

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA
LEVEL III EXAMINATION - JANUARY 2021
(304) CORPORATE & PERSONAL TAXATION

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time Allowed:** Reading : 15 minutes.
Writing : 03 hours.

21-03-2021
Afternoon
[01.45 – 05.00]

No. of Pages : 08
No. of Questions : 09

- (2) **All questions should be answered.**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**
- (5) **Use of Non-programmable calculators is only permitted.**
- (6) **Action Verb Check List with definitions is attached. Each question will begin with an action verb. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (7) **Assume that provisions of the Income Tax Act No.24 of 2017 prevailed throughout the Year of Assessment 2019/20 without any amendments during the year.**
- (8) **100 Marks.**

SECTION A

(Total 20 marks)

Question 01

Gihan is a citizen of Sri Lanka. On 20th August 2019 he migrated to Canada for his daughter's higher studies. However, he came back to Sri Lanka on 15th March 2020 due to his daughter's vacation in the university and departed from Sri Lanka on 31st March 2020.

You are required to:

Explain the resident status of **Gihan** for taxation purpose in Sri Lanka for the year of assessment 2019/20 as per the provisions of the Inland Revenue Act No 24 of 2017. (05 marks)

Question 02

A resident individual who pays income tax as quarterly installments, is required to compute quarterly income tax for each year of assessment.

You are required to:

(a) **State** the due dates for quarterly installment payments. (03 marks)

(b) **Explain** what is meant by a tax in default. (02 marks)

(Total 05 marks)

Question 03

The VAT registration of **SAMS Trading (Pvt) Ltd.** was cancelled w.e.f. 01st January 2020, since value of its taxable supplies does not exceed the VAT liable threshold.

You are required to:

- (a) **State** the VAT liable threshold per annum on suppliers of goods and services with effect from 01st January 2020. (02 marks)
- (b) **State** three(03) responsibilities of **SAMS Trading (Pvt) Ltd.** upon cancellation of VAT registration. (03 marks)
- (Total 05 marks)

Question 04

X Ltd. is engaged in a pharmaceutical business. In January 2020, the company has suffered a loss of Rs.600,000/- in cash due to theft. Subsequently the police recovered Rs.100,000/- and a claim of Rs.200,000/- was received from the insurance company in March 2020. The company has claimed the net loss of Rs.300,000/- as an allowable expense when calculating the income tax liability. However, the Assistant Commissioner has disallowed that amount.

You are required to:

Explain whether the net loss of Rs.300,000/- could be considered as an allowable expense for tax purpose by referring to the decision given in the case of "*Hayley & Co. Ltd. Vs CIR*". (05 marks)

_____ *End of Section A* _____

SECTION B

(Total 30 marks)

Question 05

Happy Deals which is a partnership business formed by **Ravi** and his friend **Dilum** to distribute home-made spices island-wide. **Ravi** and **Dilum** have agreed to share profits and losses equally. As per the financial statements for the year ended 31st March 2020, net profit of the partnership was Rs.1,850,000/-.

The following information were extracted from the books of partnership:

- (1) The following expenses have been deducted when arriving at the net profit:

	Rs.
Salaries and wages (including partners' salaries)	5,700,000
Vehicle hire charges	960,000
Depreciation - Delivery Lorry (Acquired in 2018/19)	420,000
Rent	240,000

- (2) **Ravi** and **Dilum** drew a monthly salary of Rs.80,000/- and Rs.100,000/- respectively.
- (3) The business is carried out in a building owned by **Dilum** and a rent of Rs.20,000/- per month has been paid to him.
- (4) Vehicle hire charges have been paid for distribution of spices to customers.
- (5) The Motor lorry is also used to delivery spices and its cost is Rs.3,000,000/-.

You are required to:

Calculate the following for the year assessment 2019/20:

- (a) The partnership income for tax purpose. (03 marks)
- (b) The withholding tax payable by the partnership. (02 marks)
- (c) The share of partnership income of each partner. (03 marks)
- (d) The withholding tax credit available to each partner. (02 marks)

(Total 10 marks)

Question 06

- (A) **Gaya Trading (Pvt) Ltd.** is a company incorporated under the Companies Act No. 07 of 2007. The company has not still submitted the return of income for the year of assessment 2018/19. The Assistant Commissioner has issued an assessment based on his judgment and the date of of the assessment notice was 30th June 2020. You are the tax consultant of **Gaya Trading (Pvt) Ltd.**

You are required to:

- (a) **State** due date to submit the return of income for the year of assessment 2018/19. (02 marks)
- (b) **List** four(04) items which should be included in the assessment notice. (04 marks)

- (B) **Sarath**, is a resident individual. He owned 1 acre land in Horana which was purchased on 01st December 2016 at a cost of Rs. 36 Million. He sold this land for Rs.48 million on 30th June 2019 and paid Rs.130,000/- as broker's fee. The market value of this land as at 30th September 2017 was Rs. 40 million.

You are required to:

Assess the capital gain tax payable on the above transaction. (04 marks)

(Total 10 marks)

Question 07

Kushbu Flowers Ltd. a registered company for Value Added Tax (VAT), is engaged in decoration industry. The company maintains a flower farm at Nuwaraeliya in their own. The following information for the quarter ended 31st March 2020 was extracted from the books of the company:

- (1) Details of sales during the quarter ended 31st March 2020 are given below:
(exclusive of VAT):

	Rs.
Income from services provided	85,750,000
Income from sale of flowers	12,250,000

- (2) The company has paid the following Input tax during the quarter:

	Rs.
On expenses related to flower farm	163,500
On purchase of decorating materials	3,435,000
On common expenses to both businesses	448,000

- (3) The excess input VAT brought forward from the previous quarter was Rs.160,000/-.
(4) The company has paid Rs.2,000,000/- as monthly VAT installments.

