



Association of Accounting Technicians of Sri Lanka

AA3 Examination - July 2019

**Suggested Answers
Subject No - (AA35)**

Corporate and Personal Taxation (CPT)

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA3 Examination-July 2019

(AA35) CORPORATE AND PERSONAL TAXATION

SUGGESTED ANSWERS

Four (04) compulsory questions
(Total 20 marks)

SECTION - A

Suggested Answers to Question 01:

01.

(a) **Chapter 02 -Source of Income**

- 1) Employment income
- 2) Business income
- 3) Investment income
- 4) Other sources of income

(02 marks)

(b) **Chapter 05 -Obligations and Procedures**

- 1) A member of the Institute of Chartered Accountants of Sri Lanka
- 2) An Attorney-at-law
- 3) An employee regularly employed by that person
- 4) A member of the Sri Lankan Institute Taxation established under the Sri Lanka Institute of Taxation Act, No. 21 of 2000
- 5) An individual approved by the Commissioner General and registered as an auditor under the Companies (Auditors) Regulations
- 6) An individual specified by the Commissioner-General of any other kind
- 5) In the case of an individual, a relative
- 6) In the case of a company, a director or the secretary of that company
- 7) In the case of a partnership, a partner of that partnership
- 8) In the case of a body of persons, a member of such body

(03 marks)

(Total 05 marks)

Suggested Answers to Question 02:

Chapter 01 -Introduction to Taxation

To be resident for taxation purposes such companies should be

- incorporated or formed under the laws of Sri Lanka;
- registered or the principal office is in Sri Lanka; or
- at any time during the year the management and control of the affairs of the company are exercised in Sri Lanka.

Subsidiary of A2Z Inc. multinational company has formed in Sri Lanka under the laws of Sri Lanka. Accordingly subsidiary is a resident company for the taxation purposes for the Y/A 2018/2019.

(05 marks)

Suggested Answers to Question 03:

Chapter 06 -Concepts and applications

(a)

Shop rent to Silva (a resident person) - Rs.40,000/-of Withholding tax of 10% should be deducted –**Section 84**

Consultancy Fee to a tax consultant, Raj (a resident person) - Rs.75,000/-

Withholding tax of 5% should be deducted –**Section 85**

Fee paid to Easy Health (Pvt) Ltd. for janitorial services - Rs.150,000/- Not liable since payment is making to other than resident individual.

(03marks)

(b)

	Amount (Rs)	Rate	WHT
Rent	40,000	10%	4,000
Consultancy Fee	75,000	5%	3,750
Janitorial Services	150,000	Not liable, since not an individual	-
			7,750

(02 marks)

(Total 05 marks)

Suggested Answers to Question 04:

Chapter 05-Obligations and Procedures

(a) Installment payment = $\frac{A-C}{B}$

A = Estimated Tax Payable

B = Number of installments remaining including the current installment

C = Tax payments prior to that installment

Accordingly Installment payment value is

$$= \frac{750,000 - 300,000}{2} = \text{Rs. 225,000}$$

(03 marks)

(b) 15th February 2019

(02 marks)

(Total 05 marks)

End of Section A

Suggested Answers to Question 05:

Chapter 04-Taxation of Miscellaneous Undertakings

	Rs
(a) Profit before tax	= 12,100,000
Add/(Less)	
Partners Salary (1,440,000+1,200,000) -Disallowed	= 2,640,000
Depreciation -Disallowed	= 190,000
Less:	
Depreciation Allowance	= (175,000)
Partnership income for tax purpose	<u>= 14,755,000</u>

(03 marks)

(b) 8% WHT on partnership income	= Rs.14,755,000 *8%
	<u>= Rs.1,180,400</u>

(02 marks)

(c) Share of partnership profit of each partner	= Rs.(14,755,000-2,640,000)/2
	= Rs.6,057,500
Praveen's income	= Rs.120,000*12+6,057,500
	= <u>Rs.7,497,500</u>
Nissan's Income	= Rs.100,000 *12 +6,057,500
	= <u>Rs.7,257,500</u>

Alternative Answer

	Praveen	Nissan	Total
Salary paid to partners	1,440,000	1,200,000	2,640,000
Balance Profit	6,057,500	6,057,500	12,115,000
Share of Profit	7,497,500	7,257,500	14,755,000
WHT @ 8%	599,800	580,600	

