



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JULY 2024

(304) CORPORATE & PERSONAL TAXATION

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

(1) **Time Allowed:** Reading : 15 minutes.

Writing : 03 hours.

(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) 100 Marks.

11-08-2024

Afternoon

[01.45 – 05.00]

No. of Pages : 08

No. of Questions : 09

**SECTION A**

(Total 20 marks)

**Question 01**

You have been given the following information:

- (1) **Ravi** is a citizen of India. He was employed in a Sri Lankan ship from 01<sup>st</sup> May 2022 to 30<sup>th</sup> April 2024.
- (2) **Amara** was born in Sri Lanka and migrated to Australia for employment in January 2023. He earns a rent income from a house in Sri Lanka.
- (3) **Sarah**, a citizen of United Kingdom was appointed as an officer in UK High Commission in Sri Lanka with effect from 15<sup>th</sup> March 2023 for a period of three years. She was provided an apartment in Colombo and after assuming duties, she had not left from Sri Lanka.

**You are required to:**

**Explain** the residence status of the above individuals for taxation purpose in Sri Lanka for the year of assessment 2023/24 as per the provisions of the Inland Revenue Act No 24 of 2017.

(05 marks)

**Question 02**

**Hela Rasa** is engaged in the manufacturing of sweets for local market and registered for the Social Security Contribution Levy (SSCL). Turnover of **Hela Rasa** for the quarter ended 31<sup>st</sup> December 2023 was Rs.35,000,000/-.

**You are required to:**

(a) **Identify** two(02) taxable persons under the SSCL Act No. of 25 of 2022. (02 marks)

(b) **Calculate** the SSCL payable by **Hela Rasa** for the above quarter. (03 marks)

(Total 05 marks)

### Question 03

**Sarath** saw an advertisement to sell a land of 2 acres near a famous school in Horana. He entered into an agreement with **Soysa**, landlord to purchase the land at a price of Rs.16 million and paid an advance of Rs. 1 million. He agreed to complete the transaction within six months period. Soon after that, he blocked the land into blocks of 15 perches. Thereafter, one lot was reconvened to **Soysa** and another one was kept for him. The balance was sold to the public. **Sarath** paid the balance Rs. 15 million to **Soysa** and earned a profit from this entire transaction. He wants to know the income tax implication on this transaction.

**You are required to:**

**Explain** whether the profit earned by **Sarath** is liable for income tax by referring to "*Ram Iswara Vs CIR*". (05 marks)

### Question 04

(a) **Damian**, a lawyer by profession plans to migrate Canada with his family. Therefore, he has made the following capital nature transactions during the year of assessment 2023/24.

Type of Asset	Cost (Rs.)	Market Value as at 30.09.2017 (Rs.)	Consideration Received (Rs.)
Residence House constructed and used from 2014	9,500,000	13,200,000	16,000,000
Office Building used for his business from 2012	10,500,000	12,500,000	13,000,000
Rented out building for <b>ABC Ltd.</b> purchased in 2014	18,000,000	22,500,000	26,800,000

**You are required to:**

**Calculate** the Capital Gain Tax (CGT) payable by **Damian** on the above transactions.

(03 marks)

(b) **Sanara (Pvt) Ltd.** declared a gross dividend of Rs.150,000,000/- on 31<sup>st</sup> December 2023 to its shareholders and paid during the month of January 2024. This dividend was paid out of the profit for the year of assessment 2022/23.

**You are required to:**

**Calculate** Advance Income Tax (AIT) to be deducted on the above dividend paid. (02 marks)

(Total 05 marks)

End of Section A

### **SECTION B**

(Total 30 marks)

### Question 05

"**Ran Salu**" is a registered person for Valued Added Tax (VAT), engaged in buying and selling textiles in the local market. The following information for the quarter ended 31<sup>st</sup> March 2024 was extracted from the books of accounts of the business:

(1) Details of income during the quarter ended 31<sup>st</sup> March 2024 are given below (exclusive of VAT) :

	Rs.
Sale of locally manufactured handloom textiles	3,786,000
Sale of imported textiles	27,764,000

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

	Rs.
On imported textiles	1,325,000
On transport of locally manufactured handloom textiles	234,000
On maintenance expenses of motor car used by CEO	14,500
On office expenses	464,000

(3) The excess input VAT brought forward from the previous quarter amounts to Rs.36,000/-.

(4) The business has paid Rs.2,000,000/- as monthly VAT installments.

