

EXAMINER'S REPORT**Level 03 EXAMINATION - JULY 2026****(3804) CORPORATE & PERSONAL TAXATION**

Question No. 01**What was tested?**

This question was tested the residency status under Section 69 of the Inland Revenue Act No. 24 of 2017 (hereafter referred to as the act) (as amended) of a company, which was incorporated in Sri Lanka.

Accordingly, in terms of Section 69 (4) of the Act, an individual is considered a resident person in Sri Lanka for a year of assessment (Y/A), if he or she:

- (1) Is present in Sri Lanka for 183 days or more during the year of assessment; or
- (2) Is an employee or official of the Government of Sri Lanka posted abroad; or
- (3) Has a permanent home in Sri Lanka and is present in Sri Lanka (subject to the provisions of the Act and applicable tax treaties).

Observations:

- (1) Almost all candidates attempted both parts of the question.
- (2) Most of the candidates have correctly identified the residency status of **Marie** [Part (a) of the question].
- (3) Some candidates have stated that Marie is a residence of Sri Lanka for Y/A 2024/25 but the base for the conclusion is incorrect as they have determined residency not based on the number of days stayed in Sri Lanka.
- (4) Majority of the candidates have failed to identify the residency status of **Pradeep** [Part (b) of the question] correctly.
- (5) Some candidates provided the short answers such as “resident” or “non-resident” without providing the reasons for their conclusions.

Performance: The performance was at a satisfactory level.

Question No. 02

Part (a)

What was tested?

The part of the question was required to state the due date to issue a T10 certificate to employees whose tax have been deducted on employment income for the year of assessment 2024/25.

Observations:

- (1) The majority of the candidates not answered the question correctly.
- (2) A significant number of candidates misunderstood the requirement of the question, and stated the due date for submitting the Individual Income Tax (IIT) return instead of the due date for issuing the T10 Certificate to employees.

Performance: The performance was at Poor level.

Part (b)

What was tested?

This part of the question was required to state three reasons why governance is critical in the tax management.

Observations:

- (1) Most of the candidates were unable to identify the expected answer.
- (2) The way the question was constructed allows candidates to provide various possible answers related to this subject area.
- (3) Some candidates were provided appropriate reasons why governance is critical in tax management.

Performance: The performance was at an average level.

Question No. 03

What was tested?

This question was tested the knowledge of candidates pertaining to Capital Gain Tax (CGT) that is imposed under Section 7 (2) (b) of the Act as gain from realization of investment assets as calculated under Section 35 to 51 of the Act.

Observations:

- (1) Most candidates attempted the question but many did not arrive at the correct calculation.
- (2) Many candidates were often providing irrelevant answers by demonstrating a poor understanding on how to identify the correct elements when calculating the capital gain.
- (3) Some candidates incorrectly calculated the capital gain by aggregating the consideration, cost, and broker fee of all three assets together, and applied the tax rate for entire capital gain.
- (4) Certain candidates have used different GCT rates other than 10%.

Performance: The performance was not at a satisfactory level.

Question No. 04**What was tested?**

This question was tested the fundamental knowledge of Social Security Contribution Levy (SSCL), which was payable under Social Security Contribution Levy No. 25 of 2022 by every taxable person (individual or entity includes a body of persons corporate or unincorporated, an executor, non-governmental organization and charitable institution) who;

- (1) Imports any article,
- (2) Carries on the business of manufacture of any article,
- (3) Carries on the business of providing a service of any description, or
- (4) Carries on the business of wholesale or retail sale of any article including importation and sale of such article (other than a sale by the manufacturer of that article being a manufacture to whom item number (b) applies).

Observations:

- (1) The question itself contained several grey areas, which misled candidates when attempting to arrive at the correct answer. It is not clear that educational materials sold are purchased from outside and sold or their own study materials done by themselves.
- (2) As per the provided model answer, it has been considered as buying and selling by applying 50% on the sales value. However, many of the candidates have treated these study materials are unique for them and not procured from outside.
- (3) Most of the candidates have failed to identify that the sale of old desks and chairs are not liable for SSCL as it is out of scope and have applied 2.5% on the sale.
- (4) Many candidates have applied an incorrect SSCL rates for this calculation.

