



**Association of Accounting Technicians of Sri Lanka**

**Level III Examination - January 2022**

**Suggested Answers**

**(304) CORPORATE & PERSONAL TAXATION**

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Level III Examination - January 2022

**(304) CORPORATE & PERSONAL TAXATION**

**SUGGESTED ANSWERS**

(Total 20 Marks)

**SECTION - A**

*Suggested Answers to Question One:*

**Chapter 01 –Introduction to Taxation of Sri Lanka**

According to Inland Revenue Act No. 24 of 2017, the resident status of an individual for taxation purpose in Sri Lanka is assessed based on his/her physical presence in Sri Lanka. Hence according to the act, **an individual shall be a resident of Sri Lanka for the year of assessment 2020/21. If the individual is physically present in Sri Lanka during the year and that presence falls within a period of periods amounting in aggregate to 183 days or more in any 12 months period that commences or ends during the year.**

According to the information provided, Nisal visited Sri Lanka on 5<sup>th</sup> July 2020 and departed from Sri Lanka on 14<sup>th</sup> November 2020. The period of Nisal's presence in Sri Lanka can be presented as follows.

<b>Physically present in Sri Lanka 05-07-2020 to 14-11-2020</b>	
July	27 days
August	31 days
September	30 days
October	31 days
November	14 days
Nisal's presence in Sri Lanka (In days) 2020/21 year of assessment	<b>133 days</b>

Accordingly, it can be noted that Nisal was in Sri Lanka for less than 183 days. Therefore, Nisal is considered as a non-resident person for the income tax purpose in Sri Lanka for the year of assessment 2020/21.

*(05 marks)*

### *Suggested Answers to Question Two:*

#### **Chapter 06 – Withholding Tax**

##### **a) Obligations of an employer under the APIT scheme are;**

- Deduct APIT from the gross remuneration of the employee who has given the consent to deduct APIT.
- Remit APIT deducted from employee's gross remuneration to the Commissioner General of Inland Revenue (CGIR) on or before the 15<sup>th</sup> day of the following month.
- Issue a tax deduction certificate (T10 Certificate) to the employees on or before 30<sup>th</sup> April of the immediately succeeding year of assessment or within 30 days from the date of an employee who is ceased employment.
- Furnish Annual Statement of APIT to the CGIR on or before 30<sup>th</sup> April of the immediately succeeding year of assessment.
- Keep records of payment of remuneration as per the forms specified by the CGIR.

**(03 marks)**

##### **b)**

- Name, employment number and NIC number of the employee.
- Period of tax deducted.
- Gross remuneration paid for the period and excluded income from tax.
- Amount of tax deducted.
- Amount of tax remitted to the CGIR.
- TIN No. of employer.
- Date of the Certificate issued.
- Signature of the employer.
- Whether the employment is or was a primary employment or a secondary employment with respect to the employee.

**(02 marks)**

**(Total 05 marks)**

### *Suggested Answers to Question Three:*

#### **Chapter 07 – Other Business Taxes**

**Star View Hotel Pvt. Ltd**  
**Computation of Tourism Development Levy (TDL)**  
**For the quarter ended 31<sup>st</sup> March 2021**

	(Rs.)
Room Revenue	12,540,000
Less: Service charges	(1,140,000)
Income from beverages	3,450,000
<b>Liable Turnover</b>	<b>14,850,000</b>

**Tourism Development Levy (TDL) at 1% - 14,850,000 × 1% = Rs.148,500**

**(05 marks)**

***Suggested Answers to Question Four:***

**Chapter 06 – Case law relating to taxation**

“*Ram Ishwara Vs. C.I.R*” is a case relating to recognition of an income whether adventure in the nature or trade or an isolated transactions. In this case, tax payer was a doctor and entered into an agreement with a landlord to purchase the land by paying Rs.45,000/- as a forfeitable deposit. After that he blocked the land and sold the blocks keeping few blocks for him, land lord and his wife. He has earned a profit and it was considered as an adventure in trade and profit earned form the transactions should be taxable.

Similar to the above case, Sunil purchased land of 2 acres near a famous national school and divided it into 10 perch slots and sell within two months period.

**Based on *Ram Ishwara Vs. C.I.R*, purchasing of land and reselling by Sunil constituted as conducting trade. Therefore, Sunil is liable for tax on the profit earned on the property transaction.**

**(05 marks)**



**End of Section A**

*Suggested Answers to Question Five:*

**Chapter 05 – Obligations and Procedures**

**(a)**

Yes. The company is required to submit the return of Income for the year of assessment 2020/21.

**Reasons**

1. As per the section 126 of IR Act No. 24 of 2017, **every person chargeable with income tax for any year of assessment shall furnish a return of income to the Assistant Commissioner in the specified forms within the stipulated time.**
2. As per the draft tax computation, **New Fashions Pvt. Ltd has taxable income for the year of assessment 2020/21.** Since, the company is liable to pay taxes, the company is required to submit the return of income for the year of assessment 2020/21.

