



Association of Accounting Technicians of Sri Lanka

Level III Examination - January 2021

Suggested Answers

(304) CORPORATE & PERSONAL TAXATION (CPT)

Association of Accounting Technicians of Sri Lanka

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(304) CORPORATE & PERSONAL TAXATION

SUGGESTED ANSWERS

(Total 20 Marks)

SECTION - A

Suggested Answers to Question One:

Chapter 01 – Introduction to Taxation of Sri Lanka

Resident status of Gihan in Sri Lanka is as follows;

<u>Period of presence in Sri Lanka</u>	<u>No of day's presence in Sri Lanka</u>
01/04/2019 to 20/08/2019	142 days
15/03/2019 to 31/03/2020	<u>17 days</u>
	<u>159 days</u>

If an individual is physically present in Sri Lanka, in aggregate 183 days or more in any 12 months period that commences or end during the year, he will be resident for tax purposes for that year of assessment.

As per the above information, during the Y/A 2019/2020 Gihan is physical presence in Sri Lanka for less than 183 days during twelve month period commencing from 1st April 2019 to 31st March 2020. Hence, it is considered that Gihan is a non-resident individual for tax purpose in Sri Lanka during the Y/A 2019/20.

(05 marks)

Suggested Answers to Question Two:

Chapter 05 – Obligations & Procedures

(a)

1 st Quarter	-	15 th August 2020
2 nd Quarter	-	15 th November 2020
3 rd Quarter	-	15 th February 2021
4 th Quarter	-	15 th May 2021

(03 marks)

(b) Refer to the Section 152(1) of the Inland Revenue Act No. 24 of 2017, when a tax is not paid by a person on or before due date on which it becomes due or payable, then it is considered as tax in default.

(02 marks)

(Total 05 marks)

Suggested Answers to Question Three:

Chapter 07 – Other Business Tax

(a) Rs. 300 Million per annum

(02 marks)

(b) As per the Section 17(1) of the Value Added Tax Act No. 14 of 2002 and amendments there to, upon cancellation of VAT registration SAM Trading (Pvt) Ltd shall have the following responsibilities;

1. Return the certificate of Registration to the Commissioner General of Inland Revenue (CGIR) within 14 days
2. Stop displaying the Certificate of Registration
3. Stop issuing tax invoices, tax debit and credit notes

(03 marks)

(Total 05 marks)

Suggested Answers to Question Four:

Chapter 06 – Case law relating to taxation

In the case of Hayley & Co Ltd. vs. CIR, a company engaged in purchase and export of commodities (especially rubber) has suffered a loss of money held in the safe by theft and claimed the net loss after the insurance claim as an “outgoing”.

As per the judgment the loss in this case was allowed to be claimed on the following grounds:

- (1) Expenses as well as outgoings are deductible. It includes involuntary out going as well. In this case, outgoing includes losses such as loss of stocks and money by flood. Fire & theft, etc.
- (2) The outgoing should be incurred for the production of income. In this case the outgoing was allowed since it is incidental to the business.
- (3) The loss represents working capital and not fixed capital & therefore not capital expenditure.

Accordingly, the net loss of Rs. 300,000/- cash due to theft is considered as an allowable expense for tax purpose.

(05 marks)

End of Section A

Suggested Answers to Question Five:**Chapter 04 – Taxation of Miscellaneous Undertakings**

(a)

Happy Deals
Tax Computation
For the Year of Assessment 2019/20 Rs.

Description	Notes	Amount
Profit before tax		1,850,000
Partners Salaries	1	2,160,000
Depreciation		420,000
Capital Allowance	2	(600,000)
Rent	3	-
Vehicle Hire Charges	4	-
Partnership Business Income		3,830,000

Note 1 - Partners Salaries

Salaries paid to partners are disallowed

Ravin	(Rs. 80,000 x 12)	Rs. 960,000
Dilum	(Rs. 100,000 x 12)	Rs. 1,200,00
Total		Rs. 2,160,000

Note 2 - Capital Allowance

As per the information, lorry is used to distribution of spices to customers qualify for deduction of capital allowance.

$$\text{Capital Allowance} = \frac{\text{Cost of Depreciable Asset}}{\text{No of years}} = \frac{3,000,000}{5} = \underline{\underline{\text{Rs.600,000}}}$$

Additional Information:

Accounting depreciation is disallowed and taxpayer is eligible to claim capital allowance as per Sec. 16 of the Inland Revenue Act, where the depreciable assets are used in the production of income.

