SRI LANKA

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL 03 EXAMINATION - JULY 2026

(3804) CORPORATE & PERSONAL TAXATION

26-07-2026
Afternoon
[01.45 – 05.00]

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

- **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.*

SECTION A

(Total 20 marks)

Question 01

You have been given the following information:

(1) **Marie**, a citizen of the United Kingdom, was appointed as the Chief Executive Officer of the Sri Lanka branch of a multinational company for a period of 4 years with effect from 15th March 2024. She was provided with official accommodation in Colombo and commenced her duties upon arrival. On 15th December 2024, she departed from Sri Lanka to visit her parents and came back to Sri Lanka on 16th January 2025.

(2) **Pradeep** is a Sri Lankan citizen who migrated to Australia under a Permanent Residency (PR) scheme. He left Sri Lanka on 10th April 2024 and has been continuously living and working in Australia. During the Year of Assessment 2024/25, he returned to Sri Lanka only once and stayed for 10 days in December 2024 due to his father's ill health. **Pradeep** owns a house in Sri Lanka and it has been rented out to a company.

You are required to:

Explain the residence status of the above individuals for taxation purpose in Sri Lanka for the year of assessment 2024/25, in accordance with the provisions of the Inland Revenue Act No. 24 of 2017. (05 marks)

Question 02

Every employer is required to deduct income tax from the gains and profits from employment of each employee who is liable to pay income tax and should issue a Certificate of Tax Deduction (T_{10}) to employee.

You are required to:

(a) **State** the due date to issue a T_{10} certificate to employees whose tax have been deducted on employment income for the year of assessment 2024/25. (02 marks)

(b) **State** three(03) reasons why governance is critical in the tax management. (03 marks)

(Total 05 marks)

Question 03

Nimal, a resident individual of Sri Lanka, purchased a two Acre plot of land in May 2020 for Rs. 25 million. He incurred a stamp duty of Rs.999,000/- in connection with the registration of deed. On 01st February 2025, **Nimal** sold this land to a real estate company for Rs. 30 million and paid 5% of the selling price as a brokerage fee.

You are required to:

Calculate Capital Gain Tax (CGT) payable by **Nimal** on the sale of the land. (05 marks)

Question 04

"Sahasra" is an institute, engaged in conducting tuition classes for Advanced Level students. In addition, the institute also sells educational materials to students. During the quarter ended 31st March 2025, the institute earned the following income:

Type of Income	Rs.
Sale of educational materials	14,560,000
Income from conducting classes	34,500,000
Sale of old desks and chairs	1,430,000
Total	**50,490,000**

You are required to:

Calculate the Social Security Contribution Levy (SSCL) payable for the quarter ended 31st March 2025. (05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

(a) **Crystal Clean (Pvt) Ltd.** is a Value Added Tax (VAT) registered company engaged in providing commercial cleaning services.

The following information for the quarter ended 31st March 2025 was extracted from the books of accounts of the company:

(1) Supplies made during the quarter ended 31st March 2025 are given below (exclusive of VAT):

	Rs.
Cleaning services provided to corporate offices	13,600,000
Janitorial services provided to apartment complexes	1,350,000
Supply of cleaning chemicals to clients	680,000

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

	Rs.
On purchase of cleaning chemicals	1,132,000
On office expenses	124,000
On repairs made to a motor coach used to transport workers to sites	65,000

(3) The excess input VAT brought forward from the previous quarter amounts to Rs.84,760/-.

(4) The company has paid Rs.330,000/- as monthly VAT installments.

(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 31st March 2025. (08 marks)

(b) The company received a debit note on 20th March 2025 from a supplier of chemicals in respect of undercharged VAT. The original tax invoice relating to this supply was dated 12th August 2024.

You are required to:

Explain whether this adjustment can be included in the VAT return for the quarter ended 31st March 2025. (02 marks)

(Total 10 marks)

Question 06

Silver Loom Partners is a partnership business owned by three sisters, **Ana, Elsa,** and **Ora.** They share profits and losses equally. They operate a textile shop and provide stitching services.

The accounts of the partnership disclosed a net profit of Rs.18,539,000/- for the year ended 31^{st} March 2025, after charging the following expenses:

(1) Annual salaries paid to partners:

Ana	:	Rs.1,200,000/-
Elsa	:	Rs.1,800,000/-
Ora	:	Rs.1,200,000/-

(2) A part of **Elsa's** residence is used as a factory for stitching activities, and a monthly payment of Rs.25,000/- is made to her as rent.

(3) A stitching machinery was purchased during the year and depreciation on stitching machinery was Rs.845,000/-.

(4) The partnership donated kids' clothes worth Rs.50,000/- to a children's home, which is an approved Charity.

You are required to:

Calculate the following for the year of assessment 2024/25:

(a) Income Tax Payable by the Partnership. (07 marks)

(b) Taxable Income of **Ana**. (03 marks)

(Total 10 marks)

Question 07

Shehan is a resident individual who earns only employment income, from which APIT has been duly deducted by his employer. He did not submit his return of income for the year of assessment 2024/25. Subsequently, he received a notice from the Commissioner General of Inland Revenue (CGIR) to furnish a return of income for the year of assessment 2024/25.

