

EXAMINER'S REPORT

Level III EXAMINATION - JULY 2025

(304) CORPORATE & PERSONAL TAXATION

Question No. 01**What was tested?**

This question was tested the residency status under Section 69 of the Inland Revenue Act No. 24 of 2017 (hereafter referred to as the act) (as amended) of two individuals,

- (1) One person is a Sri Lankan citizen, but, he has been living in Pakistan since 2020. Further, he is an employee of a BPO Company in Sri Lanka and works online from Pakistan. Meanwhile, he visited Sri Lanka on 06th July 2024 and departed from Sri Lanka on 14th October 2024, and
- (2) Other person has went to Saudi Arabia to serve as an Accountant under a two-year employment contract on 05th January 2025.

Accordingly, in terms of Section 69 (1) (b) of the act, an individual shall be a resident in Sri Lanka for a year of assessment if such individual is present in Sri Lanka during the year and that presence falls within a period or periods amounting in aggregate to **183 days or more** in any 12 month period that commences or ends during the year.

Observations:

- (1) Almost all candidates attempted the question.
- (2) Majority of candidates have correctly answered the question by referring to the 183 days residence rule.
- (3) Even though some candidates have decided that the said individuals has a tax residency in Sri Lanka, they failed to state 183 days rule.

Performance: The performances were in a satisfactory level.

Question No. 02

Part (a)

What was tested?

This part was tested the amount of Social Security Contribution Levy (SSCL), which was payable under Social Security Contribution Levy No. 25 of 2022 by every taxable person (individual or entity includes a body of persons corporate or unincorporated, an executor, non- governmental organization and charitable institution) who;

- (1) Imports any article,
- (2) Carries on the business of manufacture of any article,
- (3) Carries on the business of providing a service of any description, or
- (4) Carries on the business of wholesale or retail sale of any article including importation and sale of such article (other than a sale by the manufacturer of that article being a manufacture to whom item number (b) applies).

Observations:

- (1) Considerable number of candidates did not know the correct SSCL rate.
- (2) The majority have directly applied 2.5% SSCL rate on the turnover without considering 85% threshold, which applicable for a manufacturer.
- (3) Some candidates have applied the SSCL rate as 0.25% instead of 2.5%.

Performance: The performances were not in a satisfactory level.

Part (b)

What was tested?

This part of the question was tested the knowledge of Stamp Duty under Stamp Duty (Special Provisions) Act No. 12 of 2006 (as amended). Accordingly, the candidates were required to state the methods that can be used to settle the Stamp Duty in Sri Lanka.

Observations:

- (1) Majority of the candidates have failed to provide the correct answers.
- (2) Some candidates failed to understand the question properly, and provided irrelevant answers.

Performance: The performances were below the average.

Question No. 03

What was tested?

This case law question has based on the decided case **Ram Iswara vs. CIR (3 CTC 184)** where the Assessee who was a Proctor and entered into an agreement with a landlord, Mrs. Thambayh to purchase her land of 433 perches on Alexandra Place, which was very close to St. Briget's Convent for Rs. 450,000. She has paid a forfeitable deposit of Rs. 45,000 and soon after the agreement they blocked the land in to 14 lots. Thereafter, one low was reconvened to Mrs. Thambayh and two lots comprising 70 perches and another two lots covering the road reservations were transferred to the Assessee's wife. The balance nine lots were sold to others and earned a profit of Rs. 66,331 and paid only an amount of Rs. 15,275 for the 70 perches lots, which were worth of Rs. 87,040.

The Board of Review rejected the Assessee's claim that the dominant interest to live near the school to facilitate the children's education. Finally, the Supreme Court upheld the Board of Review's rejection of the Assessee's contention that the dominant interest to live near St. Bridget's Convent was to facilitate the children's education.

In the given case, an individual (Ravi) resides in Gampaha with his family and he entered into an agreement with a landlord, Bandara to purchase a land of 1 acre near his workplace for a price of Rs. 85 million and paid an advance of Rs. 5 million. Ravi agreed to complete the transaction within two months period. Soon after that, he blocked the land into blocks of 10 perches each. Thereafter, two lots were kept for him and the balance was sold to the public. Ravi paid the balance amount to Bandara and earned a profit from this entire transaction. He wants to know the income tax implication on this transaction.

In the question, candidates were required to explain whether the profit earned by **Ravi** is liable for Income Tax by referring to the decision of the above Ram Iswara vs. CIR.

