



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JULY 2025

(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.

27-07-2025

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:

- (a) **Indika** is a Sri Lankan citizen. But, he has been living in Pakistan since 2020. He is an employee of a BPO Company in Sri Lanka and works online from Pakistan. He visited Sri Lanka on 06<sup>th</sup> July 2024 and departed from Sri Lanka on 14<sup>th</sup> October 2024.
- (b) **Mala** went to Saudi Arabia to serve as an accountant under a two-year employment contract on 05<sup>th</sup> January 2025.

**You are required to:**

**Explain** the residence status of the above individuals for taxation purpose in Sri Lanka for the year of assessment 2024/25 as per the provisions of the Inland Revenue Act No 24 of 2017.

(05 marks)

**Question 02**

**Win (Pvt) Ltd.** is engaged in manufacturing steel furniture to the local market and has registered for the Social Security Contribution Levy (SSCL). Turnover of **Win (Pvt) Ltd.** for the quarter ended 31<sup>st</sup> December 2024 was Rs.200,250,000/-.

**You are required to:**

- (a) **Calculate** the Social Security Contribution Levy (SSCL) payable by **Win (Pvt) Ltd.** for the quarter ended 31<sup>st</sup> December 2024. (03 marks)
- (b) **State** two(02) methods that can be used to settle the stamp duty under the Stamp Duty Act in Sri Lanka. (02 marks)

(Total 05 marks)

### Question 03

**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.

**You are required to:**

**Explain** whether the profit earned by **Ravi** is liable for income tax by referring to the decision given in the case of "*Ram Iswara Vs CIR*". (05 marks)

### Question 04

- (a) **Golden (Pvt) Ltd.** is engaged in providing management and advisory services to its subsidiaries. In 2018, the company had acquired 100,000 equity shares of **Red Sea (Pvt)Ltd.** at a price of Rs.500/- per share. These shares were sold on 31<sup>st</sup> January 2025 for Rs.90,000,000/-. The company has paid Rs.500,000/- for a professional valuer to get a valuation report for this.

**You are required to:**

**Calculate** the Capital Gain Tax (CGT) payable by **Golden (Pvt) Ltd.** on sale of the shares. (03 marks)

- (b) **Red Sea (Pvt) Ltd.** has made the following payments during the month of January 2025:
- (1) Rs.200,000/- to **Wijesinghe** for the legal advices obtained.
  - (2) Rent payment of Rs.250,000/- to **Golden (Pvt) Ltd.**

**You are required to:**

**Calculate** Advance Income Tax (AIT) to be deducted on each payment by **Red Sea (Pvt) Ltd.** (02 marks)

(Total 05 marks)

End of Section A

### **SECTION B**

(Total 30 marks)

### Question 05

**Dhana (Pvt) Ltd.** is a registered company for Value Added Tax (VAT) engaged in manufacturing and selling plastic items.

- (1) Details of supplies (exclusive of VAT) made by **Dhana (Pvt) Ltd.**, during the quarter ended 31<sup>st</sup> March 2025 are given below:

	Rs.
Sales on Exports	6,764,000
Local Sales to Simplified Value Added Tax (SVAT) Registered Persons	17,662,000
Local Sales to Other Persons	25,450,000

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

	Rs.
On Import of Raw Materials	1,100,000
On Local Purchases of Raw Materials	1,127,000
On office expenses	173,000

(3) The excess input VAT brought forward from the previous quarter amounts to Rs.25,540/-.

(4) The company has collected all SVAT credit vouchers relevant to the quarter.

(5) The company has paid Rs.500,000/- as monthly VAT instalments.

*(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 2025. (10 marks)

## Question 06

**"Home from Heaven"** is a partnership carried out by **Jane** and **Jack** sharing profits and losses equally. Their business is providing interior decoration services.

