Annex A: Conditions to be exempt from Income Tax of Foreign Sourced Dividends

## EXEMPTION FROM INCOME TAX OF FOREIGN-SOURCED DIVIDENDS RECEIVED BY DOMESTIC CORPORATIONS UNDER CREATE BILL

In general, foreign sourced dividends received by domestic corporations are subject to income tax. However, the same shall be exempt if all of the following conditions concur:

- The dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation within the next taxable year from the time the foreign-source dividends were received or remitted;
- The dividends received shall only be used to fund the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure project; and
- The domestic corporation holds directly at least twenty percent (20%) in value of the outstanding shares of the foreign corporation and has held the shareholdings uninterruptedly for a minimum of two (2) years at the time of the dividends distribution. In case the foreign corporation has been in existence for less than two (2) years at the time of dividends distribution, then the domestic corporation must have continuously held directly at least twenty percent (20%) in value of the foreign corporation's outstanding shares during the entire existence of the corporation.

Absent any one of the above conditions, the foreign-sourced dividends shall be considered as taxable income of the domestic corporation in the year of actual receiptor remittance, subject to surcharges, interest, and penalties, as applicable.

**To avail of the exemption, the domestic corporation shall:**

1. Submit, thru the responsible corporate officers, to the concerned BIR office within thirty (30) calendar days from actual receipt of the remitted dividends a **Sworn Statement/Affidavit** containing
   i. the fact of actual receipt of such dividends,
   ii. the amount and the source (non-resident foreign corporation [NRFC]) of such dividends, including their shareholdings in that NRFC and the holding period at the time of the dividends distribution, and
   iii. a statement that they shall fully comply with the conditions of the exemptions above stated;
2. In the year of receipt of dividend, attach to the **Audited Financial Statements (AFS) an Independent Auditor Sworn Certification** as to
   i. the fact of actual receipt of the remitted dividends,
   ii. the amount and the source (NRFC) of such dividends, including their shareholdings in that NRFC and the holding period at the time of the dividends distribution,
   iii. the fact that the domestic corporation, thru its Board, has appropriated or has a plan a plan to reinvest the dividends in its business operations to fund its working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, or infrastructure project, and
   iv. if any amount has been disbursed, a statement that said disbursement complies with the above requirements

The Sworn Statement/Affidavit in item (1) hereof and the Independent Auditor Sworn Certification shall be deemed as substantial compliance with the above conditions for exemption without the need of securing a written tax exemption ruling/certificate from the BIR. In addition, a disclosure of the dividends in the said AFS which shall be attached to the Annual Income Tax Return (AITR) to be filed in the year of receipt, as well as the amount of dividend deemed exempt from income tax shall be declared in reconciliation part of the said AITR.

3. In the immediately following taxable year, attach to the AITR a Sworn Certification prepared and executed by an Independent Auditor on the utilization or non-utilization of the dividends received by the corporation. The Sworn Certification on the utilization of the dividends received shall confirm the taxpayer's full compliance with the conditions for its exemption. However, if the Certification will state non-utilization of the dividends received, the corresponding tax due on the unutilized dividends shall be declared as taxable income, subject to surcharges, interest, and penalty, if any.

No credit or deduction under Section 34(C) of the Tax Code shall be allowed for any taxes of foreign countries paid or incurred by the domestic corporation in relation to the exempt foreign-sourced dividends. Further, any taxes of foreign countries paid or incurred by the domestic corporation in relation to the exempt foreign-sourced dividends shall be disregarded in computing the limitations provided under Section 34(C)(4) of the Tax Code.

