



**ASSOCIATION OF ACCOUNTING TECHNICIANS  
OF SRI LANKA**

CURRICULUM 2020

**PILOT PAPER**

**Level III**

**304 - CORPORATE AND PERSONAL  
TAXATION (CPT)**

A publication of the Education and Training Division

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## Association of Accounting Technicians of Sri Lanka

### 304 - Corporate and Personal Taxation (CPT)

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#### Instructions to Candidates (Please Read Carefully)

#### Time Allowed:

Reading	:	15 Minutes
Writing	:	03 Hours

#### Structure of Question Paper:

- This paper consists of three Sections; Section A, Section B and Section C.
- All the questions of Section A, Section B and Section C should be answered.

#### Marks:

- Allocation of marks for each section:

Section	Marks
Section A	20
Section B	30
Section C	50
<b>Total</b>	<b>100</b>

- Marks for each question are shown with the question.
- The pass mark for this paper is 50%.

#### Answers:

- All answers should be written in the booklet provided, answers written on the question paper will not be considered for marking.
- Begin your answer of each question on a new page.
- All workings should be clearly shown.
- Do not write on the Margins.

#### Answer Booklets:

- Instructions are shown on the front cover of each answer booklet.

#### Calculators:

- Candidates may use any calculator except those with the facility for symbolic algebra and differentiation. No programmable calculators are allowed.

#### Attached:

- Action verb checklist – Each question will begin with an action verb (excluding OTQ's). Students should answer the questions based on the definition of the verb given in the checklist.

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**Four (4) Compulsory Questions**

(Total 20 marks)

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**SECTION A****Question 01**

**Global Techs** Incorporation is a company incorporated in United States of America. **Global Techs Sri Lanka (Pvt) Ltd.** is a subsidiary company incorporated under the Companies Act of Sri Lanka. Majority of the board of directors of **Global Techs Sri Lanka (Pvt) Ltd.** was appointed by its parent company.

**You are required to:**

**Explain** the residency status of **Global Techs Sri Lanka (Pvt) Ltd.** for tax purpose in Sri Lanka.

[05 marks]

**Question 02**

**Releys PLC** is a large diversified conglomerate in Sri Lanka. There are 56 subsidiary companies, out of which 5 are foreign subsidiaries and some of them are listed companies. The group uses various pricing methods for intercompany goods transfers. The parent company provides some services such as secretarial, finance etc. through a shared service center.

**You are required to:**

- (a) **State** two (02) conditions that has to be met by any enterprise to become an associated enterprise of another. [02 marks]
- (b) **State** two (02) pricing methods acceptable for transactions between associated persons for tax purposes. [02 marks]
- (c) **State** a document that has to be prepared and maintained by the company as per transfer pricing regulations [01 mark]

[Total 5 marks]

### Question 03

You are the newly appointed Accountant of **Speedy Cabs (Pvt) Ltd.**, a company engaged in providing transport facilities. At a field audit recently carried out by the officials of Department of Inland Revenue has been revealed that the company has not complied with Withholding Tax regulations. The following payments have been made during the month of September 2019.

- Rent payment of Rs.40,000/- for the office premises
- Interim dividend paid amounts of Rs.1,200,000/- to ordinary shareholders.
- Rs.100,000/- was paid to a mechanic who repairs company vehicles
- An interest of Rs.53,650/- was paid for a finance lease of vehicles obtained from a bank
- Rs.30,000/- paid to a lawyer for the service provided in respect of a labour case.

**You are required to:**

**State** the liability to deduct withholding tax from the above payments.

*(you are required to calculate the amount of withholding tax if applicable or reasons should be stated if not applicable.)*

**[05 marks]**

### Question 04

You are tax accountant of the **ABC Ltd.** which is a registered company for Value Added Tax (VAT).

**You are required to:**

**(a) Explain** what is time of supply as per Value Added Tax Act in respect of goods. **[03 marks]**

**(b) State** two (02) conditions to be satisfied for a refund under Tourist VAT Refund Scheme (TVRS) of Sri Lanka. **[02 marks]**

**[Total 5 marks]**

***End of Section A***

### Three (03) Compulsory Questions

(Total 30 marks)

### SECTION B

#### Question 05

**Rasarisi (Pvt) Ltd** was incorporated on 01<sup>st</sup> April 2018 and business operations were commenced on the same date. The company has not made any tax payment and return of income for the year of assessment 2018/19 has not been furnished yet.