Performance: The performance was not at a moderate level.

Question No. 05

Part (a):

What was tested?

This question was required to assess the balance Value Added Tax (VAT) payable/ (over paid) for the quarter ended 31.03.2025 by a company, which was engaged in providing commercial cleaning services. Further, the question was required the application of the standard VAT rate of 18%. As there were no zero-rated supplies in this scenario, no determination of allowable input tax credits was necessary.

Observations:

(1) Application of VAT Rate:

Despite the standard VAT rate 18% being specially stated in the question, some candidates applied incorrect rates (such as 12% or 15%) in their computations. This suggests a lack of attention to detail or reliance on memorized rates from outdated study materials rather than reading the specific requirements of the question given.

(2) Classification of Supplies (Zero-Rated):

In this question there is no any "Exempt" or "Zero-Rated" supplies given. But some of the candidates treated chemical sales as exempt supply and determined the allowable input tax credits, which is incorrect.

(3) Determination of VAT Base vs. VAT Amount:

A common arithmetical error involved the misinterpretation of the figures provided in the scenario. Many candidates erroneously treated the gross sales values as the VAT amount itself (i.e., failing to calculate 18% of the value). Conversely, for input tax, some candidates attempted to calculate a rate from the given tax amount rather than accepting the given input tax figure. This resulted in inflated or deflated tax liabilities.

(4) VAT Settlement and Presentation:

(i) Presentation Method:

The use of T-accounts was observed; however, this is not a recommended method for formal VAT computations as it lacks transparency regarding the buildup of the liability. Candidates are advised to use a standard vertical computation format.

(ii) Treatment of Brought Forward Balances:

Few candidates treated the excess input VAT brought forward from the previous quarter as an additional tax liability, adding it to the payable amount instead of deducting it from the output tax or offsetting it against the current quarter's liability.

(iii) Monthly Installments:

Errors were noted in the treatment of monthly installments. Some candidates assumed the stated figure of Rs.330,000.00 was a monthly amount and multiplied it by three to arrive at a quarterly total, disregarding the fact that the question generally implies the total amount paid or requires careful reading of the installment schedule.

Performance: The performance was at a satisfactory level.

Part (b):

What was tested?

This part assessed candidates' knowledge of the treatment of credit notes / debit notes in VAT computation / VAT claims.

Observations:

- (1) Almost all candidates were unaware of the correct treatment.
- (2) Other than few candidates, all others were stated that the input VAT could or could not be claimed, citing reasons such as the transaction being within the same taxable period or involving in separate taxable period etc.
- (3) However, only a very small number of candidates correctly identified the specific reason that the claim must be made within six months from the date of the invoice.

Performance: The performance was at a Poor level.

Question No. 06

Part (a):

What was tested?

This question assessed candidates' competence in preparing an income tax computation for a partnership in terms of Section 53 to 56 of the act. Candidates were expected to adjust the accounting profit to arrive at taxable profit, specifically addressing the treatment of partner salaries, depreciation, rent paid to a partner, and donations.

Observation:**(1) Identification of Disallowable Expenses:**

A fundamental error observed was the treatment of partner-related expenses. Some candidates failed to identify that salaries paid to partners are not allowable deductions for the partnership. Similarly, some candidates struggled to identify the rent paid to a partner as an allowable expense.

(2) Misapplication of Tax Rates and Slabs:

A significant conceptual weakness was evident in the application of tax rates. Some candidates erroneously applied the progressive tax slabs applicable to individuals (personal income tax rates) to the partnership income. This suggests a failure to understand that partnerships are generally treated as transparent entities for tax purposes, or that specific tax treatment applies to the entity.

(3) Confusion in Tax Terminology:

Candidates showed a lack of precision in using technical tax terminology. A common error was the confusion between the "Tax Free Allowance" and the "Zero Rated" tax slab. Some candidates incorrectly labeled the initial Rs.1,000,000/- as a "Tax Free Allowance" instead of recognizing it as a taxable band subject to a zero percent rate. This distinction is crucial for the accurate preparation of tax computations and reflects a superficial understanding of the tax structure.

(4) Validity of Deductions:

Regarding allowable deductions, while some candidates correctly identified that rent paid to a partner for business use could be allowable, others disallowed them without reasoning or simply ignored them.

