



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JANUARY 2024

(304) CORPORATE & PERSONAL TAXATION

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time Allowed:** Reading : 15 minutes.
Writing : 03 hours.

11-02-2024
Afternoon
[01.45 – 05.00]

- (2) **All questions should be answered.**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**
- (5) **Use of Non-programmable calculators is only permitted.**
- (6) **Action Verb Check List with definitions is attached. Each question will begin with an action verb. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (7) **100 Marks.**

No. of Pages : 08
No. of Questions : 09

SECTION A

(Total 20 marks)

Question 01

- (a) **Build Experts (Pvt) Ltd. (BEL)**, is a company incorporated in Sri Lanka to run several construction projects in Sri Lanka. It is a subsidiary of **Build Tech (India) (BTI)**, a construction giant in India. **BEL** procures most of the equipment and accessories from its parent company in India.

You are required to:

Explain the residence status of **BEL** for taxation purpose in Sri Lanka for the year of assessment 2022/23 as per the provisions of the Inland Revenue Act No 24 of 2017.

(03 marks)

- (b) **List** four(04) principles of taxation.

(02 marks)

(Total 05 marks)

Question 02

- (a) **Gihan**, lives in Colombo and owned 2 acre land in Galle. He purchased this land at a cost of Rs. 5 million on 01st April 2015. He sold this land in December 2022 for Rs. 8 million incurring Rs. 200,000/- as broker's fee. The market value of the land as at 30th September 2017 was Rs.6.5 million.

You are required to:

Compute the Capital Gain Tax (CGT) payable by **Gihan** on this transaction.

(03 marks)

- (b) You are the newly appointed Payroll Accountant of **Sawsiri Trading (Pvt) Ltd.**, a manufacturer of packing materials for exporters. Recently, the officials of Department of Inland Revenue visited the company premises to inspect payroll documents. After the inspection, they advised to follow the guidelines on Advance Personal Income Tax (APIT).

You are required to:

State two(02) obligations of an employer under the APIT scheme.

(02 marks)

(Total 05 marks)

Question 03

Nalin is a lawyer by profession. One day, one of **Nalin's** friends met him and asked him to purchase his cinnamon estate of 50 acres for Rs.30 million. Though **Nalin** wishes to buy it, he did not have sufficient money. However, he managed to collect Rs.20 million from some prospective buyers, with an agreement to transfer 75% of that estate for the amount collected.

Nalin paid an advance of Rs.15 million agreeing to complete the transaction within two months. At the end of two months, he purchased the estate and transferred 75% of the estate to the buyers for the money that was collected in advance. He was able to sell the entire land over a period of six months. He made a net profit of Rs.5 million on this transaction.

This is the first time he has engaged himself in a transaction of this nature.

You are required to:

Explain whether the profit earned by **Nalin** through this transaction is to be considered for tax purposes referring to the decision given in the case of *Mahavithrana VS CIR* and the provisions of the Inland Revenue Act No. 24 of 2017.

(05 marks)

Question 04

- (a) Tourist VAT Refund Scheme (TVRS) was introduced in 2018 by the Value Added Tax (Amendment) Act No. 25 of 2018.

You are required to:

State two(02) criteria to be fulfilled by a tourist to be eligible for Tourist VAT Refund Scheme.

(02 marks)

- (b) **HP (Pvt) Ltd.** is a company engaged in providing consultancy services. Its total turnover for the quarter ended 31st March 2023 is Rs.52,000,000/-.

You are required to:

Calculate the Social Security Contribution Levy (SSCL) payable by **HP (Pvt) Ltd.** for the quarter ended 31st March 2023.

(03 marks)

(Total 05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

Taste (Pvt) Ltd. is engaged in preparing Sri Lankan sweets and selling them in the local and foreign markets. The following information for the quarter ended 31st March 2023 was extracted from the books of accounts of the company:

- (1) Details of income during the quarter ended 31st March 2023 are given below (exclusive of VAT) :

	Rs.
Exports	6,692,000
Local sales to SVAT registered persons	9,368,800
Other local sales	17,399,200

- (2) The company has paid the following input tax during the quarter:

	Rs.
On import of packing materials	845,000
On local purchases	1,645,000
On repairs of motor car used by Managing Director	14,500

- (3) The excess input VAT brought forward from the previous quarter amounts to Rs.36,000/-.