You are appointed as the tax consultant of the company.

**You are required to:**

- (a) **State** due dates for income tax payments of the year of assessment 2018/19. [03 marks]
- (b) **Explain** how to calculate the amount of tax payable as installments for the year of assessment 2018/19. [04 marks]
- (c) **Explain** Penal Provisions that could be applicable on non-payment of income tax installments. [03 marks]

[Total 10 marks]

#### Question 06

"**Simple Plants**" is a partnership carried out by **Ruvini** and **Buvini** sharing profits and losses at the ratio of 2:1 respectively. They are carrying out a plant nursery.

Income statement of the partnership for the year ended 31<sup>st</sup> March 2019 is given below:

	Rs.
Gross Profit from sale of plants	9,760,000
Dividend - net of WHT	64,500
Interest from a loan given to a friend	219,700
	10,044,200
Distribution Expenses	(1,534,000)
Administration Expenses	(5,430,000)
Net Profit	3,080,200

The following expenses have been deducted when calculating the above net profit:

Salaries to partners	-	<b>Ruvini</b> Rs.600,000/-
	-	<b>Buvini</b> Rs.1,200,000/-
Interest on capital	-	<b>Ruvini</b> Rs.25,000/-
	-	<b>Buvini</b> Rs.86,000/-

Assume that all other expenses are allowable for the purpose of taxation.

**You are required to:**

**Calculate** the following for the year of assessment 2018/19:

- (a) Partnership Income.
- (b) Withholding Tax to be deducted on partnership income. **[10 marks]**

### ***Question 07***

**Sootin (Pvt) Ltd.** is a registered person for Value Added Tax (VAT), engaged in manufacturing toys for both local and foreign market. In addition to that they manufacture white canes for blind children. The following information for the quarter ended 30<sup>th</sup> September 2019 was extracted from the books of the company:

- (1) Details of supplies (exclusive of VAT):
- |                             | <b>Rs.</b>       |
|-----------------------------|------------------|
| Export of toys              | 1,860,000        |
| Local sale of toys          | 6,510,000        |
| Sale of white canes - Local | <u>930,000</u>   |
|                             | <u>9,300,000</u> |
- (2) The company has paid the following input tax during the quarter:
- |  | <b>Rs.</b>     |
|--|----------------|
| On import of packing material for toys | 245,000        |
| On local purchases                     | <u>184,000</u> |
|  | <u>429,000</u> |
- (3) An input tax of Rs.12,000/- has been paid the on repairs to cars used for travelling. It is included in VAT paid on local purchases.
- (4) The excess input VAT brought forward from the previous quarter amounts to Rs.104,000/-
- (5) The company has paid Rs.400,000/- as monthly VAT installments for the quarter.

**You are required to:**

**Assess** the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 30th September 2019. **[10 marks]**

***End of Section B***

## Two (2) Compulsory Questions

(Total - 50 marks)

## SECTION C

### Question 08

**E Educo (Pvt) Ltd. (EEL)**, a company incorporated in Sri Lanka in April 2017, is engaged in the business of providing educational services through internet. It has a subsidiary company which is acting as printing arm of the company.

The following information has been extracted from the financial statements of **E Educo (Pvt) Ltd.** for the year ended 31<sup>st</sup> March 2019.

(1) The net profit before tax for the year ended 31<sup>st</sup> March 2019 after charging all expenses and crediting all income was Rs.36,326,600/-. Total turnover for the year of the company was Rs.224,800,000/-.

(2) Break-up of other income:

	Rs.
Rent Income	300,000
Interest income on a fixed deposit (net)	222,300
Dividend received - net	309,600
Profit on disposal of Computers	150,000
	<b>981,900</b>

- A part of its car park has been rented out to a nearby company. Relevant withholding tax (WHT) has been deducted by the tenant on rent income and remitted to Inland Revenue Department.
- Above Interest income is the amount received monthly after deducting relevant Withholding Tax by the bank.