(03 marks)

(d) Withholding tax credit available to each partner

$$\text{Praveen} = \text{Rs. } 1,180,400 \times \frac{7,497,500}{14,755,000}$$

$$= \underline{\underline{\text{Rs. } 599,800}}$$

$$\text{Nissan} = \text{Rs. } 1,180,400 \times \frac{7,257,500}{14,755,000}$$

$$= \underline{\underline{\text{Rs. } 580,600}}$$

(02 marks)
(Total 10 marks)

Suggested Answers to Question 06:

Chapter 07- Chapter Name-Business Taxes

(a)

Computation of NBT Payable of Ransalu Enterprises (Pvt) Ltd For the Quarter ended 31st December 2018

	Rs
Turnover	
Sale of Handloom Sarees (8,340,000 x 2%)	166,800
Sale of items locally purchased (5,340,000 x 50% x 2%)	53,400
Sale of Machinery- not liable	220,200
Less : Input Tax	
Import of raw materials	(126,000)
Local Purchases –not liable	
NBT for the quarter ended 31/12/2018	94,200
Less :Monthly installment paid	(50,000)
Balance NBT payable for the quarter ended 31/12/2018	44,200

(06 marks)

(b) 20th January 2019

(01 mark)

(c) **Economic Service Charge (ESC) :**

Manufacturing		8,340,000	0.5%	41,700
Whole sale and retail		5,340,000	0.5%	26,700
Sale of machine	Not liable			
ESC Payable				68,400

(03 marks)
(Total 10 marks)

Suggested Answers to Question 07:

(a)

Chapter No 07 -Business Taxes

Output Tax					
Taxable Supplies	6,084,000	15%		912,600	
Suspended Supplies	1,716,000	15%		257,400	
	7,800,000				1,170,000
Input Tax					
On purchase of raw material				843,000	
On repairs to motor car used by CEO	unable to claim since activity is not connected to the supply to goods/service	Not allowed		-	
				843,000	
Allowable Input Tax					
Attributable to Suspended Supplies	1,716,000	843,000			
	7,800,000		185,460		
Not belong to above(843,000-185,460)		657,540			
Limited to 100% of output Tax		912,600			
Lower Amount			657,540	843,000	843,000
Tax Payable					327,000
Less:SVAT Credit Vouchers					(257,400)
Balance Payable					69,600

(07 marks)

(b)

Chapter 07 -Business Taxes

Particulars to be included in a tax invoice

1. The name, address and the registration number of the supplier;
2. The name and address of the person to whom the supply was made;
3. The date on which the tax invoice was issued and its serial number;
4. The date of supply and the description of the goods or services;
5. The quantity or volume of the supply;
6. The value of the supply, the tax charged and the consideration for the supply; and
7. The words "TAX INVOICE" at a conspicuous place in such invoice.

(03 marks)
(Total 10 marks)

End of Section B

Two (02) compulsory questions.
(Total 50 marks)

SECTION - C

Suggested Answers to Question 08:

Chapter 03-Taxation of Individuals and Companies (Resident)

**Sahasra International (Pvt) Ltd
Tax Computation for Year of Assessment 2018/19**

				+	-
				Rs.	Rs.
Business Income	Note 01				63,923,250
Investment Income	Note 02				350,000
Assessable Income					64,273,250
Less: <u>Qualifying Payments and Reliefs</u>					
Donation-API-wenuwen Api Fund					(1000,000)
Taxable Income					63,273,250
Tax liability at 28%					17,716,510
Tax Credits					
ESC Paid					(2,828,750)
Withholding Tax					(17,500)
Quarterly Installments					(8,000,000)
Balance Payable					6,870,260

Note 01: Computation of business income

Profit before Tax

Profit before Tax				64,356,980
Less:				
Interest fixed Deposits	Investment Income		350,000	
Dividend Income	Investment Income		122,980	
Disposal Profit of delivery van			84,000	
Provision for Gratuity				764,000
Depreciation				4,876,000
Donation made to Api wenuwen Api Fund				1,000,000
Penalty		Disallowed		53,500
Foreign tour Expenses		Disallowed		800,000
Entertainment		Disallowed		225,000
Advertising –TV Commercials	Fully allowed since incurred for the production of income			
Advertisement to recruitments	Allowed			

