



Association of Accounting Technicians of Sri Lanka

AA3 Examination - January 2019

**Questions and Suggested Answers
Subject No : AA35**

**CORPORATE AND PERSONAL TAXATION
(CPT)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EDUCATION AND TRAINING DIVISION

**AA3 Examination - January 2019
(AA35) Corporate and Personal Taxation**

SUGGESTED ANSWERS

SECTION – A

Four (04) compulsory Questions

(Total 20 marks)

Suggested Answers to Question One:

Chapter 01 - Introduction to Taxation

- a. Person that can be included as body of person are as follows;
- An association, club, society
 - A corporate society
 - A charitable institute
 - A trust
 - An examiner or administrator
 - Any local or public authority
 - Any Hindu undivided family
- b. Tax Authorities in Sri Lanka
- The Department of Inland Revenue
 - The Department of Customs
 - Provincial Department of Revenue
 - The Excise Department

(05 marks)

Suggested Answers to Question Two:

Chapter 01 - Introduction to Taxation

As per the provision of the Inland Revenue Act, any company incorporated in Sri Lanka should obtain a registration with the Department within one year from the date of incorporation. Therefore it is required to obtain the registration with the Inland Revenue Department.

Any person who carries on any trade, business, profession or vocation in Sri Lanka after obtaining a registration with the IRD should furnish a return of income on or before 30th November in the following year. Accordingly the company should furnish a return for the year of assessment 2017/18.

(05 marks)

Suggested Answers to Question Three:

(A)

Chapter 06 - Concepts and Applications

An individual whose income for any Y/A comprises solely of one or a combination of following is not required to file a return.

- (1) Profits from employment where PAYE has been deducted
- (2) Dividend on which WHT has been deducted
- (3) Interest on which WHT has been deducted

Accordingly Sarath is not required to file a return of income for the year of assessment 2017/18.

(B).

Chapter 05 - Obligations and Procedures
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If any individual satisfies any four requirements to be satisfied for submitting the return of income not later than 30 days after the fulfillment of such requirements.

- Paying a monthly residential electricity bill exceeding a net amount of Rs.10,000
- Incurring a monthly credit card bill exceeding Rs.25,000
- Paying a monthly residential telephone bill exceeding a net amount of Rs.10,000
- Owning a motor vehicle which is used for traveling purposes
- Purchasing an air ticket to travel abroad

(05 marks)

Suggested Answers to Question Four:

Chapter 06 - Concepts and Applications

Any profit of Income received under the employee contract shall be treated as profit or income for tax purpose. Hence, bonus received from employee shall be treated as liable employment benefit for the tax purpose.

According to the decision given on decided tax case Law, “Crib vs. Commissioner of Income tax” it was held that,

- (1) The payment was a personnel gift which could not be regarded as profit from employment within the meaning of tax law
- (2) The appellant could not be penalized for the choice of a word, whether it be deliberate or accident, by the party making the payment
- (3) Long service rendered by the appellant to the company was the motive, but not the consideration for the payment

As per scenario related to Mr. Dias, the mere fact that that the payment made to an employee as a result of or in connection with his employment is not enough to render the payment liable to tax. Thus a special bonus paid to the employees in view of his exceptional service to the company and in consideration of the fact that he had to undergo medical treatment was held to be not a profit from employment.

Therefore in this case the special bonus given to Mr. Dias can't be considered as employment benefit.