(3) Details of Property, Plant and Equipment - at cost:

Asset	Balance as at 01.04.2018	Additions	Disposals	Balance as at 31.03.2019
Land	12,500,000			12,500,000
Buildings	10,000,000	-	-	10,000,000
Motor Vehicles	2,750,000	2,300,000	-	5,050,000
Office Equipment	987,000	140,000	-	1,127,000
Computers	2,875,000	1,235,000	875,000	3,235,000
Furniture	1,243,000	-	-	1,243,000
	<b>30,355,000</b>	<b>3,675,000</b>	<b>875,000</b>	<b>33,155,000</b>

- Computers which were purchased in Y/A 2017/18 have been disposed in February 2019 for Rs.425,000/-.
- Motor vehicles additions consist of minicabs used to transport study materials to study centres.

(4) Administrative expenses include the following:

- Depreciation charged for the year amounts to Rs.3,228,000/-.
- Gratuity provision for the year - Rs.886,000/-.
- The company has incurred Rs.1 million for a research on issues in education system of Sri Lanka.
- A director visited United Kingdom to participate for a summit of Educational experts. The cost of the visit was Rs.650,000/-.
- The company has donated Rs.1,000,000/- worth of books to the University of Colombo and Rs.500,000/- worth of study materials for needy students.
- A legal expense of Rs.25,000/- has been incurred for a labour case in the district court of Colombo.

(5) Distribution expenses include the following:

- The cost of New Year compliments given to lecturers and staff was Rs.1,250,000/-.
- The company has written off Rs.600,000/- receivable from students. The company has not taken any recovery action against them.

(6) Finance Cost includes the following:

In April 2018, the company has obtained a loan of Rs.75,000,000/- from a financial institution and such funds were used for the working capital purposes. As per the loan agreement, the company enjoys a two year grace period. The company has paid Rs.4,500,000/- as interest on this loan during the year.

(7) The following other information are also provided.

- As at 31<sup>st</sup> March 2019, issued share capital and total reserves of the company were Rs.13,000,000/- and Rs.2,000,000/- respectively.
- Economic Service Charge (ESC) payments for the year of assessment 2018/19 was Rs.1,124,000/-.

**You are required to:**

**Assess** the income tax payable/(Overpaid) by **E Educo (Pvt) Ltd.** for the year of assessment 2018/19.

**[25 marks]**



## Question 09

**Mr. Mendis**, 60 years, retired from government service in January 2018. He joined a well-known company in Sri Lanka as a Manager with effect from 01<sup>st</sup> May 2018. He has given his primary employment declaration to the company. The following information is available regarding his income for the year of assessment 2018/19. (*hereinafter referred to as the 'year'*)

- (1) Government Pension received for the year - Rs.1,200,000/-.
- (2) During the year he received the following from the company:
  - Gross salary - Rs.180,000/- per month.
  - Travelling allowance - RS.40,000/- per month.
  - Bonus received in December 2018 - Rs.90,000/-.
  - He lives in a rent free house provided by the employer. The company pays Rs.30,000/- per month to the land lord.
  - During the year, the company has reimbursed his telephone bills for the year amounting to Rs.43,000/-.
- (3) **Mr. Mendis** owns a coconut estate in Kurunegala. The income and expenditure of the estate for the above year of assessment is as follows:

Salaries	1,675,000	Sale of coconuts	2,850,000
Fertilizer	876,000	Sale of other agricultural products	253,000
Cost of Weeding machines	20,000		
Donation to an approved charity	100,000		
Electricity & water Bills	64,000		
Other expenses	127,000		
Net Profit	241,000		
	<b>3,103,000</b>		<b>3,103,000</b>