Annex B: Sample Illustrations lifted from the Revenue Regulation

## CORPORATE INCOME TAX RATES

### A. DOMESTIC CORPORATION

1. LMB Corporation, a retailer, has a gross sales of ₱1,400,000,000.00 with a cost of sales of ₱560,000,000.00 and allowable deductions of ₱150,000,000.00 for the calendar year 2021. Its total assets of ₱180,000,000.00 as of December 31, 2021 per Audited Financial Statements includes the land costing ₱50,000,000.00 and the building of ₱25,000,000.00 in which the business entity is situated, with an aggregate amount of ₱75,000,000.00 as Fixed Assets. Assuming CY 2021 is the 5th year of operation of Corporation A, computation of income tax (Income Tax – whichever is higher between Regular Rate and MCIT) shall be as follows:

REGULAR RATE

| | |
|---|---:|
| Gross Sales | 1,400,000,000.00 |
| Less: Cost of Sales | 560,000,000.00 |
| Gross Income | 840,000,000.00 |
| Less: Allowable Deductions | 150,000,000.00 |
| Net Taxable Income | 690,000,000.00 |
| REGULAR RATE | 25% |
| TAX DUE | 172,500,000.00 |

MINIMUM CORPORATE INCOME TAX (MCIT)

| | |
|---|---:|
| Gross Income | 840,000,000.00 |
| MINIMUM CORPORATE INCOME TAX (MCIT) RATE | 1% |
| TAX DUE | 8,400,000.00 |

INCOME TAX DUE SHALL BE ₱ 172,500,000.00

2. JPL Corporation, a manufacturer, has a gross sale of ₱ 190,000,000 for CY 2021, its 2nd year of operation. Its total assets amounted to ₱ 50,000,000, net of the value of the land of ₱6,000,000 where its manufacturing plant and business operations are situated. It's cost of sales and allowable operating expenses amounted to ₱ 100,000,000 and ₱ 50,000,000, respectively. Compute for its income tax due for CY 2021.

INCOME TAX DUE SHALL BE THE REGULAR INCOME TAX RATE OF 25%

| | |
|---|---|
| Gross Sales | 190,000,000.00 |
| Less: Cost of Sales | 100,000,000.00 |
| Gross Income | 90,000,000.00 |
| Less: Allowable Deductions | 50,000,000.00 |
| Net Taxable Income | 40,000,000.00 |
| REGULAR RATE | 25% |
| TAX DUE | 10,000,000.00 |

Although the total assets, net of the value of the land, is less than ₱ 100,000,000.00, its net taxable income is above ₱ 5,000,000. Hence, the income tax rate is 25%. Not subject to MCIT since it is in its 2nd year of operation.

3. Given the same facts under Illustration A.2, except for the allowable operating expenses, which amounted to ₱ 85,000,000. The net taxable income will be ₱ 5,000,000.00. With this, the income tax rate shall be 20%, and the income tax due shall be ₱ 1,000,000.00.

   In both illustrations 2 and 3, the MCIT shall not be applied since it is only the second year of operation of Corporation B.

## B. PROPRIETARY EDUCATIONAL INSTITUTIONS

Rosa Private School of Values or RPSV is a non-profit private educational institution with an issued permit to operate from the Commission on Higher Education (CHED). It is maintained and administered by FBNR Inc., a private domestic corporation registered under the Securities and Exchange Commission.

RPSV uses a fiscal year accounting ending July 31st of each year. On July 31, 2021, it recorded total gross receipts amounting to ₱18,000,000.00, of which ₱10,000,000.00 came from education-related activities, while ₱8,000,000.00 from other unrelated business activities. Also, RPSV recorded cost of service and operating expenses from related activities amounting to ₱2,000,000.00 and ₱1,000,000.00, respectively, and from unrelated business activities amounting to ₱3,000,000.00 and ₱2,000,000.00, respectively.

Annex B: Sample Illustrations lifted from the Revenue Regulation

| | Related activities | Unrelated Activities | Total |
|---|---|---|---|
| Gross Receipts/Sales | 10,000,000.00 | 8,000,000.00 | 18,000,000.00 |
| Less: Cost of Service/Sales | 2,000,000.00 | 3,000,000.00 | 5,000,000.00 |
| Gross Income | **8,000,000.00** | **5,000,000.00** | **13,000,000.00** |
| Less: Allowable Deductions | 1,000,000.00 | 2,000,000.00 | 3,000,000.00 |
| NET TAXABLE INCOME | 7,000,000.00 | 3,000,000.00 | 10,000,000.00 |
| REGULAR RATE | | | **1%** |
| TAX DUE | | | **1,000,000.00** |

The educational institution is subject to income tax at the rate of 1% since its gross income from unrelated activities did not exceed 50% of the total gross income.

