



Association of Accounting Technicians of Sri Lanka

January 2016 Examination - AA3 Level

**Questions and Suggested Answers
Subject No : AA35**

**CORPORATE AND PERSONAL TAXATION
(CPT)**

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A publication of the Education and Training Division

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EDUCATION AND TRAINING DIVISION

**AA3 Examination - January 2016
(35) Corporate and Personal Taxation**

SUGGESTED ANSWERS

SECTION – A

Objective Test Questions (OTQs)

(Total 20 marks)

Suggested Answers to Question One:

- (a) Since the Supertec (Pvt) Ltd is a company which registered in Sri Lanka as per the provisions of Companies Act No. 07 of 2007, the registered office of the company is in Sri Lanka and therefore Supertec (Pvt) Ltd is a resident company for the taxation purposes in Sri Lanka for the year of assessment 2014/2015.
- (b) **Mr. Jayasooriya**

Departure from Sri Lanka	Arrival to Sri Lanka	Days absent in Sri Lanka
23.03.2014	08.05.2014	38
27.07.2014	16.09.2014	51
10.11.2014	07.01.2015	58
02.03.2015	28.04.2015	29
		176

Mr. Jayasooriya is a resident individual in Sri Lanka for taxation since he is physically present in Sri Lanka for more than 183 days during the year of Assessment 2014/15.

Suggested Answers to Question Two:

- (a) “Child” means a child under eighteen years of age and includes a child adopted under the law of the country which he is citizen (regarding citizen of Sri Lanka a child adopted under children ordinance and regarding non citizen of Sri Lanka which is the law applicable for adoption of child.)

But,

- any child adopted under any other law
 - a married child
 - an illegitimate child
- are not treated as child.

- (b) Nethmi’s income for the year of assessment 2014/2015 should be aggregated with Mr. Soysa since the parents has divorced during the year of assessment 2014/2015.

Nethmi’s income from the year of assessment 2015/2016 should be aggregated with Mrs. Soysa since Nethmi lives with Mrs. Soysa and all her expenses are born by Mrs. Soysa.

Suggested Answers to Question Three:

According to the provisions of Inland Revenue Act “Bonus” received by employees should be treated as part of employment income and liable for income tax under the source of profit from employment.

But the payment which received by Mr. Perera as special payment for undergo heart surgery in January 2015 and which referred as bonus payment in the company accounts not liable for income tax since such payment has been made to him as a result of he is a long standing employee of AB Ltd and also special payment of Rs. 100,000 has made for his exceptional service.

The same kind of issue has been discussed in the case of Crib Vs. CT and it was confirmed that words used by the company should not be considered and intention of the payment is the valid matter for taxation.

Suggested Answers to Question Four:

- (i) Import of any article
- (ii) Carries on the business of manufacturing of any article other than excepted articles
- (iii) Carries on a business of providing services other than excepted services
- (iv) Carries on a business of whole sale or retail sale of any article other than sale by manufacturer of that article

Liable turnover of the whole sale or retail business is as follows;

Distributor	25%	of the turnover
Non Distributor	50%	of the turnover

End of Section A

All Five questions are to be answered.

(Total 30 marks)

Suggested Answers to Question Five:

(a) “SJ Associates”

Calculation of Divisible Profit for the year of Assessment 2014/2015

Description	+	-
Net profit as per the account	8,258,300	
Professional fees - Foreign currency		3,539,100
Salary paid to Sudath (Balance paid to staff and allowed)	600,000	
Telephone - allowed as deduction		
Stationery - allowed as deduction		
Depreciation	36,800	
Allowance for Depreciation		60,000
Electricity - allowed as deduction		
Interest - allowed as deduction		
Water - allowed as deduction		
Expense incurred to earn foreign currency income	525,000	
	9,420,100	3,599,100
	(3,599,100)	
Divisible Income tax liable profit of the partnership	5,821,000	

Divisible Exempt Income / Profit of the Partnership.

