



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JANUARY 2025

(304) CORPORATE & PERSONAL TAXATION

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

(1) **Time Allowed:** Reading : 15 minutes.

Writing : 03 hours.

(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.**

02-02-2025

Afternoon

[01.45 - 05.00]

No. of Pages : 08

No. of Questions : 09

**SECTION A**

(Total 20 marks)

**Question 01**

**Raaman** is a citizen of Sri Lanka. He migrated to Australia on 25<sup>th</sup> September 2023. However, he had to come back to Sri Lanka on 15<sup>th</sup> March 2024 due to his mother's sudden death and departed from Sri Lanka on 25<sup>th</sup> March 2024.

**You are required to:**

**Explain** the residence status of **Raaman** for taxation purpose in Sri Lanka for the year of assessment 2023/24 as per the provisions of the Inland Revenue Act No 24 of 2017. (05 marks)

**Question 02**

(a) **Mala Traders** which is engaged in importing roofing sheets and selling them in local market has registered for the Social Security Contribution Levy (SSCL). Its turnover for the quarter ended 31<sup>st</sup> March 2024 was Rs.165,000,000/-.

**You are required to:**

**Calculate** the Social Security Contribution Levy (SSCL) payable by **Mala Traders** for the quarter ended 31<sup>st</sup> March 2024. (03 marks)

(b) **ABC (Pvt) Ltd.** owns 100,000 shares of **XYZ PLC** (a quoted company in Colombo Stock Exchange) at Rs.50/- per share. The directors of the company decided to dispose that investment. Accordingly, 50,000 shares were sold through a broker in the Colombo Stock Exchange at Rs.240/- per share on 15<sup>th</sup> March 2024.

**You are required to:**

**Calculate** the Share Transaction Levy payable by **ABC (Pvt) Ltd.**

(02 marks)

(Total 05 marks)

### Question 03

**Sirisena** and **Jayadewa** are partners of **Jaya Sri Traders** and they are sharing profit and losses at the ratio of 2 : 1 respectively. **Sirisena** plans to enter into another partnership agreement with his son to share his profit from **Jaya Sri Traders** equally. **Sirisena** wants to know the income tax implication on this arrangement.

**You are required to:**

**Explain** income tax implications of the agreement between **Sirisena** and his son by referring to *A.A. Davoodbhoy Vs CGIR* and the provisions of the Inland Revenue Act No 24 of 2017.

(05 marks)

### Question 04

(a) **Crown Holdings PLC** has made the following payments during the month of March 2024:

- (1) Rent payment of Rs.120,000/- to **Mr. Silva** who is a resident.
- (2) Interim dividends paid out of current year's profit were Rs.12,000,000/-.

**You are required to:**

**Calculate** Advance Income Tax (AIT) to be deducted on each payment by **Crown Holdings PLC**. (02 marks)

(b) **State** three(03) obligations of an employer under the Advance Personal Income Tax (APIT) scheme. (03 marks)

(Total 05 marks)

End of Section A

### **SECTION B**

(Total 30 marks)

### Question 05

**Sky Kids (PVT) Ltd.** is a registered person for the Value Added Tax (VAT), engaged in manufacturing and selling toys.

The following information for the quarter ended 31<sup>st</sup> March 2024 was extracted from the books of accounts of the business:

(1) Details of sales during the quarter ended 31<sup>st</sup> March 2024 are given below (exclusive of VAT) :

	Rs.
Export sales of Soft Toys	137,660,000
Local sales of Soft Toys	87,764,000

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

	Rs.
On import of raw materials	12,375,000
On local purchase of raw materials	765,000
On office expenses	124,000

- (3) The excess input VAT brought forward from the previous quarter amounts to Rs.48,000/-.
- (4) The company has paid Rs.500,000/- during the quarter as monthly VAT installment.
- (Consider the standard VAT rate as 18%)*

**You are required to:**

**Assess** the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31<sup>st</sup> March 2024. (10 marks)

### Question 06

**Star Villa (Pvt) Ltd.**, a resident company in Sri Lanka has submitted the Statement of Estimated Income Tax payable (SET) for the Year of Assessment (Y/A) 2023/24 with an estimated tax liability of Rs.600,000/-. However, as per the final tax computation made, the company has incurred a taxable loss.