C. **PROPRIETARY HOSPITAL**

ILR Hospital, a private non-profit hospital, has gross receipts of ₱15,000,000.00 with a cost of ₱6,000,000.00 and allowable deductions of ₱3,250,000.00 from related activities, while for its unrelated activities, it incurred ₱ 5,000,000 and ₱ 2,000,000, as cost of sales and allowable deductions, respectively, with a gross income of ₱ 18,000,000.00, for Calendar Year 2021

Computation of tax shall be as follows:

| | Related activities | Unrelated Activities | Total |
|---|---|---|---|
| Gross Receipts/Sales | 15,000,000.00 | 18,000,000.00 | 33,000,000.00 |
| Less: Cost of Service/Sales | 6,000,000.00 | 5,000,000.00 | 11,000,000.00 |
| Gross Income | **9,000,000.00** | **13,000,000.00** | **22,000,000.00** |
| Less: Allowable Deductions | 3,250,000.00 | 2,000,000.00 | 5,250,000.00 |
| NET TAXABLE INCOME | 5,750,000.00 | 11,000,000.00 | 16,750,000.00 |
| REGULAR RATE | | | **25%** |
| TAX DUE | | | **4,187,500.00** |

ILR Hospital is subject to the regular rate of 25% since its gross income from nonrelated activities is more than 50% of its total gross income.

D. REGIONAL OPERATING HEADQUARTERS

EBQ Corporation is registered as a Regional Operating Head Quarter (ROHQ) since 2015. For taxable years 2020 to 2023, its operation showed the financial results:

| | TY 2020 | TY 2021 | TY 2022 | TY 2023 |
|---|---|---|---|---|
| Annual Income | 75,000,000.00 | 120,000,000.00 | 130,000,000.00 | 75,000,000.00 |
| Cost of Services | 41,250,000.00 | 66,000,000.00 | 71,500,000.00 | 41,250,000.00 |
| Gross Income | 33,750,000.00 | 54,000,000.00 | 58,500,000.00 | 33,750,000.00 |
| Allowable Deductions | 33,625,000.00 | 41,200,000.00 | 42,550,000.00 | 35,125,000.00 |
| | 125,000.00 | 12,800,000.00 | 15,950,000.00 | (1,375,000.00) |
| Computation of Income Tax Due | | | | |
| NetTaxable Income/Gross Income | 125,000.00 | 12,800,000.00 | 15,950,000.00 | (1,375,000.00) |
| Multiply by | **10%** | **10%** | **25%** | **25%** |
| Income Tax Due | **12,500.00** | **1,280,000.00** | **3,987,500.00** | **0.00** |
| MCIT: | N/A | N/A | | |
| Gross Income | | | ₱558,500,000.00 | 33,750,000.00 |
| MCIT Rate | | | **1%** | **1.5%*** |
| MCIT | | | **585,000.00** | **506,250.00** |
| Income Tax Due | | | **3,987,500.00** | **₱ 506,250.00** |

- ❖ The regular rate of 25% shall be effective on January 1, 2022 for ROHQ. It will also be subject to MCIT beginning on the said date, since EBQ Corp. started its operations way back in 2015.
- ❖ MCIT rate of 1.5% was used since the rate from January 1 to June 30, 2023 is 1%, and for July 1 to December 31, 2023, the rate is 2%; thus, the average rate is 1.5%, income tax rate to be used by EBQ Corporation in computing the income tax due/payable for TY 2023.

EXEMPTION FROM INCOME TAX OF FOREIGN-SOURCED DIVIDENDS RECEIVED BY DOMESTIC CORPORATIONS

1. RLI Corporation, a domestic corporation, owns twenty percent (20%) of the outstanding shares of USA Corporation, a non-resident foreign corporation (NRFC), since August 1, 2015. On June 30, 2021 it received dividends amounting to ₱1,000,000.00 from the said NRFC. The said dividend has not been used until January 13, 2023. In this case, the ₱1,000,000.00 shall be declared as taxable income for calendar year 2021, subject to surcharge, interest, and penalty, since it was not utilized within the next taxable year, which is in 2022.