The extract of Income Statement of the partnership for the year ended 31<sup>st</sup> March 2025 is given below:

	Rs.
Gross Profit	86,500,000
<b>Other Income:</b>	
Interest income received on Treasury Bills (Gross)	922,500
Interest income received on Foreign Currency Banking Units (FCBU) deposits	575,000
	<b>87,997,500</b>
<b>Expenses:</b>	
Administration Expenses	(34,253,000)
Distribution Expenses	(9,650,000)
Finance Expenses	(265,000)
<b>Net Profit of the Partnership</b>	<b>43,829,500</b>

The following expenses have been deducted when arriving at the above net profit:

(1) Salaries to the partners:

**Jane** : Rs.4,200,000/-

**Jack** : Rs.3,600,000/-

- (2) An amount of Rs.750,000/- has been donated during the year of assessment to an approved charity established for the provision of institutionalized care for children.
- (3) **Jane's** daughter works as the accountant of partnership and an amount of Rs.360,000/- was paid as her salary for the year.
- (4) Assume all the other expenses are allowable for the purpose of taxation.

**You are required to:**

**Assess** the Income Tax Payable by the partnership for the year of assessment 2024/25.

(10 marks)

## Question 07

- (A) **Hash Tag (Pvt) Ltd.** is a resident company in Sri Lanka. As per the Statement of Estimated Income Tax payable (SET Form), the company has estimated its income tax liability for the year of assessment 2024/25 as Rs.32,500,000/-. Further, the company has paid Rs.12,000,000/- for the first two quarters as quarterly installments of income tax. Advance Income Tax (AIT) of Rs.115,000/- has been deducted on interest income for the first three quarters.

**You are required to:**

- (a) **Calculate** the amount to be paid as third installment for the year of assessment 2024/25. (03 marks)
- (b) **State** the due date to pay income tax of the 3<sup>rd</sup> installment for the year of assessment 2024/25. (01 mark)

- (B) As per the return of income submitted by the **Hash Tag (Pvt) Ltd.** for the year of assessment 2023/24, the balance income tax payable of Rs.6,200,000/- was not paid within due date. A notice in writing has been received from the Department of Inland Revenue for the recovery of taxes in default.

**You are required to:**

- (a) **State** two(02) items included in a tax in default notice. (02 marks)
  - (b) **State** a penalty that could be imposed on failure to pay the taxes on due dates as per the provisions of the Inland Revenue Act No. 24 of 2017. (02 marks)
  - (c) **State** two(02) methods available to recover the taxes in default. (02 marks)
- (Total 10 marks)

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*End of Section B*

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## **SECTION C**

(Total 50 marks)

### **Question 08**

**Haritha Plantation Ltd.** is a resident company in Sri Lanka and is engaged in the business of manufacturing and selling coconut oils to the local market.

The following information was extracted from the Financial Statements of **Haritha Plantation Ltd** for the year ended 31<sup>st</sup> March 2025:

- (1) Summarized Income Statement of **Haritha Plantation Ltd** for the year ended 31<sup>st</sup> March 2025 is as follows:

	<b>Rs.</b>
Turnover	536,800,000
Cost of sales	(348,920,000)
<b>Gross Profit</b>	<b>187,880,000</b>
Other Income	31,240,000
Distribution Expenses	(23,040,000)
Administration Expenses	(75,070,000)
<b>Net Profit Before Tax</b>	<b>121,010,000</b>

- (2) Other Income includes the following:

	<b>Rs.</b>
Rent Income	5,600,000
Interest income from Fixed Deposits (Gross)	15,540,000
Profit on disposal of a land	10,100,000
	<b>31,240,000</b>

- (3) Administration Expenses include the following:

- Depreciation charge for the year was Rs.8,210,000/-.
- Gratuity provision for the year was Rs.1,940,000/-.
- An amount of Rs.64,000/- was paid as a penalty for late payments to the Employees' Provident Fund (EPF).
- The annual rent paid amounting to Rs.525,000/- on residence provided to the chairman was included in administrative expenses and this has not been adjusted for chairman's Advance Personal Income Tax (APIT) purposes.

- (4) Distribution expenses include the following:

- The bad debt directly written off to the income statement in respect of trade debt was Rs.460,700/-. In addition to this, a general provision made to the income statement was Rs.136,000/-.
- During the year of assessment, the company has provided a foreign tour to the marketing director with his family and cost of air tickets and accommodations charges were Rs.800,000/-.
- The company has donated Rs.300,000/- worth of coconuts to an elders' home which is an approved charity.