(05 marks)

End of Section A

Three (03) compulsory questions
(Total 30 marks)

Suggested Answers to Question Five:

(a)

Chapter 04 - Taxation of Miscellaneous Undertakings

Calculation of the Divisible Profit

**Sithu Pathu Grower
Year of Assessment 2017/2018
Calculation of the Divisible Profit**

	+	-
Net Profit As Accounts	7,998,000	
Interest Income – Remove to consider separately		7,500
Partner’s Salary-Pathumi - Disallowed	720,000	
Sithumi’s Daughter Allowed	0	
Interest for Sithumi’s loan Business exp. Allowed	0	
Accounting Depreciation - Disallowed	432,000	
Depreciation Allowance on assets - Allowed		168,000
Other expenses- allowed for tax Purpose	0	
	9,150,000	175,500
Divisible Profit	<u>8,974,500</u>	

(04 marks)

(b)

Chapter 04 - Taxation of Miscellaneous Undertakings

Calculation of the Partnership Tax Liability

Divisible Profit	8,974,500
Other Sources of Income	
Gross Interest Income	<u>7,500</u>
	8,982,000
Less: Partnership Tax free Allowance	<u>(1,000,000)</u>
Taxable Income	<u>7,982,000</u>
Partnership Tax Liability	7,982,000* 8%
	<u>638,560</u>

(03 marks)

Chapter 04 - Taxation of Miscellaneous Undertakings

(c) Distribution of Profit and Income among the Partners

	Pathumi	Sithumi	Total
Salaries	720,000	0	720,000
Other income	5,000	2,500	7,500
Profit share	5,983,000	2,991,500	8,974,500
	6,708,000	2,994,000	9,702,000

(03 marks)
(Total 10 marks)

Suggested Answers to Question Six:

(a)

Chapter 07 - Business Taxes

Avotel Tehnologies Ltd
Quarter ended March 31, 2018
Calculation of VAT payable

Out Put Tax			
Sale of Computers	5,200,000	Exempted	
Sale of Network cabling and installation	3,900,000*15%	585,000	
Maintain Services –SVAT supply	1,350,000 * 15%	202,500	
Software developed to foreign buyer	4,000,000 * 0%	<u>0</u>	787,500
Input Tax			
On Importation of Network cable		320,000	
Transport of computers sold to Jaffna-as computers exempt not claimable		Not claimable	
B/F Input Tax		<u>52,000</u>	
Total Input for the Period			<u>(372,000)</u>
Tax payable			415,500
SVAT Credit Vouchers			(202,500)
Balance Tax Payable			213,000

(10 marks)

Suggested Answers to Question Seven:

Chapter 07 - Business Taxes

Sunimal Enterprises
Quarter ended March 31, 2018
Calculation of NBT payable

Out Put Tax			
Sale of ceramic products manufactured	4,360,000 * 2%	87,200	
Sale of paints & material imported	5,200,000*50%* 2%	52,000	
Interest income - Investment Income	Not liable	<u>0</u>	139,200
Less: Tax Credits			-
On paint & other material imported Not directly related to the manufacturing	Not entitled	-	-
On imported raw material			(62,000)
On imported paints	Not entitled		-
NBT Payable			(77,200)
Less: Installment Payment			(25,000)
Balance NBT Payable			<u>(52,200)</u>

(10 marks)

Two (02) compulsory questions.

(Total 50 marks)

Suggested Answers to Question Eight:

Chapter 02 - Statutory Income

**Maliga Construction (Pvt) Ltd
Computation of Income Tax Liability
For the Y/A 2017/2018**

			+	-
Profit before Tax			16,250,000	
Less: other sources of income				
Interest fixed deposits	other source of income			240,000
Debenture interest	other source of income			1,456,000
Insurance claim				
Depreciation			5,028,000	
Depreciation allowances				
Machinery	3,450,000	33 1/2%		1,150,000
Office equipment	348,000	33 1/2%		116,000
Computers - leased	not entitled			
Disposal of truck				
Insurance receipt	300,000			
Tax written down value (2,400,000 - 1,920,000)	(480,000)			
Taxable loss	180,000			180,000
Lease interest			60,750	
Total lease value	1,350,000			
1/4th of above	337,500			
Paid		450,000		
Lower				337,500
Entertainment	Not allowed		134,000	
Foreign travelling to purchase machine	Capital nature		120,000	
Foreign travelling to Maldives				
Actual Amount		354,000		
Limited to 2% of previous year profit (14,880,000 x 2%)		297,600		
Disallowed amount			56,400	
Additional tax			1,276,000	
Penalty on additional tax			127,600	
Liquidated damages paid on delaying completion	allowed			
Cash donation to a children home which is an approved charity			1,000,000	
Scholarships for staff members children			250,000	