2. RSDV Corporation, a domestic corporation, owns twenty percent (20%) of the outstanding shares of UK Corporation, a non-resident foreign corporation (NRFC), since August 1, 2015. On May 1, 2021, it received dividends amounting to ₱1,000,000.00 from the said NRFC. On September 1, 2022, RSDV Corporation utilized ₱800,000.00 for its dividend payments. On January 1, 2023, it utilized the remaining ₱200,000.00 for its working capital requirements. In this case, ₱800,000.00 shall be treated as tax-exempt since this was properly utilized within 2022. On the other hand, ₱200,000.00 shall be declared as taxable income for the taxable year 2021, subject to surcharge, interest, and penalty, since the utilization is not within the following taxable year, which is in 2022.

3. BKTD Corporation, a domestic corporation, holds 20% of the stocks of EU Corporation, a non-resident foreign corporation. BKTD is a wholly-owned subsidiary of GKCM Corporation, a non-resident foreign corporation. BKTD's holding in EU Corporation started in 2018, and the holding period is uninterrupted. On July 1, 2021, BKTD Corporation received dividends from EU Corporation amounting to ₱2,000,000 and subsequently paid out dividends on December 31, 2022, in the amount of ₱ 1,500,000. The remaining amount of ₱500,000 has not been used in any qualified activity for exempt foreign-sourced dividends. In this situation, BKTD Corporation shall be subject to income tax on the unused amount in the taxable period 2021, subject to surcharge, interest, and penalty.

## IMPROPERLY ACCUMULATED EARNINGS TAX

JDS Corporation, a domestic corporation, has unappropriated retained earnings in excess of its paid-up capital stock amounting to ₱20,000,000 and ₱50,000,000 as of the fiscal years ending June 30, 2020 and June 30, 2021, respectively. JDS Corporation shall be subject to the 10% improperly accumulated earnings tax as of June 30, 2020. However, MNC Corporation shall no longer be subject to improperly accumulated earnings tax for the entire fiscal year ending June 30, 2021, which is after the effectivity of CREATE.

Annex B: Sample Illustrations lifted from the Revenue Regulation

## ALLOWABLE DEDUCTIONS FROM GROSS INCOME FOR BUSINESS PERSONS

### A. EXPENSES

MOC Corporation, a domestic manufacturing corporation, had gross sales of ₱ 100,000,000.00 for Fiscal Year ending June 30, 2021 and incurred cost of sales of ₱60,000,000.00 and operating expenses of ₱17,500,000.00, with the following details:

| | | | |
|---|---|---|---|
| Cost of Sales | | | |
| | Direct Materials | ₱ | 30,000,000.00 |
| | Direct Labor | | 20,000,000.00 |
| | Manufacturing Overhead | | 10,000,000.00 |
| | Total | ₱ | 60,000,000.00 |
| Operating Expenses | | | |
| | Salaries and Wages | ₱ | 7,000,000.00 |
| | Taxes | | 300,000.00 |
| | Depreciation | | 3,500,000.00 |
| | Professional Fees | | 200,000.00 |
| | Advertising Expenses | | 3,000,000.00 |
| | Training Expenses | | 3,000,000.00 |
| | Office Supplies | | 500,000.00 |
| | Total | ₱ | 17,500,000.00 |

Assuming MOC corporation has complied with the withholding tax requirement on all cost and expenses incurred subject to withholding tax, compute for the corporation's net taxable income:

| | | | | |
|---|---|---|---|---|
| Gross Income | | | ₱ | 40,000,000.00 |
| Less: Allowable Deductions | ₱ | | | |
| Salaries and Wages | | 7,000,000.00 | | |
| Taxes | | 300,000.00 | | |
| Depreciation | | 3,500,000.00 | | |
| Professional Fees | | 200,000.00 | | |
| Advertising Expenses | | 3,000,000.00 | | |
| **Training Expenses** | | **3,000,000.00** | | |
| Office Supplies | | 500,000.00 | | |
| Expenses before additional deduction on Training Expenses | ₱ | 17,500,000.00 | | |
| ***Additional Allowable Deductions on Training Expenses (see Note)*** | | ***1,500,000.00*** | ₱ | 19,000,000.00 |
| Net Taxable Income | | | ₱ | 21,000,000.00 |

