



Association of Accounting Technicians of Sri Lanka

Level III Examination - July 2021

Suggested Answers

(304) CORPORATE & 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

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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

In terms of Section 69(1) of the Inland Revenue Act (IRA Act) No. 24 of 2017, individual shall be resident in Sri Lanka where the individual;

- Resides in Sri Lanka
- Physically presence in Sri Lanka in aggregate period of 183 days or more in any twelve months periods commences or ends during the year
- An employee or an officials of the Government of Sri Lanka and his spouse posted aboard
- An individual employed on a Sri Lankan ship

29.08.2020 – 14.03.2021	
August	2 days
September	30 days
October	31 days
November	30 days
December	31 days
January	31 days
February	28 days
March	14 days
	197 days

According to given scenario Ruwan stayed more than 183 days in Singapore. Therefore, he is a **non-resident person** for income tax purpose in Sri Lanka.

(05 marks)

Suggested Answers to Question Two:

Chapter 07 – Other Business Tax

a) As per the Stamp Duty (Special Provision) Act No. 12 of 2016, A receipt or discharge given for any money or other property above Rs. 25,000/- shall be liable to pay Rs. 25/- as stamp duty on such receipt.

Accordingly, MSL Garments (Pvt) Ltd shall be paid at Rs. 25/- stamp duty for the year of assessment 2020/2021 where a salary receipt is more than Rs. 25,000/-.

$$\begin{aligned}\text{Stamp duty payable per quarter} &= 120 \times 25 \times 3 \\ &= \underline{\underline{\text{Rs. 9,000/-}}}\end{aligned}$$

(03 marks)

b) As per the Stamp Duty (Special Provision) Act No. 12 of 2016, the following instruments identified as specified instruments;

- An Affidavit
- A Policy of Insurance
- A warrant to act as Notary Public
- A lease or hire of any property
- A receipt or discharge given for any money or other property
- A periodic License to carry on any trade, business, profession or vacation
- A claim, demand made by a credit card holder
- A share certificate
- A Promissory Note
- A mortgage or any property

(02 marks)
(Total 05 marks)

Suggested Answers to Question Three:

Chapter 02 – Sources of Income

As per Section 36 of the IR Act No. 24 of 2017, where there is an excess over the consideration received on realization of investment asset, Capital Gain Tax shall be paid at the rate of 10% before the end of the following month. Accordingly, Capital Gain Tax would be;

Capital gain on realization of land		
Consideration		8,000,000
Less: Cost of Land		
Purchase cost / Open Market Value*	6,800,000	
Incidental Expenses:		
Broker's fee	<u>50,000</u>	(6,850,000)
Capital gain		1,150,000

* Where the investment asset acquired prior to 30th September 2017, the cost of such asset shall be equal to the open market value of the asset as at 30th September 2017.

Capital gain on realization of unlisted shares

Consideration	1,000,000
<u>Less: Cost of purchase</u>	
Purchase cost (12,000x54/-)	<u>(648,000)</u>
Capital gain on sales of shares	<u>352,000</u>

Total capital gain (1,150,000+352,000) =	Rs. 1,502,000
Capital Gain Tax Rate =	10%
Capital Gain Tax (1,502,000x10%) =	<u>Rs. 150,200/-</u>

(05 marks)

Suggested Answers to Question Four:

Chapter 06 - Withholding Tax (WHT) and Capital Gain Tax and Case Laws Relating to Taxation

As per the information provided in the case, Haritha Ltd paid a special lump sum payment of Rs. 1.2Mn to Mr. Silva to undergo a heart surgery considering his long outstanding service in the Company.

According to CRIB Vs. CIT management has paid a special bonus to CRIB to undergo a medical treatment considering his exceptional past services in the company. The court held that, the motive of the payment was the long service rendered by the company and not consideration for his services rendered to the company. Therefore, payment was considered as a personal gift to CRIB and not a profit from his employment.

In this case, Silva has received lump sum payment not as a gift in respect of employment and mere fact is that it was due to heart surgery and in recognition of his service by the company. Hence, it is not chargeable to income tax.

