

**Examiner's Report**  
**AAT(SL) Final Examination - July 2011**  
**(58) Taxation**

---

**Question No. 01**

This question was sat to the knowledge of sources of income, allowable and disallowable expenses for tax purposes, qualifying payments, tax rates and tax credits in relation to a company. Generally answers were poor. The reasons for poor performance are given below:

1. Some candidates did not have clear idea about capital allowance and its rates.
  - On Motor Coaches, the rate is 20% or 100%
  - On Gem cutting machines, the rate is 12.5% or 33.33%
  - Whether capital allowance is available for Motor Cars or not
  - Locally developed Computer & Software - 25% or 100%
2. New Furniture purchased is not a replacement, since full sale proceed was not used to purchase the new asset. Most of the candidates have considered it as a replacement. Profit on disposal was calculated incorrectly due to application of incorrect depreciation rates and errors in computation of sale proceed.
3. Sales of jewellery in foreign currency is exempt under section 13. In that case, an adjustment is needed to be done to the taxable income in order to get separated the profits liable to tax at 35%. Hardly found that candidates have been able to do this adjustment successfully.
4. Disallowable expenditure:
  - Research expenditure is allowed only in respect of agricultural, scientific, or technical research to upgrade the trade or business. But market research expenditure is not allowed. Majority had not done this adjustment correctly.
  - Nation Building Tax is not allowing in full.
  - Fuel and repair expenses of MD's car are allowed since the benefit has been considered under PAYE. But some candidates disallowed it.
  - Foreign travel expenditure is disallowed, but some candidates have allowed it.
  - Adjustments on Bad debts had not been done correctly by majority candidates. Few candidates have done correctly.
  - Correct adjustments on advertisement expenditure were not done by the majority.
  - Adjustments on Legal expenses and stamp duty expenses were made incorrectly.
  - Operating lease rentals is an allowable expense and no restrictions applied. Candidates have applied limitation given for finance leases.

5. The interest from fixed deposit is a gross amount and not required to gross up it again. Interest on Treasury Bills is not exempted from income tax. Candidates treated as an exempted income.
6. Many candidates did not consider the tax liability on the distribution of dividends.
7. Self assessment payments were not claimed correctly. Some candidates have claimed total amount paid or provision made for the year.

## Question No. 02

This question was examined about the candidate's ability to compute the income tax liability of an individual person for the year of assessment 2009/10.

The following main areas were highlighted during the evaluation:

- Pension

Pension from the Government of Sri Lanka is an exempted income. Some candidates have taken this as a source of income.

- Professional Income

Many candidates have failed to compute the profits from the profession separately. Some candidates have considered the Salary of Rs.960,000/- as an Employment Income in their computation.

Some candidates have taken the Consultancy fee as a separate source of income and sale of medicine separately. Most of the candidates have failed to consider opening & closing stock adjustment.

Only 75% of the candidates have apportioned Electricity, Water & Telephone expenses correctly.

Purchase of Computer is a Capital expenditure, which has been deducted as an expenses. Few Candidates have taken this as a capital item, failed to compute the Depreciation Allowance available on this. Overall candidates performance is not satisfactory. Most of candidates have not differentiated the business profit from employment income.

- Occupier's Income & Rent Income

Many Candidates have failed to identify the Occupier's Income. In certain computations, the Net Annual Value has been computed incorrectly.

- Dividend Income

Many Candidates have failed to clearly state how the dividend income is assessed. For an example, dividend of Rs. 55,000 is exempted and Rs. 54,000/- which is net of tax and not liable.

Candidates have taken both amounts in the computation of Statutory Income and adjusted same when arriving at the Assessable Income. Majority does not know the difference between the exempted dividend and not chargeable to tax.

- Interest Income

Many Candidates have failed to clearly state how the interest income is assessed. For an example, interest income from Treasury Bills is not liable as withholding tax already deducted. Either the interest income should be grossed up and taken into the Statutory Income or it should be stated as not liable. Out of the Interest income on FD in NSB Rs. 200,000/- is exempted and the balance Rs. 80,000/- would be liable for tax and the candidate could have assumed that this is also net of withholding tax and not liable.

- Profit on disposal of Car

Many Candidates have considered the disposal profit from the Car as a liable income.

- Rent Income

Many candidates have not correctly calculated the Net Annual Value of the house given on rent.

- Interest & Capital Repayment

The Interest on Loan to construct the house will be allowed along with the Capital repayment with a maximum restriction, but the repayment of loan to furnish the house will not be allowed.

- Annuity

Annuity payment to former wife is an allowable deduction. Many candidates have ignored this they have forgotten that this is a monthly payment. Further, some students have claimed this as a qualifying payment.

- Donation

The Donations paid in cash to the Village temple will not be allowance and material donation to approved charity will also not be allowed. Many have failed to state the reasons.

Candidates should carefully go through the previous question papers / suggested answers and practice to face these questions and deliver answers in a structured manner in order to score maximum marks.

## **Question No. 03**

### **VAT**

This question has been sat to test the knowledge of calculation of VAT liability in accordance with VAT law. It had been considered VAT output, VAT input claims and VAT input carried forward to next quarter.

Many candidates have answered to the question without understanding the question.

Eg. – question had said, “including VAT where applicable” . But candidates have prepared VAT computations on the assumption of VAT is excluded.

Many candidates have not understood taxable on 12% and zero rated supplies. When calculating the output tax, it was ignored the situation.

The following errors / irrelevant answers were seen due to their lack of knowledge:

- used different VAT rates (10%, 15%, 12%)
- not properly calculated the VAT output and input
- not known about the exemptions on electricity , salary
- calculation of carried forward VAT input
- adjustment of unabsorbed input VAT
- date of submission of VAT return
- majority of the candidates failed to calculate correct VAT liability.

99% of the candidates have attempted this question & they have obtained average marks.

## **Question No. 04**

This question has been tested the knowledge of characteristics of a valid income tax Appeal.

Candidates were not aware about the administrative provisions of the Income Tax Act.

Most of the candidates answered for this question obtained average marks.

## **Question No. 05**

This question was tested-

- Responsibilities of an employee in the operation of PAYE system
- specified fees
- child

### **a) Employer PAYE obligation**

Some have mentioned irrelevant points, and some have stated very few points. However, most of the candidates have answered and obtained average marks.

### **b) Specified person** - Candidates performance were not in satisfactory level.

### **c) Child** - Most of the candidates have answered and obtained average marks.

- \* \* \* -