



Association of Accounting Technicians of Sri Lanka

July 2020 Examination - Level III

Suggested Answers (304)

(304) CORPORATE & PERSONAL TAXATION

Association of Accounting Technicians of Sri Lanka

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(304) CORPORATE & PERSONAL TAXATION

SUGGESTED ANSWERS

(Total 20 Marks)

SECTION - A

Suggested Answers to Question One:

Chapter 01 –Introduction to Taxation of Sri Lanka

Date of Arrival	Date of Departure	Days present in Sri Lanka
01.05.2018	15.08.2018	107
15.11.2018	20.01.2019	66
05.03.2019	31.03.2019	<u>26</u>
Total		<u>199</u>

As per the above information during the Year of Assessment 2018/19 he has physically present 199 days in Sri Lanka & hence he is a resident in Sri Lanka for tax purposes for that year of assessment. (An individual shall be a resident in Sri Lanka for a year of assessment if the individual is present in Sri Lanka during the year and that presence falls within a period or periods amounting in aggregate to 183 days or more in any twelve month period that commences or ends during the year)

(05 marks)

Suggested Answers to Question Two:

Chapter 07 - Other Business Taxes

a)

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
7. The words "TAX INVOICE" at a conspicuous place in such invoice.

(03 marks)

b) 30th April 2019

(02 marks)

Suggested Answers to Question Three:

Chapter 06-Withholding Tax (WHT) and Capital Gain Tax and Case Laws Relating to Taxation

In the case of Rajapakse Vs CIT (1 CTC 27) an advocate who was operating from his chamber at home was allowed travelling expenses between his residence cum chamber (“place of the business”) and the courts as an allowable expense for taxation, by the Supreme Courts. It is concluded as the travelling from one place of business to another place of business and not from or to the residence.

Accordingly Zoysa can claim (allowed) cost of travelling between his residence and these two departments such as Inland revenue Department and Registrar of Companies as allowable expenses and it can be deducted from Soysa’s business income. Here, place of residence should be considered as Place of business. **(05 marks)**

Suggested Answers to Question Four:

Chapter 3- Taxation of Individuals & Companies (Resident)

- 1) Withholding Tax (WHT) deducted on dividend income was Rs.32,760/ considered as final withholding payment.
- 2) Withholding Tax (WHT) deducted on Interest Income was Rs.16,250/ considered as final withholding payment.
- 3) Withholding Tax (WHT) deducted on Lottery Prize was Rs.85,000/ considered as final withholding payment.
- 4) Withholding Tax (WHT) deducted on Consultancy fee was Rs. 6,500/ not considered as final withholding payment.
- 5) Withholding Tax (WHT) deducted on Rent income not considered as final withholding payment.

(05 marks)

End of Section A

Suggested Answers to Question Five:

Chapter 05 Chapter Name- obligations & procedures

a) 2nd Quarter - 15th November 2018
 3rd Quarter - 15th February 2019 (04 marks)

b)

Estimated tax Payable for the Y/A	-	(Installation payments WHT upto date)	
Remaining No. of installment for the Y/A			
Estimated Tax Liability for the year		900,000/	
Estimated Tax Liability for the 2 nd Quarter		{900,000-(300,000+0)}/3	
		= <u>Rs.200,000/-</u>	(03 marks)

c)

- a. - Court proceedings
- b. - Execution against tax payer's property.
- c. - Sale of seized property
- d. - offset against payments
- e. - Recovery from third party debtors

(03 marks)

Suggested Answers to Question Six:

Chapter 04 - Taxation of Miscellaneous Undertakings

a. **Computation of the partnership income/loss for the Y/A 2018/19**

	=	Rs
Net profit of the partnership		3,230,000
Add:		
Salaries paid to partners (1,080,000+960,000) – Disallowed		2,040,000
Depreciation on assets-Disallowed		240,000
Less:		
Capital Allowance on fixed assets		(360,000)
Partnership income for tax purpose		5,150,000

(03 marks)

b. **Withholding tax Payable by the partnership**

8% WHT on partnership income	=	5,150,000*8%
	=	<u>412,000</u>

(02 marks)

c. Allocation of share of partnership profit

	Namal	Kamal	Total
Salary paid to partners	1,080,000	960,000	2,040,000
Balance Profit	1,555,000	1,555,000	3,110,000
Share of Profit	2,635,000	2,515,000	5,150,000

(03 marks)

d. Withholding tax credit available to each partner

Namal = 2,635,000 * 8% = Rs. 210,800/-

Kamal = 2,515,000 * 8% = Rs. 201,200/-

(02 marks)

(Total 10 marks)

Suggested Answers to Question Seven:

Chapter 07 – Other Business Taxes

Output Tax					
Exports	6,120,000	Zero rated			0
Local Sales	4,425,000	15%			663,750
Sale of machine	46,000	15%			<u>6,900</u>
	10,591,000				670,650
Input Tax					
On import of packing materials	116,000	Allowed input relevant to Zero rated supply	116,000	-	
On office expenses	38,000		38,000		
On repairs to a machine used in production	4,800		4,800		
On repairs to the motor car	3,000	Not allowed due to personal use	-		
Allowable input tax			158,800		
Unabsorbed input VAT B/F	26,000		<u>26,000</u>		
			184,800		
Input tax attributable to zero rated supplies			157,785		
Balance input claim, limited to 100% of output Tax			27,015		
Total Input VAT					<u>(184,800)</u>
VAT payable					485,850
Less					(250,000)
Installment payment					
Balance Payable					235,850