You are required to:

(a) **Explain Shehan's** liability to submit a return of income for the year of assessment 2024/25. (03 marks)

(b) **State** three(03) types of assessments that can be identified under the Inland Revenue Act No. 24 of 2017. (03 marks)

(c) **Identify** four(04) persons who can act as an authorized representative for **Shehan**. (04 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

Home Needs (Pvt) Ltd. was incorporated on 01st April 2024 under the Companies Act No.07 of 2007 as a fully owned subsidiary of **Horizon PLC**, with an investment of Rs.100,000,000/- as stated capital and Rs.400,000,000/- as a loan. The company is engaged in the wholesale and retail trade of home appliances within the domestic market.

The following information was extracted from the Financial Statements of **Home Needs (Pvt) Ltd.** for the year ended 31st March 2025:

(1) The net profit before tax for the year, after charging all expenses and crediting all income was Rs.232,117,000/-. Total turnover of the year was Rs.2,265,000,000/-.

(2) Other Income includes the following:

	Rs.
Profit on Disposal of a Motor Lorry	411,000
Dividend Income (Net of WHT)	510,000
Interest Income on Bank Deposits (Gross)	3,097,000
	4,018,000

(3) Expenses include the following:

- Depreciation charge for the year was Rs.83,234,000/-.
- Amortization of intangible assets for the year was Rs.1,053,000/-.
- Gratuity provision for the year was Rs.2,270,000/-.
- Entertainment Expenses were Rs.326,000/-.
- The company has donated Rs.200,000/- worth of medical equipment to a government hospital and Rs.100,000/- in cash to an approved charity established for the provision of institutionalized care for the sick or needy.
- A general provision of Rs.960,500/- was made for doubtful debtors in the income statement.
- An amount of Rs.5,526,000/- incurred on a major modification to the warehouse acquired during the year has been charged to the income statement instead of buildings account.
- A consultancy fee of Rs.250,000/- was paid to a business consultant in March 2025 without deduction of withholding tax by the company.
- A loan interest of Rs.40,000,000/- was paid to the parent company, and no capital repayments were made during the year.

(4) Details of Property, Plant & Equipment and Intangible Assets as at 31st March 2025 are as follows:

Asset (At Cost)	Additions (Rs.)	Disposal (Rs.)	Balance as at 31st March 2025 (Rs.)
Property, Plant and Equipment:			
Land	150,000,000	-	150,000,000
Buildings	18,500,000	-	18,500,000
Machinery	32,500,000	-	32,500,000
Furniture	12,430,000	-	12,430,000
Office Equipment	3,456,000	-	3,456,000
Motor Lorries	17,500,000	(6,000,000)	11,500,000
Intangible Assets:			
Computer software	4,500,000	-	4,500,000
Total	**238,886,000**	**(6,000,000)**	**232,886,000**

- A motor lorry which was purchased in April 2024 at a cost of Rs.6,000,000/- was sold in January 2025 for Rs.5,500,000/-. Motor Lorries were used for delivery of goods.
- The company estimated the useful life of the computer software to be 4 years.

(5) Retained earnings as at 31st March 2025 amounted to Rs.186,000,000/-.

(6) The company has paid Rs.25,000,000/- as quarterly installments of income tax on self-assessment basis for the year of assessment 2024/25.

(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 **Home Needs (Pvt) Ltd.** for the year of assessment 2024/25:

(a) Assessable Income.

(b) Taxable Income.

(c) Gross Income Tax Payable, and,

(d) Balance Income Tax Payable / (Overpaid).

*(**N.B:** The reasons for allowing or disallowing any expenses should be clearly stated.)* (25 marks)

Question 09

Asanka is a resident individual in Sri Lanka and is working as a manager in a public limited company.

The following information relating to **Asanka** is provided in respect of the year of assessment 2024/25 *(hereinafter referred to as the 'year')*:

(1) **Income from employment:**

- Gross salary is Rs.200,000/- per month.
- The company paid travelling allowance - Rs.50,000/- per month.
- A bonus equal to one month's salary was paid in December 2024.
- During the year, the company sent **Asanka** to India for a training and an amount of Rs.400,000/- was incurred on his air tickets and accommodation by the company.
- In January 2025, the company issued shares to its employees under an employment share scheme. **Asanka** purchased 1,000 shares at Rs.200/- each, while the market value was Rs.300/- per share.
- The company maintained a medical insurance scheme for the benefit of all its employees, and under this scheme, the company reimbursed Rs.165,000/- to **Asanka** during the year.
- Advance Personal Income Tax (APIT) deducted by the employer for the year was Rs.330,000/-.

(2) **Asanka** received interest of Rs.57,000/- (net) from a fixed deposit maintained with a commercial bank in Sri Lanka and the bank has deducted Withholding Tax (WHT) / Advanced Income Tax (AIT) at the rate of 5% on the interest income.

(3) He owns a shop building located near his residence, which is rented out at a monthly rental of Rs.25,000/- from 01st April 2024. He incurred Rs.123,000/- for colour washing the building during the April 2024.

