIT | NT |
|---------------|----------|----------|
| Seventh year | P 70,000 | P 20,000 |
| Eighth year | 10,000 | 30,000 |
| Ninth year | 40,000 | 15,000 |
| Tenth year | 2,000 | 5,000 |
| Eleventh year | 45,000 | 80,000 |

(Disregard considerations of quarterly income tax payments)

Income tax for each of the year:

| | |
|----------------|-------|
| Seventh year? | _____ |
| Eight year? | _____ |
| Ninth year? | _____ |
| Tenth year? | _____ |
| Eleventh year? | _____ |

Seventh year:

Minimum corporate income tax P 70,000

Eight year:

Normal income tax P 30,000
Less: Excess MCIT carry forward from the seventh year (30,000) P 0

Ninth year:

Minimum corporate income tax P 40,000

Tenth year:

Normal income tax P 5,000
Less: Excess MCIT carry forward from the seventh year (5,000) P 0

Eleventh year:

Normal income tax P 80,000
Less: Excess MCIT carry forward from the ninth year (25,000) P 55,000

2-5. A domestic corporation had the following cumulative data as at the end of each of the first three quarters, and end of its fourth taxable year:

| | First | Second | Third | Year |
|----------------------------------------------------------|---------|---------|---------|---------|
| Gross profit from sales | 500,000 | 700,000 | 850,000 | 990,000 |
| Operating expenses | 200,000 | 280,000 | 340,000 | 396,000 |
| Income tax due (refundable or creditable) at the end of: | | | | |
| First quarter? | | | | |
| Second quarter? | | | | |
| Third quarter? | | | | |
| Year? | | | | |

| | First | Second | Third | Year |
|-------------------------|------------------|------------------|------------------|------------------|
| Gross profit from sales | P 500,000 | P 700,000 | P 850,000 | P 990,000 |
| Operating expenses | <u>200,000</u> | <u>280,000</u> | <u>340,000</u> | <u>396,000</u> |
| Taxable income | <u>P 300,000</u> | <u>P 420,000</u> | <u>P 510,000</u> | <u>P 594,000</u> |
| MCIT at 2% | <u>P 10,000</u> | <u>P 14,000</u> | <u>P 17,000</u> | <u>P 19,800</u> |
| NT at 30% | <u>P 90,000</u> | <u>P 126,000</u> | <u>P 153,000</u> | <u>P 178,200</u> |
| Whichever is higher | P 90,000 | P 126,000 | P 153,000 | P 178,200 |
| Less: Income tax paid- | | | | |
| First quarter | | (90,000) | (90,000) | (90,000) |
| Second quarter | | | (36,000) | (36,000) |
| Third quarter | | | | <u>(27,000)</u> |
| Due | <u>P 90,000</u> | <u>P 36,000</u> | <u>P 27,000</u> | <u>P 25,200</u> |

2-6. A domestic corporation, in its fourth year of operations, had the following data on transactions in each of the four quarters of a taxable year:

| | First | Second | Third | Fourth |
|----------------------------------------------------------|---------|---------|---------|---------|
| Gross profit from sales | 500,000 | 350,000 | 800,000 | 900,000 |
| Dividend from a domestic corporation | 20,000 | | 20,000 | |
| Interest on bank deposit | | 4,000 | 8,000 | 12,000 |
| Operating expenses | 450,000 | 340,000 | 810,000 | 450,000 |
| Income tax due (refundable or creditable) at the end of: | | | | |
| First quarter? | | | | |
| Second quarter? | | | | |
| Third quarter? | | | | |
| Year? | | | | |

| | First | Second | Third | Year |
|-------------------------|-----------------|-----------------|------------------|------------------|
| Gross profit from sales | P 500,000 | P 850,000 | P 1,650,000 | P 2,550,000 |
| Operating expenses | <u>450,000</u> | <u>790,000</u> | <u>1,600,000</u> | <u>2,050,000</u> |
| Taxable income | <u>P 50,000</u> | <u>P 60,000</u> | <u>P 50,000</u> | <u>P 500,000</u> |
| MCIT | <u>P 10,000</u> | <u>P 17,000</u> | <u>P 33,000</u> | <u>P 51,000</u> |
| NT | <u>P 15,000</u> | <u>P 18,000</u> | <u>P 15,000</u> | <u>P 150,000</u> |

| | | | | |
|------------------------|-----------------|----------------|-----------------|------------------|
| Whichever is higher | P 15,000 | P 18,000 | P 33,000 | P 150,000 |
| Less: Income tax paid- | | | | |
| First quarter | | (15,000) | (15,000) | (15,000) |
| Second quarter | | | (3,000) | (3,000) |
| Third quarter | | | | (15,000) |
| Due | <u>P 15,000</u> | <u>P 3,000</u> | <u>P 15,000</u> | <u>P 117,000</u> |

2-7. A domestic corporation had the following in year:

| | |
|-------------------------------------------|-------------|
| Net taxable income at the end of the year | P 1,000,000 |
| Dividend paid within the year | 200,000 |
| Paid-in capital at the end of the year | 2,300,000 |
| Retained earnings, beginning of the year | 2,100,000 |

If the Bureau of Internal Revenue makes a finding that the accumulation of profits is improper, how much is the improperly accumulated earnings tax (IAET)? _____

| | | |
|------------------------------------------------------|------------------|------------------|
| Net taxable income | | P 1,000,000 |
| Less: Income tax | P 300,000 | |
| Dividend paid | <u>200,000</u> | <u>500,000</u> |
| Balance | | P 500,000 |
| Add: Retained earnings, beginning of the year | | <u>2,100,000</u> |
| Total | | P 2,600,000 |
| Less: Paid-in capital, end of the year | | <u>2,300,000</u> |
| Improperly accumulated taxable income | <u>P 300,000</u> | |
| Improperly accumulated earnings tax (P300,000 x 10%) | | <u>P 30,000</u> |

3-1. A foreign corporation, authorized to do business in the Philippines by Philippine regulatory agencies, had the following data from operations in 2018:

| | |
|--------------------------------|-------------|
| Gross income, Philippines | ₱30,000,000 |
| Gross Income, foreign | 90,000,000 |
| Business expenses, Philippines | 10,000,000 |
| Philippine expenses, foreign | 40,000,000 |

Out of the Philippine income, there was an actual remittance abroad of ₱8,500,000

Philippine income tax on income from operations? _____

Profit remittance tax paid? _____

Solution:

Gross income, Philippines ₱30,000,000

| | | |
|----------------|------------------|------------------|
| Taxable income | <u>₱ 600,000</u> | <u>₱ 550,000</u> |
|----------------|------------------|------------------|

The partnership availed of the Itemized Deductions

| | |
|--------------------------------|------------------|
| Gross income | ₱1,000,000 |
| Expenses (Itemized deductions) | <u>400,000</u> |
| Net income | <u>₱ 600,000</u> |

| | A | B |
|---------------------------------------|-----------------|------------------|
| Share in partnership net income (1/2) | ₱300,000 | ₱300,000 |
| Own income | 600,000 | 700,000 |
| Less: Optional Standard Deduction | | |
| 40% of ₱600,000 | (240,000) | |
| 40% of ₱700,000 | | <u>(280,000)</u> |
| Taxable Income | <u>₱660,000</u> | <u>₱720,000</u> |

Own income is taken to mean own gross sales or gross receipts.