



Association of Accounting Technicians of Sri Lanka

AA3 Examination - January 2018

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

**CORPORATE AND PERSONAL TAXATION
(CPT)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EDUCATION AND TRAINING DIVISION

**AA3 Examination - January 2018
(AA35) Corporate and Personal Taxation**

SUGGESTED ANSWERS

SECTION – A

Four (04) compulsory Questions

(Total 20 marks)

Suggested Answers to Question One:

Source of Income

1. Employment Income
2. Profit from Trade, Business, Profession or Vocation
3. Income from Properties
 - Net Annual Value
 - Rent Income
 - Occupier's Income
4. Dividend Income
5. Interest Income
6. Discount, Premium
7. Receipt to Non-Government Organization
8. Income from Any Other Source, not including profits of a casual and non-recurring nature.
9. Winnings from a lottery, betting or gambling

(Answer have to be consisted on 5 items out of this list)

(05 Marks)

Suggested Answers to Question Two:

Following conditions have to be satisfied on letter of appeal to become a valid appeal

- The appeal should be in writing
- Letter of appeal should be addressed to the Commissioner General
- It should be submitted within 30 days from the date of Notice of assessment
- Reason of appeal have to be mentioned precisely
- Tax payable as per return must be paid and the receipt should be attached as a proof of such payment.

(Candidates are expected only 3 items out of this list)

(05 Marks)

Suggested Answers to Question Three:

**Sunimal Flora (Pvt) Ltd
Quarter ended 31.03.2017
Calculation of ESC liability**

	Rs.
Sale of Flower - Export	17,600,000
Sales of Flowers – Local Market	72,400,000
Sale Proceeds on disposal of office furniture (not liable)	-
Interest Income from Fixed deposit (not liable)	-
Liable Turnover (exceed more than 50 million)	90,000,000
ESC liability – 90,000,000 * 0.5%	450,000

(05 Marks)

Suggested Answers to Question Four:

Rantharu Sport Club

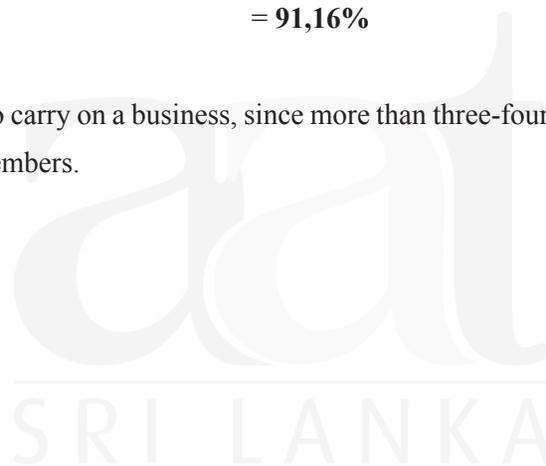
Year of assessment 2016/17

Determination whether club is run the business

	Rs.	Rs.
Gross receipts		2,535,000
Receipts from members:		
Subscriptions	2,165,000	
Interest from loans given to members	146,000	2,311,000

Receipt from members as a % $= (2,311,000 / 2,535,000) \times 100$
 $= 91,16\%$

Club is not deemed to carry on a business, since more than three-fourths (3/4) of its gross receipts are received from members.



End of Section A

Three (03) compulsory questions
(Total 30 marks)

Suggested Answers to Question Five:

(a)

Value Added Tax Computation

For the month ended 31st March 2017

Output Tax:			
Zero rated Supplies - Exports	1,200,000	0%	-
Suspended supplies	758,400	15%	113,760
Taxable Supplies - Local Sales	4,161,600	15%	624,240
	6,120,000		738,000
Input Tax:			
Imports		364,500	
Local purchases		245,500	
Claimable input tax			610,000
<i>* Input tax claimable without restriction</i>			
[(Zero rated supplies + SVAT Supplies) x Claimable input tax]		195,200	
Total Supplies			
Balance subject to 100% of output tax on taxable supplies		414,800	
Total Claimable			610,000
VAT payable			128,000
Less: SVAT Credit Vouchers			(113,760)
Installments paid			(10,000)
Balance payable			4,240

(08 marks)

(b) Due date of submission of VAT return – on or before April 30th, 2017

(02 marks)

(Total 10 marks)

Suggested Answers to Question Six:

- (a) **“Business Solutions” Partnership**
Year of Assessment 2016/2017
Calculation of the Divisible Profit

	+	-
Net Profit As per Accounts	13,892,520	
Rent Income		120,000
Interest Income		5,520
Salary of the Partners (250,000 +250,000) - Disallowed	500,000	
Rates for rented section of the building - Disallowed	15,000	
Accounting Depreciation - Disallowed	48,000	
Depreciation Allowance on assets – Allowed Computer - 400,000* 25%		100,000
Other expenses- Allowed for tax Purpose	0	
	14,455,520	225,520
Divisible Profit	<u>14,230,000</u>	

(05 marks)

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

Divisible Profit	14,230,000
Other Sources of Income	
➤ Rent Income	
Gross Rent	120,000
Less: Rates	<u>(15,000)</u>
	105,000
25% repair allowance	<u>(26,250)</u>
Net rent	<u>78,750</u>
➤ Interest income Net Rs. 5,520	78,750
WHT deducted, final Tax paid income	
	14,308,750
Partnership Tax free Allowance	<u>(1,000,000)</u>
Taxable Income	<u>13,308,750</u>
Partnership Tax Liability	13,308,750/- * 8%
	<u>1,064,700</u>

(05 marks)

(Total 10 marks)

Suggested Answers to Question Seven:

(A) Withholding Tax (WHT) deducted on sources

From Director Fee

Amount received 369,600
WHT deducted - $369,600 / 84 * 16$ = **Rs. 70,400**

From Interest Income

Interest income received 92,000
WHT should be deducted at 2.5%
 $92,000 \times 2.5\%$ = **2,300**

Or

$(92,000 / 97.5\%) \times 2.5\%$ = **2,359**

From Lottery

Cash prize received – 720,000/-
WHT deducted - $720,000 / 90 * 10$ = **Rs. 80,000**

(06 marks)

(B)

The following conditions have to be satisfied for an individual to be considered as child

- Age less than 18 years
- Unmarried
- Legitimate child (Should not be an illegitimate child.)
- Should not be a child under any other law other than child ordinance

(04 marks)

(Total 10 marks)

Two (02) compulsory questions.

