



**ASSOCIATION OF ACCOUNTING TECHNICIANS  
OF SRI LANKA**

CURRICULUM 2025

**PILOT PAPER**

**Level 03**

**3804 - CORPORATE AND PERSONAL  
TAXATION (CPT)**

A publication of the Education and Training Division

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## Association of Accounting Technicians of Sri Lanka

### 3804 - 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.

## Four (4) Compulsory Questions

(Total 20 marks)

**SECTION A**

### Question 01

- (1) **Li Yan**, a citizen of China was appointed as an officer in Chinese Embassy in Sri Lanka with effect from 01<sup>st</sup> May 2024 for a period of three years. She was provided with an apartment in Colombo and her salary will continue to be credited to her bank account in China.

After assuming duties, she has stayed in Sri Lanka throughout the year of assessment 2024/25.

- (2) **Nuwan** is the Head of Production of **Redme PLC**. During the Y/A 2024/25, he had to travel outside Sri Lanka in several occasions for the inspection of foreign factories. His travel details are as follows:

Date of departure from Sri Lanka	Date of arrival to Sri Lanka
25.04.2024	25.06.2024
01.08.2024	10.10.2024
15.01.2025	05.03.2025

**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, as per the provisions of the Inland Revenue Act No. 24 of 2017. [05 marks]

### Question 02

- (a) **Sarath**, a resident individual of Sri Lanka purchased a land in 2013 for a Rs. 20 million. In year 2015, he constructed a parapet wall around the land by spending Rs.200,000/-. Later, he sold this land on 15<sup>th</sup> March 2025, at a price of Rs. 30 Million, which was equal to open market value. **Sarath** paid Rs.100,000/- to a broker as commissions. The market value of the land as of 30<sup>th</sup> September 2017 was Rs. 24 million.

**You are required to:**

**Calculate** the Capital Gain Tax (CGT) payable by **Sarath** on sale of the land. [02 marks]

(b) During the month of March, **ABC (Pvt) Ltd.** has made the following payments:

- Office rent paid to **Mr.Silva** was Rs.100,000/-.
- Consultancy fee paid to **Mrs. Mayadunne** was Rs.200,000/-.
- Dividend paid out of the company's profit was Rs.1,000,000/-.

**You are required to:**

**Calculate** Advance Income Tax (AIT) to be deducted on each payment by **ABC (Pvt) Ltd.** on each payment. [03 marks]

[Total 05 marks]

### Question 03

**All (Pvt) Ltd.** is a company engaged in importing and selling wrist watches in the local market. The Company also provides repair services.

The following information is provided for the quarter ended 31<sup>st</sup> March 2025:

	Rs.
Sale of Wrist Watches	35,450,000
Repair income	2,654,000
Installments paid	200,000

**You are required to:**

(a) **State** the turnover threshold of registration for the Social Security Contribution Levy. [02 marks]

(b) **Calculate** the Social Security Contribution Levy (SSCL) payable for the quarter ended 31<sup>st</sup> March 2025. [03 marks]

[Total 05 marks]

### Question 04

(a) The rise of the digital economy has transformed global commerce. Companies can now provide goods and services across borders without needing a physical presence in the customer's country. This shift has outpaced traditional tax rules. As a result, digital taxation has emerged, as governments seek to modernize tax systems to effectively capture revenue from digital business models.

**You are required to:**

**List** three (03) tax challenges with digital goods and services. [03 marks]

- (b) The Advance Personal Income Tax (APIT) system requires employers to comply with certain provisions of the Inland Revenue Act No. 24 of 2017 (as amended).

**You are required to:**

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

[02 marks]

[Total 5 marks]

*End of Section A*

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### Three (03) Compulsory Questions

(Total 30 marks)

**SECTION B**

#### *Question 05*

**GiGi (Pvt) Ltd.** is a company registered under Companies Act No 07 of 2007. The Department of Inland Revenue recently conducted an audit and the Assistant Commissioner has issued an assessment rejecting the Return of Income submitted for the Year of Assessment 2022/23. The Company is not satisfied with the assessment issued by the Assistant Commissioner.

The company wishes to appoint **Gihan Perera**, a member of AAT Sri Lanka with 5 years of post-qualifying experience as its Tax Consultant to represent the company.