(5) Lack of information in the question:

In this question, it was stated that a new machine was purchased during the year, and only the depreciation for the year was provided. No information was given to enable the calculation of capital allowances for the year.

Performance: The performance was at a Good level.

Part (b):**What was tested?**

This part assessed candidates' ability to compute a partner's taxable income. For this purpose, candidates were expected to consider all relevant income sources of that partner.

Observation:**(1) Identification of correct distributable profit:**

A fundamental error observed was that candidates used the partnership's accounting profit for profit distribution instead of the taxable profit.

(2) Used of irrelevant income sources for Anna (the Partner):

It was noted that a number of candidates mistakenly treated Elsa's rent income as Anna's rent income.

Performance: The performance was at Poor level.

Question No. 07**What was tested?**

This question assessed candidates' understanding of the tax compliance and administration provisions applicable to an individual taxpayer under the act. Further, the question was based on the case of a resident individual whose only income was employment income and from which Advance Personal Income Tax (APIT) had been duly deducted by his employer. Although APIT had been deducted, the taxpayer had not submitted his income tax return for the year of assessment 2024/25. He subsequently received a notice from the Commissioner General of Inland Revenue requiring him to furnish the return.

Candidates were required to address three areas:

- (1) Taxpayer's liability to submit an income tax return despite earning only employment income and having APIT deducted.
- (2) Three types of assessments recognized under the Inland Revenue Act No. 24 of 2017.
- (3) Four persons who may act as taxpayer's authorized representative for tax purposes.

Further, this question primarily tested candidates' ability to:

- (1) Interpret the circumstances in which an individual is required to submit a return of income.
- (2) Understand the different types of tax assessments.
- (3) Identify persons legally permitted to represent a taxpayer.
- (4) Apply relevant provisions of tax administration and compliance to a practical situation.

Observation:

- (1) The question was mainly knowledge and understanding-based rather than calculation-based. It required candidates to provide clear explanations. Candidates needed to distinguish between the deduction of APIT by an employer and the separate obligation of the individual to submit a return when required by law or by a notice issued by the tax authority. However, most candidates stated that taxpayer should submit a return because he is a resident individual, which is not a fully correct answer.
- (2) In the tax assessment part, some candidates provided various incorrect and inappropriate types of assessments. As tax finalist candidates, they should clearly identify the assessment types as specified in the Inland Revenue Act (Sections 132 to 136).
- (3) In the question on 'Authorized Representative', most candidates listed various types of persons. As this question related to an individual taxpayer, candidates were expected to identify only those representatives applicable to individuals. However, most candidates provided incorrect answers that were not relevant to an individual.

Conclusion to improve Performance in Taxation Law and Administration:

To enhance future performance in taxation law and administration, candidates are advised to focus on the following areas:

- (1) Candidates should clearly distinguish between the deduction of APIT by an employer and the separate statutory obligation of an individual to submit a return of income when required by law or by a notice from the Commissioner General. Merely stating that a person is a resident individual is insufficient; candidates must explain the specific conditions or notices that trigger the filing requirement.
- (2) Candidates must be able to accurately identify and explain the types of assessments provided in the Act, particularly those under Sections 132 to 136 (self-assessment, default assessment, advance assessment, amended/additional assessment, and amendment of self-assessment). Answers should reflect the exact terminology.
- (3) In questions on authorized representatives, candidates should carefully note whether the taxpayer is an individual, company, partnership, or other body, and then list only those representatives applicable to that category as defined in Section 195 and administered under Section 115. Generic or irrelevant listings should be avoided.

- (4) Responses should be clear, concise, and directly aligned with the wording of the Act. Candidates should practice structuring answers to first state the relevant section or principle when necessary / required by the question, then apply it to the given scenario, and finally conclude with a precise answer to the question asked.
- (5) Since this question was primarily knowledge and understanding-based, candidates should regularly revise core administrative provisions, definitions, and compliance requirements, and practice answering short, structured questions under exam conditions to improve accuracy and confidence.

Performance: The performance was at a Poor level.

Question No. 08

What was tested?