**You are required to:**

- (a) **State** the due date to file the Statement of Estimated Income Tax payable for the Y/A 2023/24. (02 marks)
- (b) **State** the due dates for quarterly installments of income tax for the Y/A 2023/24. (04 marks)
- (c) **State** whether the company requires to file the return of income for the Y/A 2023/24. *(Justify your answer.)* (02 marks)
- (d) **State** two(02) persons who can be an "authorized representative". (02 marks)
- (Total 10 marks)

### Question 07

**Nazeer** and **David** are partners of "**Winners**" partnership and are engaged in the business of providing management consultancy services. They have agreed to share profits and losses at the ratio of 2:1 respectively. The Income Statement of the partnership for the year ended 31<sup>st</sup> March 2024 is given below:

	Rs.	Rs.
<b>Income:</b>		
Consultancy Services		31,340,000
Rent Income		216,000
Interest on Fixed Deposit (Net)		5,700
		31,561,700
<b>Expenses:</b>		
Salaries	12,870,000	
Rates on Building	30,000	
Accounting Depreciation	48,000	
Donation	75,000	
Other Expenses	3,564,000	(16,587,000)
<b>Net Profit</b>		<b>14,974,700</b>

The following information has also been provided:

(1) Salaries include the following salaries paid to partners:

**Nazeer** : Rs.1,800,000/-

**David** : Rs.2,400,000/-

(2) Accounting depreciation is relevant to computers purchased in December 2021 at a cost of Rs.400,000/-. All other assets are fully depreciated for accounting purpose as well as for tax purpose.

(3) Half of the building was rented out to another party and rates for the entire building was paid by the partnership.

(4) A cash donation of Rs.75,000/- was made to a village temple.

(5) Other expenses are allowable for tax purposes.

Advance Income Tax (AIT) / Withholding Tax (WHT) was deducted on interest of fixed deposit.

**You are required to:**

**Assess** the Income Tax Payable by the partnership for the year of assessment 2023/24.

(10 marks)

*End of Section B*

### **SECTION C**

(Total 50 marks)

#### **Question 08**

**Publications (Pvt) Ltd.** is a company incorporated under the Companies Act No. 07 of 2007. It is the publishing arm of a large conglomerate in Sri Lanka.

The following information of **Publications (Pvt) Ltd.** are relevant for the year ended 31<sup>st</sup> March 2024.

(1) The net profit before tax for the year ended 31<sup>st</sup> March 2024 after charging all expenses and crediting all income was Rs.103,450,000/-. Total turnover of the company was Rs.934,600,000/- for the year ended 31<sup>st</sup> March 2024.

(2) Other income includes the following:

	<b>Rs.</b>
Dividend Income (Net of WHT)	166,600
Interest income on Fixed Deposits (Gross)	654,000
	<b>820,600</b>

(3) Administration and Distribution expenses include the following:

- Depreciation charge for the year was Rs.63,275,000/-
- Accounting loss on disposal of a machinery was Rs.543,000/-
- Gratuity provision for the year was Rs.16,327,000/-
- Sponsorship for the LPL cricket series was Rs.4,000,000/-

- During the year, two directors were sent to America to participate for a conference on new digital communication technologies. The company incurred Rs.300,000/- as the participation fee and Rs.1,000,000/- for air tickets and accommodation.
- The company has published advertisements of SOS Children's Villages Sri Lanka free of charge. Cost of those was Rs.600,000/-. Further, the company has donated Rs.500,000/- to the Department of Mass Communication at University of Kelaniya.