**You are required to:**

- (a) **Outline** the next steps available to the company.  
*(Include the relevant appeal process at different levels and the timelines for each step.)* [04 marks]
- (b) **List** three (03) methods available to recover the taxes in default. [03 marks]
- (c) **Explain** whether **Gihan Perera** can act as the "Authorized representative" of **GiGi (Pvt) Ltd.**

[03 marks]

[Total 10 marks]

### Question 06

**Sri Products (Pvt) Ltd.** is a registered Company for Valued Added Tax (VAT), engaged in manufacturing and selling pharmaceuticals and cosmetics.

- (1) Details of supplies (exclusive of VAT) made by **Sri Products (Pvt) Ltd.**, during the quarter ended 31<sup>st</sup> March 2025 are given below:

	Rs.
Sales on Exports – Cosmetics	11,000,000
Sales on Exports – Pharmaceuticals	7,500,000
Local Sales – Pharmaceuticals	1,543,000
Local Sales – Cosmetics	17,625,000
Local Sales to Simplified Value Added Tax (SVAT) Registered Persons	4,587,000

- (2) The company has paid the following Input tax during the year:

	Rs.
On Import of Raw Materials	2,654,000
On Local Purchases of Raw Materials	465,000
On repairs made to the Managing Directors Car	12,000

- (3) The company has collected all SVAT credit vouchers relevant to the quarter.
- (4) The company has paid Rs.100,000/- as monthly VAT installments.
- (5) Excess input VAT brought forward from the previous quarter amounts to Rs.37,650/-.

*(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 2025. (10 marks)

### **Question 07**

After retiring from government service, **Nalani** started a catering service called **Fat Mama's Kitchen** with her elder daughter **Menaka**. **Menaka** invested Rs.100,000/- in cash as an initial capital to the partnership. The business operates from the **Nalani's** residence. They agreed to share profits / losses of the business equally.

The following information is provided relating to the year ended 31<sup>st</sup> March 2025:

- (1) Gross profit for the year - Rs.8,500,000/-.
- (2) The following expenses incurred during the year:
  - Salaries to partners: **Nalani** - Rs.1,800,000/-  
**Menaka** - Rs.2,400,000/-
  - Salaries to helpers - Rs.3,000,000/-.
  - Purchase of kitchen Equipment - Rs.250,000/-.
  - Donation of food worth Rs.100,000/- to a children's home.
  - Other expenses - Rs.124,000/-.  
*(Other expenses are allowable for the purpose of taxation.)*
  - An interest income of Rs.132,000/- has been received by **Nalani** on treasury bills.

**You are required to:**

- (a) **Calculate** the Income Tax payable by the partnership for the year of assessment 2024/25.  
(08 marks)
- (b) **Calculate** income tax payable / (overpaid) by **Nalani** for the year of assessment 2024/25.  
(02 marks)  
(Total 10 marks)

***End of Section B***

**Two (2) Compulsory Questions**

(Total - 50 marks)

**SECTION C****Question 08**

**Rasara Food (Pvt) Ltd. (RFPL)** is a resident company in Sri Lanka engaged in the business of processing and selling food items mainly to the export markets.

The following information was extracted from the Financial Statements of **RFPL** for the year ended 31<sup>st</sup> March 2025:

- (1) Summarized Income Statement of **RFPL** for the year ended 31<sup>st</sup> March 2025 is as follows:

	Rs.	Rs.
Export Revenue	138,500,000	
Local Revenue	16,548,000	155,048,000
Less: Cost of Sales		(83,654,000)
<b>Gross Profit</b>		<b>71,394,000</b>
Other income		2,977,300
Less: Administrative and Other expenses		(68,345,600)
<b>Operating Profit</b>		<b>6,025,700</b>
Finance Income		2,033,500
Finance Cost		(4,334,700)
<b>Net Profit Before Tax</b>		<b>3,724,500</b>

- (2) Other Income includes the following:

	Rs.
Fair value gain on quoted investments	1,245,000
Dividend income	542,000
Profit on disposal of fixed assets	324,500
Exchange gain	865,800
<b>Total</b>	<b>2,977,300</b>

- (3) **RFPL** disposed of a machinery during year of assessment 2024/25 for Rs.400,000/-. This machine was purchased in year of assessment 2019/20 for Rs.1,450,000/-.
- (4) The exchange gain is the net amount after adjusting for both exchange gain and loss. The details are as follows:
- Unrealized exchange loss - Rs.3,450,000/-.
  - Realized exchange gain - Rs.4,315,800/-.