(05 marks)

End of Section A

Suggested Answers to Question Five:

Chapter 05 – Obligations and Procedure

(a)

As per The Section 176 of the IR Act no. 24 of 2017, where a person fails to pay all or part of an installment within 14 days of the due date shall be liable to pay a penalty equal to 10% of the tax due but not paid.

(03 marks)

(b)

30 months from 30th November 2020/ 28th February 2021

(03 marks)

(c)

To be a valid appeal, Neela should satisfy the following requirements in submitting appeal against the assessment as per Section 139 of the Administrative Review.

- Appeal should be in writing
- Address the appeal to the Commissioner General of Inland Revenue
- Grounds of appeal should be stated
- Attached the proof for that no wilful neglect committed
- Appeal should be submitted within 30days from the date of the notice of assessment

(04 marks)

(Total 10 marks)

Suggested Answers to Question Six:

Chapter 04 – Taxation of Miscellaneous Undertakings

**Win Traders
Computation of Partnership Tax payable
For the year of assessment 2020/21**

		(Rs.'000)
Assessable income from business	01	12,782
Assessable income from Investment		<u>650</u>
Total Assessable Income		13,432
Less:		
Donation (Donation to Government Allowed 100% up to All)		<u>(100)</u>
Taxable Income		13,332
<u>Tax Computation:</u>		
Tax Payable ((1,000 x 0%) + (12,332x6%))		739.920

Note 1: Computation of Assessable Income from Business

		(Rs.'000)
Net Profit		8,378
Less:		
Interest Income (Investment Income)		(650)
Add:		
Partner's Salaries (Not allowed)		
Raman (200x12)	2,400	
Chandra (200x12)	<u>2,400</u>	4,800
Entertainment (not an allowable expense)		46
Loan interest paid to Raman (not allowed)		108
Salary to Chandra wife (allowed)		-
Donation (not incurred in the production of income)		<u>100</u>
Assessable Income from Business		<u>12,782</u>

(10 marks)

Suggested Answers to Question Seven:

Chapter 07 – Other Business Tax

**Rukee Pvt. Ltd
Computation of VAT Payable
For the Quarter ended 31st March 2021**

(Rs.'000)

	<u>Value of Supply</u>	<u>Rate</u>		<u>Tax</u>
Export (Zero rates Supply)	24,500	0%		-
Taxable supply	124,000	8%		9,920
SVAT Supply	<u>6,500</u>	8%		<u>520</u>
Total Output Tax	155,000			10,440
<u>Input Tax</u>				
On import of raw materials			7,825	
On local purchase of materials			<u>454</u>	
			8,279	
Unabsorbed input tax brought forward			<u>954.6</u>	
				<u>9,233.6</u>
VAT Payable				1,206.40
Less: Installments Paid				(2,000)
SVAT Voucher (6,500x8%)				<u>(520)</u>
Balance VAT Payable / (Refund)				<u>(1,313.60)</u>

SRI LANKA

(10 marks)

End of Section B

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

**Neet Manufacturing (Pvt) Ltd
Computation of Income Tax Payable**

For the Y/A 2020/2021

(Rs.'000)

	Note		Rs.
Business Income	1		79,306.8
Investment Income	2		3,754
Assessable Income			83,060.8
Less: Qualifying payments and reliefs (W3)			<u>1500</u>
Taxable Income			81,560.8
Tax Liability			
Special Rate (Dividend) (1,500x14%)		210	
Normal Rate (balance taxable income) (77,806.8 x18%)		14,005.224	
Investment Income (2,254 x 24%)		<u>540.96</u>	14756.184
Less: Tax Credits			
Economic Service Charge		-	
Quarterly Installments		<u>5000</u>	<u>(5000)</u>
Balance Tax Payable			9756.184

Note 1:

Neet Manufacturing (Pvt) Ltd

Computation of Assessable Income from conducting Business

For the Y/A 2020/2021

(Rs.'000)