The fact of the given case is very similar to the decided case. Hence, the profit earned by **Ravi** is liable for Income Tax. The following facts must be taken into account when making decision in this regard.

- (1) The Assessee has no money to pay for the land, hence he has entered into an agreement with landlord for the settlement.
- (2) The transaction was conducted within a short time period.
- (3) There were certain preparations for the transaction.
- (4) Within a short time period the Assessee has earned a considerable profit.

Hence, the profit earned by Ravi is liable for Income Tax because of he had accomplished certain important arrangements of the transaction as mentioned above with the profit making motive.

Observations:

- (1) Most of candidates failed to understand how to apply the facts of a given question to a decided case.
- (2) Even though the question was required to answer with reference to the decided case, the most of candidates were failed to fulfill the said requirements.
- (3) The majority have not adequately described the case given, and they simply repeated the question itself rather than providing the substantive answer.
- (4) Some candidates have stated that **Ravi** has earned a profit from this transaction but have concluded that he is not liable to pay a tax on this profit.

Performance: The case law knowledge of the candidates was not in a satisfactory level.

Question No. 04**Part (a)****What was tested?**

This part of question was tested the fundamental knowledge of Capital Gain Tax (CGT), which is charged under Section 7 (2) (b) of the Act. The transactions included gain from disposing shares of a private limited liability company.

- (1) Majority of candidates have given the accurate answers.
- (2) However, many candidates have deducted only the purchase cost from the consideration received by omitting the valuation fee.
- (3) Some candidates have applied 10% rate by ignoring that it was a company.

Performance: The overall knowledge of CGT was in a satisfactory level.

Part (b)**What was tested?**

This question was required to calculate Advance Income Tax (AIT) to be deducted on the following transactions.

- (1) Legal advices obtained
- (2) Rent payment

Observations:

- (1) Majority of candidates have not provided the correct calculations.
- (2) Many candidates have applied different rates to calculate the AIT.

Performance: The preferences were poor.

Question No. 05**What was tested?**

This question was required to calculate the balance Value Added Tax (VAT) payable/ (over paid) for the quarter ended 31.03.2025 by an entity, which was engaged in manufacturing and selling plastic items for both export and domestic markets.

Observations:

- (1) Almost all candidates attempted the question and obtain good marks.
- (2) Even through the applicable VAT rate 18% has been given in the question itself, some candidates have applied difference rates in their computations.
- (3) Most of candidates incorrectly charged VAT on export sales that must be charged at zero rate.
- (4) Considerable number of candidates failed to understand the difference between liable supply and zero rated supply.
- (5) The excess input tax brought forward from the previous quarter and installment payment were deducted as tax credits by the majority.
- (6) Most of candidates failed to secure marks for relevant heading of the computations because of they not mentioned what they have arrived through calculations.
- (7) Some candidates have still answered the question using ledger account mode by disregarding the correct format of the VAT return. However, there was an issue with the question itself. The question was intended to assess the VAT liability, but the term "assess" does not necessarily imply that candidates should build their answers based on the VAT return. Due to this ambiguity, the Marking Examiners allocated full marks even if candidates have used their own approach and arrived at the correct answer.
- (8) Certain candidates have arrived at the correct answer without following all the steps outlined in the marking scheme. In such cases, Marking Examiners were unable to allocate full marks.
- (9) Some candidates included SVAT in output tax but did not claim the corresponding amount as tax credit.

- (10) Some candidates excluded SVAT from output tax entirely, assuming that it is always credited.
- (11) Many candidates assumed that monthly installment payments were one month only, hence, multiplied that amount by three to get full amount for the quarter.
- (12) The knowledge pertaining to input-output mechanism of VAT was understood by the majority.

Performance: The knowledge of VAT was good.

Question No. 06

What was tested?

This question was tested the fundamental knowledge on partnership taxation in terms of Section 53 to 56 of the Act. The question was required to calculate the Income Tax payable by a partnership for the Y/A 2024/25, which included,

- (1) Partners' salaries,
- (2) Donation,
- (3) Salary of partner's daughter, and
- (4) Other income.

Observation:

- (1) All most all candidates attempted the question, and the majority of them secured marks allocated for the question.
- (2) Many candidates are consistently confused by business profit adjustments. They often add income that should be deducted and deducted expenses that should be added back to the profit.
- (3) Some candidates did not add back donations to the accounting profit but incorrectly deducted them as qualifying payments, and some were ignored donation under qualifying payments.
- (4) Taxing first Rs.1,000,000/- at 0% and balance at 6% were correctly done by many candidates. However, some candidates were not updated with tax rates because of some candidates have used progressive rates and company tax rate 30% to tax the partnership.
- (5) Some candidates have incorrectly claimed Rs.1,000,000/- as partnership allowance without taxing at 0%.