(5) The following details are provided in relation to the Cost of Sales, Administrative and Other Expenses:

- Depreciation charge for the year was Rs.4,200,000/-.
- Amortization of the land lease (right to use land) was Rs.730,000/-.
- Gratuity provision for the year was Rs.4,500,000/- and amount of Rs.1,234,000/- was paid to a retired employee.
- The company paid Rs.300,000/- to a consultant to obtain an advice on a labour related matter. The company has not deducted Withholding Tax (WHT) on this payment.
- During the year, the company has paid Rs.435,700/- to the Department of Inland Revenue as penalties for several late payments of taxes.
- An amount of Rs.2,280,000/- was written-off as a bad debt during the year. Adequate recovery actions were taken prior to the write-off. In addition, a provision of Rs.1,000,000/- was made for debtors exceeding a credit period of 180 days.
- The company incurred CSR expenses of Rs.650,000/- to donate books to a new library in a rural school.
- The company incurred Rs.1,476,000/- during the year on a major modification to 6 machinery purchased in year of assessment 2021/22 for Rs.6,500,000/-.

(6) Break-up of Finance Income:

	<b>Rs.</b>
Interest on investment in Treasury Bills	1,265,000
Interest on Fixed Deposit	768,500
	<b>2,033,500</b>

(7) Break-up of Finance Expenses:

	<b>Rs.</b>
Interest on bank loans	838,000
Interest on related party loans	1,645,700
Interest on Right of Use (ROU) lease liability	976,000
Bank charges	875,000
	<b>4,334,700</b>

(8) Break-up of Property, Plant and Equipment:

	<b>Cost as at 31<sup>st</sup> March 2025 (Rs.)</b>
Land Lease - Right of Use Asset	14,600,000
Machinery	8,950,000
Office Equipment	536,000
Computers	657,000
Motor Vehicles	6,800,000
	<b>25,043,000</b>

(9) During the year, a new property was leased and the addition to the ROU asset was Rs.14,600,000/-. The actual lease rental paid during the year was Rs.1,650,000/-.

(10) During the year, a machinery was purchased for Rs.2,450,000/-.

(11) The company purchased a motor car worth of Rs. 6.8 million for the use of the chairman of the company.

(12) Other than the machinery purchased in the year of assessment 2021/22 for Rs.6,500,000/-. All assets as at 01<sup>st</sup> April 2024 were fully depreciated for tax purposes.

(13) Details of Equity and Borrowings as of 31<sup>st</sup> March 2025 are as follows:

	<b>Rs.</b>
Share Capital	1,000,000
Retained Earnings	(865,000)
	135,000
Bank Loans	2,000,000
Related Party Loan	3,000,000

(14) Business losses (adjusted for tax purposes) brought forward from the previous years of assessments are as follows:

<b>Year of Assessment</b>	<b>Rs.</b>
2021/22	2,435,000
2022/23	1,354,000

(15) During year of assessment 2024/25, **RFPL** has paid Rs.2,500,000/- as income tax installment payments.

**You are required to:**

**Assess** the following of **Rasara Food (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**

**Manjula** is a Chartered Accountant working in Sri Lanka for the branch of a foreign bank, serving as the Country Managing Officer for the last five years.

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

**(1) Income from employment:**

- Basic salary: Rs.400,000/- per month.
- In April 2024, he received a bonus of Rs.200,000/-, which was distributed out of the profits for the year ended 31<sup>st</sup> March 2024.
- He was paid a vehicle allowance of Rs.50,000/- per month for the use of his personal vehicle.
- He was provided with a rent free residence. The rent paid by the employer to the land lord is Rs.75,000/- per month.
- Telephone bills amounting to Rs.172,000/- related to the year of assessment were reimbursed by the employer.
- The employer reimbursed the life insurance premium of **Manjula** is by the employer. The total reimbursement for the year amounted Rs.90,000/-.
- During the year of assessment, **Manjula** was sent to Australia for two days for an economic conference. He was paid USD 400 per day for accommodation. (USD 1 = LKR 300), and the employer also provided air ticket costing Rs.500,000/-.
- Advanced Personal Income Tax (APIT) deducted for the year was Rs.1,413,360/-.