- (4) **Mr. Mendis** has a commercial Building at Panadura and it was given on rent for some tenants. The aggregate rent income received was Rs.2,000,000/-. The rates paid for the entire building is Rs.250,000/-. Withholding tax has been deducted from rent income. The interest paid to a commercial bank on a loan obtained for the construction of the building is Rs.430,000/-.
- (5) He has made investments in public listed companies. During the year, he has received Rs. 236,500 as net dividend.
- (6) **Mr. Mendis** has received the following Interest income during the year:
- Rs.36,000/- from savings account in a state bank, where WHT is not deducted.
  - Rs.50,000/- for a loan given to a friend.
- (7) **Mr. Mendis** had a land at Kalutara which was purchased in 2010 at a cost of Rs.10 million. Market value of this land as at 30.09.2017 was Rs. 13 million. He sold this land in March 2019 for Rs.15 million and incurred the following expenses:
- Brokers fees - Rs.750,000/-
  - Advertisements - Rs.100,000/-
- (8) PAYE deducted by the employer is Rs.127,380

**You are required to:**

**Assess** the income tax liability and balance tax payable/ (overpaid) by **Mr.Mendis** for the year of assessment 2018/19.

*(if any income is not taxable, it should be mentioned clearly)*

**[25 marks]**

*End of Section C*

# Action Verbs Check List

Analysis (4)	Draws Connections Among Ideas and Solve Problems	Analyze	Examine in details to find the solution or outcome
		Differentiate	Constitute a difference that distinguishes something
		Discuss	Examine in detail by arguments
		Compare	Examine to discover similarities
		Contrast	Examine to show differences
		Outline	Make a summary of significant features
		Communicate	Share or exchange information
Application (3)	Uses and Adapt Knowledge in New Situations	Apply	Put to practical use
		Calculate	Ascertain or reckon with mathematical computation
		Demonstrate	Prove or exhibit with examples
		Prepare	Make or get ready for particular purpose
		Solve	Find solutions through calculations and/or explanation
		Assess	Determine the value, nature, ability or quality
		Graph	Represent by graphs
Comprehension (2)	Explains Ideas and Information	Reconcile	Make consistent/compatible with another
		Define	Give the exact nature, scope or meaning
		Explain	Make a clear description in detail using relevant facts
		Describe	Write and communicate the key features
		Interpret	Translate in to understandable or familiar terms
		Recognize	Show validity or otherwise using knowledge or contextual experience
Knowledge (1)	Recalls Facts and Basic Concepts	List	Write the connected items
		Identify	Recognize, establish or select after consideration
		State	Express details definitely or clearly
		Relate	Establish logical or causal connections
		Draw	Produce a picture or diagram
Level of competency	Description	Action Verbs	Verb Definitions



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**SUGGESTED ANSWERS**

**Level III**

**304 - CORPORATE AND PERSONAL  
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***Suggested Answers to Question 01***

**Unit 01 – Introduction to Taxation of Sri Lanka**

Learning outcome – Apply the residence rule in relation to taxation

A company is resident if,

- incorporated or formed under the laws of Sri Lanka;
- registered or the principal office is in Sri Lanka; or
- at any time during the year the management and control of the affairs of the company are exercised in Sri Lanka.

Therefore **Global Techs Sri Lanka (Pvt) Ltd.** is incorporated under Companies Act of Sri Lanka. It is a resident company. **[05 marks]**

***Suggested Answers to Question 02***

**Unit 03 – Taxation of Individuals and Companies**

Learning outcomes – Explain the concept of arm's length price and documentation requirements under the transfer pricing.

(a)

- (1) Any person or enterprise holds, directly or indirectly shares or otherwise carrying the majority of the voting power in the other enterprise.
- (2) Any person or enterprise holds, directly or indirectly, shares carrying not less than 50% of the voting power in each of such enterprise.
- (3) Loans advanced by one enterprise to another enterprise constitute not less than 51% of the book value of the total assets of the other enterprise provided that it is not given by a bank which is not considered as an associated enterprise under any other item of this Regulation.
- (4) Loans and equity provided by one enterprise to another enterprise constitute not less than 51% of the book value of the total assets of the other enterprise provided that it is not given by a bank which is not considered as an associated enterprise under any other item of this Regulation.
- (5) One enterprise guarantees not less than 25% of the total borrowings of the other enterprise.