Performance: The knowledge of partnership taxation was good.

Question No. 07

What was tested?

This question was tested the fundamental knowledge in relation to tax administration, which included installment payments, tax in default, penalty, and recovery of tax.

Observation:

- (1) A small number of candidates answered this question fully.
- (2) Most of candidates failed to compute correctly installment payments by indicating a lack of awareness of the required calculation method.
- (3) Many candidates did not provide the correct due date for the payment of Income Tax for the third installment.
- (4) Items that must be included in a Tax Default Notice were unaware by many candidates, and their answers reflected limited awareness and understanding of the required items.
- (5) Only a few candidates correctly answered for penalty part while most lacked knowledge of the administrative provisions of tax law.
- (6) The majority of candidates did not attempt recovery of tax in default part that indicates insufficient knowledge of recovery procedures of default tax.

Performance: The knowledge of tax administration was very poor.

Question No. 08

What was tested?

The fundamental knowledge on corporate taxation for the Y/A 2024/25 was tested by this question. Accordingly, the question was required to,

- (1) Compute the Assessable Income, Taxable Income, Gross Income Tax payable, and balance tax payable/overpayment by a resident company.
- (2) To decide the Income Tax rate when the company is engaged in manufacturing and selling coconut oils to the local market.
- (3) To evaluate the practical aspect of applying general deductions under Section 10, main deductions under Section 11, and specific deductions under Section 12 to 19 of the act in ascertaining the business profit.

Observations:**(1) Average marks secured:**

Almost all candidates attempted the question, and the majority have secured at least 60% marks allocated for the question.

(2) Presentation format:

The presentation and identification of statutory contents of the corporate Income Tax computation have been understood by the majority. However, few candidates who are still experiencing difficulties to keep up with statutory contents and presentation of corporate Income Tax computation.

(3) Other income:

Most of candidates have eliminated the interest and rent income as separate sources of income from accounting profit when arriving at the business income.

(4) Book depreciation, asset disposal and capital allowances:

Book depreciation has been added back to the accounting profit by almost all candidates. Further, majority have applied the correct rates of 5 years to claim capital allowances for motor vehicles, office furniture and fittings, which were purchased in the Y/A 2021/22. Further, 20 years capital allowance rate has been correctly applied for buildings. The assessable charges on land disposal was not computed by many candidates. Further, this amount was not added back to the accounting profit by many candidates even though they calculated it properly.

(5) Disallowable expenses:

Provision for gratuity, foreign travelling expenses that was not related to the business, provision for doubtful debt, private rent payment, EPF penalty, and donation correctly added back to the accounting profit by the majority.

(6) Investment income:

Interest from fixed deposit and rent income were correctly treated as investment income by many candidates.

(7) Qualifying payments and reliefs:

Goods donated to an approved charity was incorrectly claimed by many candidate. Further, some candidates has incorrectly claimed it under the restriction of lower of 1/5 of the Taxable Income or Rs.500,000/-.

(8) Identification of tax rate:

Identifying the correct tax rate of 30% was done by the majority. However, few candidates have still applied the individual progressive rates (6% to 36%) to tax a company.

(9) Identification of tax credit

Quarterly installment payment was claimed as a tax credit by the majority. However, withholding tax on interest and AIT on rent were not claimed by many candidates.

Performance: The overall performances were good.

Question No. 09

What was tested?

This question was required to ascertain personal Income Tax for the Y/A 2024/25 of a resident individual who worked as a Manager a as company. The sources of income included income from employment and investment.

Observations:

The question was attempted by almost all candidates and more than 75% of candidates secured at allocated marks. The observations are listed below:

(a) Employment income:

- (1) The majority included gross salary as employment income.
- (2) More than half of the candidates failed to calculate the value of conveyance that must be taken as Rs.40,000/- (Rs.20,000/- motor car and Rs.20,000/- for fuel).
- (3) Almost most all candidates failed to calculate the value of residence, which has been restricted to a lower amount of 12.5% of monthly salary and actual expenses paid by the company.
- (4) Foreign traveling and medical expenses reimbursement were treated as not taxable by many candidates.

