REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
MANILA

FLORENCIO REYES,
Petitioner,

- versus - C.T.A. CASE NO. 4

COLLECTOR OF INTERNAL
REVENUE,
Respondent.

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Sept. 20, 1957

D E C I S I O N

This refers to the appeal by petitioner from the decision of respondent dated June 26, 1954, holding the former liable for deficiency income taxes including penalties for the taxable years 1947, 1948 and 1949, in the respective amounts of ₱114,763.23, ₱190,098.19, and ₱146,976.11 or a total of ₱451,837.53.

On the basis of the stipulation of facts (hereinafter cited as Stifacts) and the additional evidence submitted by the parties, the following facts have been established. Petitioner is the sole proprietor and manager of the business under the trade name of Florencio Reyes & Co. dealing in general merchandise, specially hardware, and construction materials, and selling them more particularly to the government by contracts awarded thru competitive public bidding (par. 1, Stifacts, p. 108, C.T.A. rec.). From 1920 to 1945, the business was administered personally by petitioner. However, due to his ill health which required that he be under medical treatment both here and abroad, the management of the business was entrusted to petitioner's children headed by Angel Reyes, as evidenced by petitioner's memorandum or directive addressed to the Chief Accountant Mr. Lontoc dated July 18, 1945 and marked as Exhibit AA (p. 215, BIR rec.; see par. 4 and Annex "X" Stifacts, p. 162, C.T.A. rec.). Pursuant to this memorandum, the children were given the following respective assignments: Angel, Manager; Ramon, Purchasing Agent; Jose, Supervisor; Florencio Jr., Secretary to Manager; Rosario, Administrative Officer; Oliva, Incharge of Sales; Francisca, Incharge of Credit & Collection; Teresa, Cashier; Carmelita, Assistant Cashier; Amparo, Incharge of Retail Store; and Soledad, Assistant Incharge of Retail Store (see par. 2, Exhibit AA).

In 1946, that is during the year immediately preceding the taxable years in question (1947, 1948 and 1949), the business registered a gross sale of ₱2,234,641.18, with a net profit of ₱46,744.26. No bonus was then declared. (p. 3, Annex "H", p. 51, C.T.A. rec.; also Exh. "GG", pp. 205-208, BIR rec.)

During the years 1947-49, inclusive, the business made the following gross sales and after deducting expenses (including bonuses) resulted in net profits, to wit:

Year	Gross Sales	Net Profit
1947	₱ 4,577,653.60	₱232,023.33
1948	6,394,554.03	304,212.20
1949	9,159,180.44	402,705.28
	₱20,131,388.07	₱938,950.81

(See par. 5, Stifacts.)

As per memorandum, Exhibit AA, the bonus, marked as compensation for services of the children shall be in an amount "not exceeding 60% of the net profits", the same to be apportioned as follows: 35% for Angel in addition to his basic monthly salary of ₱300.00, and 25% for the rest of the children who do not receive any monthly salary in the proportion as may be determined by Angel Reyes (par. 3, Exhibit AA).

The bonuses earmarked and credited to the children in 1947, 1948, and 1949, as well as those paid to the fifty five (55) regular employees of petitioner are as follows:

	1947	1948	1949
Bonus earned for the year	₱348,035.00	₱540,000.00	₱865,000.00
Less: Bonus distributed to 55 regular employees	29,002.90	50,000.00	125,000.00
Balance	₱319,032.10	₱490,000.00	₱740,000.00
Distribution of bonus to the following children:			
Angel E. Reyes	₱203,020.50	₱240,000.00	₱312,060.96
Oliva R. de Arevalo	11,601.16	20,000.00	33,286.72
Francisca R. de Justiniani	11,601.16	20,000.00	33,286.72
Amparo R. de Avecilla	11,601.16	20,000.00	33,286.72
Ramon Reyes	11,601.16	20,000.00	45,769.22
Teresa Reyes	11,601.16	20,000.00	45,769.22

Jose Reyes	₱ 11,601.16	₱ 20,000.00	₱ 45,769.22
Rosario E. Reyes	11,601.16	20,000.00	45,769.22
Soledad E. Reyes	11,601.16	20,000.00	none
Carmelita Reyes	11,601.16	none	"
Florencio Reyes Jr.	11,601.16	"	"

(Par. 7, Stifacts.)