- (6) More than half of the board of directors or members of the governing board, or one or more executive directors or executive members of the governing board of one enterprise, is appointed by the other enterprise.
- (7) More than half of the board of directors or members of the governing board, or one or more of the executive directors or members of the governing board, of each of the two enterprises are appointed by the same person or persons.
- (8) 90% or more of the raw materials, semi-finished goods and consumables required for the manufacture or processing of goods or articles carried out by one enterprise, or of purchases required for the sale, are supplied by the other enterprise, or by person specified by the other enterprises, and the prices and other conditions relating to the supply are influenced by such other enterprise.
- (9) The goods or articles manufactured or processed by one enterprise are sold / transferred to another enterprise or to persons specified by the enterprises, and the prices and other conditions relating thereto are influenced by such enterprise or vice versa.
- (10) Where one enterprise is controlled by an individual or jointly by such individual and his relative, and the other enterprise is controlled by such individual or his relative or jointly by such individual and his relative or jointly by relative or such individual.
- (11) Where one enterprise is a firm, association of persons or body of individuals, the other enterprise holds not less than ten per cent interest in such firm, association of persons or body of individuals.
- (12) Where the controlled transaction differs from the transactions that would have been made or imposed by any person not directly participating in the management, control or capital as mentioned in Section 76 or 77, but confers a potential advantage to the enterprise.

**[02 marks for any two points]**

**(b)**

- (1) Comparable Uncontrolled Price Method.
- (2) Resale Price Method.
- (3) Cost Plus Method.
- (4) Transactional Net Margin Method.
- (5) Profit Split Method.

**[02 marks for any two points]**

(c)

- (1) Local File.
- (2) Master File.
- (3) Country-by-Country Report.

[01 marks for any point]

[Total 05 marks]

**Suggested Answers to Question 03**

**Unit 06 – WHT, Capital Gain tax, and Case Laws**

Learning outcomes – Assess applicable withholding income taxes and final taxes

Payment	Applicability of WHT	Rate	WHT
Rent payment of Rs.40,000/- for the office premises	yes	10%	4,000
Interim dividend paid out of business profits amounts to Rs.1,200,000/-	yes	14%	168,000
Rs.100,000/- was paid to a mechanic who repairs company vehicles	yes	5%	5,000
An interest of Rs.53,650/- was paid for a finance lease of vehicles obtained from a bank	No, It was paid to a financial institution	-	-
Rs.30,000/- paid to a lawyer for the service provided in respect of a labour case.	No, amount is less than Rs.50,000	-	-

[05 marks]

**Suggested Answers to Question 04**

**Unit 07 – Other Business Taxes**

Learning outcomes – Explain the imposition, registration, computation and different obligation of VAT.

(a) Time of supply of goods is the earliest of,

- (1) Date of invoice
- (2) Due date of payment.
- (3) Date of receipt of payment/advance
- (4) Date of delivery (if the invoice is not issued within 10 days of delivery of goods).

(03 marks)

**(b)**

- (1) A non-citizen and non-resident of Sri Lanka.
- (2) A person who stayed in Sri Lanka for less than 90 days under a visa issued by the controller General of Immigration of Sri Lanka.
- (3) Should not be less than 18 year of age as the first day his visit in Sri Lanka.

**[02 marks for any 2 persons]**

**[Total 05 marks]**

***Suggested Answers to Question 05***

**Unit 05 - Obligations and Procedures**

Learning outcomes – Recognizes the self-assessment scheme and due dates of income tax payments.

**(a)** As per the Section 90, 91, 92 of the Inland Revenue Act No.24 of 2017 each person who is to pay income tax is required pay estimated tax in four installments.

Due dates for quarterly installments of the year of assessment 2018/19 are:

1<sup>st</sup> Quarter - On or before 15<sup>th</sup> August 2018.

2<sup>nd</sup> Quarter - On or before 15<sup>th</sup> November 2018.

3<sup>rd</sup> Quarter - On or before 15<sup>th</sup> February 2019.

4<sup>th</sup> Quarter - On or before 15<sup>th</sup> May 2019.

Final Payment - On or before 30<sup>th</sup> September 2019.