Note 3 – RentAdditional Information:

According to the Section 84(1) (a) (i) at the time of rent payment by partnership WHT shall be deducted at 10%. In the event of no deduction of WHT on rent payment and remittance to the CGIR, Section 10(2) provides that no expenses allowed to be deducted in computing assessable income from business.

Since the question is silent on WHT deduction, it is assumed that Partnership has deducted WHT on rent payment and remitted to the CGIR.

Note 4 – Vehicle Hire Charges

For Additional Information:

According to Section 84(1)(a)(i) at the payment of rent on hiring vehicle WHT shall be deducted at 10%. In the event of non-payment of WHT on rent payment and remittance to the CGIR, Section 10(2) provides that no expenses be allowed to deduct in computing assessable income from business.

It is assumed that Partnership has deducted WHT on vehicle hire charges and remitted to the CGIR.

(03 marks)

(b) Withholding Tax Payable by the Partnership

Partnership income for the tax purpose	Rs. 3,830,000
Withholding tax rate	<u>8%</u>
Withholding tax (3,830,000x8%)	<u>Rs. 306,400/-</u>

(02 marks)

(c) Share of Partnership Income of Each Partner

			Rs.
Description	Ravin	Dilum	Total
Partners salaries	960,000	1,200,000	2,160,000
Profit	835,000	835,000	1,670,000
	1,795,000	2,035,000	3,830,000

(03 marks)

(d) Withholding Tax Credit available to each Partner

Description	Ravin	Dilum	Total
WHT at 8%	143,600	162,800	306,400

(02 marks)

(Total 10 marks)

Suggested Answers to Question Six:

Chapter 05 – Obligations and Procedure

(A) (a) 30th November 2019

(02 marks)

(b) The following items should be included in the notice of assessment.

- (1) Amount of the tax assessed
- (2) Penalty assessed
- (3) Late payment interest assessed
- (4) Tax period
- (5) Due date for payment of tax and penalty
- (6) Manner of objecting to assessment
- (7) The name of the tax payer
- (8) Tax Payer's Identification Number (TIN)
- (9) The date of issue of the Tax notice

(04 marks)

(B)

**Computation of Capital Gains Tax Payable
For the Month of June 2019**

		Rs.'000
Sales Proceed		
Less:		48,000
Market value as at 30/09/2017	40,000	
Broker fee	<u>130</u>	<u>40,130</u>
Capital Gain		7,870

Capital Gain Tax Payable on the above transaction (Rs. 7,870 × 10%) = **Rs. 787,000**

(04 marks)

(Total 10 marks)

Suggested Answers to Question Seven:

Chapter 07 – Other Business Tax

**Kushbu Flowers Ltd
Computation of VAT Payable
For the Quarter ended 31st March 2020**

<u>Output Tax</u>	<u>Value of Supply</u>	<u>Rate</u>	<u>(Rs.'000)</u> <u>Tax</u>
Taxable supply	85,750	8%	6,860
Exempted Supply	<u>12,250</u>	-	-
Total Output Tax	<u>98,000</u>		6,860

Input Tax

On expenses relates to flower farm	Not allowed. Relevant to exempt supply		
On purchase of decorating materials		3,435	
On common expenses	448		
Less: Input tax attributable to exempt supply			
<u>12,250</u> x 448	<u>(56)</u>	392	
98,000			
Input tax brought forward		<u>160</u>	
		<u>3,987</u>	
Input tax attributable to zero rated supply		-	
Limited to 100% of output tax	6,860	<u>3,987</u>	<u>(3,987)</u>
VAT Payable			2,873
Less: Installment Paid			<u>(2,000)</u>
Balance VAT Payable			<u>873</u>

(10 marks)