However, it is to be observed that in the making of the above apportionment of the bonus, the children actually received for 1947 only 55% of the net profits and for 1948 and 1949 only 52% and 47% respectively. Of these, 35%, 28.4% and 24.6% was allotted to Angel Reyes for the years 1947, 1948 and 1949, while the rest were apportioned among the other children.

On the other hand, the bonus declared by the aforementioned children of petitioner in their respective income tax returns for the years 1948, 1949, and 1950 are indicated below:

Name	1948	1949	1950
Angel Reyes	No return filed	₱240,000.00	₱117,092.44
Oliva R. de Arevalo	₱9,000.00	20,000.00	33,286.72
Francisca R. de Justiniani	No return filed	20,000.00	Filed return but no bonus declared
Amparo R. de Avecilla	9,500.00	20,162.45	33,286.72
Ramon Reyes	No return filed	20,000.00	45,769.22
Teresa Reyes	No return filed	20,000.00	45,769.22
Rosario Reyes	No return filed	20,000.00	45,769.22

Soledad Reyes	No return filed	20,000.00	No return filed
Carmelita Reyes	No return filed	No return filed	No return filed
Florencio E. Reyes Jr.	No return filed	No return filed	No return filed

(Par. 8, Stifacts.)

We deduce that the bonuses recorded in petitioner's books for a given year was paid to and declared as income by the children in the succeeding year.

As admitted by the parties, Francisca R. de Justiniani, Ramon Reyes, Teresa Reyes, Jose Reyes, Rosario E. Reyes, Soledad E. Reyes, Carmelita Reyes, and Florencio Reyes Jr. did not file any income tax return for the taxable year 1947; that Oliva R. de Arevalo and Amparo R. de Avecilla reported in their income tax returns only the amounts of ₱9,000.00 and ₱9,500.00 as their bonuses for the year 1947; that Francisca R. de Justiniani did not declare the bonus of ₱33,286.72 in her return for the year 1949; that Angel E. Reyes did not file his return in 1948; and then in 1950, he reported in his return a bonus of ₱117,092.44 only (par. 9, Stifacts).

The records show that income tax returns were filed by Angel E. Reyes in 1947, 1949, and 1950 (Annexes A, A-1, and A-2); by Oliva R. de Arevalo, in 1947, 1948 and 1950 (Annexes B, B-1, and B-3); by Francisca R. de Justiniani in 1947 and 1949 (Annexes C and C-1); by Amparo R. de Avecilla in 1947, 1948, 1949, and 1950 (Annexes D, D-1, D-2, and D-3); by Ramon Reyes in 1949 and 1950 (Annexes E and E-1); by Teresa Reyes Ignacio, in 1949 and 1950 (Annexes F and

F-1;

F-1); by Jose Reyes in 1949 and 1950 (Annexes G and G-1); by Rosario E. Reyes in 1949 and 1950 (Annexes H and H-1); by Soledad E. Reyes in 1949 (Annex I); and Florencio Reyes Jr. filed no returns. [Pars. 10-19, Stifacts.]

From the evidence presented it also appears that Florencio Reyes Jr. was enrolled and attended school in De La Salle College during the school year 1947-1948 with the following schedule of classes: 8:00 a.m. to 12:25; 1:30 p.m. to 2:50 p.m., being then in the second year (par. 19 and Annex "J", Stifacts); and that Soledad Reyes was enrolled and attended school in Holy Ghost College during the school years 1945-1946, 1946-1947, and 1947-1948, with the following schedule of classes: 7:20 a.m. to 12:15 p.m. and 1:00 p.m. to 5:40 p.m., being then in the second, third and fourth year high school, respectively (par. 20 and Annex "K", Stifacts).

