



Association of Accounting Technicians of Sri Lanka

Level III Examination - July 2022

Suggested Answers

(304) CORPORATE & PERSONAL TAXATION (CPT)

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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

(a)

In terms of Section 69(4) of the Inland Revenue Act (IR Act) No. 24 of 2017, the company shall be resident in Sri Lanka, if

- It is formed or incorporated under the laws of Sri Lanka
- Registered office or principal office in Sri Lanka or
- At any time during the year of assessment, the management and controls of the affairs of the company are exercised in Sri Lanka.

Based on the information given in the case, Millar International Ltd (MIL) will be incorporated under the laws of Sri Lanka. Accordingly, MIL is considered a resident company in Sri Lanka for taxation purposes.

(03 marks)

(b)

Direct taxes applicable in Sri Lanka are;

- Income Tax
- Stamp Duty
- Betting Tax
- Lottery Tax
- Customs Duty

(02 marks)

(Total 05 marks)

Suggested Answers to Question Two:

Chapter 02 – Realization of Investment assets

(a)

RAMIS Pvt. Ltd

Computation of Capital Gain Tax

For the Y/A 2021/2022

	<u>Land (Rs.)</u>	<u>Quoted Shares</u>
Sales Proceeds	5,500,000	650,000
<u>Less: Cost of the Asset</u>		
Purchase cost as at 30.09.2017*	<u>4,000,000</u>	<u>540,000</u>
Capital gain (Rs.)	<u>1,500,000</u>	<u>110,000</u>

* As the land was acquired prior to 30th September 2017, the cost of such asset shall be equal to the market value of the asset as at 30th September 2017.

(03 marks)

(b)

	<u>Land (Rs.)</u>	<u>Quoted</u>
Tax Liability at 10%	150,000	Exempt

(02 marks)

(Total 05 marks)

Suggested Answers to Question Three:

Chapter 06 – Case law relating to taxation

In the Case of Hayley & Co. Ltd Vs. CIR (3 CTC 113), a company engaged in purchase and export of commodities (especially rubber), has suffered a loss of money held in the safe by theft and claimed the net loss after the insurance claim as an “outgoing”.

It was held:

That the word “outgoings” is wide enough to cover losses which are involuntary outgoings. The outgoings must be “incurred in the production of profit”. The assessee’s loss was deductible as being incidental to the business.

As per the judgement the loss in this case was allowed to be claimed on the following grounds;

- (1) Expenses as well as outgoings are deductible. It includes involuntary outgoing as well. In this case, outgoing include losses such as loss of stocks & money by flood, fire and theft etc.

- (2) The outgoing should be incurred for the production of income, In this case the outgoing was allowed since it is incidental to the business.
- (3) The loss represents working capital and not fixed capital & therefore not capital expenditure.

In the given situation, the facts are similar to the facts of Hayley & Company case. Hence net loss is an allowable for arriving of the business income.

(05 marks)

Suggested Answers to Question Four:

Chapter 07- Stamp Duty

(a) Kasun

(b)

Sales of Land

First	Rs. 100,000 x 3%	-	3,000
On the balance	Rs. 7,400,000 x 4%	-	<u>296,000</u>
			<u>299,000</u>

(02 marks)

(03 marks)
(Total 05 marks)

End of Section A

Suggested Answers to Question Five:***Chapter 07 – Other Business Tax (VAT)*****Kesuke Bakers****Computation of VAT Payable****For the Quarter ended 31st March 2022**

<u>Output Tax</u>	<u>Value of Supply</u>	<u>Rate</u>	<u>Tax</u>
Taxable supply (44,340,000+650,000)	44,990,000	8%	3,599,200
Exempted Supply (Sale of Bread)	<u>37,037,000</u>	-	—
Total Output Tax	<u>82,027,000</u>		3,599,200
<i>(Rs. '000)</i>			
<u>Input Tax</u>			
On expenses related to bread	Not allowed. Relevant to exempt supply		
On purchases related to confectionery		1,653,000	
On common expenses	234,000		
Less: Input tax attributable to exempt supply / Disallowed Input for exempt supplies			
	<u>37,037,000</u> x 234,000	<u>(105,656)</u>	128,344
	82,027,000		
On Repair of Director's Motor Vehicle – Disallowed			
Input tax B/F / Unabsorbed input tax	B/F	<u>64,000</u>	
		<u>1,845,344</u>	
Input tax attributable to zero rated supply		-	
Limited to 100% of output tax		<u>1,845,344</u>	<u>(1,845,344)</u>
VAT Payable			1,753,856
Less: Installment Paid			<u>1,000,000</u>
Balance VAT Payable			<u>753,856</u>

(10 marks)