Note: The amount of ₱ 1,500,000.00, which is one-half of the value of the actual training expenses of ₱ 3,000,000.00, can be claimed as additional deduction, since it did not exceed ten percent (10%) of the Direct Labor Wage. In this scenario, the corporation's direct labor wages incurred was ₱20,000,000.00. Thus, the one-half value of the actual training expenses of ₱ 1,500,000.00 did not exceed the ₱ 2,000,000.00 (10% of ₱ 20,000,000.00) threshold. Provided further, that all the prescribed requirements in this section has been complied with (e.g., Apprenticeship Agreement, Certification from DepEd or TESDA or CHED, whichever is applicable). If the company's direct labor wage is only ₱10,000,000.00, the additional deduction that can be allowed shall be ₱1,000,000.00 and not ₱1,500,000.00.

Annex B: Sample Illustrations lifted from the Revenue Regulation

B. INTEREST

1. For fiscal year ending June 30, 2021, assuming that JHB Corporation, aside from the operating expenses of ₱17,500,000.00, incurred interest expense of ₱ 400,000.00 which satisfied the prescribed requirement for deductibility, but it also earned interest income of ₱ 100,000.00, net of final tax of twenty percent (20%), how shall the taxable income be computed?

| | | | | |
|---|---|---|---|---|
| Gross Income | | | ₱ | 40,000,000.00 |
| Less: Allowable Deductions | | | | |
| Salaries and Wages | ₱ | 7,000,000.00 | | |
| Taxes | | 300,000.00 | | |
| Depreciation | | 3,500,000.00 | | |
| Professional Fees | | 200,000.00 | | |
| Advertising Expenses | | 3,000,000.00 | | |
| Training Expenses | | 3,000,000.00 | | |
| **Interest Expense** | | **400,000.00** | | |
| Office Supplies | | 500,000.00 | | |
| Expenses before additional deduction on Training Expenses | ₱ | 17,900,000.00 | | |
| Add: Additional Deduction Training | | 1,500,000.00 | | |
| ***Less: 20% of Interest Income earned*** | | ***25,000.00*** | ₱ | 19,375,000.00 |
| Net Taxable Income | | | ₱ | 21,000,000.00 |

Note: Actual interest expense of ₱400,000 was reduced by an amount of ₱25,000, representing 20% of the interest income subjected to final tax. The net interest income of ₱100,000 is divided by 80% to get the gross interest income earned. Thus, the quotient of ₱125,000 multiply by 20%, the product is ₱25,000. Then deduct it from the interest expense incurred to get the allowable interest expense: ₱400,000 – ₱25,000 = ₱375,000.00.

2. For taxable year 2021, SGC Corp. incurred interest expense of ₱ 500,000 on its bank loan. For the year, its gross assets amounted to ₱50,000,000, exclusive of the cost of the land of ₱7,100,000. It registered a gross income of ₱ 10,000,000 and incurred operating expenses of ₱6,000,000, inclusive of the interest expense. It had interest income earned for the same year amounting to ₱150,000. Compute for the allowable interest expense.

❖ In this scenario, the corporation is subject to CIT of 20% since its taxable income did not exceed ₱5M and its total assets did not exceed ₱100M, exclusive of the land. Since the CIT is 20%, and the final tax on interest income is also at 20%, there is no difference on these two rates. Thus, there is no interest arbitrage. The allowable interest expense, in this case, is ₱500,000.