Oliva R. de Arevalo, Francisca R. de Justiniani and Amparo R. de Avecilla had businesses of their own, separate and distinct from that of Florencio Reyes & Co., with the following gross receipts for the years indicated as follows: that of Oliva R. de Arevalo, ₱73,824.72 in 1947; ₱176,035.00 in 1948, and ₱102,-677.41 in 1949; Francisca R. de Justiani, ₱42,034.60 in 1947 and ₱131,026.04 in 1949; and Amparo R. de Avecilla, ₱32,238.85 in 1947 and ₱25,790.60 in 1948 (pars. 21, 22 and 23, Stifacts).

As a result of the examination of petitioner's records, respondent disallowed the entire amount of bonus paid to petitioner's children which were claimed as deduction and assessed petitioner the total sum of ₱1,149,830.53 as deficiency income tax for the years 1947, 1948 and 1949. Petitioner, however, sought a reconsideration of the assessment, and upon a review thereof, the assessment was reduced to ₱451,837.53 after respondent conceded to petitioner the deduction as compensation for the services of the said children in the form of bonus in the amount equal to 25% of the net profits (see letters of respondent dated December 29, 1953 and June 26, 1954 attached as Annexes "C" and "A" of Petition for Review; see also Exhibits "JJ" and "LL", pp. 241-243, 354-357, BIR rec.). Under this latter action the items claimed as deductions in petitioner's income tax returns for the years indicated but disallowed by respondent, are as follows:

	1947	1948	1949
Provident Fund	₱ 48,818.64	₱ 94,346.25	₱185,087.80
Tax Penalties & Surcharges	2,375.77	-.--	-.--
Traveling Expenses, Personal	12,000.00	12,000.00	-.--
Bonus to Children, excess	186,102.06	285,833.33	431,666.66

From this decision of respondent, petitioner instituted the present appeal.

Petitioner raises no issue affecting the disallowance of the deductions for (1) provident fund, (2) tax penalties and surcharges, and (3) traveling expenses. We take it that petitioner admits the resulting deficiency income tax insofar as these items are concerned. Hence, the principal and only question here is whether or not the bonus in its entirety may be claimed as a deduction for purposes of the income tax returns of petitioner for the years 1947, 1948 and 1949.

It is to be noted that while petitioner has claimed deduction of bonuses paid to his children in an amount equivalent to 55% (less in 1948 and 1949) of the net profits of the business before the deduction of such bonuses, respondent recognized and allowed the deduction of such bonus only to the extent equal to 25% of such net profits. This deduction was allowed by respondent, having determined in his decision that "your (petitioner's) children actually rendered services to your (petitioner's) store as verified by the investigating examiners" (see Annex "A" in relation to Annex "C" of Petition for Review). Hence, the question is limited to whether or not the bonus or compensation to petitioner's children and claimed by petitioner as deductions were reasonable in amount within the purview of the Income Tax Law.

The rule regarding the deductibility of compensation for services rendered, including bonuses is found in Section 30 of the Revenue Code, the pertinent portion of which provides:

> "SEC. 30. Deductions from gross income. - In computing net income there shall be allowed as deductions:
> (a) Expenses:
> (1) In general.- All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries, or other compensation for personal services actually rendered; x x x" (Underscoring supplied.)

In the case of Alhambra Cigar & Cigarette Manufacturing Company vs. Collector of Internal Revenue (C.T.A. Case No. 143, dated July 31, 1956, 53 Off. Gaz. No. 10, p. 3130) this Court held:

> " x x x Under the provisions of Section 30 (a) (1) of the National Internal Revenue Code, a taxpayer is not allowed to claim expenses as deductions unless same are ordinary and necessary in the maintenance and operation of his trade or business. These include a reasonable allowance for salaries or other compensation for personal services actually rendered and traveling expenses while away from home in the pursuit of his trade or business. And in a suit for the allowance of items representing business expenses, the burden of establishing that the same are ordinary and necessary rest upon him in order to show that he is entitled to the deductions which the Collector of Internal Revenue has disallowed." (53 Off. Gaz. at 3139-3140; underscoring supplied.)

Proceeding further on the question of the deductibility of bonuses, in addition to salaries this Court also stated:

> "x x x, it is not normally the procedure of taxing officers and this Court to substitute their judgment for that of corporate management in the determination of what constitutes reasonable compensation." (Alhambra Cigar & Cigarette Mfg. Co. vs. Collector of Internal Revenue, Resolution, C.T.A.