Fees for settlement of tax assessment			65,000	
Fee for tax return filing		allowed		
Gratuity payment	not allowed		8,500,000	
Advertising	25%	765,000	191,250	
Interest paid to parent company:				
Loan	112,000,000			
(Stated Capital and Reserves) 4	(100,000,000)			
(20,000,000 + 5,000,000) 4				
	12,000,000			
Interest not allowed (12,000,000/112,000,000) x 3,000,200			321,450	
			33,380,450	3,779,500
Profit from trade business			29,600,950	
Profit from trade business				29,600,950
FD interest (240,000 / 90) x 100				266,667
Debenture interest		exempt		-
Total Statutory Income				29,867,617
Less: Statutory Deductions				-
Assessable income				29,867,617
Less: Allowance for qualifying payments				
Donation - children home	1,000,000			
	Maximum	500,000 or 1/5 of AI		(500,000)
Taxable Income				29,367,617
Tax liability at 12% (Construction undertaking)				3,524,114
ESC paid	4,382,000			
Claimed	(3,524,114)			(3,524,114)
ESC carried forward	857,886			
Balance Tax Payable				Nil

(25 marks)

Suggested Answers to Question Nine:

Chapter 03 - Taxation of Individuals and Companies (Resident)

Mrs. Silva

Year of Assessment 2017/2018

Income Tax Computation

	Rs.	Rs.
Employment Income		
Gross Salary (240,000 x 12)	2,880,000	
Vehicle benefit - Provision of one vehicle is exempt	-	
Accommodation and Air ticket provided is not an employment benefit	-	
Telephone bill reimbursement 50% has to adjust for PAYE	145,500	

Director Fee - $(84,000 / 84 \times 100) \times 12$	1,200,000	
Total Employment Income		4,225,500
Income from Property		
Net Annual Value - Rosmed Place house		
Rating Assessment	1,500,000	
Less: 25% allowance for repair	(375,000)	
NAV (one house is exempted)	1,125,000	Exempt
As the Mrs. Silva owns two houses the highest NAV house is exempted, so Rosmed place house is exempt		
Rent Income from Kandy house		
Gross rent - $100,000 \times 9$	900,000	
Less: Rates - $24,000 \times 3/4$	(18,000)	
	882,000	
Less: 25% allowance for repair	(220,500)	
Net Rent	661,500	
NAV = $90,000 \times 3/4 = 67,500$		
As the NR is higher than NAV, NR is taxable		
Accordingly, taxable NR is 661,500		661,500
Interest Income - As Mrs. Silva is senior citizen it is exempt		Exempt
Total Statutory Income		4,887,000
Less: Deduction under section 32		
Interest paid		*(304,000)
Assessable Income		4,583,000
Less: Qualifying payment		
Qualifying payment on Employment Income		(250,000)
Capital repayment of loan - Loan capital can be claimed up to a maximum limit of Rs. 600,000/-	280,000	*(280,000)
Donation to children home	90,000	
(1/3) of AI or 75,000 whichever is less	75,000	*(75,000)
Tax free allowance		(500,000)
Taxable Income		3,478,000
Tax Liability		
First 500,000 x 4%	20,000	
Next 500,000 x 8%	40,000	
Next 500,000 x 12%	60,000	
Balance Employment income maximum tax at 16%	316,480	
Gross Tax Liability		436,480
Less: Tax Credits		
PAYE		(200,000)
Self-assessment payment		(25,000)
WHT on Director fee ($1,200,000 \times 16\%$)		(192,000)
Balance Tax Payable		19,480

(25 marks)

End of Section C

Notice :

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”.

The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.

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