**[03 marks]**

**(b)** Estimated tax payable can be calculated in below two ways:

(i) Estimated tax payable based on the current year profits.

(ii) Estimated tax payable based on the previous year tax liability increased by an uplift of 5%.

*(This would be applicable only for the Y/A 2018/19)*

Installment Payment =  $\frac{\text{Estimated tax payable} - [\text{Installment payments} + \text{WHT}]}{\text{Remaining no. of installments}}$

Remaining no. of installments

**[04 marks]**

**(c)** (1) Sec. 179(2) - If the tax due is not paid within 14 days of the due date, a penalty equal 10% of the amount of tax due can be imposed.

(2) If an amount of tax is not paid by the due date, the taxpayer shall be liable for interest of 1.5% per month or part month, compounded monthly, on the amount for the period from the due date (determined without having regard to an extension of time) to the date the tax is paid.

**[03 marks]**

**[Total 10 marks]**



**Suggested Answers to Question 06**

**Unit 04 - Taxation of Miscellaneous undertakings**

Learning outcomes – Calculate WHT of a partnership  
– Assess tax liability of partners

(a)

**Year of Assessment 2018/19**

Profit before Tax		3,080,200
Less: <u>Investment Income</u> Interest income		(219,700)
Dividend		(64,500)
Add:		
Partners Salaries		1,800,000
Interest on capital		111,000
<b>Partnership Business income</b>		4,707,700
<b>Partnership Business income</b>		4,707,700
Interest	219,700	
Dividend - final WHT	-	
<b>Partnership Investment Income</b>		219,700
Total Partnership Income		4,926,700

[08 marks]

(b)

Partnership income liable for WHT		4,926,700
Withholding Tax @ 8%		394,136

[02 marks]

[Total 10 marks]

**Suggested Answers to Question 07**

**Unit 07 – Other business taxes**

Learning outcomes – Explain the imposition, registration, computation and different obligations of VAT.

**VAT Payable for the quarter ended 30<sup>th</sup> September 2019**

<b>Output tax</b>				
Taxable Supplies	6,510,000	15%		976,500
Exempt Supplies	930,000	exempt		-
Zero rated supplies	1,860,000	0%		-
	<b>9,300,000</b>			<b>976,500</b>
<b>Input Tax</b>				
Import of material				245,000
Local purchases			184,000	
On repairs to cars			(12,000)	
			172,000	
Attributable to exempt supplies			(17,200)	
				154,800
Allowable Input Tax				399,800
Unabsorbed input tax Brought forward				104,000
				503,800
Input tax attributable to zero rated supplies				79,960
balance input claim , Limited to 100% of output Tax	976,500			423,840
				503,800
Tax Payable				472,700
Less: Installments made				(400,000)
<b>Balance Payable</b>				<b>72,700</b>

[Total 10 marks]

**Suggested Answers to Question 08**

**Unit 2, 3 & 5 - Sources of Income**  
**Taxation of Individuals and Companies**

Learning outcomes - Assess sources of income  
- Assess gross income tax liability of individuals and companies

**E Educo (Pvt) Ltd.**  
**Year of Assessment 2018/19**

			Rs.
Business income	Note : 1		41,414,850
Investment Income	Note : 2		234,000
<b>Assessable Income</b>			<b>41,648,850</b>
<u>Less: Qualifying Payments and reliefs</u>			
Donation to university			1,000,000
Donation - study materials - not entitled			-
<b>Taxable Income</b>			<b>40,648,850</b>
<b>Tax liability</b>			
<b>Since Educational services income &gt; 80% of total income tax @ 14%</b>			<b>5,690,839</b>
<u>Tax credits</u>			
Economic Service Charge			(1,124,000)
Withholding Tax on rent			(30,000)
Withholding Tax on interest			(11,700)
<b>Balance Payable</b>			<b>4,525,139</b>