Case No. 143, January 31, 1956, 53 Off. Gaz. 3154 at 3157; underscoring added.)

In the case of Kuenzle & Streiff, Inc. vs. Collector of Internal Revenue, C.T.A. Case No. 169, dated July 18, 1956, we held:

> "Admittedly, an employer is accorded a substantial amount of discretion in determining and fixing what is a reasonable compensation. It is equally settled that the Collector of Internal Revenue and the courts should not unreasonably encroach upon a due exercise of this discretion. Like salaries, 'bonuses to employees made in good faith and as additional compensation for services actually rendered by employees are deductible, provided such payments, when added to the stipulated salaries, do not exceed a reasonable compensation for the services rendered x x x.' (Mertens, p. 410). <u>However, when the employer claims deductions for bonuses distributed to his employees, the burden of proving the reasonableness of the bonuses is cast upon him.</u> Just what is reasonable is not defined and delineated by law. There is no fixed and fixable yardstick for determining what is reasonable and what is not. Each case will therefore have to turn on its own facts." (Underscoring supplied.)

There are various factors, which are commonly applied as aids in determining the reasonableness of a particular salary or compensation, viz: (a) ratio of particular salary to gross income; (b) size of the particular business; (c) extent and scope of the employee's' work; (d) employee's qualification and contribution to the business venture; (e) salaries paid to a particular employee in prior years; (f) general economic condition; (g) prevailing salaries paid to employees performing similar services in a comparable enterprise; (h) availability of others to fill the office held by the particular employees; (i) salary policy of the corporation. But no single factor is decisive. It is the interplay of these factors, properly weighted in relation to the particular case, that must furnish the correct yardstick of reasonableness. (Mertens Law of Federal Income Taxation, Vol. 4, Section 25.51, p. 412.)

In this connection, it is important to note that the act of petitioner in determining the amount of the compensation to be paid to his children was made in his directive Exhibit "AA" which pre-dates the actual rendition of services and the payment of the bonus or compensation in question here. Respondent does not question the genuineness and due execution of this directive and consequently admits its validity. The directive fixed the amount of compensation payable to the children in an amount not exceeding 60% of the net profits and the amount actually paid them was in fact 55% or less, for the years in question. While respondent admits that petitioner's children had actually rendered service nevertheless respondent disallowed a portion thereof and allowed only the deduction equal to 25% of the net profits. However, respondent gave no reason nor basis for his determination. Hence, we shall proceed to consider the matter on the facts established by the parties.

The facts show that during the year 1946 when petitioner himself was managing his own business and immediately preceding the time when the management thereof was entrusted to his children headed by Angel Reyes, the business registered gross sales of only ₱2,234,641.18, with a net profit of ₱46,744.26 without any bonus paid. However, during the subsequent years (1947, 1948 and 1949) when the business operation was already under the management of the children, the business registered the following gross sales and net profit, to wit:

Year	Gross Sales	Net Profit Before Bonus	Net Profit After Bonus
1947	₱4,677,653.60	₱ 580,058.33	₱232,023.33
1948	6,394,554.03	844,212.20	304,212.20
1949	9,159,180.44	1,267,704.28	402,705.28

From the above figures the following comparisons and observations are noted: in 1947, the gross sales were increased considerably in that they were more than thrice those made in 1946 and yet, despite the payment of bonus the net profit realized was five times that realized in 1946; and both in 1948 and 1949, the sales and net profits further increased by about 32% to 44% over those of the preceding year. Thus by 1949, the sales had increased and were more than four times those registered in 1946, while the realized net profits even after paying bonus were eight and one-half (8-1/2) times that in 1946. These tremendous and meteoric rise in the gross sales and much more so in the net profits realized by the business during the taxable years 1947, 1948, and 1949 when the business management was already entrusted to petitioner's children should be considered in the determination of the reasonableness of the compensation.