**(03 marks)**

**(b)** 31<sup>st</sup> December 2021

**(02 marks)**

**(c)** As per the Section 178 of the IR Act No. 24 of 2017, a person who fails to file a tax return on or before the due date shall be liable to pay a penalty equal to,

The greater of;

- 5% of the amount of tax payable plus a further 1% of the amount of tax payable for each month or part of a month until the failure to file the return continues.
- Rs.50,000/- plus Rs.10,000/- for each month or part of a month until the failure to file the return continues.

However, the above penalties shall not exceed Rs. 400,000/-.

**(04 marks)**

**(Total 10 marks)**

*Suggested Answers to Question Six:*

**Chapter 07 – Other Business Tax (VAT)**

**Sunera Ltd  
Computation of VAT Payable  
For the Quarter ended 31<sup>st</sup> March 2021**

(Rs.)

	<u>Value of Supply</u>	<u>Rate</u>		<u>Tax</u>
<b><u>Output Tax</u></b>				
Zero rated supplies (Exports)	3,390,000	0%		-
Taxable supplies	77,122,500	8%		6,169,800
SVAT supplies/ Suspended supplies	<u>4,237,500</u>	8%		<u>339,000</u>
<b>Total Output Tax</b>	<b><u>84,750,000</u></b>			<b>6,508,800</b>
<b><u>Input Tax</u></b>				
On import of raw material			825,000	
On local purchase of material			1,454,000	
On repair of delivery lorry			<u>28,540</u>	
Allowable input tax excluding brought forward amounts			<b>(2,307,540)</b>	
Unabsorbed input tax brought forward			(350,000)	<b>2,657,540</b>
Input tax attributable to zero rated and suspended supply $\left(\frac{7,627.5}{84,750} \times 2,657.54\right)$			239,170	
Balance input claim, Limited to 100% of output tax			2,418,370	2,657,540
<b>VAT Payable</b>				<b>3,851,260</b>
Less: Installments paid				(3,000,000)
SVAT credit voucher				(339,000)
<b>Balance VAT Payable</b>				<b><u>512,260</u></b>

(10 marks)

*Suggested Answers to Question Seven:*

**Chapter 04 – Partnership Tax**

(a)

**GS Traders  
Computation of Partnership Income  
For the year of assessment 2020/21**

(Rs.)

Net Profit		10,080,000
<b>Add:</b> Salaries to partners - Peter	1,600,000	
- Soysa	2,400,000	
Loan interest paid to Peter	325,000	
Salary paid to Soysa's daughter	Allowed	<u>4,325,000</u>
		14,405,000
<b>Less:</b> Interest income	150,000	
Profit on sale of a land	4,750,000	<u>(4,900,000)</u>
<b>Business Income</b>		<b><u>9,505,000</u></b>
<b><u>Taxable Income:</u></b>		
Business Income		9,505,000
Interest Income		150,000
<b>Capital Gain:</b>		
Sales Proceed	9,250,000	
As at 30.09.2017	(6,000,000)	3,250,000
<b>Total Taxable Income of the Partnership</b>		<b><u>12,905,000</u></b>
<b>Gross Income Tax Payable:</b>		
Capital Gain Tax (3,250,000 x 10%)		325,000
Balance Rs.9,655,000		
1,000,000 × 0%		-
8,655,000 × 6%		519,300
<b>Gross Income Tax Payable of the Partnership</b>		<b><u>844,300</u></b>

(a)- (04 marks)

(b)- (03 marks)

(c)- (03 marks)

(Total 10 marks)

**End of Section B**

*Suggested Answers to Question Eight:***Chapter 03 – Taxation of Individuals & Companies (Resident)**

**Mega (Pvt) Ltd.**  
**Computation of Income Tax Payable**  
**For the year of assessment 2020/2021**

			(Rs.'000)
	Note		Rs.
			175,780,658
			1,589,400
<b>(a)</b>		<b>Assessable Income</b>	<b>177,370,058</b>
		<b>Less: Qualifying payments and reliefs</b>	
		Donation to COVID-19 Relief Fund	unlimited (1,000,000)
		Donation to employees	Not allowed -
<b>(b)</b>		<b>Taxable Income</b>	<b><u>176,370,058</u></b>
		<b>Tax Liability</b>	
		Gains from exports (174,780,658 × 14%)	24,469,292
		Investment income (1,589,400 × 24%)	<u>381,456</u>
<b>(c)</b>		<b>Gross Income Tax Payable</b>	24,850,748
		<b>Less: Tax Credits</b>	
		Quarterly Installments	<u>(10,000,000)</u>
<b>(d)</b>		<b>Balance Income Tax Payable</b>	<b>14,850,748</b>

**Note 1: Computation of Business Income**

**Mega (Pvt) Ltd.**  
**Computation of Assessable Income from Business**  
**For the year of assessment 2020/2021**

			(Rs.'000)
Description	Workings	+	-
Net Profit before tax		154,800,000	
Sale of shares – Investment Income			5,000,000
Interest Income – Investment Income			1,589,400
Capital Allowance	<b>01</b>		24,630,200
Depreciation		34,250,000	
Entertainment Expenses		1,145,000	
Loss on disposal of furniture		96,000	
Gratuity Provision		15,425,000	
Donation		1,500,000	

