

Examiner's Report
Final Examination - January 2014
(58) Taxation

Question No. 01 - (Marks Allotted 35)

What is Tested?

Basic knowledge of the corporate tax laws prevailing according to Inland Revenue Act No.10 of 2006 and subsequent amendments up to the year of assessment 2012/13 were tested.

Performance - If not satisfactory, possible reasons:

- (1) Tax Rates: It is an export based subsidiary company for soft toy manufacturing and tax rate should be 12%. But some candidates have used normal rate of 28% erroneously.
- (2) Leased allowance: considering $\frac{1}{4}$ of total lease and lease rental paid during the year, lower amount should be taken. But some students have taken higher amount as allowable lease allowance.
- (3) Capital allowance:
 - (i) Capital allowance rate on qualified building is 10%, but old rate of 6 $\frac{2}{3}$ % has been incorrectly taken by some candidates.
 - (ii) Correct scenario is to apply 12.5% prior to 01.04.2011 and 33 $\frac{1}{3}$ % after 01.04.2011 on office equipment. But some candidates have applied capital allowance rate of 12.5% for the whole period including after 01.04.2011 and some others have used 25% incorrectly for the whole period.
 - (iii) Cutting Machine: 20% capital allowance is allowed, and capital allowance is not allowable for leasehold machine. But some candidates have used 33 $\frac{1}{3}$ % as lease allowance.
 - (iv) 50% capital allowance rate should be applied on energy efficient factory equipment. But majority has applied the rate as 33 $\frac{1}{3}$ %.
- (4) Rent paid on factory Managers residence: Most candidates have not done adjustment correctly and they have not added back the disallowed portion of $\frac{3}{4}$ accordingly.
- (5) Foreign travelling: No need to apply 2% rule. On this adjustment some candidates have allowed foreign travelling to China in order to import sewing machine erroneously. Rs.418,000/- balance foreign travelling is pertaining to a trade promotion carried in foreign country for promotion of exports which is allowed in full. But some candidates have disallowed same.
- (6) Advertising: Advertising for staff recruitment is allowed and advertising done overseas for export promotion is fully allowed. But most candidates have added back $\frac{1}{4}$ incorrectly.
- (7) Entertainment is disallowed. But some candidates have allowed same without any valid reason.
- (8) Notional tax on secondary market transaction is 10% and it is a part of an income for companies and notional tax should be considered as a tax credit. But some candidates has not taken gross amount of interest income as income.
- (9) Some candidates have shown 35% limit of loss b/f Rs.6,223,500/- incorrectly. When amount to be set-off limit is 35% of statutory income.

- (10) Qualifying payments for plastic waste bins Rs.200,000/- given to Pradeshiya Saba is 100% allowed and unapproved donation of Rs.50,000/- to company employees welfare society is disallowed. But some candidates have not taken qualified payments correctly.

Recommendations for improvements:

It is suggested that all candidates should be briefed at the lecture halls regarding the changes of the Act during the period, as it could be noted that most candidates were not conversant regarding changes in capital allowances, tax rates and other new changes in the Inland Revenue Act. It is a prerequisite for the candidates to have an up to date knowledge of same.

Question No. 02 - (Marks Allotted 30)

What is tested?

The candidates' ability to compute the income tax liability of an individual is tested in this question.

Performance:

Performance for this question was satisfactory.

Performance - If not satisfactory, possible reasons:

- (1) Dividend income and interest income - whether liable / exempt should not be clearly stated.
- (2) Personal allowance of Rs.500,000/- and Rs.100,000/- allowance for employment income has not been shown separately.
- (3) The liability towards income tax (the slabs) were not shown correctly.
- (4) 50% of telephone bill should not be considered as income from employment.
- (5) In the case of the value of residence, it is limited to Rs.180,000/- since the emoluments exceed Rs.1.8 million. This has not been done correctly.
- (6) Vehicle allowance is exempt up to Rs.50,000/- per month.
- (7) Interest paid on housing loan can be claimed up to other income. Hence Rs.117,000/- can be claimed. But some students have not considered correctly.
- (8) Capital repaid on housing loan. EPF and donation of book to Dharmma School have been claimed as qualifying payments by some students.

Recommendations for improvements:

Candidates need to have more practice in computing income tax of an individual giving special attention to various points such as:

- Interest. Treasury bill income.
- Value of residence given by an employer.
- N A V calculation on house rent.
- The limitations on the emoluments
- Various qualifying payments.
- Applicable tax rates for individuals.

Question No. 03 - (Marks Allotted 15)

What is tested?

Basic knowledge on computation of Income Tax liability of a partnership has been tested under three main headings as follows:

1. Divisible profit / loss calculation.
2. Gross partnership income tax liability.
3. Apportionment of the divisible profit.

Further the question was tested the knowledge on tax treatment pertaining to the partner's wife salary.

Performance:

Performance is marginal. Specially the theoretical knowledge on main provisions relating to the computation of income tax liability of a partnership is less (i.e. partnership tax rate, apportionment of the divisible profit among partners, tax free allowance, etc.).

Performance - If not satisfactory, possible reasons:

- (1) Student may have given the priority on arithmetical calculations (sums), lesser attention is given on basic theoretical concepts and fundamental principles.
- (2) Priority may have given on computation of income tax liability of a company, but lesser attention on these areas.

Recommendations for improvements:

- (1) Students must practice this type of questions .They must have to present their answers in a logical way.
- (2) Further they have to familiar with the tax free allowance and the income tax rates applicable for a partnership.

Question No. 04 - (Marks Allotted 10)

What is tested?

This question was tested the following areas:

- (1) Business activities liable to pay N B T.
- (2) W H T rates applicable for interest received on deposits in banks.
- (3) Persons who can register under S V A T scheme as "Registered Identified Purchasers"
- (4) Computation of V A T.

Performance:

Performances are not satisfactory. Most of the students were obtained full marks only for computation of V A T liability. Answers for the other parts of the questions were very poor.

Performance - If not satisfactory, possible reasons:

- (1) Students were not fully aware which activities are liable for N B T.
- (2) Students were not aware the W H T tax rates applicable for interest received on deposits. Most of the students were unable to give the correct answer for this part.
- (3) Very poor answers have been seen, for persons who are registered under S V A T scheme as “Registered Identified Purchasers”.

Recommendations for improvements:

- (1) Candidates must improve their knowledge about the other taxes such as N B T, W H T.
- (2) Further they must get a fair knowledge about the S V A T scheme.

Question No. 05 - (Marks Allotted 10)

What is tested?

Knowledge on main provisions relating to other taxes like ESC and stamp duty was tested with the theoretical knowledge on tax administration part.

Performance:

Average level performance was there. Majority has not understood the (b) part of the question.

Performance - If not satisfactory, possible reasons:

- (1) Most of the students totally misunderstood the (b) part of the question due to the lack of knowledge on technical words specified in the act.
- (2) Priority might have given on major taxes like income tax, but lesser attention on other taxes like ESC, stamp duty, etc.

Recommendations for improvements:

- (1) Prompt attention need to be given on theories.
- (2) Concepts need to be understood in logically, thus learning by heart will not help.

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General Comments:

1. **Students should know the changes in tax law.**
2. **Should read and understand properly the contents of the administrative provisions.**
3. **Should closely work in application of administrative provisions.**
4. **Generally candidates tend to cover certain portion of the syllabus especially under tax administration, and write “Umbrella answers”, i.e., what is known to them rather than answering the questions set. Tax questions are specific and therefore need specific answers. Filling pages will not be secured marks. Candidates should keep that in mind.**

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