End of Section B

Suggested Answers to Question Eight:***Chapter 03 – Taxation of Individuals & Companies (Resident)***

SRI Products (Pvt) Ltd
Income Tax computation for the year of assessment 2019/20

	Note		Rs.
Business Income	1		40,073,600
Investment Income	2		-
Assessable Income			40,073,600
Less: Qualifying payments and reliefs	3		<u>(1,500,000)</u>
Taxable Income			38,573,600
Tax Liability			-
Tax @ 14%	4		5,400,304
Less: Tax Credits			
Economic Service Charge		1,180,000	
Quarterly Installments		5,000,000	6,180,000
Balance Tax Payable			(779,696)

Note 1:

SRI Products (Pvt) Ltd
Computation of Assessable Income from conducting Business
For the Y/A 2019/20

Description	Workings	(Rs.'000)	
		+	-
Net Profit before tax		33,650	
Dividend – Investment Income		-	301
Profit on Disposal of Machinery	1	-	168
Assessable Charges/ (Balancing Allowance)	1	-	70
Depreciation – disallowed		6,242	-
Capital Allowances	2	-	3,076.4
Donation to approved charity	3	1,000	-
Donation to Government	3	1,000	-
Provision for Gratuity	4	1,563	-
Entertainment	5	234	-
Advertising	6	-	-
Director's foreign Travelling	7	-	-
Lease Interest	8	-	-
Total		43,689	3,615.4
Assessable Income		40,073.6	

Working 1 – Profit on Disposal of Machinery

Accounting profit on disposal of machinery is not considered as taxable profits or gain. According to the IR Act, calculation of Assessable Charges or Balancing Allowance on disposal of depreciable assets used in business has to be done.

Sales Proceeds			750,000
Less: Tax Written Down Value			
Cost of machinery		2,460,000	
<i>(-) Capital Allowance Claimed</i>			
Y/A 2017/18 - $2,460,000 \times 33 \frac{1}{3}$ *	820,000		
Y/A 2018/19 - $2,460,000 \times 33 \frac{1}{3}$	<u>820,000</u>	<u>(1,640,000)</u>	<u>820,000</u>
Balancing Allowance			<u>70,000</u>

* Assets purchased prior to 01.04.2018 and the rate of capital allowance in the Inland Revenue Act No. 10 of 2006 is applied to calculate capital allowance of machinery disposed.

Working 2 – Capital Allowances

Accounting depreciation is disallowed and eligible to claim capital allowance on assets use in production of income during the year.

(Rs.'000)				
Description	Year of acquisition	Cost of Assets	Capital Allowance Period	Capital Allowance
Land	2018/19	8000	-	-
Building	2018/19	10,000	20 Years	500
Machinery	2018/19	5,750 (8,210-2,465)	5 Years	1,150
Motor Lorry	2018/19	2,465	5 Years	493
Motor Lorry	2019/20	1,350	5 Years	270
Office Equipment	2018/19	867	5 Years	173.4
Computers	2018/19	1,850	5Years	370
Software	2019/20	1,200	10 Years	120
Total				3,076.4

Working 3 – Donations

Donation to approved charity and the Government are disallowed as not incurred in the production of income and eligible for deduction as qualifying payment in calculating taxable income.

Working 4 – Gratuity

Under Section 10 (1) (b viii) provision for gratuity is disallowed.

Working 5 – Entertainment

Under Section 10 (1) (b) (vii) entertainment expenses are disallowed.

Working 6 – Advertising

Allowed as the company engages in exporting toys and the expenses are incurred in the production of income

Working 7 – Foreign travelling of Directors

Allowed as the expenses incurred in the production of income.

Working 8 – Lease Interest

Finance lease interest on lorry shall be deducted as per Section 18 of the Inland Revenue Act no. 24 of 2017. As the company engages in manufacturing toys the deduction of interest attributed to the cost of finance instrument is limited to 3 times of the stated capital and reserves.

Total Lease value	(34,000x12x4)	=	1,632,000
Less: Installment Paid	(34,000x11)	=	<u>(374,000)</u>
Balance outstanding of finance lease		=	<u>1,258,000</u>
Finance cost			196,000

Since stated capital and reserves not provided in the question, assumed that total finance cost is deductible in computing the business profit.