(4) During the year, **Asanka** has received the following income from his investments:

- **Asanka** has earned a profit on sale of shares in quoted public companies amounting to Rs.346,000/-.
- Dividend income received from the quoted public companies was Rs.45,000/- and applicable AIT/WHT was deducted from the dividend income.

(5) **Asanka** operates a small online business selling artworks. A summary of receipts and payments for the year of assessment 2024/25 are as follows:

(Rs.)

Sales		2,476,000
Less : Payments:		
Purchases of materials	1,637,500	
packing materials	178,600	
Purchases of a packing machine	250,000	
Donations to village temple	50,000	(2,116,100)
Net Profit		**359,900**

(6) During the year, **Asanka** has donated Rs.100,000/- to a children's home which provides institutional care for displaced children.

(7) **Asanka** has paid Rs.100,000/- as quarterly installment payments of income tax for the year of assessment 2024/25.

You are required to:

Assess the following for **Asanka** for the year of assessment 2024/25:

(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)

End of Section C

Action Verbs Check List

Level	Action Verb	Definition	Detailed Instructions for Students
REMEMBER Recalling facts, terms, basic concepts, or answers without necessarily understanding what they mean.	**Identify**	Recognition of someone or something.	Find and name key parts of the topic.
	Define	Meaning of a word or concept.	Provide a clear meaning of a term or concept.
	Recognise	Awareness of something seen before.	Spot and acknowledge something from previous learning.
	State	Clear and concise expression of information.	Express key facts or concepts in a straightforward way.
	List	A series of names, numbers, or items.	Write down key points in an organized manner.
	Record	Entry of details into a system (not accounting).	Enter relevant details clearly and accurately.
UNDERSTAND Comprehending the meaning of informational materials and being able to interpret or explain it.	**Construct**	Formation of something by combining elements.	Bring together different parts into a meaningful whole.
	Differentiate	Recognition of differences between two or more things.	Highlight distinctions between concepts or items.
	Discuss	Consideration of different ideas and opinions about a topic.	Explore various perspectives and provide insights.
	Explain	Clarification of something in greater detail.	Provide a logical and detailed description.
	Illustrate	Use of examples, charts, or visuals to clarify a point.	Support explanations with appropriate examples or visuals.
	Interpret	Explanation of the meaning of information or actions.	Explain what something means in your own words.
	Describe	A detailed account of something.	Provide relevant details in a structured manner.
	Summarise	A brief statement of the main points.	Present key information concisely.
APPLY Using learned material in new and concrete situations. It requires the practical application of knowledge and skills.	**Apply**	Use of knowledge, skills, or rules in a situation.	Utilise relevant knowledge or techniques to achieve an outcome.
	Calculate	Determination of a value through mathematical or logical methods.	Use numerical or logical processes to reach a solution.
	Determine	Establishment of something through research or calculation.	Find out or conclude something after calculation or research.
	Demonstrate	Display of a process or method.	Show a clear example through structured steps.
	Prepare	Organisation of materials or information for use.	Arrange necessary details before engaging in a task.
	Use	Application of a concept, tool, or method for a purpose.	Implement relevant knowledge or resources appropriately.
	Present	Sharing of information effectively.	Deliver key insights clearly and professionally.
ANALYSE 1Breaking down information into its components to understand its structure and relationships.	**Analyse**	Detailed examination of something to understand its components.	Break down information into key parts for better understanding.
	Compare	Examination of similarities and/or differences.	Point out the key commonalities and distinctions.
	Distinguish	Recognition of unique characteristics.	Identify what makes things different from each other.
	Examine	Inspection of something to determine its nature.	Look at something closely to understand it better.
	Outline	Summary of the main points.	Provide an organised overview of key aspects.
	Conduct	Organisation of elements for an experiment, survey, or study.	Follow structured steps to carry out a task systematically.
	Report	Structured presentation of findings.	Present analysed information in a clear and logical format.
EVALUATE Making judgments about the value or quality of ideas or materials based on criteria or standards.	**Advise**	Offering of suggestions or recommendations.	Provide informed guidance based on analysis.
	Evaluate	Critical assessment of value, effectiveness, or impact.	Judge the quality or relevance of something based on criteria.
	Formulate	Development of a structured approach or plan.	Create a well-defined method or strategy.
	Recommend	Suggestion of a suitable course of action.	Propose an approach backed by logical reasoning.
CREATE Combining elements in novel ways to form a coherent or functional whole; the ability to generate new ideas, products, or ways of understanding.	**Create**	Generation of something new.	Develop something original and purposeful.
	Assess	Estimation or evaluation of quality, ability, or nature.	Provide a reasoned judgment based on available information.
	Develop	Expansion or refinement of an idea, product, or concept.	Strengthen and improve an idea over time.
	Propose	Suggestion of a plan or concept for consideration.	Present an idea or structured recommendation.
	Synthesis	Combination of different elements to form a coherent whole.	Integrate multiple ideas or insights into a meaningful conclusion.
	Design	Creation of a structured plan for something	Formulate a detailed structure for a product or process.
	Compile	Assembly of information from various sources.	Organise collected data into a comprehensive format.