(Consider the standard VAT rate as 18%)

**You are required to:**

**Assess** the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31<sup>st</sup> March 2024. (10 marks)

## Question 06

**Cake Factory** is a partnership carried out by two friends **Radha** and **Dhara**, who are students of a hotel school. They agreed to share profits / losses of the business equally.

The following information was extracted from the financial statements for the year ended 31<sup>st</sup> March 2024:

(1) Net profit for the year ended 31<sup>st</sup> March 2024 was Rs.8,450,000/-.

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

- Salaries to partners for the year:

	Rs.
<b>Radha</b>	1,200,000
<b>Dhara</b>	1,800,000

- Bookkeeping works have been done by **Radha's** sister and a salary of Rs.25,000/- per month was paid to her.
- Radha** has provided a loan to the partnership and an interest of Rs.38,000/- has been paid to **Radha**.
- The office premises is owned by **Dhara** and a rent of Rs.50,000/- per month has been paid to her.
- An amount of Rs.100,000/- was paid as a donation to National Hospital, Colombo.

**You are required to:**

**Assess** the Income Tax payable of the Partnership for the year of assessment 2023/24.

(10 marks)

## Question 07

**Blue Sky Ltd.** is a company incorporated under the Companies Act No. 07 of 2007. The company has not submitted the return of income for the year of assessment 2022/23 to the Inland Revenue Department. The Assistant Commissioner has issued a default assessment based on his judgement on 05<sup>th</sup> January 2024.

**Shenila**, a Director of **Blue Sky Ltd.** is a resident individual and unknowingly she has paid an excess individual income tax of Rs.82,000/- for the year of assessment 2022/23 and filed the return of income on time.

You are the tax consultant of **Blue Sky Ltd.**

**You are required to:**

- (a) **State** the due date to file the return of income for the year of assessment 2022/23. (02 marks)
- (b) **State** three(03) conditions required to be satisfied by **Blue Sky Ltd.** when making a request for administrative review (*a valid appeal against the assessment*). (05 marks)
- (c) **Explain** whether **Shenila** is entitled to request a refund claim of overpaid income tax as per the provisions of the Inland Revenue Act. (03 marks)

(Total 10 marks)

End of Section B

## SECTION C

(Total 50 marks)

## Question 08

**Suwa Saara (Pvt) Ltd.** is a resident company in Sri Lanka. It manufactures a large range of herbal products for the export market. The following information of **Suwa Saara (Pvt) Ltd.** are relevant for the year ended 31<sup>st</sup> March 2024:

- (1) Summarized Income Statement of **Suwa Saara (Pvt) Ltd.** for the year ended 31<sup>st</sup> March 2024 is as follows:

	Rs.
Export sales	1,654,000,000
Cost of Sales	(892,000,000)
<b>Gross Profit</b>	<b>762,000,000</b>
Other Income	1,448,000
Administrations and Distribution Expenses	(386,500,000)
Finance Expenses	(4,800,000)
<b>Net Profit</b>	<b>372,148,000</b>

- (2) Break-up of other income:

	Rs.
Profit on disposal of Property, Plant and Equipment	38,000
Interest income on Fixed Deposits (Gross)	260,000
Dividend Income – Out of Dividends Received	1,150,000
	<b>1,448,000</b>

(3) Administration and Distribution expenses include the following:

- Depreciation charge for the year was Rs.44,680,000/-.
- Gratuity provision for the year was Rs.26,732,000/-.
- A prospective buyer from France visited during the year to inspect the production process and the company has incurred Rs.450,000/- for his entertainment expenses.
- The company has donated Rs.1,000,000/- worth of herbal products to the Department of Ayurveda. Further, an amount of Rs.200,000/- has been donated to a past employee of the company for his heart surgery.

(4) Finance Expenses include the interest of Rs.4,800,000/- paid on term loans.

(5) The equity and liabilities as at 31<sup>st</sup> March 2024 were as follows:

	<b>Rs.</b>
Issued Share Capital	8,000,000
Retained Earnings	1,450,000
Equity	9,450,000
Loans payable	40,000,000

(6) Details of Property, Plant and Equipment as at 31<sup>st</sup> March 2024 are as follows:

<b>Assets</b>	<b>Year of Purchase</b>	<b>Cost of Acquisition (Rs.)</b>
Land	2016/17	120,000,000
Buildings	2016/17	84,000,000
Motor Lorries	2020/21	65,000,000
Plant and Machinery	2016/17	96,000,000
Plant and Machinery	2023/24	145,000,000
Office Equipment	2021/22	1,759,000
Computers	2022/23	2,435,000
Computer software	2023/24	1,200,000
		<b>515,394,000</b>

- A machinery which was purchased in the year of assessment 2018/19 at a cost of Rs.22,550,000/- has been disposed in December 2023 for Rs.3,000,000/-.
- Useful life of computer software is 4 years.