- (4) The company has paid Rs.50,000/- as monthly VAT installments.

(Consider the standard VAT rate as 15%)

You are required to:

Assess the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st March 2023. (10 marks)

Question 06

T & S Property Valuers is a partnership carried out by two friends namely **Tharaka** and **Sunimal**. **Tharaka** is an architect and **Sunimal** is an engineer. They have agreed to share profits / losses of the business equally.

The summarized Income Statement for the year ended 31st March 2023 is as follows:

	Rs.
Gross Profit	16,200,000
Other Income - Interest Income from Fixed Deposits (Gross)	3,400,000
- Rent Income	1,500,000
Less : Administration Expenses	(13,500,000)
Net Profit of the Partnership	7,600,000

- The following expenses have been deducted when arriving at the above profit:
 - (1) **Tharaka** and **Sunimal** are entitled to receive a salary of Rs.2,000,000/- and Rs.4,000,000/- per annum respectively.
 - (2) In addition to salary, **Sunimal** is entitled to receive Rs.100,000/- per month as a professional fee.
 - (3) **Tharaka's** wife works as a coordinator of the business for which Rs.80,000/- is paid each month.
 - (4) A cash donation made to cancer hospital was Rs.1,000,000/-.
 - (5) During the year, a new photo copier was purchased at a cost of Rs.4,000,000/- and Rs.400,000/- has been recorded as depreciation for the year under the administration expenses.
- A part of the building is rented out for Rs.125,000/- per month to another company.
- Advance Income Tax (AIT) / Withholding Tax (WHT) was deducted on interest income and rent income.

You are required to:

Assess the Income Tax payable of the Partnership for the year of assessment 2022/23.(10 marks)

Question 07

Super (Pvt) Ltd. is a resident company in Sri Lanka and it is engaged in the business of manufacturing paper items. As per the statement of estimated tax payable, the company has estimated its income tax liability for the year of assessment 2022/23 as Rs.43,500,000/-. The company has paid Rs.20,000,000/- as the first two installments. Further, Advance Income Tax (AIT) / With Holding Tax (WHT) of Rs.26,400/- has been deducted on interest income for the first three quarters.

You are required to:

- (a) **Assess** the amount to be paid as third installment for the year of assessment 2022/23. (03 marks)
- (b) **State** the due date for the payment of third installment for the year of assessment 2022/23. (02 marks)
- (c) **State** the due date to file the return of income for the year of assessment 2022/23. (02 marks)
- (d) **State** the applicable time bar provisions to issue an amended assessment for the year of assessment 2022/23 assuming the company has filed the return of income for the year of assessment 2022/23, before the due date. (03 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

Fashions (Pvt) Ltd. is a resident company in Sri Lanka and engaged in the business of importing and selling ready-made garments in the local market. The following information was extracted from the financial statements of **Fashions (Pvt) Ltd.** for the year ended 31st March 2023:

(You may consider that the income tax amendments introduced during the year of assessment 2022/23 are applicable for the whole year of assessment irrespective of the time period.)

(1) The net profit before tax for the year ended 31st March 2023 after charging all expenses and crediting all income was Rs.64,250,000/-. Total turnover of the company was Rs.894,000,000/-.

(2) Break-up of other income:

	Rs.
Profit on disposal of a motor vehicle	216,000
Dividend income - out of dividend received	650,000
Interest income from Treasury Bills	400,000
	1,266,000

(3) Administration expenses include the following:

- Depreciation charge for the year was Rs.4,860,000/-.
- Gratuity provision for the year was Rs.4,200,000/-.
- The company has spent Rs.320,000/- to entertain its prospective customers during the year.
- An amount of Rs.136,000/- was paid as a penalty for late payments to the Employees' Provident Fund.
- An amount of Rs.800,000/- was incurred on Director's foreign travelling to meet foreign suppliers.

(4) Distribution expenses include the following:

- Advertisements in local media were Rs.635,000/-. It includes the cost of an advertisement published in the newspapers to find a suitable land for setting up a new warehouse amounting to Rs.50,000/-.
- The company has donated Rs.500,000/- worth of new garments to flood victims. Further, Rs.600,000/- has been donated to an approved charity that maintains a children home.