		+	-
Assessable Charge/ (Balancing Allowance)	<b>02</b>		635,000
Finance Expenses	<b>03</b>	419,258	
<b>Total</b>		<b>207,635,258</b>	<b>31,854,600</b>
<b>Assessable Income</b>		<b>175,780,658</b>	

### Note 2 – Computation of Investment Income

Sales of Shares – Exempt	-
Interest Income	<u>1,589,400</u>
<b>Investment Income</b>	<b><u>1,589,400</u></b>

### Working 1 – Capital Allowance

Description	Year of acquisition	Cost of Assets	Capital Allowance Rate	Capital Allowance
Land	17/18	86,000,000	-	-
Building	17/18	64,000,000	10%	6,400,000
Machinery	17/18	48,453,000	33 1/3%	Fully claimed
Machinery	20/21	12,500,000	5 Years	2,500,000
Motor Car	19/20	18,450,000	-	Not entitled
Lorries	18/19	64,120,000	5 Years	12,824,000
Office Equipment	18/19	12,656,000	5 Years	2,531,200
Computers	19/10	1,875,000	5Years	375,000
<b>Total</b>				<b>24,630,200</b>

### Working 2 – Profit on Disposal

Sales Proceeds		265,000
Less: Tax Written Down Value		
Cost of machinery	2,250,000	
<u>(-) Capital Allowance Claimed</u>		
Y/A 2017/18 - 2,250,000 X 20%	450,000	
Y/A 2018/19 - 2,250,000 X 20%	450,000	
Y/A 2019/20 - 2,250,000 X 20%	450,000	<u>(1,350,000)</u>
<b>Assessable Charge/ (Balancing Allowance)</b>		<b><u>(635,000)</u></b>

### Working 3 – Finance Expenses

Finance cost shall be deducted as per Section 18 of the Inland Revenue Act no. 24 of 2017. As the company engages in the manufacturing of automotive batteries the deduction of interest attributed to the cost of financial instrument is limited to 3 times of stated capital and reserves.

$$\frac{A \times C}{B}$$

Where;

A – Finance Cost

B – Value of Financial Instrument

C – 3x of issued share capital and reserves as at end of the year

$$\frac{5,989,400 \times [(10,000+5,500) \times 3]}{50,000}$$

5,570,142

Total finance cost	5,989,400
Allowable finance cost	<u>5,570,142</u>
Finance cost disallowed and C/F	<u><b>419,258</b></u>

(25 marks)

*Suggested Answers to Question Nine:*

**Chapter 03 – Taxation of Individuals & Companies (Resident)**

**Rathnasinghe**  
**Computation of Income Tax Payable**  
**For the Year of Assessment 2020//2021**

	Note	Rs.	Rs.
Assessable income from Employment	01		5,778,000
Assessable Income from Business	02		6,141,000
Assessable income from Investment	03		84,500
<b>Assessable Income</b>			<b>12,003,500</b>
<b>Less: Qualifying Payments and Reliefs</b>			
Donation to an approved charity limited to 1/3 of TI or Rs.75,000			(75,000)
Personal Allowance			(3,000,000)
Relief Medical Insurance		(150,000)	
Education Expenses		(700,000)	
Hospital Bill - Not allowed			
Limited to 1.2 Mn		(850,000)	<u>(850,000)</u>
<b>(a) Taxable Income</b>			<b><u>8,078,500</u></b>
Tax Liability	On first	3,000,000	6%
	On second	3,000,000	12%
	Balance	<u>2,078,500</u>	18%
		8,078,500	914,130
<b>(b) Gross Income Tax Payable</b>			<b>914,130</b>
<b>Less: Tax Credits</b>			
Installment Payments			<u>(500,000)</u>
<b>(c) Balance Income Tax Payable</b>			<b><u>414,130</u></b>

## Note 1 - Employment Income

### Primary Employment

Basic Salary (375,000 x 12)	4,500,000
Bonus (200,000 + 100,000)	300,000
Motor car (1,000 CC)	240,000
Fuel Allowance (60,000 x 12)	720,000
Telephone bills (36,000 x 50%)	18,000
<b>Assessable Income from Employment</b>	<b>5,778,000</b>

## Note 2 – Business Income

Net Profit	4,641,000
Salary – allowed	
Electricity, Water and Telephone – allowed	
Penalty – disallowed	1,000,000
Fee paid to a lawyer	500,000
Maintenance expenses – allowed	
<b>Assessable Income from Business</b>	<b>6,141,000</b>

## Note 3 – Investment Income

Interest income on LKR deposit	84,500
Interest income on FCBU Savings – Exempted	-
<b>Assessable income from Investment</b>	<b>84,500</b>

(25 marks)

*End of Section C*

***Notice:***

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