



Association of Accounting Technicians of Sri Lanka

Level III Examination - January 2026

Suggested Answers

(304) CORPORATE & PERSONAL TAXATION (CPT)

Association of Accounting Technicians of Sri Lanka

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THE 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

(a). As per the section 69 (4) of the Inland Revenue Act, a company shall be resident in Sri Lanka for a year of assessment if,

- it is incorporated or formed under the laws of Sri Lanka;
- it is 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.

Krisudu (Pvt) Ltd. is a **resident company in Sri Lanka** because it is incorporated under the law of Sri Lanka. Under the Sri Lankan Income Tax Act, a company is resident if any of the above criteria fulfilled. Therefore, Krisudu (Pvt) Ltd. will be taxed in Sri Lanka on its worldwide income.

(03 marks)

(b).

- Value Added Tax
- Excise Duty
- Custom Duty
- Social Security Contribution Levy
- Stamp Duty
- CESS
- Special commodity Levy
- Ports and Airports Development Levy

(02 marks)
(Total 05 marks)

Suggested Answers to Question Two:

Chapter 06 – WHT and Capital Gain Tax and case Laws Relating to Taxation

	Residence House	Rubber Estate	Bare Land
Consideration received	13,500,000		16,470,000
<u>(-) Cost of the asset</u>			
FV as at 30/09/2017 or Acquisition cost	(10,000,000)	Not an investment asset	(11,850,000)
Broker fees	<u>(1,350,000)</u>		<u>(1,947,000)</u>
Capital Gain	<u>2,150,000</u>		<u>2,673,000</u>

Residence House Used from 2010 (Inherited)	Exempted	A capital gain arising from the disposal of an individual's principal place of residence is exempt from Capital Gain Tax (CGT) if both of the following conditions are satisfied: 1. The property must have been owned continuously for at least 3 years immediately before disposal. 2. The individual must have lived in the property for at least 2 out of those 3 years, calculated on a daily basis.
Rubber Estate (Earned income from rubber)		Not an investment asset (Disposal of rubber estate is not an investment asset which derived rubber income. Hence not liable for capital gain tax)

Bare Land at Matale (Purchased in 2014) Rs.2,673,000 ×10% = Rs.267,300

(Total 05 marks)

Suggested Answers to Question Three:

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

X & Co. is a partnership between Arjun and Priyal sharing profits equally (50% each). Arjun has entered into a separate sub-partnership agreement with Sameera under which Sameera is entitled to 25% of Arjun's share of profits. This agreement does not affect Priyal's share.

The tax implications of this arrangement can be explained by referring to the case of A. A. Davoodbhoy v. Commissioner General of Inland Revenue.

In this case, the court considered whether income shared under a sub-partnership arrangement could reduce the original partner's taxable income any partnership to share

the profit of another partnership is valid in law. The court held that income from a partnership is first assessed in the hands of the partner who is legally entitled to it. A private agreement to share such income does not amount to diversion of income at source. Instead, it is considered an application of income after it has accrued.

In the present case, the profits of X & Co. first accrue to Arjun to the extent of 50% under the main partnership agreement. The sub-partnership agreement between Arjun and Sameera is merely a private arrangement and Sameera is not a partner of X & Co. Therefore, the income first legally belongs to Arjun. The payment of 25% of his share to Sameera is simply an application of income after receipt. **Accordingly, Arjun is taxable on his full 50% share of partnership profits, and the 25% paid to Sameera is not deductible for tax purposes. Sameera will be taxed separately on the income received from Subpartnership, while Priyal will be taxed on her 50% share of profits from X & Co.** Thus, following the principle established in A. A. Davoodbhoj v. Commissioner General of Inland Revenue, the sub-partnership does not reduce Arjun's taxable income.

(05 marks)

Suggested Answers to Question Four:

Chapter 07- Other Taxes

(A)

Millenium Hotels (Pvt) Ltd.	
Tourism Development Levy Payable	
For the Quarter Ended 31 st March 2025	
	(Rs.)
Income received from Rooms	1,650,000
Income received from Food & Beverages	2,758,000
Income received from Spa	876,500
Total Income (Excluding Service Income)	5,284,500
Tourism Development Levy (TDL) @ 1%	52,845

(03 marks)

(B)

Number of shares sold = 10,000

Selling price per share = Rs. 35/-

Value of the transaction = Rs. 350,000

Share Transaction Levy Payable by XYZ Ltd,

$350,000 \times 0.3\% = 350,000 \times 0.003 = \text{Rs.}1,050/-$

(02 marks)

(Total 05 marks)

