



**Association of Accounting Technicians of Sri Lanka**

**January 2017 Examination - AA3 Level**

**Questions and Suggested Answers  
(AA 35)**

**CORPORATE AND PERSONAL TAXATION  
(CPT)**

**Association of Accounting Technicians of Sri Lanka**  
No. 540, Ven. Muruththettuve Ananda Nahimi Mawatha,  
Narahenpita, Colombo 05.

Tel : 011-2-559 669

**A publication of the Education and Training Division**

**THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA**

EDUCATION AND TRAINING DIVISION

**AA3 Examination - January 2017  
(AA 35) Corporate and Personal Taxation**

**SUGGESTED ANSWERS**

**SECTION – A**

**Four (04) compulsory questions**

(Total 20 marks)

***Suggested Answers to Question One:***

Definition as Inland Revenue Act No 10 of 2006

a. Person

**“Person”** include a company or body of persons or any government (Section 217)

This is an inclusive definition. That mean, it has not mentioned about the general meaning of the word. But it was added the additional explanation to the general meaning. Accordingly, this is include the individual person on general meaning of the word.

**Additional Reading**

Accordingly taxable person can be listed as follows,

- An Individual
- A Company
- A trust
- An Executor or administrator
- A Co-operative Society
- An association, Club or Society of person where corporate or unincorporated
- A Charitable Institution
- A Hindu Undivided Family
- Any Local or public authority
- A Government

b. Year of Assessment

**“Year of Assessment”** is the period of twelve months commencing on the first day of the April of the any year and ending on the thirty first day of March in the immediately succeeding year (section 217)

As Example if we considered, Year of Assessment – **2015/2016**. It is covered period from **01.04.2015 to 31.03.2016** (05 Marks)

---

### ***Suggested Answers to Question Two:***

As provision of the Inland Revenue Act, an employer is required to obligated to following responsibilities regarding the PAYE scheme,

- a. Request to get the registration for PAYE, If any employee who has earned more then prescribe level of income for month and year.
- b. In accordance with PAYE tax table, Income tax have to be deducted from the gross remuneration of all liable employees.
- c. Maintain proper records and pay sheets on the prescribed form in respect of each employee liable to tax.
- d. Remit the PAYE tax deducted on or before 15th of the following month.
- e. Furnish an annual declaration (PAYE return) on or before 30th April after the end of each year of assessment.
- f. Issue certificates of tax deduction (T-10 certificate) to each employee on or before 30th April after the end of each year of assessment.

***(05 Marks)***

### ***Suggested Answers to Question Three:***

As per section 217, trade includes every trade and manufacture and every adventure and concern in the nature of trade.

In case of “*Mahavitharana Vs. CIR*” the assessee and another acquired an option to purchase a tea estate of 583 acres by paying an advance and agreed to complete the transaction within a short time period. They did not have sufficient finances to purchase this nor intention to purchase the entire estate with their own funds or with borrowed funds. They quickly procured purchasers for 464 acres and out of the remaining area part was sold and the balance was acquired by the government.

As per the judgment, the transactions were an adventure or concern in the nature of trade. The facts above that the intention at the time of entering into an agreement was to embark on a venture in the nature of trade.

Considering similar facts in the given situation, the profits could be treated as from a trade.

***(05 Marks)***

**Suggested Answers to Question Four:**

**Amarasa (Pvt) Ltd**  
**Quarter ended March 31, 2016**  
**Calculation of VAT payable**

<b>Out Put Tax</b>			
Sales	3,500,000 * 11%	385,000	
Sales Proceed from Machine disposal	166,500/111 * 11	<u>16,500</u>	<b>401,500</b>
<b>Input Tax</b>			
Importation		0	
Local Purchases			
From Purchase on Good or Services	260,000		
From Purchase on Air conditioner	<u>85,000</u>	<u>345,000</u>	
<b>Input for the Period</b>		<b>345,000</b>	
Disallowed Input tax		<u>0</u>	
<b>Allowed Input for the Period</b>		<b>345,000</b>	
B/F Unabsorbed Input Tax		<u>0</u>	
<b>Total Input tax available to deduct</b>		<b>345,000</b>	
<b>Deductible Input Tax</b>			
Related to other ( Note 1)	<u>345,000</u>	<u>(345,000)</u>	<u>(345,000)</u>
<b>C/F Input tax</b>	<b>0</b>		
<b>Gross VAT Payable</b>			<b>56,500</b>
<b>Tax Credit</b>			
Installment Payment – 20.02.2016		<b>(15,000)</b>	
– 20.03.2016		<u><b>(10,000)</b></u>	<u><b>(25,000)</b></u>
<b>Balance VAT Payable</b>			<b>31,500</b>