The fundamental knowledge on corporate taxation for the Y/A 2024/25 was tested by this question. Accordingly, the question was required to,

- (1) Compute the Assessable Income, Taxable Income, gross Income Tax payable, and balance tax payable/overpayment by a resident company, which was engaged in wholesale and retail trade within the domestic market.
- (2) Evaluate the practical aspect of applying general deductions under Section 10, main deductions under Section 11, and specific deductions under Section 12 to 19 of the act in ascertaining the business profit.

Observations:

- (1) **Average marks secured:**

Approximately, more than 90% of the candidates attempted this question. Small number of candidates scored more than 20 marks out of 25.

- (2) **Presentation format:**

The presentation and identification of statutory contents of the corporate Income Tax computation have been understood by the majority. However, some candidates completely ignored the statutory contents and presentation of corporate Income Tax computation.

- (3) **Other income:**

Most of candidates have eliminated the dividend, interest, and profit on disposal of motor lorry from accounting profit when arriving at the business income.

(4) Profit before tax (PTB) and allowable/disallowable adjustments:

- (i) A small number of candidates incorrectly used turnover instead of PBT as the starting point for the tax adjustments. Few candidates also used the turnover and the given expense items to recreate the profit and loss account.
- (ii) However, most candidates correctly added back disallowable expenses and deducted allowable items from PBT.
- (iii) A common error was related to the loan interest of Rs. 40,000,000. Most candidates allowed the full interest expense without providing any reason. Only a few candidates considered the thin capitalization rules and made the adjustment correctly. The question clearly asked candidates to give reasons for allowing or disallowing each item. Therefore, candidates should have explained the treatment of the loan interest and considered the thin capitalization rules.

(5) Capital Allowances:

- (i) Most candidates used the correct effective life of the assets when calculating capital allowances. However, some candidates applied a percentage without considering the effective life of the assets.
- (ii) When calculating the taxable gain or loss on disposal of assets, most candidates calculated accumulated depreciation. However, according to the question, the disposed asset was purchased in the same year in which it was disposed of. Therefore, accumulated depreciation should not have been calculated for previous years.

(6) Recognition of Investment Income:

- (i) Some candidates incorrectly treated the disposal of a business asset as investment income. This indicates a basic misunderstanding of the nature of the asset.
- (ii) The asset was used solely for business purposes and therefore should not have been treated as an investment asset. Candidates are advised to carefully read the question and consider the purpose and use of each asset before classifying the income.
- (iii) Overall, candidates should pay more attention to the basic facts given in the question and carefully follow the standard tax calculation steps. This would help to avoid common and careless errors.

(7) Company Tax Rate and Tax Credits:

- (i) Most candidates used 30% as company tax rate.
- (ii) The majority correctly considered the tax credits in calculating balance tax payable.
- (iii) However, some candidates incorrectly deducted the tax credit from taxable income, which is a basic calculation error.

Performance: The performance was at a Good level.

Question No. 09

What was tested?

This question was required to ascertain personal Income Tax for the Y/A 2024/25 of a resident individual who worked as a Manager a as company. The sources of income included income from employment, business and investment.

Observations:

The question was attempted by almost all candidates, and majority of candidates secured a mark above average level. The observations are listed below:

(a) Employment income:

- (1) The majority included gross salary as employment income whereas some candidates considered only monthly salary for their computations.
- (2) Most candidates correctly taken into account the travelling allowance ad one month bonus paid.
- (3) Medical bill reimbursement was not included as employment income by the majority as it was entitled for all employees company maintained a medical insurance scheme.
- (4) Foreign traveling expenses reimbursement was recognize as not taxable by many candidates.
- (5) The benefit of the shares issued by the company was incorrectly calculated by many candidates.

(b) Investment income:

- (1) Gross interest on fixed deposit taken as investment income by majority.
- (2) However, considerable number of candidates did not correctly gross up the net interest amount to determine the gross interest income or properly claim withholding tax (WHT).
- (3) Most candidates deducted both actual expenses and the 25% rental relief without knowing that they can claim either the actual expenses or the 25% rental relief, but not both.

(c) Common omissions and mistakes:

- (1) Not claiming Rs.1,200,000/- as personal relief.
- (2) Not claiming 25% of gross rent under tax reliefs in arriving at Taxable Income.
- (3) Claiming incorrectly tax credits from Taxable Income directly without computing the tax liability.