End of Section A

Suggested Answers to Question Five:***Chapter 07 - Other Taxes***

DGB (Pvt) Ltd.
Computation of VAT Liability
For the Quarter ended 31st March 2025

<u>Output VAT</u>	Value of Supply	Rate %	VAT
Local Sales	36,672,000	18%	6,600,960
Export Sales	5,254,000	0%	-
Rent income received	225,000	18%	40,500
Disposal of a motor lorry	3,540,000	18%	637,200
Total Output VAT			7,278,660
<u>Input VAT</u>			
On import of raw material		2,423,000	
On local purchase		1,473,000	
On repairs made to a motor car used by a director		Not allowed	
Allowable Input VAT		3,896,000	
B/F Unabsorbed input tax		524,520	
Total allowable input VAT			(4,420,520)
VAT Payable			2,858,140
Less:			
Monthly installments paid			(1,500,000)
Balance VAT Payable			1,358,140

(10 marks)

Suggested Answers to Question Six:

Chapter 04 – Taxation of Miscellaneous Undertakings

“Event Planners” Partnership			
Computation Income Tax Liability for the Year of Assessment 2024/25 (Rs.)			
	Note	(+)	(-)
Net profit before Tax		16,450,000	
Interest on Fixed Deposits (Gross)			250,000
<u>Salaaries paid to Partners - Disallowed</u>			
- Ruwan		2,400,000	
- Madhu		3,600,000	
Delivery Vehicle rent		Allowed	
Madhu’s Son Salary – Salary to Manager		Allowed	
Donation		300,000	
Accounting Depreciation		100,000	
Capital Allowance			200,000
		22,850,000	450,000
Partnership Business Income		22,400,000	
Add: Investment Income			
Interest on Fixed Deposits (Gross)		250,000	
Partnership, Assessable Income		22,650,000	
<u>Less: Sec. 52 – Qualifying Payments & Relief</u>			
Donation Made to Government Hospital		(300,000)	
Partnership Taxable Income		22,350,000	
<u>Calculation of Partnership Income Tax Payable</u>			
First 1,000,000 @ 0%			Nil
On balance 21,350,000 @ 6%			1,281,000
Gross tax payable			1,281,000

(10 marks)

Suggested Answers to Question Seven:

Chapter 05 – Obligations and Procedures

(A)

(a)

As per Section 93 of the Inland Revenue Act No. 24 of 2017, every person chargeable with income tax must file a return of income on or before 30th November following the end of the year of assessment. Therefore, return for the year of assessment should be submit on or before 30th November 2025.

(02 marks)

(b)

The greater of;

- 5% of tax owing, plus further 1% of the tax owing for each month or part a month during which the failure to file continues, and
- Rs. 50,000 plus another Rs. 10,000 for each month or part of a month during which failure to file continues.

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

(03 marks)

(B)

(a)

(i)

As per the provision of the IR Act no. 24 of 2017, Section 135 (2)(b) within thirty months of,

- for a self-assessment, the date that the self-assessment taxpayer filed the self-assessment return to which the self-assessment relates.

(ii)

As per the provision of the IR Act no. 24 of 2017, Section 135 (2)(a) can issue an amended / additional assessment at any time, in the case of in the case of fraud, or gross or wilful neglect.

(03 marks)

(b)

- Tax assessed
- Penalty assessed
- Tax period
- Due date for payment of tax and penalty
- The manner of objecting to the assessment

(02 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Eight:***Chapter 03 – Taxation of Individuals and Companies***

Crystal Beverages (Pvt) Ltd
Computation of Income Tax Liability
For the Year of Assessment 2024/25

		(Rs.000)
Business Income (Note 01)		13,410
Investment Income		
Interest Income - FD		8,950
Rent Income		16,940
Total Assessable Income		39,300
Less: Qualifying payments & Relief US \$52		
Goods: Donation to Pradeshiya Sabha		(500)
Taxable Income		38,800
Tax liability at 30%		11,640
Tax Credits		
SA Payment Made		(6,500)
WHT on FDs (8,950,000*5%)		(447.5)
AIT on Rent (16,940,000*10%)		(1,694)
Balance Income Tax Payable		2,998.5

Note 01 – Computation of Assessable Income from Trade / Business

	(Rs.000)	(Rs.000)
	+	-
Net Profit (Loss) Before Tax	32,600,000	
Less: Investment Income		
Interest Income from FD - Investment Income Tax Separately		8,950,000
Rent Income -Investment Income Tax Separately		16,940,000
Add/Less:		
Book Depreciation -Disallowed U.S 10	8,870,000	
Gratuity Provision	2,500,000	
Entertainment - Client Reception - Allowed Incurred for Production of Income	-	
Entertainment - Annual Trip - Not Allowed, Not Incurred for Production of Income	450,000	
Foreign Travelling - Allowed - Incurred for The Production of Income	-	