Suggested Answers to Question Six:

Chapter 05 – Obligations and Procedures

(a) The following items shall be included in the default assessment;

- The Amount of tax assessed
- The Amount assessed as penalty (if any) payable in respect of the tax assessed
- The amount of Late payment interest (if any) payable in respect of the tax assessed.
- The Tax period to which the assessment relates.
- The Due date for the payment of the tax, penalty, and interest being a date that is not less than thirty days from the date of service of the notice.
- The Manner of objecting to the assessment

(03 marks)

(b) As per Section 195 (1), the following persons can be appointed as an authorized representatives;

In any case-

- A member of CA Sri Lanka
- An attorney-at-law
- An employee regularly employed by the taxpayer
- A member of the Sri Lanka Institute of Taxation
- A registered auditor approved by the CGIR
- An individual specified by the CGIR
- In the case of an individual, a relative
- In the case of a company, a director or the secretary of that company
- In the case of a partnership, a partner of that partnership
- In the case of a body of persons, a member of such body

(04 marks)

(c) When JJ Stores Pvt. Ltd is making an appeal for an administrative Review, the following conditions are to be complied with;

- A request for a review shall be made to the Commissioner General of Inland Revenue in Writing.
- A request shall be made not later than 30 days after the decision is received.
- Shall Specify the grounds for review in detail.
- Since the request is against an assessment which has been made in the absence of return, such request shall be sent together with a duly filled return.

(03 marks)

(Total 10 marks)

Suggested Answers to Question Seven:

Chapter 04 – Partnership Taxation

Ceylonstar

Computation of Taxable Income

For the Year of Assessment 2021/2022

Description	Notes	+	-
Net Profit		4,791,600	
Partner's Salary	1	2,160,000	
Service Fees to Ajith	2	2,275,000	
Depreciation	3	1,765,000	
Capital Allowance	3		2,612,000
Interest Income	3		452,000
Rent – allowed		-	-
Distribution Expenses – allowed		-	-
Administration Expenses – allowed		-	-
Total		10,991,600	3,064,000
Business Income of the Partnership		7,927,600	
Add: Interest Income		452,000	
Tax Liability - Partnership		8,379,600	
Less: Partnership Relief (First 1 million)		1,000,000	
Balance		7,379,600	
Tax Payable by the Partnership @6%		442,776	

Note 1

Salaries paid to partners are disallowed

Iresh (Rs.180,000x12) Rs. 2,160,000

Note 2

A special payment made for maintaining the customer base Ajith is disallowed.

Ajith (Rs. 22,750,000x10%) Rs. 2,275,000

Note 3

Vehicles	Cost (Rs.)	Date of Acquisition	Rate	Capital Allowance
Motor lorry	12,000,000	01.04.2018	5 Years	2,400,000
Motorbike	480,000	01.04.2018	5 Years	96,000
Three wheeler	580,000	01.04.2019	5 Years	116,000
Total				2,612,000

(10 marks)

End of Section B

Suggested Answers to Question Eight:***Chapter 03 – Taxation of Companies*****Kids Toys Pvt Ltd****Computation of Tax Payable****For the Y/A 2021/22**

	Note	Rs.
Assessable Income from Business	1	16,288,500
Assessable Income from Investment	2	<u>3,130,000</u>
Total Assessable Income		19,418,500
Less: Qualify Payments	W-3	(1,000,000)
Taxable Income		<u>18,418,500</u>

Tax Payable

Special Rate (Dividend) (840,000 x 14%)	117,600	
Normal Rate (17,578,500 x 24%)	<u>4,218,840</u>	4,336,440
Less: Tax Credits		
Installment Payments		(4,200,000)
Balance income tax payable		<u>136,440</u>

Note 1 - Business Income**Kids Toys Pvt Ltd****Computation of Assessable Income from conducting Business****For the Y/A 2020/2021**

(Rs.)

Description	Workings	+	-
Net Profit		13,150,000	
Dividend – Investment Income			840,000
Interest Income – Investment Income			1,930,000
Rent Income – Investment Income			360,000
Profit on Disposal – Accounting Profit			470,000
Assessable Charges	1	1,600,000	
Book Depreciation – disallowed		3,536,000	
Capital Allowance	2		817,500
Donation	3	1,000,000	
Gratuity Provision	4	1,910,000	
Travelling (Allowed)		-	-
Entertainment - disallowed		135,000	-
Advertising (Allowed)		-	-
Gratuity payment	4		625,000
Total		21,331,000	5,042,500
Assessable income from conducting Business		16,288,500	

Working 1 : Profit on Disposal

Accounting profit on disposal of moto lorry is not considered as taxable profits or gain. According to the IR Act, we have to calculate Assessable Charges or Balancing Allowance on disposal of depreciable assets used in business.