(05 Marks)

**Note 01: Deductible Input tax for other supplies**

- Remaining Input Tax	- 345,000/-	} whichever is lower 345,000/-
(Total allowable Input tax – deducted for 0%, SVAT, 22(7)) (345,000 - 0)		
- 100% of Output tax *	- 401,500/-	
(401,500 * 100%)		
* Other than 0%, SVAT, 22(7)		

**End of Section A**

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

---

***Suggested Answers to Question Five:***

**a. Method of recover of taxes in default**

**- Seizure of Property**

Tax in default may be recovered by seizing the movable and immovable properties of the defaulter and sale to recover the tax in default. For this purpose, CGIR may appoint the person as provision of the Inland Revenue Act.

**- Recovery through Magistrate's Court**

On behalf of the Department of Inland Revenue, CGIR may fill the case in the court seeking the recovery of tax in default. Court may be imposed the fine and decided the method of recover the tax in default.

**- Recovery out of Debts**

CGIR may issue notice on a person who owes or hold money for or on account of the defaulter.

The person who may receive such a notice, is served as required by the CGIR. That mean, any money which has hold on behalf of the defaulter, have to be remitted to Department of Inland Revenue.

**- Recovery out of an Employee's Remuneration**

Notice may be issued to an employer for deducting tax in deduct on defaulter's monthly remuneration as instilment basis.

If employer has failed to do so, and not remit such amount will be personally liable for the whole of the tax in default.

**- Recover from joint accounts**

The CGIR is empowered to issue notice to a banker or other financial institution where a joint account is hold by the defaulter to pay the tax in default.

**- Prevention of person's leaving Sri Lanka until recovery of tax**

The CGIR is empowered to prevent any person from learning the island without paying his income tax due or furnishing security for payment thereof.

**- Apply to transfer immovable property**

Any person liable to pay tax may apply to transfer any immovable property owned by him to the government in lieu of income tax payable in cash. If the agreed value of the property exceeds the amount of tax payable, the excess is demand to be a donation to the government.

**- Recover from the assets of a partnership**

The tax attributable to a partner's share of profit could be recovered from that partner's as-sets of the partnership.

---

- **Recover from the income of a child**

The tax attributable to an income of a child could be recovered from such child.

- **Recover from trust**

The tax attributable to an income from a trust as a beneficiary could be recovered from the trustee of the trust.

- **Recover from executor**

The tax payable by a beneficiary on the income of the estate of a deceased person could be recovered from the executor.

*(06 Marks)*

b. **Persons who can be “an Authorized Representative” as per IR Act.**

- A Member of the Institute of Chartered Accountant of Sri Lanka
- An Attorney at law
- Member of the Sri Lanka Institute of Taxation
- An employee regularly employed by that person
- In the case individual , a relative
- In the case of company, a director or the secretary of that company
- In the case of partnership, a partner of the partnership
- In the case of body of persons, a member of such body.

*(04 Marks)*

*(Total 10 marks)*

---

***Suggested Answers to Question Six:***

(a) **Nation Building Tax payable**

**Jubilee Food (Pvt) Ltd**  
**Quarter ended March 31, 2016**  
**Calculation of NBT payable**

<b>Out Put Tax</b>			
For Manufactured Good sales	1,250,000 * 2%	25,000	
Sales Proceed from Machine disposal	3,895,000*50% * 2%	<u>38,950</u>	<b>63,950</b>
<b>Credit for Manufacturing</b>			
On Importation of Raw Material		11,250	
On Office Expenses Not directly related to the manufacturing		<u>0</u>	<b>(11,250)</b>
<b>Gross NBT Payable</b>			<b>52,700</b>
<b>Tax Credit</b>			
Installment Payment			<b>(26,000)</b>
<b>Balance NBT Payable</b>			<b><u>26,700</u></b>

*(08 arks)*

(b) Due date of return submission – **20<sup>th</sup> April 2016**

*(02 Marks)*

*(Total 10 marks)*

**Suggested Answers to Question Seven:**

**(a) Calculation of the Divisible Profit**

**Sithumini and Muthumini Partnership**

**Year of Assessment 2015/2016**

**Calculation of the Divisible Profit**

	+	-
<b>Net Profit As Accounts</b>	9,606,000	
Accounting Depreciation - <b>Disallowed</b>	120,000	
Depreciation Allowance on assets - <b>Allowed</b>		180,000
Professional Fee to Partners – <b>Disallowed</b> This paid as partnership agreement	6,000,000	
Salaries to partner- Muthumini - <b>Disallowed</b>	600,000	
Other expenses- allowed for tax Purpose	0	
	16,326,000	180,000
<b>Divisible Profit</b>	<b><u>16,146,000</u></b>	