- (4) Applying progressive rate ranging from 6% to 60% or sometime more to estimate tax liability.
- (5) Deducting the tax installments paid before calculating the gross income tax liability.
- (6) Not applying the correct flow of the individual return of income when reaching total Assessable Income, qualifying payment and relief, Taxable Income, gross tax liability, tax credits, and balance tax payable. For example, qualifying payments and quarterly installments payments have been claimed prior to the Assessable Income.
- (7) Stopping tax computation at Taxable Income without completing the rest of the answer.
- (8) Trying to make the entire answer on a single page, resulting difficulties for the Marking Examiners to provide marks as some of the workings were not clear.

Performance: The performance was at a Good level.

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The Overall Performance:

The majority of candidates have secured an average mark allocated for VAT, partnership taxation, corporate taxation, and individual taxation. However, certain poor performances have been displayed in the areas of case law, and tax administration. Particularly, the knowledge pertaining to tax in default and penalty thereon were extremely poor position.

Common Reasons for Certain Poor Performances:

- (1) Devoting too much attention on arithmetical calculation rather than fundamental principles in taxation and respective taxing laws.
- (2) Lack of awareness on relevant taxing laws, its subsequent amendments, and the specific provisions with regard to question.
- (3) Poor attention to read the question paper properly before starting to answer the questions. This resulted to forget certain important requirements of the question due to misunderstanding.
- (4) Not devoting enough attention to past question papers and model answers that help to improve the examination skills.
- (5) Less attention on the study pack in which the most of fundamental principles and taxing laws have been properly explained.

- (6) Poor time management in answering the question paper, and some candidates have written lengthy answers for small marks.
- (7) Certain realistic assumptions were missing while unrealistic assumptions were made.
- (8) Failing to understand the actual requirement of each question properly that permits candidate to organize the answer including the format and presentation.
- (9) Illegible handwriting that created difficulties for Examiners to understand the facts of answers. Sometime, answers were impossible or almost impossible to read because of being very untidy or not clear.
- (10) Lack of relevant workings for answers or workings were properly not linked with the computations, resulting Examiners were not able to grant full marks allocated for the questions.
- (11) Some candidates did not show the proper workings to support their figures, which they have arrived in the process of calculation.

Suggestions for Improvements:

- (1) Paying attention on time management before answering to the question paper, which allows candidates to understand the certain important requirements of the questions. It is utmost important to summarize the answer as much as possible based on the requirement of the questions and marks allocated thereon.
- (2) Answering the past question papers and check with model answers in order to improve the examination skills.
- (3) Devoting full attention to the study pack because of all areas in the question paper are covered by the study pack. It is important to bear in mind that there is a possibility of testing different areas in the study pack.
- (4) Stating clear and realistic assumptions, which are useful in granting certain marks for answers. It is important to remind that candidates are not allowed to make unrealistic assumption to alter the given facts of the questions itself.
- (5) Focusing on basic fundamental principles of taxation rather than arithmetical accuracy of calculations.
- (6) Providing appropriate workings for each and every calculations whenever necessary and link them properly with relevant answers.

- (7) Answering the question paper with legible handwriting that allows the Marking Examiners to understand the facts clearly.
- (8) Answering a new question on a new page of the answer booklet.
- (9) Candidates are advised to read the question paper more than once and avoid writing irrelevant answers and calculations that will save time.
- (10) Always use the reading time 15 minutes to read the question paper fully and then start to answer questions based on the confident level of each question.
- (11) Practice the conversion of accounting profit to taxable profit, paying close attention to standard adjustments such as disallowable partner salaries and the substitution of depreciation with capital allowances.
- (12) Master the certain technical definitions in corporate and individual taxation to ensure accuracy in reporting.
- (13) Practice the conversion of accounting profit to taxable profit, paying close attention to standard adjustments such as disallowable expenses and depreciation with capital allowances.
- (14) Candidates must develop the habit of providing complete and precise details, including the calendar year when stating due dates.
- (15) Answers regarding legal provisions should be specific and reference the relevant sections or exact timeframes defined in the act, rather than relying on general knowledge.

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