(2) **Income from Business:**

- **Manjula** operates business that provides various printing services. The turnover and net profit for year of assessment 2024/25 were Rs.7,654,000 and Rs.1,481,000/- respectively.
- When arriving at the net profit, the following transactions were taken into consideration.
  - Depreciation on fixed assets: Rs.875,000/-.
  - A printing machine was sold for Rs.1,325,000/- during the year of assessment. This machinery was purchased in June 2023 at a cost of Rs.1,800,000/-. An accounting profit of Rs.152,000/- was recognized on this disposal.
  - Cash donation of Rs.100,000/- was made to "National Kidney Fund".
- Assume that the capital allowance for depreciation on assets, other than on the disposed asset, fully claimed for tax purposes.
- There is an unclaimed taxable loss of Rs.350,000/- from the same business, brought forward from year of assessment 2023/24.

(3) **Manjula** has rented out his own house. Monthly rent of Rs.125,000/- starting from 01<sup>st</sup> April 2022. Rates for the year of assessment was Rs.20,000/- and were borne by the tenant.

(4) During the year, **Manjula** has received the following interest income:

- On Treasury Bills : Rs.153,000/-.
- On a Fixed Deposit : Rs.80,750/- (Net) - deducted Withholding Tax / AIT.

(5) **Manjula** has received the following income from his investments:

- **Manjula** has earned a profit on sales of shares in quoted public companies accounting to Rs.184,000/-
- Dividend income (net) received from quoted public companies was Rs.64,500/- January 2025 and applicable AIT / WHT was deducted from the dividend income.
- **Manjula** paid Rs.292,000/- as interest on a bank loan taken for the acquisition of solar panels installed on his house and connected to the national grid. The capital repayment of this loan was Rs.632,000/-.

- (6) During the year, **Manjula** has donated Rs.100,000/- in cash to 'Udaya Children's Home', an approved charity that provides care for the destitute girls.
- (7) **Manjula** has paid Rs.500,000/- as quarterly installment payments of income tax for the year of assessment 2024/25.

**You are required to:**

**Assess** the following for **Manjula** 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
<b>REMEMBER</b> 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.
<b>UNDERSTAND</b> 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.
<b>APPLY</b> Using learned material in new and concrete situations. It requires the practical application of knowledge and skills.	Summarise	A brief statement of the main points.	Present key information concisely.
	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.

Level	Action Verb	Definition	Detailed Instructions for Students
<b>ANALYSE</b> Breaking 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.
<b>EVALUATE</b> 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.
<b>CREATE</b> 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.



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**SUGGESTED ANSWERS**

**Level 03**

**3804 - CORPORATE AND PERSONAL  
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***Suggested Answers to Question 01***

**Unit 1 – Introduction to Taxation of Sri Lanka and Emerging Trends in Taxation.**

Learning outcome – Apply the residence rule about taxation.

- (1) As per the section 69 (1) of the Inland Revenue Act, an individual shall be a resident in Sri Lanka for a year of assessment if the individual:
- (a) Resides in Sri Lanka.
  - (b) Is present in Sri Lanka during the year and that presence falls within a period or periods amounting in aggregate to 183 days or more in any twelve month period that commences or ends during the year.
  - (c) Is an employee or an official of the Government of Sri Lanka and his spouse is posted abroad during the year.
  - (d) Is an individual who is employed on a Sri Lanka ship, within the meaning of the Merchant Shipping Act, during the period the individual is so employed?

As per the given case **Li Yan**, has been physically present in Sri Lanka more than 183 days during the year of assessment 2024/25 and therefore is a resident in Sri Lanka for tax purpose under section 69 (1) (b) of the Inland Revenue Act.

(2)

Date of Arrival to Sri Lanka	Date of Departure from Sri Lanka	No. of Days Spent in Sri Lanka
01.04.2024	25.04.2024	25
25.06.2024	01.08.2024	37
10.10.2024	15.01.2025	96
05.03.2024	31.03.2025	27
		<b>185</b>

Days spent in Sri Lanka is 185 days.