The benefits obtained by petitioner from the services of his children are further shown by the following figures on the percentage of net profit in relation to petitioner's invested capital for the year 1946 and comparing the same with those for the years when the children took the management of petitioner's business:

	No Bonus	After Bonus Paid		
	1946	1947	1948	1949
Annual Return on Invested Capital	4.7%	22.3%	25.4%	29.0%

While respondent admits that petitioner's children actually rendered service for the business, however, the extent, value and contribution of said service to the expansion and prosperity of the business, and the magnitude of the profits realized, appear to have been overlooked by respondent. After the children took over the management of petitioner's business, the gross sales and net profits of the business increased by leaps and bounds. Moreover, even after the bonus in question had been paid to petitioner's children, there still existed more than a fair return of investment. All these are factors material in determining the reasonableness of the compensation claimed as deduction.

> "The reasonableness of salaries may be tested by a comparison of salaries paid with gross income and net income. (H. Levine & Bros., Inc. v. Comms., 101 F (2nd) 391, CCA 7th, 1939) x x x While it is expected that a business will earn a fair return on the money invested, the fact that there are no profits after salaries are paid does not, in of itself, indicate that the salaries are unreasonable (Haygood Boot & Shoe Co. v. 29 BTA 1188; see also Lower Coast Construction Corp., BTA Memo Op. Dkt. 100839, May 26, 1941)."
>
> "There must exist a proper relationship, depending on the times, the industry and position of the particular enterprise in such industry, between the amounts distributed to stockholders or accumulated in surplus and the payment of salaries. Where this relationship indicates a disproportionate allocation of income to compensation, it may indicate that the salaries are excessive and unreasonable. Conversely, the application of this test indicates that if a fair return on the investment is left after the payment of salaries that fact may tend to show that they are reasonable though they might otherwise appear to be extravagant." /(Lindley & Co. of Nevada Inc. vs. Spellier, 19 HFTR 1299 U.S. DC Nev., 1937). Mertens, Law of Federal Income Taxation, Vol. 4, Sec. 25.26 pp. 418-419./

Moreover, we should take note of certain special circumstances in the case at bar. The amount of the bonuses as compensation for the services of petitioner's children is dependent upon the profits realized in the business, that is, in an amount not to exceed 60% of the net profits (see Exhibit "AA"). And although compensation is contingent, the amount is determined in advance before the year's profits are known on the basis of a certain percentage thereof. Hence, in the event no profits are obtained, the children would practically have no pay for the services rendered by them. What may appear therefore, as excessive in ordinary cases may be justifiable compensation due to the peculiar circumstance of attending risks involved. (Alabama Coca Cola Bottling Co. v. Comm. 1 BTA 837; see also Trust No. 5522 and Trust No. 5644, Ballehurst Syndicate et al. 83 F 2d 801, cited in Mertens, Law of Federal Income Taxation, Vol. 4, Sec. 25.57 pp. 420-421.) Under such circumstances, the compensation to petitioner's children in the form of bonus was fixed with an eye to the effective result of the services to be rendered by petitioner. Moreover, such advance determination of the compensation in relation to profit to be realized, rules out any imputation of malice or bad faith on the part of the taxpayer that the directive, Exhibit "AA", was made as an anticipatory distribution of income to evade taxes, for the reason that, as shown by the evidence, prior to the children's active participation in the management, the business in 1946, had only a net profit of ₱46,744.26 without bonus declaration despite a gross sale of ₱2,234,641.18.

The fact that, as recipients of the bonus, the children omitted to or did not report the true amount of bonus received by each of them in their respective individual income tax return is not by such fact alone a valid ground for disallowing said payments as deductions from petitioner's income. If malice, bad faith, or fraud is imputable for the omission thus committed, the responsibility is not the petitioner's, but the payees of such bonuses.

Another element indicating error and arbitrariness in respondent's assessment, is the fact that the 25% of the net profit allowed as compensation to the children, was allocated without distinction despite the difference in the position and responsibility had or in the services which each child rendered. On the other hand the apportionment of the bonus, on the authority of petitioner's directive, by Angel Reyes in amounts more or less equal, among his brothers and sisters without taking into account the nature of the services rendered evidently does not comport with the statutory qualifications of reasonableness.

