SRI LANKA

Association of Accounting Technicians of Sri Lanka

Level III Examination - July 2026

Question Paper and Suggested Answers

(3804) CORPORATE & PERSONAL TAXATION (CPT)

Association of Accounting Technicians of Sri Lanka
No.540,Ven. Muruththettuve Ananda Nahimi Mawatha,
Narahenpita, Colombo 05.

Tel : 011-2-559 669

A publication of the Education and Training Division

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level III Examination – July 2026

(3804) CORPORATE & PERSONAL TAXATION

SUGGESTED ANSWERS

(Total 20 Marks) **SECTION - A**

Suggested Answers to Question One:

Chapter 01 - Introduction to Taxation of Sri Lanka

As per the section 69 (1) of the Inland Revenue Act, an individual shall be a resident in Sri Lanka for a year of assessment if the individual fulfill one of the following factor:

a. resides in Sri Lanka;

b. is present in Sri Lanka during the year and that presence falls within a period or periods amounting in aggregate to one hundred and eighty-three days or more in any twelve-month period that commences or ends during the year;

c. is an employee or an official of the Government of Sri Lanka and his spouse is posted abroad during the year; or

d. is an individual who is employed on a Sri Lanka ship, within the meaning of the Merchant Shipping Act, during the period the individual is so employed.

(a)

(1)

Marie was physically present in Sri Lanka for 334 days from 01st April 2024 to 31st March 2025. Accordingly, she was present in Sri Lanka for more than 183 days within an any twelve-month period commencing during the relevant year of assessment 2024/25. Therefore, **Marie is a resident individual for the year of assessment 2024/25 for tax purpose.**

(2)

Pradeep is a non-resident individual for Sri Lankan tax purpose for the year of assessment of 2024/2025.

He does not satisfy the residency criteria because, he was present in Sri Lanka for only 19 days, which is below 183 days threshold.

He does not reside more than 183 days in Sri Lanka during the year, having relocated permanently to Australia under the PR scheme.

(Total 05 marks)

Suggested Answers to Question Two:

Chapter 05 – Obligations and Procedures

(a)
Due date: 30 April 2025

(02 marks)

(b)
- Ensures compliance with tax laws and regulations
- Promotes transparency and accountability
- Supports effective tax risk management
- Reduce risk & enhances.
- Build stakeholder trust
- Support strategic decision making

(Expect only 03 reasons)

(03 marks
(Total 05 marks)

Suggested Answers to Question Three:

Chapter 06 – WHT and Capital Gain Tax

Consideration received		30,000,000
<u>(-) Cost of the asset</u>		
Purchased value	(25,000,000)	
Stamp duty	(999,000)	
Broker fees	(1,500,000)	(27,499,000)
Capital Gain		**2,501,000**

<u>Capital Gain Tax</u>

Capital Gain x 10%	250,100

(05 marks)

Suggested Answers to Question Four:

Chapter 07- Other Taxes

Sahasra
Computation of Social Security Contribution Levy Payable
For the Quarter Ending 31st March 2025

	(Rs.)
Sale of educational materials 50%	7,280,000
Income from conducting classes 100%	34,500,000
Total Income (Excluding Service Income)	**41,780,000**
Liable turnover @100%	41,780,000
Social Security Contribution Levy (SSCL) @ 2.5%	**1,044,500**

(Total 05 marks)

End of Section A

Suggested Answers to Question Five:

Chapter 07 – Other Business Taxes

(a)

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

Output VAT	**Value of Supply**	**Rate %**	**VAT**
Cleaning services - Corporate Client	13,600,000	18%	2,448,000
Cleaning services - Apartment complexes	1,350,000	18%	243,000
Supply of cleaning chemicals	680,000	18%	122,400
Total Output VAT			**2,813,400**
Input VAT			
On purchase of cleaning chemicals		1,132,000	
On office expenses		124,000	
On repairs - Motor Coach		65,000	
Allowable Input VAT		**1,321,000**	
B/F Unabsorbed input tax		84,760	
Total allowable input VAT			**(1,405,760)**
VAT Payable			**1,407,640**
Less:			
Monthly installments paid			(330,000)
Balance VAT Payable			**1,077,640**

(08 marks)

(b)

No. The debit note cannot be included in the VAT return for the quarter ended 31 March 2025 because it was issued more than six months after the date of the original tax invoice (12 August 2024). Under the VAT Act, No. 14 of 2002 (as amended) debit notes used to adjust VAT must be issued within six months from the original invoice date. Therefore, the VAT adjustment is not allowable.