No. of days physically present in Sri Lanka is more than 183 days. Therefore, he is a resident in Sri Lanka for income tax purposes for the year of assessment 2024/25. **[05 marks]**

### Suggested Answers to Question 02

#### Unit 6 – Withholding Tax (WHT) and Capital Gain Tax.

- Learning outcomes - Assess applicable withholding income taxes and final taxes.
- Calculate tax on gain or loss from realization of assets and liabilities (capital gain)

(a)

(Rs.)

Consideration received			30,000,000
Market Value of the Land as at 30.09.2017	24,000,000		
The Higher of MV or Cost		24,000,000	
Broker fee		100,000	
Total Cost			(24,100,000)
Capital Gain			5,900,000
<b>Capital Gain Tax</b>	<b>10%</b>		<b>590,000</b>

[02 marks]

(b) Rent -not liable, since amount is equal to Rs.100,000/- per month.

Consultancy Fee	- 200,000 x 5%	Rs.10,000/-
Dividend	- 1,000,000 x 15%	Rs.150,000/-

[03 marks]

[Total 05 marks]

### Suggested Answers to Question 03

#### Unit 7 – Value Added Tax (VAT) and Other Taxes of a Business.

- Learning outcomes - Explain the provisions applicable for the Social Security Contribution Levy (SSCL) and calculate the Social Security Contribution Levy.

(a) Rs. 15 million per quarter or Rs. 60 million per annum.

[02 marks]

(b)

**All (Pvt) Ltd.**

**Computation of Social Security Contribution Levy for the Quarter Ended 31<sup>st</sup> March 2025**

Turnover on Import and Selling	35,450,000
Repair Services	2,654,000
Liable Turnover (35,450,000 x 50% + 2,654,000)	20,379,000
SSCL Payable @ 2.5%	509,475
Installments Paid	(200,000)
<b>Balance Payable</b>	<b>309,475</b>

[03 marks]

[Total 05 marks]

**Suggested Answers to Question 04**

**Unit 1 - Introduction to Taxation of Sri Lanka and Emerging Trends in Taxation.**

**Unit 6 - Withholding Tax (WHT) and Capital Gain Tax.**

- Learning outcomes - Explain the emergence of digital taxation, including tax challenges with digital goods and services.
- Explain obligations of an employer under APIT.

- (a) (1) Digital businesses can earn substantial income in a country without having any physical office or staff there, making it difficult for tax authorities to assert jurisdiction.
- (2) Determination of the place where value is created in digital transactions is difficult, especially with data and intellectual property. This makes profit attribution across borders complex.
- (3) Profit shifting – Digital businesses often shift profits from high tax countries to low-tax countries using intangible assets such as software and patents, reducing their overall tax burden.
- (4) Ensuring compliance from foreign digital service providers is difficult, especially when there are no international enforcement agreements in place.

**(Expect only 3 challenges, 03 marks)**

**(b)**

- (1) Employers must calculate and deduct APIT from employees' monthly remuneration, based on the prevailing tax slabs (tax tables).
- (2) The tax withheld must be remitted to the IRD on or before the 15<sup>th</sup> of the following month.
- (3) Maintain proper records on the specified forms in respect of each employee who is liable for tax and has given consent and these records must be retained for a period of five years from the end of year of assessment to which such records relate.
- (4) Furnish annual declaration on or before the 30<sup>th</sup> of April of the immediately succeeding year.
- (5) Issue a certificate of tax deduction to employees (T10 Certificate) on or before 30<sup>th</sup> of April immediately succeeding the end of the year of assessment or within 30 days of cessation of employment if the employee has ceased his employment.

**(Expect only 4 obligations, 02 marks)**

**(Total 05 marks)**

***End of Section A***

**Three (03) Compulsory questions**  
(Total 30 marks)

**SECTION B**

***Suggested Answers to Question 05***

**Unit 5 – Obligations and Procedures.**

- Learning outcomes - Identify authorized representatives in Sri Lanka for tax purposes.
- Explain the assessments and appeal process.
  - Explain tax in default & recovery actions.

**(a) Administrative review:**

As per Section 139 of the Inland Revenue Act, if the company is dissatisfied with an assessment issued, it may request the Commissioner General (CGIR) to review the decision.