(7) An amount of Rs.500,000/- was paid as gratuity to a resigned employee.

(8) The company has paid Rs.50,000,000/- as quarterly installments of income tax for the year of assessment 2023/24.

(9) The bank has deducted Rs.13,000/- as Advance Income Tax (AIT) / Withholding Tax (WHT) on the fixed deposits' interest income.

**You are required to:**

**Assess** the following of **Suwa Saara (Pvt) Ltd.** for the year of assessment 2023/24:

- (a) Assessable Income.
- (b) Taxable Income.
- (c) Gross Income Tax Payable, and,
- (d) Balance Income Tax Payable / (Overpaid).

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

(25 marks)

### Question 09

**Dimuthu** is a resident individual and presently he is working as a Senior Tax Manager at **City Lanka PLC**.

The following information relating to **Dimuthu** is provided in respect of the year of assessment 2023/24 (*hereinafter referred to as the 'year'*):

(1) **Income from employment:**

- Gross salary received from **City Lanka PLC** is Rs.260,000/- per month.
- The company has provided him a motor car with fuel and no running records were maintained for usage.
- He is living in a rented house at Bambalapitiya close to his office. Monthly rent of the house is Rs.60,000/- and it is borne by him. He received Rs.80,000/- per month from the company as an allowance for residence.
- The company bears his mobile phone bills and during the year, Rs.85,000/- has been re-imbursed for his telephone bills.
- A medical insurance scheme is provided for all the employees by the company and an amount of Rs.60,000/- was paid on behalf of **Dimuthu** by the company during the year.
- Advance Personal Income Tax (APIT) deducted for the year was Rs.204,600/-.

(2) **Dimuthu** operates his own tax advisory firm to provide tax consultancy services to individual clients. Income and expenses details relating to his business for the year 2023/24 are as follows:

Description	Rs.	Rs.
Consultancy Service Income		4,800,000
<b>Less : Payments</b>		
Salary to Trainees	540,000	
Professional charges paid to outside consultants on obtaining tax advices	750,000	
Gifts	820,000	
Rent (Rs.720,000/- relates to his residence)	960,000	
Depreciation - Furniture	65,000	(3,135,000)
<b>Net Profit</b>		<b>1,665,000</b>

- Depreciation has been charged on furniture acquired in 2019/20 at a cost of Rs.650,000/-.
- Gifts include an amount of Rs.540,000/- donated to Polonnaruwa General Hospital. Other gifts are relating to gifts given to clients on new year.

(3) **Dimuthu's** own house is in Kurunegala and it was rented out to a company for a monthly gross rent of Rs.60,000/-. Rating assessment of this house is Rs.250,000/- and rates were paid at 20% by **Dimuthu**.

(4) During the year, **Dimuthu** has received the following interest income:

Description	Date Received	Amount (Gross)(Rs.)	AIT (WHT) Deducted (Rs.)
Interest on Fixed Deposit	31.12.2023	1,300,000	65,000
Interest on Treasury Bills	20.01.2024	600,000	-

(5) During the year, **Dimuthu** has received following income from his investments:

- Profit from sale of shares of a quoted public company:

Company	Cost (Rs.)	Sale Proceed (Rs.)	Profit / (Loss) (Rs.)
Ran Sihina PLC	945,000	1,200,000	255,000

- Dividend income (net) received from the quoted public companies was Rs.799,000/- and applicable AIT / WHT was deducted from the dividend income.

(6) He has paid Rs.1,000,000/- as quarterly installment payments of income tax for the year of assessment 2023/24.

**You are required to:**

**Assess** the following for **Dimuthu** for the year of assessment 2023/24:

- Taxable Income.
- Gross Income Tax Payable.
- Balance Income Tax Payable / (overpaid), and,
- Exempt Income, if any.

*(N.B: If any income is not taxable, it should be clearly stated.)*

(25 marks)

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End of Section C

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## **ACTION VERBS CHECK LIST**

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

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

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

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