(b) Investment income:

- (1) The full amount of interest on treasury bills taken as investment income by many candidates.
- (2) The majority failed to calculate the gross amount of interest on fixed deposit by grossing the given amount (Rs.228,000/- / 95 x 100).
- (3) Dividend income (net) received from quoted public companies and profit on sale of shares in quoted public companies have been treated as exempt income many candidates.

- (4) Almost all candidates included the full amount of rent under investment income.

(c) Common omissions and mistakes:

- (1) Rs.1,200,000/- was not claimed as personal relief by some candidates.
- (2) Rent relief, 25% of gross rent was not claimed by certain candidates in arriving at Taxable Income.
- (3) Certain candidates incorrectly claimed tax credits from Taxable Income directly without computing the tax liability.
- (4) Certain candidates have applied progressive rate ranging from 6% to 60% or sometime more to estimate tax liability.
- (5) Goods donation to flood victims was erroneously claimed as qualifying payments by many candidates.
- (6) Some candidates have ignored the lower amount restriction of Rs.75,000/- or 1/3 of Taxable Income when they are claiming cash donation to an approved charity.
- (7) Some candidate completely ignored the 25% of gross rent when they are qualifying payments.
- (8) APIT on employment income and AIT on interest were not claimed properly by many candidates as tax credits.
- (9) Some candidates have deducted the tax installments paid before calculating the gross income tax liability.
- (10) Some candidates have not applied the correct flow of the individual return of income when reaching total Assessable Income, qualifying payment and relief, Taxable Income, gross tax liability, tax credits, and balance tax payable. For example, qualifying payments and quarterly installments payments have been claimed prior to the Assessable Income.
- (11) Some candidates have stopped tax computation at Taxable Income without completing the rest of the answer.
- (12) Most of the students have tried to make the entire answer on a single page. This resulted in difficulties for the Marking Examiners to provide marks as some of the workings were not clear.

Performance: The performances were good.

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The Overall Performance:

The majority of candidates have secured at least 60% marks allocated for VAT, partnership taxation, corporate taxation, and individual taxation. However, certain poor performances have been displayed in the areas of case law, and tax administration. Particularly, the knowledge pertaining to tax in default and penalty thereon were extremely poor position.

Common Reasons for Certain Poor Performances:

- (1) Devoting too much attention on arithmetical calculation rather than fundamental principles in taxation and respective taxing laws.
- (2) Lack of awareness on relevant taxing laws and its subsequent amendments.
- (3) Poor attention to read the question paper properly before starting to answer the questions. This resulted to forget certain important requirements of the question due to misunderstanding.
- (4) Not devoting enough attention to past question papers and model answers that help to improve the examination skills.
- (5) Less attention on the study pack in which the most of fundamental principles and taxing laws have been properly explained.
- (6) Poor time management in answering the question paper, and some candidates have written lengthy answers for small marks.
- (7) Certain realistic assumptions were missing while unrealistic assumptions were made.
- (8) Failing to understand the actual requirement of each question properly that permits candidate to organize the answer including the format and presentation.
- (9) Illegible handwriting that created difficulties for Examiners to understand the facts of answers. Sometime, answers were impossible or almost impossible to read because of being very untidy or not clear.
- (10) Lack of relevant workings for answers or workings were properly not linked with the computations, resulting Examiners were not able to grant full marks allocated for the questions.
- (11) Some candidates did not show the proper workings to support their figures, which they have arrived in the process of calculation.

Suggestions for Improvements:

- (1) Paying attention on time management before answering to the question paper, which allows candidates to understand the certain important requirements of the questions. It is utmost important to summarize the answer as much as possible based on the requirement of the questions and marks allocated.
- (2) Answering the past question papers and check with model answers in order to improve the examination skills.
- (3) Devoting full attention to the study pack because of all areas in the question paper are covered by the study pack. It is important to bear in mind that there is a possibility of testing different areas in the study pack.
- (4) Stating clear and realistic assumptions, which are useful in granting certain marks for answers. It is important to remind that candidates are not allowed to make unrealistic assumption to alter the given facts of the questions itself.
- (5) Focusing on basic fundamental principles of taxation rather than arithmetical accuracy of calculations.
- (6) Providing appropriate workings for each and every calculations whenever necessary and link them properly with relevant answers.
- (7) Answering the question paper with legible handwriting that allows the Examiners to understand the facts clearly.
- (8) Answering a new question on a new page of the answer booklet.
- (9) Candidates are advised to read the question paper more than once and avoid writing irrelevant answers and calculations that will save time.
- (10) Always use the reading time 15 minutes to read the question paper fully and then start to answer questions based on the confident level of each question.

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