*(5 Marks)*

**(b) Calculation of the Partnership Tax Liability**

<b>Divisible Profit</b>	<b>16,146,000</b>
Other Sources of Income	0
	<b>16,146,000</b>
Partnership Tax free Allowance	(1,000,000)
<b>Taxable Income</b>	<b><u>15,146,000</u></b>
<b>Partnership Tax Liability</b>	15,146,000/- * 8%
	<b><u>1,211,680</u></b>

*(02 Marks)*

**(c) Distribution of Divisible Profit**

	<b>Total</b>	<b>Sithumini</b>	<b>Muthumini</b>
	15,146,000		
Professional fee	(6,000,000)	4,000,000	2,000,000
Partner's salary	(600,000)	-	600,000
<b>Profit Share</b>	<b>8,546,000</b>	<b>4,273,000</b>	<b>4,273,000</b>

*(03 marks)*

*(Total 10 marks)*

Two (02) compulsory questions.

(Total 50 marks)

***Suggested Answers to Question Eight:***

**Golden (Pvt) Ltd**  
**Year of Assessment 2015/16**  
**Calculation of Taxable Income**

<b>Interest Income</b>			
Interest Income on Treasury Bill			
Interest Received		108,000	
Add: Notional Tax Credit (108,000 * 1/9 )		<u>12,000</u>	<b>120,000</b>
<b>Adjusted Business Profit</b>			
	+	-	
<b>Net Profit as Accounts</b>	<b>34,705,150</b>		
<b>Other Income</b>			
• <b>Remove the other sources of Income</b>			
Interest Income from T/Bill		108,000	
<b>Administration Expenses</b>			
• <b>Accounting Depreciation –Disallowed</b>			
Provision is not allowed.	2,625,000		
• <b>Gratuity Provision – Disallowed</b>			
Provision is not allowed.	834,000		
• <b>Penalty – Disallowed</b>			
Not directly connected to Production of Income.	276,000		
• <b>Legal Fee – Disallowed</b>			
This related to tax matters, Not directly connected to Production of Income.	50,000		
• <b>House provided to CEO</b>			
Expense incurred to house 318,000			
Housing Benefit of CEO * (180,000)			
Excess Amount 138,000			
*house received on free of charged and annual income was more than 1.8 million.			
Gross remuneration was more than 600,000/-, therefore,			
<b>Disallowed ¾ of 138,000/-</b>	103,500		
• <b>Donation - Disallowed</b>			
Any donation is not allowed to deduct	600,000		

<b>Distribution Expenses</b>			
• Entertainment Expenses - <b>Disallowed</b>	435,000		
<b>Finance Expenses</b>			
• Leasing Interest - <b>Disallowed</b>	270,000		
Payment of Gratuity – <b>not available</b>		0	
<b>Assets related Adjustments</b>			
<u>Allowance for Depreciation for tax purpose</u>			
• <b>Furniture</b>			
- Sofa used for CEO residence Rs. 150,000/-		0	
- Not allowed to claimed, personal used		142,000	
- Balance 2015/16 710,000* 25%			
• <b>Machinery</b>		2,456,667	
- 2015/16 7,370,000 * 33,1/3%		108,750	
• <b>Computer</b>			
- 2015/16 435,000 * 25%			
• <b>Motor Vehicle</b>			
- Motor bikes used by Non Executives		97,200	
Allowed to claim		0	
2015/16 486,000 * 20%			
- Car used for Travelling Rs. 2,250,000/-			
Not allowed to claimed			
• <b>Motor Vehicle _ leased</b>			
Allowance for depreciation can't be claimed. Since there was no ownership to company			
- <b>Leasing Allowance</b>			
Maximum Lease allowance 528,000/-		440,000	
[(44,000/- *60)* 1/5]			
} Lower			
Rental paid during the period 440,000/- (44,000*10)			
	<b>39,898,650</b>	<b>3,352,617</b>	<b>36,546,033</b>
<b>Adjusted Trade Profit</b>			<b>36,546,033</b>

<b>Computation of Income Tax</b>			
Income from Trade, business			36,546,033
Interest Income		108,000	
Grossed up by 1/9		12,000	
<b>Total Statutory Income</b>			<b>36,666,033</b>
Less – Deductions under Sec. 32		-	-
<b>Assessable Income</b>			<b>36,666,033</b>
Less : Allowance for Qualifying Payments			
Donation		600,000	
Limited to Rs. 500,000 or 1/5 of AI			500,000
<b>Taxable Income</b>			<b>36,166,033</b>
Income tax on profits from business	<b>36,166,033</b>	12%	4,339,924
<b>Gross tax liability</b>			<b>4,339,924</b>
Less :			
ESC carried forward			(800,000)
National Tax Credit			(12,000)
<b>Balance Income Tax Payable</b>			<b>3,527,924</b>