**Note 1 : Computation of business Income**

Profit before Tax					36,326,600
Less: Investment income					
Rent income		part of business			-
Dividend Income					(309,600)
Interest income					(222,300)
Less: Income not taxable					
Profit from disposal of computers					(150,000)
Less: Balancing allowance on disposal of computer					
	sale proceed		425,000		
	TWDV		(656,250)		(231,250)
Add: deductions not allowed					
Depreciation					3,228,000
Provision for gratuity					886,000
Research expense - not incurred for production of income					1,000,000
Foreign Travel - Allowed					-
Donation to university					1,000,000
Donation to students					500,000
Legal fee - allowed					-
New year compliments		disallowed			1,250,000
Written off		disallowed			600,000
Finance Cost			4,500,000		
(share capital + reserves) x 4	60,000,000				
Allowable interest	$4,500,000/75,000,000 \times 60,000,000$		3,600,000		
Disallowed finance cost					900,000
<b>Less: Capital allowances</b>					
Land	12,500,000	2017/18	no Capital Allowance		
Building	10,000,000	2017/18	10%		(1,000,000)
Motor vehicles	2,750,000	2017/18	20%		(550,000)
Motor vehicles	2,300,000	2018/19	5 years		(460,000)
Office Equipment	987,000	2017/18	33 1/3%		(329,000)
Office Equipment	140,000	2018/19	5 years		(28,000)
Computers	2,000,000	2017/18	25%		(500,000)
Computers	1,235,000	2018/19	20%		(247,000)
Furniture	1,243,000	2017/18	20%		(248,600)
<b>Business income</b>					<b>41,414,850</b>

<b>Note : 2 - Computation of Investment Income</b>		
Interest income		234,000
Dividend income	Final Tax	-
<b>Investment Income</b>		<b>234,000</b>

[Total 25 marks]

**Suggested Answers to Question 09**

**Unit 2, 3 & 5 – Sources of Income  
Taxation of Individuals and Companies  
WHT, Capital gain tax and Case Laws**

- Learning outcomes – Assess sources of income
- Assess gross income tax liability of individuals and companies
  - Assess tax on gain or loss from realization of assets and liabilities

**Mr Mendis**

**Year of Assessment 2018/19**

**Income Tax Computation**

<b><u>Employment</u></b>					
Pension from government - exempt					
<b><u>Primary employment</u></b>					
Salary				1,980,000	
Travelling allowance				440,000	
Bonus				90,000	
Residence	Market value is ascertainable			330,000	
Telephone bills	50%			21,500	
<b>Employment Income</b>					<b>2,861,500</b>
<b><u>Business</u></b>					
Net profit				241,000	
Add : Donation				100,000	
Cost of machines				20,000	
Less Capital allowance		20,000	5 years	(4,000)	
<b>Business Income</b>					<b>357,000</b>
<b><u>Investment</u></b>					
<b><u>Dividend income</u></b>					
Dividends - received from listed companies, which have been subject to WHT				final tax	

<b><u>Interest Income</u></b>					
On savings Account				36,000	
On loan				50,000	86,000
<b><u>Rent Income</u></b>					
Gross Rent				2,000,000	
Less : rates				(250,000)	
Interest				(430,000)	
					1,320,000
<b><u>Realisation of investment assets</u></b>					
Consideration				15,000,000	
Less : Deemed cost				(13,000,000)	
Broker fee				(750,000)	
Advertisement				(100,000)	1,150,000
<b>Investment Income</b>					<b>2,556,000</b>
<b>Assessable income</b>					<b>5,774,500</b>
Less: Qualifying Payments and Reliefs					
Personal allowance				(500,000)	
Allowance for employment				(700,000)	
25% of Gross rent				(500,000)	
Allowance on interest income - senior citizen				(36,000)	
Donation to Approved Charity			100,000		
		claimable amount		(75,000)	
					(1,811,000)
<b>Taxable income</b>					<b>3,963,500</b>
Tax Liability					
Capital Gain	1,150,000		10%	115,000	
	600,000		4%	24,000	
	600,000		8%	48,000	
	600,000		12%	72,000	
	600,000		16%	96,000	
	413,500		20%	82,700	
				322,700	
Less: Tax Credits					
WHT on rent @ 10%				(200,000)	
PAYE				(127,380)	
<b>Balance Payable/(overpaid)</b>				<b>(4,680)</b>	

[Total 25 marks]