Annex B: Sample Illustrations lifted from the Revenue Regulation

TRANSITORY PROVISIONS

A. COMPUTATION FOR THE INTEREST ARBITRAGE

1. For calendar year ended December 31, 2020, assuming that MTMI Corporation, aside from the operating expenses of ₱17,500,000.00, incurred interest expense of ₱ 400,000.00 which satisfied the prescribed requirement for deductibility, but it also earned interest income of ₱ 100,000.00, net of final tax of twenty percent (20%), how shall the taxable income be computed?

| | | | | |
|---|---|---|---|---|
| Gross Income | | | ₱ | 30,000,000.00 |
| Less: Allowable Deductions | ₱ | | | |
| Salaries and Wages | | 7,000,000.00 | | |
| Taxes | | 300,000.00 | | |
| Depreciation | | 3,500,000.00 | | |
| Professional Fees | | 200,000.00 | | |
| Advertising Expenses | | 3,000,000.00 | | |
| Training Expenses | | 3,000,000.00 | | |
| **Interest Expense** | | **400,000.00** | | |
| Office Supplies | | 500,000.00 | | |
| Expenses before additional deduction on Training Expenses | ₱ | 17,900,000.00 | | |
| Add: Additional Deduction Training | | 1,500,000.00 | | |
| ***Less: 33% / 20% of Interest Income earned deductible from Interest Expense*** | | ***33,125.00*** | ₱ | 19,366,875.00 |
| Net Taxable Income | | | ₱ | 21,000,000.00 |

Note: Actual interest expense of ₱400,000 was reduced by an amount of ₱33,125, representing the interest to be deducted from interest expense. The net interest income of ₱100,000 is divided by 80% to get the gross interest income earned. Thus, the quotient of ₱125,000 divided by 2 to get the interest income per six months. This is equal to ₱62,500, for the first half of the year, multiply by 33%, the product is ₱20,625. For the second half of the year, P62,500 multiply by 20% is P12,500. Add the two products of P20,625 and ₱12,500 will equal to ₱33,125. Then deduct it from the interest expense incurred to get the allowable interest expense: ₱400,000 – ₱33,125= ₱366,875.

2. GPS Corporation secured in 2018 a bank loan for its business expansion, and incurred interest expense of ₱2,000,000 in CY 2020 on the said bank loan. In the same year, it likewise earned interest income of ₱300,000 subjected to final tax of 20%. For CY 2020, its gross income amounted to ₱ 20,000,000. Its gross assets, excluding the value of the land where its building and plant are situated, is ₱ 100,000,000. Its operating expenses amounted to ₱10,000,000, inclusive of the interest expense of ₱2,000,000.

To compute for its allowable interest expense:
Interest Expense before interest arbitrage........................................................ ₱ 2,000,000.00
Less: Interest Arbitrage:
P300,000 /2 = P 150,000 X 33% ......................₱ 49,500.00
P300,000/2 = P150,000 X 20%........................ 30,000.00 79,500.00
Allowable Interest Expense.................................................................................. ₱ 1,920,500.00

OR:

Allowable Interest Expense Before Deduction ₱ 2,000,000.00
Less: Interest Arbitrage using the
average Interest Arbitrage for CY 2020....26.5%
Multiply by ...............................X ₱ 300,000.00...................................................... 79,500.00
Allowable Interest Expense ....................................................................................... ₱ 1,920,500.00

The taxpayer is subject to CIT of 25% in the second semester of 2020 even though the total assets did not exceed ₱100M, excluding the land, but the taxable income is more than ₱5M. In this case, the interest arbitrage for the 2nd semester is 20% since the difference in the CIT of 25% and the final tax rate on the interest income of 20% is 5%, which is equivalent to 20% (5% ÷ 25%) interest arbitrage.