(25 Marks)

***Suggested Answers to Question Nine:***

**Mr. Hettige**

**Year of Assessment 2015/16**

**Calculation of Taxable Income**

<p><b><u>Profit From Employment</u></b></p> <p><b>From Government Service</b></p> <p>- Pension      540,000/-      Exempted for Tax      0</p> <p><b>From Private Company</b></p> <p>- Salary    (120,000/- * 12)      1,440,000</p> <p>- Bonus Received (120,000/- * 1)      120,000</p> <p>- Commission for drugs promotion      135,000</p> <p>- Allowance for participation of Medical conference</p> <p>For Accommodation    - US\$ 250 * 142/-</p> <p>For Air Tickets      - 75,000/-      0</p> <p><u>Assumption</u></p> <p><i>This is related to the present work performing and it is necessary to Employee as well as company for improvement of efficiency and effectiveness.</i></p>		<p><b>1,695,000</b></p>
<p><b><u>Income from Properties</u></b></p> <p><b>Net Annual Value (NAV)</b></p> <p><u>NAV for Negegoda House</u></p> <p>NAV of the House – 150,000/-      <b>Exempted</b>      0</p> <p><i>This is exempted from income tax on the basis of one house to one individual person.</i></p> <p><u>NAV for Constructed House</u></p> <p>NAV of the House – 75,000/-      <b>Exempted</b>      0</p> <p style="text-align: center;"><b>490 sq.</b></p> <p><i>Floor area of the house is less than the 500 s. ft. therefore, can claim the exemption on Year of Construction completed and further 4 years.</i></p>		

<b>Rent Income</b>		
Rent income for Matara house		
Gross Rent (60,000*12)	- 720,000	
Less: Rates Paid (180,000*30%)	- (54,000)	
	666,000	
Less: 25% of repair Allowance	- (166,500)	
<b>Net Rent</b>	<b>499,500</b>	
<b>NAV</b> (180,000*75%)	<b>135,000</b>	Higher
	499,500	<b>499,500</b>
<i>(This is a house rented for residence purpose .therefore, have to be compared with NAV)</i>		
NAV – CONSTRUCTED <i>(EXEMPTED FLOOR AREA &lt; 500 S.F.)</i>		
NAV – House Living <i>(Exempted for one house)</i>		
<b>Interest Income</b>		
Deposit in People’s Bank <i>(Exempted for senior citizens)</i>		
Sale of Motor Car <i>(not taxable)</i>		
<b>Dividend Income</b>		
Profit exempt	36,000	
Received from other companies	10,000	10,000
Total Statutory Income		2,240,500
Less – Income which does nor form part of Assessable income received from other companies <i>(Without adding and deducting, it could be stated that this is not a part of AI in the answer)</i>	10,000	(10,000)
Less – Deductions under Sec. 32		
Interest paid		(27,000)
Annuity paid (claimability is limited to other income)		(180,000)
Assessable Income		1,987,500
Less – Allowance for Qualifying payments (no need to give marks for capital repayment)		
Donation to an approved charity	(100,000)	
Limited to lower of 1/3 of AI or Rs. 75,000/- or actual Claimability is limited to other income		(75,000)
QP on employment income		(250,000)
Tax Free Allowance		(500,000)
<b>Taxable Income</b>		<b>1,162,500</b>

<b>Tax Liability</b>		
On first Rs. 500,000 @ 4%		20,000
On next Rs. 500,000 @ 8%		40,000
On next Rs. 312,500 @ 12%		19,500
		<b>79,500</b>
Less – Tax Credits		
Self-Assessment payments		(10,000)
PAYE		(55,600)
<b>Balance Payable / (Refund receivable)</b>		<b>13,900</b>



*End of Section C*

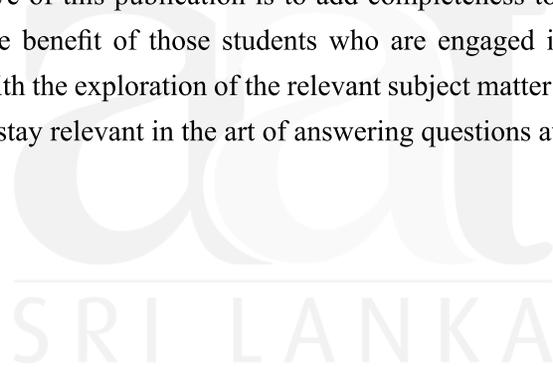
---

***Notice :***

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

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”.

The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.



---

© 2017 by the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka)

*All rights reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka)*