Professional fees in foreign currency	3,539,100
<i>Less -</i>	
Expense incurred to earn foreign currency income	(525,000)
Profit received in foreign currency	<u><u>3,014,100</u></u>

Divisible Profit

Income tax liable divisible profit	5,821,000
Tax Exempt divisible profit	3,014,100
Total divisible profit	<u><u>8,835,100</u></u>

(b) "SJ Associates"

Statement of Divisible Profit

	Sudath	Jagath	Total
Salary	600,000	--	600,000
Share of Profit			
Exempt	2,009,400	1,004,700	3,014,100
Liable	3,480,667	1,740,333	5,221,000
Total Profit	6,090,067	2,745,033	8,835,100

(c) **Income Tax payable by the "SJ Associates"**

Partnership for the year assessment 2014/2015

Divisible profit of the partnership	8,835,100
<i>Less</i> - Tax exempt divisible profit	<u>3,014,100</u>
Income tax liable divisible profit	5,821,000
<i>Less</i> - Tax exempt / Allowance	<u>(1,000,000)</u>
Income Tax liable profit	4,821,000
<i>Add</i> - Other income	<u>--</u>
Income Tax liable profit / Income	<u><u>4,821,000</u></u>

Partnership Tax	= 4,821,000 x 8%
	= <u><u>385,680</u></u>

Suggested Answers to Question Six:**(a) Taxable Supplies**

Output Tax		
On services provided to local clients	4,250,000 x 11%	467,500
On services provided to non resident clients	6,500 x 141 x 0%	0
On sale of photocopy machine	166,500 x 11/111	16,500
Total output tax		484,000
Input Tax		
On office expenses	130,000	
On repair of a vehicle used for travelling	--	
Brought forward unabsorbed input tax	36,000	
Total input Tax	<u>166,000</u>	
100% of output tax	484,000	
∴ Allowable input tax (which ever is less)		(166,000)
Tax payable for the quarter		318,000
Less - VAT payment made as installments		(120,000)
Balance VAT payable for the quarter		198,000

(b) VAT should be paid on every 15 days as follows;

1. For 1st 15 days of each month by last date of that month.
2. For balance period of each month by 15th of immediately following that month.
3. Any final adjustment, with the submission of return.

(30th April, 15th May, 31st May, 15th June, 30th June, 15th July)

Suggested Answers to Question Seven:**(a) Requirements of Valied Appeal**

- (i) Appeal should be made within 30 days from the date of notice of assessment.
- (ii) Appeal must be in writting addressed to the Commissioner General of Inland Revenue.
- (iii) The letter of appeal should clearly state the grounds of the appeal.
- (iv) If the appeal is made against the estimated assessment in the absence of the return, the appeal should be made together with the return of income.
- (v) Taxes as per the return should be paid with penalty.

-
- (b) Instance that Commissioner General of Inland Revenue may entertain a late appeal / extension of time for a late appeal.

When notice of assessment received and assess is,

- Absence from Sri Lanka
- Sickness
- Other reasonable cause

- (c) The Commissioner General will acknowledge the appeal and order further inquiry by an assessor other than the assessor who made the assessment. Necessary adjustments can be made and the appeal can be settled if there is agreement.



End of Section B

All two questions are to be answered.

(Total = 50 marks)

Suggested Answers to Question Eight:

**Rajarata Importers (Pvt) Ltd
Year of Assessment 2014/2015 Income Tax Computation**

			+	-	
Net Profit before Tax				12,847,325	
Book Depreciation	disallowed			294,000	
Depreciation allowance					
Land	not entitled				
Office Equipment	78,000	33 1/3	26,000		
Lorry	2,500,000	20	500,000		
Furniture	26,000	20	5,200		
Computer Equipment	280,000	25	70,000		
Computer Software	65,000	100	65,000		666,200
Computers - leased	not entitled				
<u>Finance Lease Rentals - Photocopy Machine</u>					
Total Lease Value		7600 * 24	182,400		
Rentals Paid		7600 * 9	68,400		
	Limited to	182,400/4	45,600		45,600
Lease Interest				14,325	
Loan interest - * Bank charges				68,200	
Dividend Income - Separate Source					90,000
Interest Income - Separate Source					243,000
Advertising					
- to recruit workers	allowed	Incurred in the production of income			
- electronic media	25% disallowed			112,500	
Legal expenses				128,000	
Gratuity Provision	disallowed			136,000	
Foreign Travelling		Since no business profit in previous year. 100% disallowed		184,000	
Entertainment	disallowed			38,000	
Company formation expenses	allowed			-	
Donation	disallowed	Not incurred in the production of income		100,000	
				13,922,350	1,044,800
				(1,044,800)	
Adjusted Trade Profit				12,877,550	