3. MAFD Corporation incurred interest expense of ₱ 500,000 in CY 2020 on its bank loan. The said loan was secured in 2019 to finance the construction of its warehouse. In CY 2020, its gross assets amounted to ₱50,000,000, excluding the land with a cost of ₱5,500,000. It recorded a gross income of ₱ 10,000,000 and incurred operating expenses of ₱6,000,000, inclusive of the interest expense. It had interest income earned for the same year amounting to ₱150,000. Compute for the allowable interest expense:

To compute for its allowable interest expense:
1. Compute for the interest arbitrage:
₱ 150,000 x 6/12 X 33% ................................................ ₱ 24,750.00
₱ 150,000 X 6/12 X 0%................................................... 0.00
Total........................................................................... ₱ 24,750.00

2. Deduct the resulting amount from the interest expense:
Interest Expense before deductions.................................. ₱ 500,000.00
Less: Interest Arbitrage....................................................... 24,750.00
Allowable Interest Expense................................................ ₱ 475,250.00

OR
1. Simply multiply the interest income with the prescribed interest arbitrage under the transitory provision (₱ 150,000 X 16.50%)...........................................₱ 24,750.00
2. Deduct the said amount from the interest expense
Interest Expense before deductions.................................. ₱ 500,000.00
Less: Interest Arbitrage....................................................... 24,750.00
Allowable Interest Expense................................................ ₱ 475,250.00

The corporation is subject to 30% CIT in the 1st semester. For the 2nd semester the CIT is 20% since the taxable income did not exceed ₱5M and the total assets did not exceed ₱100M, exclusive of the land.

The interest arbitrage for the 2nd semester is 0% since the CIT is 20% and the final tax imposed on the interest income is 20%, there is no difference between the two rates, thus there is no interest arbitrage for the 2nd semester.

## B. COMPUTATION OF INCOME TAX DUE OF THE CORPORATIONS FOR TAXABLE YEAR 2020

1. MVAA Corporation, a domestic retailer, has gross sales of ₱1,400,000,000.00 with cost of sales of ₱560,000,000.00 and allowable deductions of ₱150,000,000.00 for calendar year 2020, its 4th year of business operations. Its total assets of P180,000,000.00 includes the land and building in which the business is situated, amounting to ₱50,000,000.00 and ₱25,000,000.00, respectively. Computation of Tax (Income Tax – whichever is higher between Regular Rate and MCIT) shall be as follows:

For Calendar Year

| | | |
|---|---|---|
| Net Taxable Income (₱ 840,000,000 – 150,000,000) | ₱ | 690,000,000.00 |
| Divide by 12 months | | ÷ 12 |
| Taxable Income per month | ₱ | 57,500,000.00 |
| Tax Due: January 1 to June 30, 2020- (₱57,500,000 X 6)X 30% | ₱ | 103,500,000.00 |
| July 1, 2020 to December 31, 2020 (₱57,500,000 X 6) 25% | ₱ | 86,250,000.00 |
| Total Tax Due – Regular | **₱** | **189,750,000.00** |
| Gross Income | ₱ | 840,000,000.00 |
| Divide by | | ÷ 12 |
| Gross Income per month | ₱ | 70,000,000.00 |
| Tax Due: January 1 to June 30, 2020- (₱70,000,000 X 6)X 2% | ₱ | 8,400,000.00 |
| July 1, 2020 to December 31, 2020 (₱70,000,000 X 6) 1% | ₱ | 4,200,000.00 |
| Total Tax Due- MCIT | **₱** | **12,600,000.00** |
| Income Tax Payable (Higher between Regular and MCIT) | **₱** | **189,750,000.00** |

Annex B: Sample Illustrations lifted from the Revenue Regulation

For Fiscal Year

| | | |
|---|---|---|
| Net Taxable Income (₱ 840,000,000 – 150,000,000) | ₱ | 690,000,000.00 |
| Divide by 12 months | | ÷ 12 |
| Taxable Income per month | ₱ | 57,500,000.00 |
| Tax Due: May 1 to June 30, 2020- (₱57,500,000 X 2)X 30% | ₱ | 34,500,000.00 |
| July 1, 2020 to April 30, 2021 (₱57,500,000 X 10)25% | | 143,750,000.00 |
| Total Tax Due – Regular | ₱ | **178,250,000.00** |
| MCIT: | | |
| Gross Income | ₱ | 840,000,000.00 |
| Divide by | | ÷ 12 |
| Gross Income per month | ₱ | 70,000,000.00 |
| Tax Due: May 1 to June 30, 2020- (P57,500,000 X 2)X 30% | ₱ | 2,800,000.00 |
| July 1, 2020 to April 30, 2021 (P57,500,000 X 10)25% | ₱ | 7,000,000.00 |
| Total Tax Due- MCIT | ₱ | **9,800,000.00** |
| Income Tax Payable (Higher between Regular and MCIT) | ₱ | **178,250,000.00** |