A request for review should be made to the CGIR in writing no later than 30 days after the taxpayer was notified of the decision, and should specify in detail the grounds upon which it is made.

**Tax Appeals Commission (TAC):**

As per Section 140 of the IRA, if the company is aggrieved by the decision of an administrative review or after a period of 7 months has lapsed since the request for an administrative review was made, the company may appeal to the TAC with a copy to the CGIR within 30 days of the CGIR's decision or within 30 days from the date on which the period of 7 months lapsed since the request for an administrative review was made.

**Appeal to the Court of Appeal:**

As per Section 144 of the IRA, if either party (the company or CGIR) to a proceeding before the TAC is dissatisfied with the decision of the TAC, the relevant party may file a notice of appeal with the Court of Appeal with a copy to the other party who is proceeding before the TAC within 1 month after being notified of the decision or upon a period 90 days having lapsed since the request for appeal to the TAC was made and no response to the request for the appeal has been received from the TAC. An appeal from a decision of TAC to the Court of Appeal should only be made on a question of law.

**(Expect only 2 steps, 04 marks)**

- (b)**
- (1) Court proceedings.
  - (2) Execution against taxpayer's property.
  - (3) Sale of seized property.
  - (4) Offset against payments.
  - (5) Recovery from third party debtors.

**(Expect only 3 methods, 03 marks)**

- (c)** **Gihan** cannot act as the "Authorized Representative" of **GiGi (Pvt) Ltd.** under the Gazette Notification No. 2194/50 as he does not have the required 10 years of post-qualifying experience as a member of AAT Sri Lanka.

**(03 marks)**

**(Total 10 marks)**

### **Suggested Answers to Question 06**

#### **Unit 7 – Value Added Tax (VAT) and Other Taxes of a Business.**

- Learning outcomes - Explain the registration, computation, and different obligations of VAT with zero rated, exempted, and excluded supplies from VAT.
- Calculate the balance VAT payable of a company/ an individual.

#### **Sri Products (Pvt) Ltd.**

#### **Computation of VAT Liability for the Quarter Ended 31<sup>st</sup> March 2025**

	<b>Value of Supply</b>	<b>Rate %</b>		<b>VAT</b>
<b><u>Output Tax</u></b>				
Taxable Supplies	17,625,000	18%		3,172,500
Export Sales	18,500,000	0%		-
Local Sales - SVAT	4,587,000	18%		825,660
Local Sales - Pharmaceuticals	1,543,000			<i>Exempted</i>
<b>Total Output VAT</b>	<b>42,255,000</b>			<b>3,998,160</b>
<b><u>Input Tax</u></b>				
On Import			2,654,000	
On local purchases			465,000	
On Repairs to Car – <i>Not Allowed</i>			-	
Total			3,119,000	
Disallowable for Exempt Suppliers (1,543 /42,255 x 3,119)			(113,895)	
Excess Input Tax Brought Forward			37,650	
Attributable to zero and SVAT Supplies			1,641,909	
Balance limited to 100% of output tax			1,400,846	
<b>Total Allowable Input Tax</b>				<b>3,042,755</b>
VAT Payable				955,405
Less: SVAT credit vouchers				(825,660)
Less: Monthly Installment payments				(100,000)
<b>Balance VAT Payable</b>				<b>29,745</b>

(10 marks)

**Suggested Answers to Question 07**

**Unit 4 – Taxation of Miscellaneous Undertakings.**

- Learning outcomes - Calculate income tax of a partnership.  
- Assess tax liability of partners.

(a)

**Fat Mama's Kitchen**  
**Computation of Income Tax Liability**  
**For the Year of Assessment 2024/25**

	<b>Rs.</b>
Gross Profit	8,500,000
<b>Less:</b>	
Salaries - helpers	(3,000,000)
Partners Salaries - not deductible	-
Donations - not deductible	-
Capital allowance on kitchen equipments - 5 years	(50,000)
Other expenses	(124,000)
<b>Business income of Partnership</b>	<b>5,326,000</b>
Assessable Income of Partnership	5,326,000
<b>Less: Qualifying Payments and Reliefs:</b>	
Donation to a Children's Home - Not allowed	-
Taxable Income - Partnership	5,326,000
<b>Calculation of Partnership Tax Payable:</b>	
1,000,000 @ 0%	-
4,326,000 @ 6%	259,560
<b>Gross Tax liability</b>	<b>259,560</b>