(10 marks)

End of Section B

Suggested Answers to Question Eight:

Chapter 03-Taxation of Individuals and Companies(Resident)

Hash Trading (Pvt.) Ltd
Income Tax Computation for year of assessment 2018/19

		Rs.
Business Income (Note 1)		64,088,150
Investment income (Note 2)		600,000
Total Assessable Income		64,688,150
Less : Qualifying payments & Reliefs		
Donation to an approved charity Limited to Rs.500,000 or 1/5 of TI	1,000,000	(500,000)
Taxable income		64,188,150
Tax liability @ 28%		17,972,682
Less : Tax Credits		
ESC payments (876,500 + 2,631,000)		(3,507,500)
Payments as quarterly installments		(5,000,000)
WHT on rent		(60,000)
Balance Tax Payable		9,405,182

Note 1 - Computation of Business Income

				+	-
				Rs.	Rs.
Profit before Tax				64,240,000	
Investment Income - Rent income					600,000
Accounting profit from disposal of Furniture					80,000
Assessable Charge on disposal of furniture					
Sales Proceed	=	142,500			
TWDV {235-(235*20%*2)}	=	(141,000)		1,500	
Accounting depreciation				4,546,000	
Capital Allowances	Year of Acquired	Cost			
Buildings	15/16	8,000,000	10%		800,000
Lorries	16/17	4,324,000	20%		864,800
Motor Vehicles – not entitled	17/18	2,680,000			
Office Equipment	18/19	1,235,000	20%		47,000
Computers	17/18	2,875,000	25%		18,750
Furniture	16/17	1,624,000	20%		324,800
Computer software	18/19	1,000,000	25%		250,000
Donation				1,000,000	
Foreign Travel - Allowed				-	
Legal expenses(Capital nature expense)				52,000	
Provision for Gratuity				1,432,000	

Entertainment				267,000	
Written offs - Allowed				-	
Provision for Bad and doubtful debt				400,000	
Gratuity paid					765,000
Adjusted Profit				60,888,150	
Less :B/F losses 2017/18				(3,200,000)	
Business income				64,088,150	

Note 2 – Computation of Investment Income

Rent Income			600,000	
Less: Expenses				
Legal Fee	Not allowed			600,000
Investment Income				600,000

(25 marks)

Suggested Answers to Question Nine:

Chapter -03 Chapter Name-Taxation of Individuals and Companies (Resident)

Mr. Ruwan

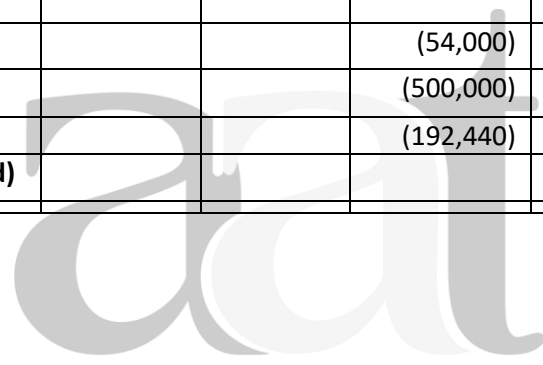
Income Tax Computation

For the Year of Assessment 2018/19

Primary Employment					
Employment Income					
Salary (200,000*12)				2,400,000	
Value of transport facility	50,000x12			600,000	
Life insurance				120,000	
Family trip				164,000	
Employment Income					3,284,000
Business Income					
Net Profit				664,000	
Add: Donation				250,000	
Photocopy machine				65,000	
Less : Capital Allowance		260,000	5 years	(52,000)	
Business Income					927,000
Investment income					
Interest income					
On fixed deposit	Final WHT			-	
From Treasury bills				126,000	
Rent income					
Gross rent (45x12)				540,000	
Less : Rates				(84,000)	
Realization of Investment Assets				456,000	
Consideration			55,000,000		
Less: Cost			(50,000,000)		
Broker fees			(100,000)		
Fence			(825,000)	4,075,000	
Investment Income					4,657,000

Assessable Income					8,868,000
Less: Qualifying payments and reliefs					
Personal allowance				(500,000)	
Allowance for employment				(700,000)	
25% of gross rent (540x25%)				(135,000)	
Donation to government	Claimable amount		250,000	(250,000)	
Taxable Income					7,283,000
Tax Liability					
Treasury Bill interest	126,000	5%	6,300		
Capital gain	4,075,000	10%	407,500		
	600,000	4%	24,000		
	600,000	8%	48,000		
	600,000	12%	72,000		
	600,000	16%	96,000		
	600,000	20%	120,000		
	82,000	24%	19,680		
	7,367,000		793,480		
Less : Tax Credits					
WHT on rent @ 10%			(54,000)		
Installment payment			(500,000)		
PAYE			(192,440)		
Balance Payable/(overpaid)					44,040

(25 marks)


 SRI LANKA

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