2. LMAT Corporation had gross sales of ₱10,000,000, cost of sales of ₱ 6,000,000 and operating expenses of ₱ 2,000,000 for fiscal year ending October 31, 2020, its 3rd year of operation. Its total assets amounted to ₱ 5,000,000.00. It does not own the land and building where its business operations are conducted. Computation of the income tax for 2020 shall be:

| | |
|---|---|
| Net Taxable Income | ₱ 2,000,000.00 |
| Divide by | ÷ 12 |
| Taxable Income per month | ₱ 166,666.67 |
| Tax Due: | |
| November 1, 2019 to June 30, 2020- (₱166,666.67 X 8) X **30%** | ₱ 400,000.00 |
| July 1, to October 31, 2020 (₱166,666.67 X 4) X **20%*** | 133,333.34 |
| Total Tax Due-Regular | **₱ 533,333.34** |

*20% was used as the rate since the net taxable income did not exceed ₱ 5,000,000.00 and the total assets of the corporation is less that ₱ 100,000,000.00. MCIT computation is not applicable since it is only the 3rd year of operation of the corporation.

3. MGLC Company, for calendar year 2020, its 2nd year of business operations, had net taxable income of ₱ 12,000,000.00. Its total assets, net of the value of the land where its business is situated, is ₱ 80,000,000.00. Income tax shall be computed as follows:

| | |
|---|---|
| Net Taxable Income | ₱ 12,000,000.00 |
| Divide by | ÷ 12 |
| Taxable Income per month | ₱ 1,000,000.00 |
| Tax Due: | |
| January 1 to June 30, 2020- (₱1,000,000 X 6) X **30%** | ₱ 1,800,000.00 |
| July 1 to December 31, 2020 (₱1,000,000 X 6) X **25%*** | 1,500,000.00 |
| Total Tax Due-Regular | **₱ 3,300,000.00** |

*25% was used since its net taxable income exceeds P 5,000,000.00. Not subject to MCIT at this time.

## FOREIGN CORPORATION

4. REF Corporation, a resident foreign corporation, has gross sales of ₱500,000,000.00, cost of sales of ₱ 300,000,000.00 and allowable deductions of ₱ 75,000,000.00 for Fiscal Year ending April 30, 2021, its fourth year of business operations. Its total assets is ₱800,000,000.00 which included the land of ₱50,000,000.00 and other fixed assets of ₱200,000,000.00.

| | |
|---|---|
| Gross Sales | 500,000,000.00 |
| Less: Cost of Sales | 300,000,000.00 |
| Gross Income | 200,000,000.00 |
| Less: Allowable Deductions | 75,000,000.00 |
| NET TAXABLE INCOME | 125,000,000.00 |
| Divide by | ÷ 12 |
| Net Taxable Income per month | 10,416,666.67 |
| TAX DUE- REGULAR | |
| May 1 to June 30, 2020 (₱10,416,666.67 X 2) 30% | ₱ 6,250,000.00 |
| July 1, 2020 to April 30, 2021 (₱10,416,666.67 X10) 25% | 26,041,666.67 |
| INCOME TAX DUE | **₱ 32,291,666.67** |
| | |
| MCIT: | |
| Gross Income | 200,000,000.00 |
| Divide by | ÷ 12 |
| Gross Income per month | 16,666,666.67 |

Annex B: Sample Illustrations lifted from the Revenue Regulation

| | |
|---|---|
| TAX DUE-MCIT | |
| May 1 to June 30, 2020 (₱16,666,666.67X 2) 2% | ₱ 666,666.67 |
| July 1, 2020 to April 30, 2021 (P16,666,666.67X10) 1% | 1,666,666.67 |
| TOTAL | **₱ 2,333,333.34** |

The income tax payable shall be **₱ 32,291,666.67** (the higher amount between the regular rate and MCIT).