(02 marks)

(10 marks)

Suggested Answers to Question Six:

Chapter 04 – Taxation of Miscellaneous Undertakings

(a)

"Silver Loom Partners" Partnership			
Computation Income Tax Liability for the Year of Assessment 2024/25			**(Rs.)**
	Note	**(+)**	**(-)**
Net profit		18,539,000	
Interest on Fixed Deposits (Gross)			
Salary paid to Partners - disallowed			
Partners Salary			
Ana		1,200,000	
Elsa		1,800,000	
Ora		1,200,000	
Rent - Elsa		Allow	
Accounting depreciation		845,000	
Donation		50,000	
		23,634,000	**-**
		(-)	
Partnership Business Income		**23,634,000**	
Add: Investment Income		-	
Partnership, Assessable Income		**23,634,000**	
Less: Sec. 52 – Qualifying Payments & Relief			
Donation made to approved Charity (Cloths)		Not allow	
Partnership Taxable Income		**23,634,000**	
Calculation of Partnership Payable			
First 1,000,000 @ 0%			-
On balance 22,634,000 @6%			1,358,040
Gross tax payable			**1,358,040**

(07 marks)

(b)

Ms. Ana Calculation of taxable income for the Y/A 2024/2025 (Rs.)		
Partnership income share of Ana	W1	7,678,000
Total Assessable Income		7,678,000
(-) Section 52 - Qualifying payments and reliefs		
Personal tax relief		(1,200,000)
Total Taxable Income		**6,478,000**

W1

	Ana	Elsa	Ora	Total
Salary	1,200,000	1,800,000	1,200,000	4,200,000
Partnership profit share	6,478,000	6,478,000	6,478,000	19,434,000
Partnership income share	**7,678,000**	**8,278,000**	**7,678,000**	**23,634,000**

(03 marks)
(10 marks)

Suggested Answers to Question Seven:

Chapter 05 – Obligations and Procedures

(a)

Once the CGIR issues a notice requiring a person to furnish a Return of Income, Shehan becomes legally obliged to submit the return, regardless of the fact that:

- his only source of income is employment income; and
- APIT has already been correctly deducted by his employer.

The Inland Revenue Act empowers the CGIR to require any person to furnish a Return of Income by issuing a written notice. Failure to comply with such a notice constitutes a breach of the Act and may result in penalties and other enforcement actions. **(03 marks)**

(b)

1. Self Assessment
2. Default Assessment
3. Advanced Assessment
4. Additional Assessment / Amended Assessment

(Expect only 03 assessments)
(03 marks)

(c)

As per the IR Act no. 24 of 2017, Section 195,
"Authorized representative" means any individual who is authorized in writing by a person to act on his behalf from time to time for the purposes of this Act and who is –
in any case-

(i) a member of the Institute of Chartered Accountants of Sri Lanka;

(ii) an attorney-at-law;
(iii) an employee regularly employed by that person; or
(iv) a member of the Sri Lankan Institute of Taxation established under the Sri Lanka Institute of Taxation Act, No. 21 of 2000;
(v) an individual approved by the Commissioner General and registered as an auditor under the Companies (Auditors) Regulations;
(vi) an individual specified by the Commissioner General of any other kind;
(vii) In addition to above, in the case of Shehan, a relative also can act as authorized representative.

(Expect only 4 persons)

(04 marks)
(Total 10 marks)

End of Section B

(Total 50 Marks)

SECTION - C

Suggested Answers to Question Eight:

Home Needs (Pvt) Ltd.		
Computation of Balance Tax Liability for the Year of Assessment 2024/25 (Rs.)		
Assessable Income from Business	Schedule 1	307,215,000
Assessable Income from Investment	Schedule 2	3,097,000
(a) Total Assessable Income		**310,312,000**
Less: Sec. 52 – Qualifying Payments		
Donation to Gvt. Hospital	(200,000)	
Donation to approved charity	(100,000)	(300,000)
(b) Taxable Income		**310,312,000**
(C) Gross Tax Payable	Note 3	**93,003,600**
Less: Tax Credits		
Installment Paid	(25,000,000)	
AIT on interest @ 5%	(154,850)	(25,154,850)
(d) Balance Income Tax Payable		**67,848,750**

Schedule 1 - Assessable Income from Business

Description	Working	(+)	(-)
Net profit before tax		232,117,000	
Dividend Income (Net of WHT)			510,000
Interest Income on Bank Deposits (Gross)			3,097,000
Profit on Disposal of a Motor Lorry			411,000
Balancing allowance	W2		500,000
Depreciation charge		83,234,000	
Amortization of intangible assets		1,053,000	
Capital allowance	W1	-	14,303,500
Gratuity provision		2,270,000	
Entertainment Expenses		326,000	
Donation to Gvt. Hospital		200,000	
Donation to approved charity		100,000	
Provision on doubtful debt		960,500	
Warehouse acquisition		5,526,000	
Consultancy fee		250,000	