(4) Details of Property, plant and equipment are as follows:

Assets (At Cost)	Balance as at 01 <sup>st</sup> April 2023 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31 <sup>st</sup> March 2024 (Rs.)
Land	100,000,000	-	-	100,000,000
Buildings	96,000,000	600,000	-	96,600,000
Plant and Machinery	45,000,000	8,000,000	2,500,000	50,500,000
Office Equipment	3,254,000	-	-	3,254,000
Computers	4,250,000	-	-	4,250,000
	<b>248,504,000</b>	<b>8,600,000</b>	<b>2,500,000</b>	<b>254,604,000</b>

- All the assets as at 01<sup>st</sup> April 2023 have been acquired during the year of assessment 2020/21 and claimed capital allowances from the date of acquisition.
- During the year, the company has constructed a parapet wall around the office premises and it was shown as additions to building during the year.
- A machinery was sold in December 2023 for Rs.2,000,000/- and a new machine was purchased for replacement of sold machine during the year.

(5) An amount of Rs.1,600,000/- was paid as gratuity to a resigned employee.

(6) The company has paid Rs.20,000,000/- as quarterly installments of income tax for the year of assessment 2023/24.

(7) The bank has deducted at 5% of Advance Income Tax (AIT) / Withholding Tax (WHT) on the interest income.

**You are required to:**

**Assess** the following of **Publications (Pvt) Ltd.** for the year of assessment 2023/24:

- 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

**Saliya Perera**, a software engineer is working in a reputed software development company in Sri Lanka.

The following information relating to **Saliya** is provided in respect of the year of assessment 2023/24 (*hereinafter referred to as the 'year'*):

(1) **Income from employment:**

- Gross salary - Rs.300,000/- per month.
- Bonus paid in April 2023 based on performance in previous year was Rs.450,000/-.
- The company paid a travelling allowance of Rs.60,000/- per month.
- Vehicle maintenance expenses are reimbursed up to Rs.100,000/- by the company. During the year, the company has reimbursed Rs.80,000/- to him as vehicle maintenance expenses.
- His monthly life insurance premium of Rs.10,000/- was reimbursed by the company. This benefit is available only to the executive staff of the company.
- In April 2023, he received 1,000 shares of the company under an Employee Share Option Scheme. The market value of a share at the time of allotment was Rs.200/- and **Saliya** paid Rs.50/- per share.
- Advance Personal Income Tax (APIT) deducted for the year was Rs.918,000/-.

(2) He has a coconut estate in Kurunegala and its income and expenses details for the year are as follows:

	Rs.	Rs.
Sale of coconuts		1,843,000
<b>Less: Expenses:</b>		
Fertilizer	613,000	
Watcher's salary	300,000	
Depreciation	100,000	
Telephone bills (50% refer to <b>Saliya's</b> personal call charges)	60,000	(1,073,000)
<b>Net Profit</b>		<b>770,000</b>

Depreciation has been charged in respect of the machinery purchased in the year of assessment 2021/22 at cost of Rs.1,200,000/-.

- (3) During the year, he has undertaken some ad-hoc IT services and earned an income of Rs.435,000/- from these services.
- (4) **Saliya** had a fixed deposit of Rs.1,000,000/- in a commercial bank. It was matured in March 2024 and the bank has credited Rs.114,000/- to his savings account after deducting Withholding Tax (AIT) of 5%.
- (5) **Saliya** has made some investments in quoted shares and net dividend received in March 2024 was Rs.44,200/-.
- (6) **Saliya** owns an inherited house in Rathnapura, which was rented out to a family at a monthly rent of Rs.25,000/- starting from 01<sup>st</sup> June 2023. He incurred Rs.73,000/- to colour wash the house just before handing it over to the tenant.
- (7) During the year, he has donated Rs.100,000/- in cash and Rs.25,000/- worth of goods to an elders' home which is an approved charity.
- (8) He has paid Rs.160,000/- as installment payments of income tax for the year of assessment 2023/24.

**You are required to:**

**Assess** the following for **Saliya** for the year of assessment 2023/24:

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

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

(25 marks)

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*End of Section C*

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## **ACTION VERBS CHECK LIST**

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

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

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

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