Consideration			1,600,000
Less: Tax Written Down Value			
Cost of machinery		1,100,000	
<u>(-) Capital Allowance Claimed</u>			
Y/A 2016/17 - 1,100,000X20%*	220,000		
Y/A 2017/18 - 1,100,000X20%*	220,000		
Y/A 2018/19 - 1,100,000X20%*	220,000		
Y/A 2019/20 - 1,100,000X20%*	220,000		
Y/A 2020/21 - 1,100,000X20%*	<u>220,000</u>		
	<u>1,100,000</u>	<u>1,100,000</u>	<u>-----</u>
Assessable charge			<u>1,600,000</u>

* Assets purchased prior to 01.04.2018 and the rate of capital allowance in the Inland Revenue Act No. 10 of 2006 are applied to calculate the capital allowance of the motor lorry disposed.

Working 2 : Capital Allowance

Accounting depreciation is disallowed and eligible to claim capital allowance on assets used in the production of income during the year.

Description	Year of acquisition	Cost of Assets	Capital Allowance Rate	Capital Allowance
Land	2018/19	1,970,000	Not entitled	-
Land	2021/22	600,000	Not entitled	-
Building	2018/19	3,230,000	20 Year	161,500
Motor Lorry	2018/19	2,100,000	5 Years	420,000
Furniture & Fitting	2018/19	1,100,000	5 Years	220,000
Furniture & Fitting	2021/22	80,000	5 Years	16,000
				817,500

Working 3 : Donation

Donations to the Government is disallowed as not incurred in the production of income and eligible for deduction as quality payment in calculating taxable income as follows.

Donation to Ministry of Health (Donation to government is allowed 100%) - 1,000,000

Working 4 : Gratuity

Under Section 10 (1) (b viii), provision for gratuity is disallowed, and only the amount paid is allowed.

Note 2 - Computation of Assessable Income from Investment

Dividend	840,000
Interest Income - FD	1,930,000
Rent	<u>360,000</u>
Assessable income from Investment	<u>3,130,000</u>

*(25 marks)****Suggested Answers to Question Nine:*****Chapter 03 - Taxable income of an individual****Mr. Ravi****Income Tax Computation****For the Y/A 2021//2022**

	Note	Rs.	Rs.
Assessable income from Employment Income	1		6,724,000
Assessable income from Investment Income	2		<u>300,000</u>
Total Assessable Income			7,024,000

Less: Relief and Qualify Payments

Personal Relief		3,000,000	
Expenses Relief	3	490,000	
Rent Relief (25% allowed for repair, 25%*300,000)		75,000	
Total Relief		3,565,000	
Qualifying payment : Donation		<u>800,000</u>	
Total Relief and Qualify Payments			(4,365,000)
Taxable Income			<u>2,659,000</u>

Tax Liability

First	2,659,000x 6%	<u>159,540</u>
Total Gross Tax Payable		159,540

Total Tax Liability

Less: Tax Credits		
APIT Deducted	266,880	
SA Payments	<u>60,000</u>	
		<u>(326,880)</u>
Balance Tax Payable /Over Paid		<u>(167,340)</u>

Exempted Income:

Interest \$300 x 210	63,000
Dividend	<u>225,000</u>
	<u>288,000</u>

Note 1 - Employment Income

<u>Primary Employment</u>	<u>Workings</u>	
Basic Salary (390,000 x 12)		4,680,000
Travelling Allowance (60,000 x 12)		720,000
Bonus		390,000
Medical Expenses	1	314,000
Mobile phone bill (40,000 x 50%)		20,000
House Rent	2	<u>600,000</u>
Assessable Income from Employment		<u>6,724,000</u>

Working 1: Medical Expenses

As the medical expenses are not available for all full-time employees in the same grade on equal terms under Section 5 is a liable profit from employment.

Working 2 : House Rent

Assumed that the rent paid to the landlord is equal to the market value of the rent. The total rent benefit is Rs. 50,000 x 12 = R. 600,000/-.

Note 2 – Investment Income

Rent Income (25,000 x 12)	300,000
Interest Income RFC Account	Exempt
Dividend	
- Paid out of dividend received	<u>Exempt</u>
Assessable income from Investment	<u>300,000</u>

Note 3 - Expenses Relief

Housing Loan Interest	490,000
Education Expenses (Foreign University)	<u>Not allowed</u>
	<u>490,000</u>

Note 4 - Qualifying Payment

Donations to Pradeshiya Sabha in Polonnaruwa (considered as a donation to the government) 100% allowed.

(25 marks)

End of Section C

Notice:

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