(5) Details of Property, Plant and Equipment are as follows:

Asset (At Cost)	Balance as at 01.04.2024 (Rs.)	Additions (Rs.)	Disposal (Rs.)	Balance as at 31.03.2025 (Rs.)
Lands	250,100,000	-	(28,000,000)	222,100,000
Office and warehouse Buildings	50,125,000	-	-	50,125,000
Furniture and Fittings	22,890,000	5,000,000	-	27,890,000
Motor Vehicles	13,870,000	3,000,000	-	16,870,000
<b>Total</b>	<b>336,985,000</b>	<b>8,000,000</b>	<b>(28,000,000)</b>	<b>316,985,000</b>

- A land was disposed in December 2024 for Rs.38,100,000/-.
- A tractor was purchased during the year for Rs.3,000,000/-.
- Furniture purchased for the chairman's residence during the year was Rs.1,000,000/-.
- Except Rs.8,000,000/- worth of Jeep provided to the chairman, all other vehicles are used for cultivation and sale of coconuts.
- All the assets as at 01<sup>st</sup> April 2024 have been acquired during the year of assessment 2021/22.

(6) The bank has deducted Rs.777,000/- as Advance Income Tax (AIT) / Withholding Tax (WHT) on the fixed deposits' interest income.

(7) The company has paid Rs.15,600,000/- as quarterly installments of income tax for the year of assessment 2024/25.

(8) The company has received withholding tax (WHT) certificates amounting to Rs.560,000/- from the tenant on rent income.

**You are required to:**

**Assess** the following of **Haritha Plantation Ltd.** for the year of assessment 2024/25:

- Assessable Income.
- Taxable Income.
- Gross Income Tax Payable, and,
- Balance Income Tax Payable / (Overpaid).

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

(25 marks)

## Question 09

**Sunil** is a resident individual and presently working as a Managing Director of a private limited company.

The following information relating to **Sunil** is provided in respect of the year of assessment 2024/25 (*hereinafter referred to as the 'year'*):

(1) **Income from employment:**

- Gross salary - Rs.400,000/- per month.
- The company has provided him a motor car (2000 cc) with fuel.

- He lives in an apartment provided by the company free of charge and the monthly rent of Rs.250,000/- is paid by the company to the owner of the apartment.
- During the year, **Sunil** was sent to China to represent the company in a regional conference of the group and paid USD 1000 for accommodation. (USD 1 = LKR 300/-). An air ticket costing of Rs.200,000/- was also provided.
- During the year, his wife was admitted to the hospital and he had to pay a sum of Rs.243,000/- as the hospital bill. However, 50% of the expense was reimbursed to him by the employer. This benefit is available to all executive staff of the company.
- His mobile bills were also reimbursed by the company. Such reimbursements made to him during the year of assessment were Rs.78,000/-.
- Advance Personal Income Tax (APIT) deducted for the year was Rs.1,248,840/-.

(2) During the year, **Sunil** has received the following interest income:

- On treasury Bills - Rs.57,000/-.
- On fixed deposits in a commercial bank - Rs.228,000/- (Net) – Deducted Withholding Tax / AIT.

(3) During the year, **Sunil** has received the following income from his investments:

- **Sunil** has earned a profit on sale of shares in quoted public companies amounting to Rs.187,600/- in January 2025.
- Dividend income (net) received from quoted public companies was Rs.65,400/- and applicable AIT / WHT was deducted from the dividend income.

(4) His own house is situated at Weligama and it was rented out to a family at a monthly rent of Rs.100,000/-.

(5) During the year, **Sunil** has donated Rs.100,000/- worth of medicines for flood victims and also he has donated Rs.200,000/- to an elder's home which is an approved charity established for the provision of institutionalized care for elderly persons.

(6) **Sunil** has paid Rs.300,000/- as quarterly installment payments of income tax for the year of assessment 2024/25.

**You are required to:**

**Assess** the following for **Sunil** for the year of assessment 2024/25:

- 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)

End of Section C

## **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.