Description	Workings	+	-
Net Profit before tax		64,250	
Dividend – Investment Income			1,500
Interest Income – Investment Income			2,254
Profit on Disposal – Accounting Profit	1		122
Assessable Charges/ (Balancing Allowance)	1	550	
Depreciation – disallowed		16,457	
Capital Allowance	2		7755.2
Donation		1,500	
Gratuity Provision		4,214	
ESC write off		1,485	

Doubtful debt provision		4,550	
Research expenses (100% additional deduction)			1,500
Gratuity payment			568
Total		93,006	13,699.2
Assessable Income		79,306.8	

Working 1 – Profit on Disposal

Sales Proceeds 1,200

Less: Tax Written Down Value

Cost of machinery 3,250

(-) Capital Allowance Claimed

Y/A 2016/17 - 3,250 X 20% 650

Y/A 2017/18 - 3,250 X 20% 650

Y/A 2018/19 - 3,250 X 20% 650

Y/A 2019/20 - 3,250 X 20% 650

Assessable Charge 550

Working 2 – Capital Allowance

(Rs. '000)

Description	Year of acquisition	Cost of Assets	Capital Allowance Rate	Capital Allowance
Land	2014/15	2,400	-	-
Building	2015/16	46,000	10%	4,600
Machinery(Fully claimed)	2016/17	12,450	33 1/3%	-
Motor Lorry	2018/19	8,650	5 Years	1,730
Motor Lorry	2020/21	4,320	5 Years	864
Office Equipment	2019/20	1,656	5 Years	331.20
Computers	2019/20	450	5 Years	90
Computer Software	2019/20	840	6 Years	140
Total				7755.2

Note 2: Investment Income

Dividend 1,500
Interest Income 2,254
Assessable income from Investment 3,754

(25 marks)

Suggested Answers to Question Nine:

Chapter 03 – Taxation of Individuals & Companies (Resident)

Surangi

Computation of Income Tax Payable

For the Y/A 2020//2021

	Note	Rs.	Rs.
Assessable income from Employment	1		4,512,000
Assessable income from Investment	2		<u>1,417,000</u>
Total Assessable Income			5,929,000
Less: Relief and Qualifying Payments			
Personal Relief		3,000,000	
Expenses Relief	3	1,150,000	
Rent Relief (1,200,000x25%)		<u>300,000</u>	
Total Relief		4,450,000	
Donation (100% allowed)	4	<u>100,000</u>	
Total Relief and Qualifying Payments			(4,550,000)
Taxable Income			<u>1,379,000</u>
Tax Payable			
First (1,379,000 x 6%)		82,740	
Total Gross Tax Payable			82,740
Less: Tax Credits			
PAYE		90,720	
Installment Payments		<u>10,000</u>	<u>(100,720)</u>
Balance Tax Payable (Overpaid)			<u>(17,980)</u>

Note 1 - Employment Income

Primary Employment

Workings

Basic Salary (300,000x12)		3,600,000
Travelling Allowance (50,000x12)		600,000
Bonus		300,000
Medical Expenses (Not liable)	1	-
Mobile phone bill (24,000x50%)		12,000
Air Ticket & Accommodation (Not liable)	2	-
Assessable Income from Employment		<u>4,512,000</u>

Note 2 – Investment Income

Rent Income (100,000x12)		1,200,000
Interest Income (on fixed deposit)		72,000
Dividend		
- Paid out of dividend received (exempt)	-	
- Paid out of profit	<u>145,000</u>	<u>145,000</u>
Assessable income from Investment		<u>1,417,000</u>

Note 3: Expenses Relief

Purchase listed shares	900,000	
Local education	<u>250,000</u>	
	<u>1,150,000</u>	
Allowed up to 1.2Mn		

Note 4: Qualifying Payments

Donation to friend – not allowed		-
Donation to base hospital (considered as donation to government) 100% allowed	<u>100,000</u>	
		<u>100,000</u>



(25 marks)

End of Section C

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”. 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.



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