**(08 marks)**

(b)

**Mrs. Nalani**  
**Compensation of Income Tax Payable**  
**Year of Assessment 2024/25**

	Rs.		
Partnership Income:			
Salary		1,800,000	
Profit share		863,000	
Business Income			2,663,000
Investment income			132,000
Assessable income			2,795,000
Less: personal relief			(1,200,000)
Taxable Income			1,595,000
Tax Liability			
	500,000	6%	30,000
	500,000	12%	60,000
	500,000	18%	90,000
	95,000	24%	22,800
Gross Tax liability			202,800
Less : Partnership tax credit			(129,780)
<b>Balance Payable / Receivable</b>			<b>73,020</b>

$$5,326,000 \times 50\% = 2,663,000$$

(02 marks)

(Total 10 marks)

***End of Section B***

**Two (02) Compulsory questions**

(Total 50 marks)

**SECTION C*****Suggested Answers to Question 08*****Unit 2 Sources of Income.****Unit 3 Taxation of Individuals and Companies.**

- Learning outcomes - Assess sources of income from various sources of income.
- Identify exemptions / excluded items in each source of income.
  - Assess the assessable income (AI) and taxable income of a resident individual and a company.
  - Identify qualifying payments relevant to a resident individual and a company.
  - Assess gross income tax liability of individuals & companies.
  - Identify the tax credits, & deductions available.

**Rasara Food Pvt) Ltd.****Computation of Balance Income Tax Liability for the year of Assessment 2024/25**

	<b>Reference</b>	<b>Rs.</b>
Business income	Schedule 1	11,424,340
Investment income	Schedule 2	2,033,500
<b>(a) Total Assessable Income</b>		<b>13,457,840</b>
Less: Qualifying payments		
Donation made to school	650,000	(650,000)
<b>(b) Taxable income</b>		<b>12,807,840</b>
<b>(c) Gross Tax Payable</b> (12,807,840 x 30%)		3,842,352
Less: Tax Credits		
Installments paid		(2,500,000)
WHT credit on interest @ 5% (768,500 x 5%)		(38,425)
<b>(d) Balance Income Tax Payable</b>		<b>1,303,927</b>

**Schedule 01 – Business Income:**

**Rasara Food (Pvt) Ltd.**

**Computation of Assessable Income from Business for the year of Assessment 2024/25**

			Rs. (-)	Rs. (+)
Profit Before Tax				3,724,500
<b>Less: Non-Taxable Income and Investment Income</b>				
Fair value gain on quoted investments			1,245,000	
Dividend income			542,000	
Accounting profits on disposal of Property, Plant and Equipment			324,500	
Realized exchange gain on business assets and liabilities - taxable			865,800	4,315,800
Interest income			2,033,500	
<b><u>Add: Disallowable Expenses</u></b>				
Accounting depreciation and amortization				4,200,000
Amortization of Right of use Asset				730,000
Gratuity Provision				4,500,000
Consultancy fee - Disallowed (WHT not deducted)				300,000
Fines and penalties				435,700
Bad debt write off - Allowed (recovery action taken)				-
Provision for debtors				1,000,000
CSR expenses - <i>Disallowed</i>				650,000
Unrealized exchange losses on business assets and liabilities				3,450,000
<u>Improvements expense - Depreciable Assets</u>		1,476,000		
TWDV as at end of prior year				
cost (Y/A 2021/22)	6,500,000			
WDV as at 31 <sup>st</sup> March 2024	2,600,000			
Deduction of the improvement expenses restricted to 20% of TWDV as at 31 <sup>st</sup> March 2024			520,000	
Amount disallowed and added to the depreciation basis				956,000
<u>Disposal of PPE</u>				
Sale proceed		400,000		
Tax WDV (1,450,000 – 1,450,000)			-	-
Assessable charge on realization of depreciable assets				400,000