Loss from Asset Disposal	150,000	
Bad Debt Written Off - Allowed	-	
Doubtful Debt Provision	95,000	
Trademark Registration - Capital Nature - Disallowed	200,000	
Other Legal and Professional Fees - Allowed	-	
Fines & Penalties Late Filing Return - Disallowed	120,000	
Donation	500,000	
Capital Allowances		
During the year addition		
Plant & Machinery - 4,500 000 Over 5 years		900,000
Building -1,500,000 over 20 years		75,000
Previous years		
Land - Not Entitled		-
Office Building - 15,000,000 over 20 years		750,000
Plant & Machinery - 7,000 000 Over 5 years		1,400,000
Motor Vehicle -18,600,000 - (6,000,000 - 3,200,000) Over 5 years		1,880,000
Managing Director's Car Not entitled to claim Dep. Allowance		-
Furniture & Fittings - 2,800,000 over 5 years		560,000
Assessable Charge / Balancing Allowance on Asset Disposal		
Consideration 2,850,000		
Less: Cost 3,200,000		
Depreciation Allowances Claimed $(3,200,000/5 \times 2)$ -1,280,000		
TWV = $3,200,000 - 1,280,000 = 1,920,000$		
Assessable charge on Asset Disposal $(2,850,000 - 1,920,000)$	930,000	
Gratuity Paid		900,000
	46,415,000	32,355,000
Business Income - Before Adjusting Business Loss		14,060,000
Less: Business Loss B/F	(650,000)	
		13,410,000

(25 marks)

Suggested Answers to Question Nine:

Chapter 03 – Taxation of Individuals and Companies

Mr. Mevan		
Income Tax Computation		
Year of Assessment 2024/25		(Rs.)
Assessable Income from Employment	Note 1	8,700,000
Assessable Income from Business	Note 2	3,930,000
Assessable Income from Investment	Note 3	2,700,000
(a) Total Assessable Income		15,330,000
Less: Sec. 52 – Qualifying Payment & Reliefs	Note 4	(1,825,000)
(b) Taxable Income		13,505,000
(c) Gross Tax Payable	Note 5	4,411,800
Less: Tax Credits		
APIT Paid	(2,250,000)	
Installments Paid	(900,000)	
AIT on interest @ 5%	(40,000)	(3,190,000)
(d) Balance Income Tax Payable		1,221,800

Note 01 - Assessable Income from Employment (Rs.)

Gross salary (560,000 x12)	6,720,000
Vehicle benefit (20,000 + 20,000) * 12	480,000
Hospital bill (Medical benefits are available to all the employees of the company, on equal terms)	Not Liable
Foreign tour cost reimbursement - personal travelling	960,000
Residence provided by employer (90,000 * 12) * 50%	540,000
Assessable Income from Employment	8,700,000

Note 02 - Assessable Income from Business**(Rs.)**

	(+)	(-)
Net Profit before tax	3,700,000	-
Printing and Stationery	Allowed	-
Office Rent	Allowed	-
Electricity and Telephone Charges	Allowed	-
Bank Loan Interest (personal used) - disallowed	230,000	-
	3,930,000	-
Assessable Income from Business	3,930,000	

Note 03 - Assessable Income from Investment**(Rs.)**

<u>Gross Interest Income</u>		
On treasury bill	1,000,000	
Fixed deposit	800,000	1,800,000
Gain on sale of quoted shares	Exempt	-
Dividend income - paid out of dividend received	Exempt	-
<u>Rent Income</u>		
Gross rent income (75,000 * 12)	900,000	
(-) Rates paid (paid by tenant)	Not allowed	900,000
Assessable Income from Investment		2,700,000

Note 04 - Sec. 52 – Qualifying Payment & Reliefs

Personal tax relief	1,200,000
25% allowance on gross rent income (900,000 x 25%)	225,000
Book donation to Buddhist and Pali University of Sri Lanka	400,000
	<u>1,825,000</u>

Note 05 - Gross Tax Liability

First 500,000 x 6%	30,000
Next 500,000 x 12%	60,000
Next 500,000 x 18%	90,000
Next 500,000 x 24%	120,000
Next 500,000 x 30%	150,000
on balance (13,505,000-2,500,000) x 36%	3,961,800
	<hr/>
	4,411,800
	<hr/> <hr/>

(25 marks)



End of Section C

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