(Total 50 marks)

Suggested Answers to Question Eight:

Ann (Pvt) Ltd.

Year of Assessment 2016/17

Computation of Income Tax Liability

	+	-
Profit before Tax	12,198,000	
Less: <u>Other sources of Income</u>		
Interest Income	(1,700,000)	
Profit on disposal of fixed assets	(210,000)	
Bad debt recovered - no adjustment	-	
	10,288,000	
Rent advance	525,000	
Accounting Depreciation	4,105,000	
Fines - Disallowed	150,000	
Gratuity provision	876,000	
Gratuity paid		645,000
Cost of air ticket - limited to 2% of business profit (16,900,000 x 2%) = 338,000		
Disallowed cost (354,000 - 338,000)	16,000	
Advertising - recruitment - Allowed	-	
Balance advertising cost - 1/4 disallowed (343,000 - 63,000)	70,000	
Donation - Lorry	3,000,000	
Lease interest	325,000	
Claimed Lease Rental:		
Lease rental - 1/5th of leased value (160,000 x 60) / 5 = 1,920,000		
Paid amount - 160,000 x 9 = 1,440,000		
Whichever is lesser		1,440,000
Capital Allowance:		
Air conditioner (150,000 / 33 1/3)		50,000
Furniture to be used - Not allowed	-	
Cost incurred for building - Not allowed	-	

Taxable profit on disposal:		
Sales proceed	= 1,500,000	
TWD 2,000,000 - (2,000,000 x 20% x 2)	= 1,200,000	
Taxable profit	= <u>300,000</u>	300,000
	19,655,000	2,135,000
Adjusted business profit		17,520,000
Interest on debenture		Exempt
Total Statutory Income		17,520,000
Qualifying payment:		
Donation		(3,000,000)
Taxable Income		14,520,000
Tax liability @ 12%		1,742,400
Less: Tax Credits		
Self-Assessment payment Tax		(400,000)
Tax payable		1,342,400

Reason for applying 12% to be explained.

- Undertaking engaged in manufacture of any article or in the provision of service
- Turnover does not exceed Rs. 750 Mn.
- This is an individual company (not a part of group)

(25 marks)

Suggested Answers to Question Nine:

**Sudesh
Year of Assessment 2016/17
Income Tax Computation**

Employment Income				
Salary	250,000 x 12			3,000,000
Travelling Allowance	60,000 x 12		720,000	
Exempt	50,000 x 12		(600,000)	
Liabile amount				120,000
Medical Insurance				60,000
Housing Benefit				
Rating assessment	100,000			
Rates	25,000			
Rental Value	125,000			
Rent paid by employer (20,000 x 12)	240,000			
Higher of above			240,000	
As the gross remuneration exceeds Rs. 1.8 million				
Taxable value limited				180,000
Statutory income from employment				3,360,000
Rent Income				
Gross rent	50,000 x 12		600,000	
Rates			(60,000)	
			540,000	
25% repair allowance			(135,000)	
Net Rent			405,000	
Rating assessment			200,000	
25% Allowance for repairs			(50,000)	
Net Annual Value			150,000	
Net rent > NAV, net rent is taxable				405,000
* Dividend Income				
Received from a listed company			not a part of AI	
* Interest Income				
Interest on fixed deposit			not a part of AI	
Total Statutory Income				3,765,000
<u>Deductions under section 32</u>				
Loan interest				(241,000)

Assessable Income					3,524,000
Allowance for Qualifying Payments					
Donation to approved charity			80,000		
Medical Insurance premium			60,000		
- 1/3 of AI or Rs. 75,000/-				75,000	
Capital repaid				200,000	
				275,000	
Limited to income other than employment (405,000 - 241,000)				164,000	(164,000)
Allowance on Employment Income					(250,000)
Tax Free Allowance					(500,000)
Taxable Income					2,610,000
On First Rs. 500,000		4%		20,000	
On next Rs. 500,000		8%		40,000	
On next Rs. 500,000		12%		60,000	
On balance		16%		177,600	
(Employment Income is taxable at a maximum of 16%)					297,600
PAYE					(197,600)
Balance Payable					100,000

(25 marks)

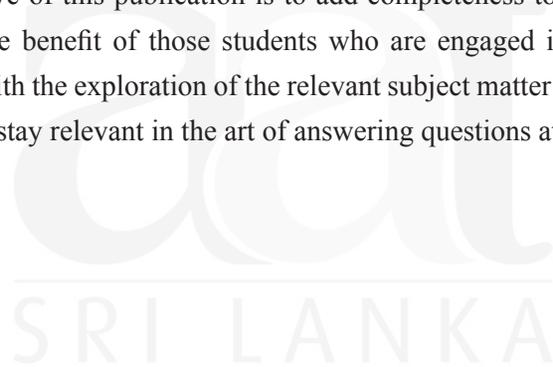
End of Section C

Notice :

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