(Consider standard VAT rate as 8%)

You are required to:

Assess the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st March 2020. (10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

SRI Products (Pvt) Ltd. was incorporated on 01st January 2017, under the Companies Act No.07 of 2007 and commenced its business operations on the same day. It is engaged in the manufacturing and exporting of kids' clothing.

The following information has been extracted from the financial statements of **SRI Products (Pvt) Ltd.** for the year ended 31st March 2020:

- (1) The net profit before tax for the year ended 31st March 2020 after charging all expenses and crediting all income was Rs.33,650,000/-. Total turnover of the company was Rs.634,400,000/- for the year ended 31st March 2020.

(2) Break-up of other income:

	Rs.
Dividend income - net of WHT	301,000
Profit on disposal of machinery	168,000
	469,000

(3) Details of property, plant and equipment are as follows:

Cost

Asset	Balance as at 01.04.2019 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31.03.2020 (Rs.)
Land	8,000,000	-	-	8,000,000
Buildings	10,000,000	-	-	10,000,000
Machinery	8,210,000		2,460,000	5,750,000
Motor Lorries	2,465,000	1,350,000	-	3,815,000
Office Equipment	867,000	-	-	867,000
Computers	1,850,000	-	-	1,850,000
Computer software	-	1,200,000	-	1,200,000
	31,392,000	2,550,000	2,460,000	31,482,000

- Machinery which was purchased during the year of assessment 2017/18 at a cost of Rs.2,460,000/- has been disposed in June 2019 for Rs.750,000/- due to continuous technical errors.
- A motor lorry was obtained under a finance lease agreement for a period of 4 years on 01st May 2019. Monthly installment of the lease was Rs.34,000/- and 11 installments were paid during the year.
- Computer Software was acquired by the company during the year for Rs. 1.2 million. The company has assessed its useful life as 10 years.
- Other than the machinery disposed, all the assets were acquired during the year of assessment 2018/19.

(4) Administration expenses include the following:

- Depreciation charge for the year was Rs.6,242,000/-.
- The company has donated Rs.1,000,000/- to an approved charity, which is maintained a home for displaced elders.
- Further, Rs.1,000,000/- worth of medical equipment was donated to IDH hospital (a government hospital) for the benefit of COVID-19 patients.
- Gratuity provision for the year of assessment 2019/20 was Rs.1,563,000/-.

(5) Distribution expenses include the following:

- Entertainment expenses were Rs.234,000/-, and this was spent to entertain customers who had come for business negotiations.
- The company has incurred Rs.1,450,000/- as advertising expenses in foreign media.
- An amount of Rs.800,000/- was incurred on Director's foreign travelling to meet foreign suppliers.

(6) Finance expenses include the lease interest of Rs.196,000/- which was paid on a finance lease obtained during the year.

(7) The following information is also provided:

- The company has paid Rs.1,180,000/- as Economic Service Charge (ESC) for the current year.
- The company has paid Rs.5,000,000/- as quarterly installments of income tax for the year of assessment 2019/20.

You are required to:

Assess the following of **SRI Products (Pvt) Ltd.** for the year of assessment 2019/20:

- (a) Assessable Income.
- (b) Taxable Income.
- (c) Gross Income Tax Payable.
- (d) Balance Tax Payable.

(N.B: The reasons for allowing or disallowing any expenses should be clearly stated.)

(25 marks)

Question 09

Gamini, is a resident individual who is an Attorney at Law by profession. He works as the legal officer of a finance company in Sri Lanka.

The following information is available regarding his income for the year of assessment 2019/20 (*hereinafter referred to as the 'year'*):

(1) Income from Employment:

- Gross salary - Rs.325,000/- per month.
- Travelling allowance - Rs.50,000/- per month.
- Bonus received in April 2019 from the profits of previous year was Rs.300,000/-.
- In May 2019, he was sent to India to represent the company in an international seminar. The cost of the tour which was reimbursed by the company was Rs.120,000/-.
- He lives in a rented house and monthly rent of Rs.35,000/- is reimbursed by the employer.
- PAYE deducted for the year was Rs.604,800/-.

- (2) **Gamini** started his own business of consultancy on 01st April 2019. The summary of the income and expenditure account prepared for the year ended 31st March 2020 is as follows:

	Rs.		Rs.
Salaries to staff	225,000	Income	2,844,000
Electricity and water bills	27,000		
Depreciation	126,000		
Other expenses	143,000		
Net Profit	2,323,000		
	2,844,000		2,844,000

- Office Equipment of Rs.400,000/- has been purchased for the business in January 2020. There are no other qualifying assets on which capital allowances could be claimed.
 - All other expenses are allowable for tax purposes.
- (3) **Gamini** lives in a rented house in Colombo. His own house is in Ratnapura and it was rented out to a family for a monthly rent of Rs.25,000/-.
- (4) **Gamini** had a fixed deposit in a commercial bank and interest for the year on this deposit was Rs.132,000/-. The bank has deducted withholding tax on interest.
- (5) **Gamini** purchased shares of a quoted public company on 01st July 2018 at a cost of Rs. 5 million. He sold these shares in May 2019 for Rs. 6 million. He has received a net dividend of Rs.243,000/- in April 2019.
- (6) During the year, **Gamini** has donated equipment worth of Rs.500,000/- to Ministry of Health.
- (7) **Gamini** has paid Rs.100,000/- as installment payments of income tax for the year of assessment 2019/20.

You are required to:

Assess the following for **Gamini** for the year of assessment 2019/20:

- (a) Taxable income.
- (b) Gross income tax payable.
- (c) Balance tax payable.
- (d) Exempt income, if any. (25 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.