The evidence show that the eleven children hold different and distinct positions, are each possessed of different training, experience, and qualification, and perform different kinds of work with distinct time schedules. To distribute pro rata the compensation allowed, would be unfair if not ridiculous. While some are already old and experienced, the others were then still high school students and young in age; while some are technically trained, others are not; and while some are employed on full time basis, others, by reason of their pre-occupation with other activities have to serve on part-time work. It is obvious that Angel Reyes, the manager, cannot be given the same amount of salary with Florencio Reyes Jr. who was then still minor, a high school student, and Secretary to the Manager. Neither should Rosario Reyes, administrative officer who was working on full time basis, be given the same salary as Oliva R. de Arevalo, Francisca R. de Justiniani and Amparo R. de Avecilla, who have separate establishments of their own and were working on part-time basis in petitioner's business. The compensation or bonus distribution must be equitably distributed commensurate with the services actually rendered.

Disapproval, however, of respondent's assessment, does not necessarily mean approval of petitioner's claim for allowance as deduction of the compensation given in the form of bonus. While the Court will not substitute its judgment for that of business management as to what constitutes reasonable compensation, the latter's finding is not deemed conclusive or that it comports with statutory qualifications (Benz Bros v. Commissioner, 20 BTA 1214). The disputed deduction here represents salaries or bonus paid to the children of petitioner. For obvious reasons the fixing of the amount of compensation cannot be said to be founded entirely on a *bona fide* "transaction at arms-length". The transaction cannot be free of the partiality that necessarily arises from the employment of one's own child and that the compensation so fixed may not necessarily be based on the actual services rendered but may include amounts paid ostensibly as salaries but constitute in fact an actual or anticipatory distribution of earnings.

In this case, we note that as regards the ten children (other than Angel Reyes) their compensation was fixed by Angel Reyes pursuant to petitioner's directive, Exhibit "AA" in more or less equal amounts for each year. Thus, the amount as fixed for each person was at 2% of the net profit for 1947, 2.4% of the net profits for 1948 and 2.6% or 3.6% for 1949. However, the fact that the distribution was made in equal amounts, apparently indicate that the fixing of the compensation was made without consideration of the position occupied, responsibility, training, experience and age, of each person. Moreover, there is a great difference between the compensation paid to Angel Reyes and those paid to his brothers and sisters. Since the factors given above are generally or normally employed to determine the reasonableness of compensation, we shall proceed to examine each in the light of all pertinent factors.

As earlier stated, petitioner's business was then under the executive direction and supervision of Angel Reyes and he was principally responsible for the increase in the sales and net profits thereof. However, despite the increase in the net profits in 1948 and 1949 over that of 1947, percentage rate or measure of the bonus paid to him was in fact reduced. After considering the above, together with all other facts, we find that a bonus to Angel Reyes equal to 20% of the annual net profits of petitioner's business is a reasonable amount which may be allowed as deduction for income tax purposes. As regards Ramon Reyes, we find that he performed a function which was a key to petitioner's importing business, i.e. to insure selective purchasing and the continuity of the supply of merchandise from abroad. Hence, compensation to Ramon Reyes in an amount equal to 2.5% of the annual net profits, but not to exceed that actually paid to him by petitioner, is we believe, reasonable, and should be allowed as a deduction. While Jose E. Reyes, Rosario E. Reyes and Teresa R. Ignacio, did perform important work in connection with petitioner's business, the same did not require as much responsibility and exercise of discretion as Ramon Reyes. Hence, we believe that a compensation equal to 2% of the annual net profits for each of them is reasonable and should likewise be deductible. In the case of Oliva R. de Arevalo, Francisca R. de Justiniani and Amparo R. de Avecilla, we note that they were preoccupied with their own separate business establishment which could not have permitted them to perform full-time work. In fact, in 1949, the other four brothers and sisters named above who were working on full-time basis received bonus, very much more than Oliva R. Arevalo, Francisca R. Justiniani and Amparo R. de Avecilla. As they were then only on part-time employment, we believe that a compensation for their services equal to 1.5% of the annual net profits for each of them would comport with the statutory qualifications of reasonableness. Going to the compensation of Soledad E. Reyes, Carmelita (Clara) E. Reyes and Florencio (Jesus) Reyes Jr. the pertinent facts in this instance are briefly thus: that on the basis of petitioner's income tax returns (Exhibits "NN" and "OO") these children were still minors in 1947, 1948 and 1949 and in fact going to school (pars. 19 and 20, Annexes "J" and "K" Stifacts) during the greater portion of the business hours of the day; that they admittedly rendered services only on part-time basis; and that they were then equipped with inadequate business training, experience and acumen. Comparatively, therefore, they should receive lower compensation than their brothers or sisters. Under these circumstances, we believe that the reasonable compensation for each of them for their services should be fixed at 1% of the annual net profits except that where no compensation was paid them in 1948 and 1949 no deduction may be so claimed. In sum, of the disputed bonus, petitioner is allowed to deduct as compensation in the form of salaries or bonus for services rendered by his children in 1947, 1948 and 1949, the following amounts which we find to be reasonable:

	1947	1948	1949
Angel Reyes	₱116,011.67	₱168,842.44	₱253,540.86
Ramon E. Reyes	11,601.16	20,000.00	31,692.61
Jose E. Reyes	11,601.16	16,884.24	25,354.09
Rosario E. Reyes	11,601.16	16,884.24	25,354.09
Teresa R. Ignacio	11,601.16	16,884.24	25,354.09
Oliva R. de Arevalo	8,700.87	12,663.18	19,015.56
Francisca R. de Justiniani	8,700.87	12,663.18	19,015.56
Amparo R. Avecilla	8,700.87	12,663.18	19,015.56

Soledad E. Reyes	₱ 5,800.58	₱ 8,442.12	₱ ---
Carmelita E. Reyes	5,800.58	-.--	---
Florencio Reyes Jr.	5,800.58	-.--	---

In addition to the bonus paid in excess of the above amounts which should therefore be disallowed, we believe that the amounts of ₱90,000.00 and ₱145,000.00, respectively, deducted in 1948 and 1949 as bonus should also be disallowed considering that the same were not paid to anyone.

On the basis of the above therefore, the deficiency income tax of petitioner for the years 1947, 1948 and 1949 (exclusive of surcharges) is computed as follows:

1947

Net Income as per return	₱232,023.32
Add: Disallowances:	
Provident Fund	48,818.64
Tax Penalties and Surcharges	2,375.77
Traveling Expenses, personal	12,000.00
Bonus to children (excess) and Bonus Unpaid	113,111.44
Total	₱408,329.17
Less: Exemptions	4,500.00
Amount subject to Income Tax ..	₱403,829.17
Income Tax due thereon	₱160,018.00
Less: Tax already assessed	80,290.27
Amount still due	₱ 79,727.73

1948

Net Income as per return	₱304,212.20
Add: Disallowances:	
Provident Fund	94,346.25
Traveling Expenses, personal	12,000.00
Bonus to children (excess) and Bonus Unpaid	204,073.18
Total	₱614,631.63
Less: Exemptions	4,000.00
Amount subject to Income Tax ..	₱610,631.63
Income Tax due thereon	₱261,495.82
Less: Tax already assessed	112,277.64
Amount still due	₱149,218.18

1949

Net Income as per return	₱402,705.28
Add: Disallowances:	
Provident Fund	185,087.80
Bonus to children (excess) and Bonus Unpaid	321,657.58
Total	₱909,450.66
Less: Exemptions	4,000.00
Amount subject to Income Tax ..	₱905,450.66
Income Tax due thereon	₱413,014.34
Less: Tax already assessed	323,706.75
Amount still due	₱ 89,307.59

RECAPITULATION

1947	....	₱ 79,727.73
1948	....	149,218.18
1949	....	89,307.59
Total Income Tax Due	......	₱318,253.50

WHEREFORE, the decision appealed from is hereby modified, in the sense that petitioner is ordered to pay to the respondent, Collector of Internal Revenue the sum of ₱318,253.50 as deficiency income tax for the years 1947, 1948 and 1949, with costs against the petitioner.

SO ORDERED.

Manila, Philippines, September 30, 1957.

MARIANO NABLE
Presiding Judge

WE CONCUR:

AUGUSTO M. LUCIANO
Associate Judge

ROMAN M. UMALI
Associate Judge