Computation of Income Tax					
Income from Trade, business				12,877,550	
Dividend Income - not a part of total statutory income				-	
Interest Income				270,000	
Total Statutory Income				13,147,550	
Less : Deductions under Sec. 32					
Loan Interest				68,200	
Assessable Income				13,079,350	
Less : Allowance for Qualifying Payments					
Donation to Api Wenuwen Api Fund	- Donation to government			100,000	
Taxable Income				12,979,350	
Income tax on profits from business	12,979,350	28%		3,634,218	
Gross tax liability				3,634,218	
Less :					
National Tax Credit				(27,000)	
Self - Assessment payments				(1,500,000)	
Balance Income Tax Payable				2,107,218	

Suggested Answers to Question Nine:

Mr. Rathnayake

Year Assessment 2014/15 Income Tax Computation

Income from Employment			
Salary 80,000 × 12		960,000	
Bonus		80,000	
Entertainment Allowance		180,000	
Value of conveyance	60,000		
(Exempted lower of value of one vehicle or Rs.50,000/- per month)			
			1,220,000
Additional benefit on employment income			(100,000)
			1,120,000
Income from properties			
<i>House Living</i>			
	NAV is exempted for one house		
NAV	120,000		
Rent Income			
Gross rent	600,000		
-rates paid	(27,000)		
	573,000		
-25% of allowance	(143,250)		
Net rent	429,750		

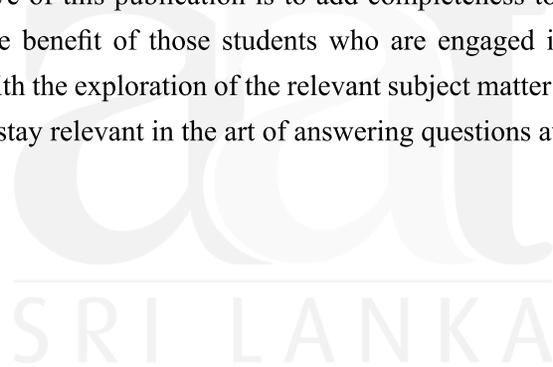
Comparison			
Annual Value	135,000		
-25% of allowance	(33,750)		
	101,250		
Net Rent > NAV			
Rent Income			429,750
Sale of land - capital gain, not a source of income			
Interest Income			
Fixed deposit - WHT is deducted			90,000
Dividend Income			
Paid out of dividend received		40,000	
Paid out of profits and income		20,000	60,000
Total Statutory Income			1,699,750
Less : Income which does not form part of Assessable Income			
Dividend Income		60,000	
Interest Income		90,000	(150,000)
Less : Deductions under Sec. 32			
Interest paid - on housing loan (limited to amount of other income)			(64,000)
Assessable Income			1,485,750
Less : Allowance for Qualifying Payments			
Donation to an approved charity		(25,000)	
Insurance premium		(53,400)	
		(78,400)	
Limited to lower of 1/3 of AI or Rs. 75,000/-			(75,000)
Capital repayment of housing loan	Not allowed		
Tax Free Allowance			(500,000)
Taxable Income			910,750
Tax Liability			
On first Rs. 500,000 @ 4%			20,000
On balance Rs. 410,750 @ 8%			32,860
			52,860
Less : Tax Credits			
PAYE			(29,596)
Balance Tax Payable			23,264

Notice :

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These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”.

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