Provision for bad debt	Disallowed				500,000
Bad Debts	Allowed				
Depreciation Allowances					
Machinery	1,200,000	2018/19	20%	240,000	
Lorries	4,000,000	2018/19	20%	800,000	
Computers	435,000	2018/19	20%	87,000	
Office equipment	477,000	2016/17	33 1/3%	159,000	
Computers	265,000	2016/17	25%	66,250	
Machinery	2,475,000	2016/17	33%	825,000	
Delivery Van	No Capital Allowances for year of Disposal				
Motor car - CEO	No Capital Allowances for year of Disposal				
<u>Disposal of Lorry</u>					
Cost			2,400,000		
Capital allowances claimed(2,400,000*20%*2)	2,400,000 * 20%*2		(960,000)		
Written Down Value			1440,000		
Sale Proceeds			(1,200,000)		
Balancing Allowance (Loss on disposal)				<u>240,000</u>	
				2,974,230	72,575,480
Brought Forward Losses					<u>(5,678,000)</u>
Business Income					<u>63,923,250</u>
<u>Note 02-Computation of Investment Income</u>					
FD Interest					
Dividend Income	Exempt				350,000
Investment Income					<u>350,000</u>

(25 marks)

Suggested Answers to Question 09:

Chapter 03 -Taxation of Individuals and Companies (Resident)

**Mrs.Sarala
Y/A 2018/19
Income Tax Computation**

Salary(Rs.200,000*12)		2,400,000	
Travelling Allowance(Rs.35,000*12)		420,000	
Bonus		200,000	
Value of residence(Rs.50,000*12)		600,000	
Telephone bills (Rs.64,000*50%)		32,000	
EPF,ETF -Exempt			
Gift -10th Year		<u>100,000</u>	3,752,000
Investment Income			

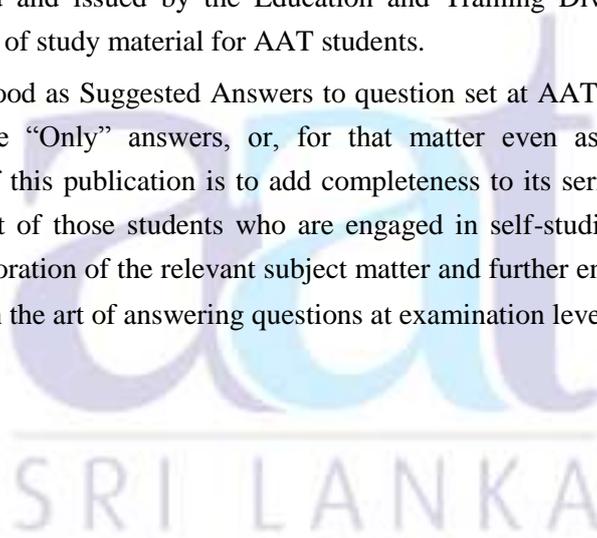
Interest Income			
-on Fixed Deposit(not liable WHT Paid)-Final Tax			
-on loan given to a friend		100,000	
<u>Rent Income</u>			
Gross Rent(Rs.45,000*12)	540,000		
Less: Expenses-Rates(Rs.250,000*25%)	<u>(62,500)</u>	477,500	
Dividend Income			
Dividends-received from quoted public companies, which have been subject to 10% WHT	Final Tax	-	
			<u>577,500</u>
			4,329,500
Total Assessable Income			
Less: Qualifying Payments and Reliefs			
Personal allowance		(500,000)	
Allowance for employment		(700,000)	
25% Gross rent		(135,000)	
Donation to Government		<u>(100,000)</u>	<u>(1,435,000)</u>
Taxable Income			2,894,500
Tax Liability			
600,000 4%		24,000	
600,000 8%		48,000	
600,000 12%		72,000	
600,000 16%		96,000	
494,500 20%		<u>98,900</u>	
			338,900
Less: Tax Credits			
Self-Assessment payments			(50,000)
PAYE			(190,720)
Balance Payable			98,180

(25 marks)

Notice:

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The logo for the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka) is centered on the page. It features the letters 'AAT' in a large, stylized font with a blue-to-purple gradient. Below 'AAT' is a horizontal line, and under that line, the words 'SRI LANKA' are written in a smaller, grey, sans-serif font.

SRI LANKA

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