Interest	W3	allow	
		326,036,500 (18,821,500)	18,821,500
Assessable income from business		**307,215,000**	

Schedule 2 – Assessable Income from Investment

Dividend Income (Net of WHT)	Final WHT	-
Interest Income on Bank Deposits (Gross)		3,097,000
Assessable income from investment		**3,097,000**

W1 - Calculation of Capital Allowances

Description	**Cost (Rs.)**	**Useful life**	**Capital allowance (Rs.)**
Land	Not a depreciable asset		-
Buildings	24,026,000	20	1,201,300
Machinery	32,500,000	5	6,500,000
Furniture	12,430,000	5	2,486,000
Office equipment	3,456,000	5	691,200
Motor lorries	11,500,000	5	2,300,000
Computer software	4,500,000	4	1,125,000
Total			**14,303,500**

W 2 - Calculation of Assessable Charge/ Balancing Allowances

Consideration received		5,500,000
(-) Tax Written Down Value		
Cost	6,000,000	
(-) Accumulated Depreciation	-	(6,000,000)
Balancing Allowance		**(500,000)**

W3 - Disallowable Finance Cost

$$\text{Allowable Finance Cost} = \text{Finance Cost under Section 12} \times \frac{(\text{Share Capital} + \text{Reserves}) \times 4}{\text{Outstanding Loan Balance}}$$

Share capital	100,000,000
Retained earnings	186,000,000

Total equity	**286,000,000**
Loan Outstanding	400,000,000
Finance cost allows under sec. 12	40,000,000
Max. allowable Finance cost	114,400,000
No disallowable finance cost	**-**

(25 marks)

Suggested Answers to Question Nine:

Chapter 03 - Taxation of an Individuals

Mr. Asanka		
Computation of Balance Tax Liability for the Year of Assessment 2024/25 (Rs.)		
Assessable Income from Employment	Schedule 1	3,300,000
Assessable Income from Business	Schedule 2	609,900
Assessable Income from Investment	Schedule 3	237,000
Total Assessable Income		**4,146,900**
Less: Sec. 52 – Qualifying Payment & Reliefs	Note 1	(1,275,000)
(a) Total Taxable Income		**2,871,900**
(b) Gross Tax Payable	Note 2	**583,884**
<u>Less: Tax Credits</u>		
APIT Paid	(330,000)	
Installment Paid	(100,000)	
AIT on interest @ 5% *60,000	(3,000)	(433,000)
(c) Balance Income Tax Payable		**150,884**

Schedule 1 - Assessable Income from Employment (Rs.)

Gross salary (200,000*12)	2,400,000
Travelling allowance (50,000 * 12)	600,000
Bonus received	200,000
Air tickets and accommodation - Training (assuming training related to the business)	Excluded
Share awarded by the company (1,000 *Rs.100)	100,000

Medical reimbursed by the company (maintained a medical insurance scheme for the benefit of all its employees)	Excluded
Assessable Income from Employment	**3,300,000**

Schedule 2 - Assessable Income from Business (Rs.)

	(+)	(-)
Profit before tax	359,900	-
Purchases of a packing machine (Sec.11 - Capital nature)	250,000	-
Capital allowance - (250,000/5)	-	50,000
Donations to village temple	50,000	-
	659,900	50,000
	(50,000)	
Assessable Income from Business	**609,900**	

Schedule 3 - Assessable Income from Investment (Rs.)

Gross interest - Fixed deposit (57,000/95) *5		60,000
Rent Income		
Gross rent income (25,000 * 12)	300,000	
(-) Repair expenses	(123,000)	177,000
Gain on sale of shares in quoted public companies	Exempted	-
Net dividend income	Final WHT/AIT	-
Assessable Income from Investment		**237,000**

Note 1 - Sec. 52 – Qualifying Payment & Reliefs

Personal tax relief	1,200,000
Donations to village temple	Not allow
Donation to children's home which provides institutional care for displaced children (assuming it as an approved charity)	75,000
	1,275,000

Note 2 - 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 (2,871,900-2,500,000) *36%	133,884
Gross Tax Liability	**583,,884**

(25 marks)

End of Section C

Notice:

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.
These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the "Only" answers, or, for that matter even as "Model Answers". The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.