Note 2: Investment Income

Dividend (301,000/86x100)	350,000
Less: Exempt income/Final Withholding Payments	
Dividend	<u>350,000</u>
Assessable income from Business	<u>-</u>

Note 3: Qualifying Payments

Assumed that company has made a Rs. 1,000,000 cash donation to a home maintained for displaced elders. Hence, deduction is limited to 1/5th of the taxable income or Rs. 500,000 as a donation made to an approved charity.

Donation to approved charity (1/5 th of the taxable income or Rs. 500,000)	500,000
Donation to the Government	<u>1,000,000</u>
	<u>1,500,000</u>

Note 4: Tax Rate

As per Para 4(2) (a) of the First Schedule to the Inland Revenue Act No. 24 of 2017, company is predominantly engaged in export and the applicable tax rate is 14%

(25 marks)

Suggested Answers to Question Nine:**Chapter 03 – Taxation of Individuals & Companies (Resident)**

Gamini			
Computation of Income Tax Payable			
For the year of Assessment 2019/20			
	Note	Rs.	Rs.
Assessable income from Employment	1		5,220,000
Assessable income from Business	2		2,369,000
Assessable income from Investment	3		<u>300,000</u>
Total Assessable Income			7,889,000
<u>Less: Relief and Qualifying Payments</u>			
Employment Relief		500,000	
Personal Relief		700,000	
Rent Relief (300,000x25%)		<u>75,000</u>	
Total Relief		1,275,000	
Donation (100% allowed)		500,000	
Total Relief and Qualifying Payments			(1,775,000)
Taxable Income			<u>6,114,000</u>
<u>Tax Payable</u>			
First	600,000	x 4%	24,000
Second	600,000	x 8%	48,000
Third	600,000	x 12%	72,000
Next	600,000	x 16%	96,000
Next	600,000	x 20%	120,000
Balance	3,114,000	x 24%	<u>747,360</u>
Total Gross Tax Payable			1,107,360
<u>Less: Tax Credits</u>			
PAYE		604,800	
Installment Payments		<u>100,000</u>	
			(704,800)
Balance Tax Payable (Overpaid)			<u>402,560</u>

Note 1 - Employment Income

Primary Employment:

Basic Salary (325,000 x 12)	3,900,000
Travelling Allowance (50,000 x 12)	600,000
Bonus	300,000
Seminar cost – not an employment income	-
House benefit (35,000x12)	<u>420,000</u>
Assessable Income from Employment	<u>5,220,000</u>

Note 2 - Assessable Income from Business

	Workings	Rs.	Rs.
Income			2,844,000
Less: Expenses			
Staff Salaries		225,000	
Electricity and Water		27,000	
Depreciation	1	-	-
Other Expenses (Allowable)		143,000	
Capital Allowance	1	<u>80,000</u>	<u>(475,000)</u>
Assessable Income from Business			<u>2,369,000</u>

Workings 1: Capital Allowance

Accounting depreciation is disallowed and eligible to claim capital allowance on assets used in production of income during the year. Accordingly, capital allowance on office equipment are as follows;

$$\text{Capital Allowance} = \frac{\text{Cost of Depreciable Asset}}{\text{No of years}} = \frac{400,000}{5} = \underline{\underline{\text{Rs. 80,000 per year}}}$$

Note 3 – Investment Income

Rent Income (25,000 x 12)		300,000	
Interest Income		132,000	
Capital Gain on disposal of QPC Shares			
Sales Proceeds	6,000,000		
Cost of Share purchased	<u>(5,000,000)</u>	1,000,000	
Dividend	$\frac{243,000 \times 100}{86}$	<u>282,558</u>	1,714,558
Less: Exempted income and Final Withholding Payments			
Interest Income (Final Withholding Payments)		132,000	
Capital Gain on disposal of QPC Shares (Exempted income)		1,000,000	
Dividend (Final Withholding Payments)		<u>282,558</u>	<u>(1,414,558)</u>
Assessable income from Investment			<u>300,000</u>

(25 marks)

End of Section C

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