Interest cost on Right of use Asset				976,000
<u>Financial cost - Thin capitalisation</u>				
share capital + reserves - ignore negative retained earnings	1,000,000			
4 times	4,000,000			
Borrowings	5,000,000			
Finance cost (838,000 + 1,645,700)		2,483,700		
Allowable Finance Cost = Finance cost / borrowings * 4 (SC + reserves)		1,986,960		
disallowed Finance Cost - added back and carried forward				496,740
<b>Less: Allowable Deductions</b>				
<u>Capital allowances on depreciable assets</u>				
Land - Right of Use Asset	14,600,000	no CA	-	
Machinery – New (8,950,000 – 6,500,000)	2,450,000	5 years	490,000	
office Equipment	536,000	5 years	107,200	
Computers	657,000	5 years	131,400	
Motor Vehicles	6,800,000	No CA	-	
Machinery Old (6,500,000/5 + 956,000/2)			1,778,000	
Rent paid on Right of use Asset			1,650,000	
Gratuity paid			1,234,000	
			10,921,400	26,134,740
				15,213,340
Less: Unrelieved Losses				(3,789,000)
<b>Business Income</b>				<b>11,424,340</b>

### Schedule 2 – Investment Income

Interest on investment in Treasury bills	1,265,000
Interest on fixed deposit	768,500
Dividend income - Final WHT	-
<b>Investment Income</b>	<b>2,033,500</b>

(Total 25 marks)

**Suggested Answers to Question 09**

**Unit 2 Sources of Income.**

**Unit 3 Taxation of Individuals and Companies.**

- Learning outcomes - Assess sources of income from various sources of income.
- Identify exemptions/ excluded items in each source of income.
  - Assess the assessable income (AI) and taxable income of a resident individual and a company.
  - Identify qualifying payments relevant to a resident individual and a company.
  - Assess gross income tax liability of individuals & companies.
  - Identify the tax credits, & deductions available.

**Manjula**

**Computation of Income Tax Liability**

**For the Year of Assessment 2024/25**

(Rs.)

<b>Employment Income:</b>				
Salary	400,000 x 12			4,800,000
Bonus				200,000
Vehicle Allowance	50,000 x 12			600,000
Value of residence	400,000 x 12.5% x 12	whichever lower	600,000	600,000
Rent paid by employer	75,000 x 12		900,000	
Telephone bills (50% x 172,000)				86,000
Life Insurance Premium				90,000
Foreign Travel	Not taxable			-
<b>Total Employment income</b>				<b>6,376,000</b>
<b>Business Income:</b>				
Profit Before Tax			1,481,000	
Add: Depreciation			875,000	
donation			100,000	
Less: Accounting gain / (Loss) on disposal			(152,000)	
Sale proceed from disposal		1,325,000		
TWDV	1,800,000/5 x 4	(1,440,000)		
Balancing Allowance			(115,000)	
Unclaimed business loss B/F			(350,000)	
<b>Business Income</b>				<b>1,839,000</b>

<b>Investment Income</b>				
Rent income (125,000 x 12)			1,500,000	
Interest: Treasury Bills		153,000		
FD		85,000	238,000	
Dividend Income	Final WHT		-	
Sale of Shares – Quoted Public Companies	Exempt		-	
<b>Investment Income</b>				<b>1,738,000</b>
<b>Assessable income</b>				<b>9,953,000</b>
<b>Less: qualifying Payments</b>				
Donation to National Kidney Fund				(100,000)
Donation to Children's home - cash	Rs.75,000/- or 1/3 of TI, whichever lower			(75,000)
<b>Reliefs</b>				
Personal relief			1,200,000	
Rent relief	25% of Gross rent		375,000	(1,575,000)
Investment in Solar Panels	Limited to			(600,000)
<b>Taxable income</b>				<b>7,603,000</b>
<b>Tax Liability</b>				
		500,000	6%	30,000
		500,000	12%	60,000
		500,000	18%	90,000
		500,000	24%	120,000
		500,000	30%	150,000
		5,103,000	36%	1,837,080
Gross Tax liability		7,603,000		<b>2,287,080</b>
<b>Less: Tax Credits</b>				
Installment payments				(500,000)
APIT				(1,413,360)
AIT on interest				(4,250)
<b>Balance Payable/(overpaid)</b>				<b>369,470</b>

(Total 25 marks)

***End of Section C***