(5) Details of Property, Plant and Equipment are as follows:

Assets (Cost)	Balance as at 01.04.2022 (Rs.)	Additions / Acquisitions (Rs.)	Disposals (Rs.)	Balance as at 31.03.2023 (Rs.)
Motor Lorries	26,900,000	-	(2,600,000)	24,300,000
Office Equipment	2,150,000	460,000	-	2,610,000
Computers	1,430,000	-	-	1,430,000
Computer Software	-	620,000	-	620,000
Total	30,480,000	1,080,000	(2,600,000)	28,960,000

- A motor lorry which was purchased in the year of assessment 2019/20 at a cost of Rs.2,600,000/- has been disposed in March 2023 for Rs.2,850,000/-. This lorry was used for delivery of goods.
- During the year, the company purchased a new accounting package and its useful life is estimated to be 10 years.
- Unless mentioned specifically, all the assets as at 01st April 2022 have been purchased in the year of assessment 2019/20.

(6) The following other information are also provided:

- An amount of Rs.625,000/- has been paid as gratuity to a retired employee during the year.
- The company has paid Rs.10,000,000/- as quarterly installments of income tax for the year of assessment 2022/23.

You are required to:

Assess the following of **Fashions (Pvt) Ltd.** for the year of assessment 2022/23:

- Assessable Income.
- Taxable Income.
- Gross Income Tax Payable, and,
- Balance Income Tax Payable / (Overpaid).

(N.B: The reasons for allowing or disallowing any expenses should be clearly stated.)

(25 marks)

Question 09

Sally is working as a full-time English Teacher at **Colombo English Academy (Pvt) Ltd.** (hereinafter referred to as the 'company').

The following information relating to **Sally** is provided in respect of the year of assessment 2022/23 (hereinafter referred to as the 'year'):

(You may consider that income tax amendments introduced during the year of assessment 2022/23 are applicable for the whole year, irrespective of the time period.)

(1) Income from Employment:

- Gross salary received from the company is Rs.180,000/- per month.
- The company has provided a private medical insurance scheme for all employees. In December 2022, an amount of Rs.96,000/- has been paid by the company as annual premium on behalf of **Sally**.
- **Sally** lives in an apartment provided by the company for which company pays Rs.45,000/- per month and Rs.10,000/- is deducted on a monthly basis from **Sally's** salary in respect of the residence provided by the company.
- Fuel allowance is Rs.40,000/- per month.
- In November 2022, she was sent to Germany to represent the company for a Conference and air tickets & accommodation cost of Rs.500,000/- were borne by the company.
- Advance Personal Income Tax (APIT) deducted for the year was Rs.266,400/-.

- (2) **Sally** conducts a tuition class for grade 10 students in every weekend and details of the income from it for the year are as follows:

Description	Rs.	Rs.
Tuition Income		3,600,000
Less : Payments		
Staff salary	600,000	
Cost of tutorials	1,680,000	
Telephone charges (20% relates to her personal call charges)	150,000	
Depreciation	100,000	(2,530,000)
Net Profit		1,070,000

Above depreciation has been charged in respect of the furniture acquired in the year of assessment 2021/22 at a cost of Rs.750,000/-.

- (3) During the year, **Sally** has received the following interest income:

Description	Date Received	Amount (Gross) (Rs.)	AIT / WHT Deducted (Rs.)
Interest on Fixed Deposit	02.02.2023	500,000	25,000
Interest from Treasury Bills	01.03.2023	700,000	-

- (4) Dividend Income and profit on sale of shares:

- **Sally** has earned a profit on sale of shares in quoted public companies amounting to Rs.200,000/- in December 2022.
- Dividend income received from quoted public companies (paid out of dividend received) was Rs.300, 000/- in March 2023.

- (5) In July 2022, she donated medical equipments worth of Rs.400,000/- to 'Medical Faculty' of the University of Colombo.
- (6) She has paid Rs.350,000/- as quarterly installment payments of income tax for the year of assessment 2022/23.

You are required to:

Assess the following for **Sally** for the year of assessment 2022/23:

- Taxable Income.
- Gross Income Tax Payable.
- Balance Income Tax Payable / (overpaid), and,
- Exempt Income, if any.

(N.B: If any income is not taxable, it should be clearly stated.)

(25 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.