



Association of Accounting Technicians of Sri Lanka

Level III Examination - January 2023

Suggested Answers

(304) CORPORATE & PERSONAL TAXATION (CPT)

Association of Accounting Technicians of Sri Lanka

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Level III Examination –January 2023

(304) CORPORATE & PERSONAL TAXATION

SUGGESTED ANSWERS

(Total 20 Marks)

SECTION - A

Suggested Answers to Question One:

Chapter 01 : Introduction to Taxation of Sri Lanka

As per the Section 69 (1) (c) of Inland Revenue Act No. 24 of 2017, An individual shall be a resident in Sri Lanka for a year of assessment if the individual is an employee or an official of the Government of Sri Lanka & his spouse is posted abroad during the year.

Accordingly, Angela was appointed as an officer of the embassy of Sri Lanka in Japan and her husband was posted abroad during the year. Hence, she is considered as a resident person for the income tax purpose in Sri Lanka for the year of assessment 2021/2022.

(05 marks)

Suggested Answers to Question Two:

Chapter 02 : Realization of Investment assets

(a)

Mr. Suresh

Computation of Capital Gain Tax

For the Y/A 2021/2022

	Rs.
Consideration Received (Market Value)	18,000,000
<u>Less: Cost</u>	
Purchased Cost	10,000,000
Stamp Duty	399,000
Lawyer's fee	100,000
Cost of parapet wall	500,000
	<u>(10,999,000)</u>
Gain on Realization	<u>7,001,000</u>
Capital gain tax 7,001,000 @ 10%	700,100/-

(04 marks)

(b)

As per section 93, Capital gains tax return has to be filed within thirty days after the end of the relevant calendar month in which the realization occurred.

Accordingly, Mr.Suresh has to file the Capital Gain Tax Return on or before 31st January 2022.

(01 marks)
(Total 05 marks)

Suggested Answers to Question Three:

Chapter 06 – Case law relating to taxation

As per the ***Crib Vs CIT*** case, the appellant being an estate superintendent had to undergo medical treatment and in recognition of his exceptional service the employer has offered special gift mentioning as bonus. The CIT has assessed this amount as employment income and the appellant made objection on that.

The court held that,

- (I) the payment was a personal gift which could not be regarded as profit from employment.
- (II) the appellant should not be penalized, for a choice of a word, whether it be deliberate or accident, by the party making the payment.
- (III) the long service provided by the appellant to the company was the motive, but not the consideration, for the payment.

The mere fact that payment is made to an employee as a result of or in connection with his employment is not enough to render the payment liable to tax.

Thus, a special gift given to the employee in view of his exceptional service to the company and consideration of fact that he had to undergo medical treatment was held to be not a profit from employment.

Hence, as per the case law provision this can be considered as a personal gift and which is not taxable.

However, as per section 5 (2) of the Inland Revenue Act No 24 of 2017, other payments including gifts received in respect of the employment is taxable.

Further, As per the section 5 (3) of the Inland Revenue Act no 24 of 2017, A discharge or reimbursement of an individual's dental, medical or health insurance expenses where the benefit is available to all full time employees in the same grade of the service on equal terms are excluded from employment income.

As per the given scenario, medical bill was reimbursed to Mr. Aruna by the company considering his loyalty to the company and this benefit is not available to all full-time employees in the same grade on equal terms.

Hence, such benefit is liable for income tax in the hands of Mr. Aruna.

(05 marks)

Suggested Answers to Question Four:

Chapter 07 – Other Business Tax (VAT)

(A) Riverston Lesuire (pvt) ltd

Calculation of Tourism Development Levy **For the quarter ended 31/3/2022**

Income From Rooms	11,250,000
Bar sales	3,300,000
Income on Service Charges	<u>2,250,000</u>
Total Turnover	16,800,000
Less: Service Charge @ 10%	<u>(1,680,000)</u>
Income liable for TDL	<u>15,120,000</u>

Tourism Development Levy @1% = 15,120,000*1%
Rs. 151,200

(03 marks)

(B) Mr. Sanath

Calculation of Share Transaction Levy

Selling Price per Share	Rs. 140/-
Number of Shares	5,000
Total Sales proceeds	140*5000
	Rs. 700,000

Share Transaction levy @ 0.3% 2,100

(02 marks)
(Total 05 marks)

End of Section A

Suggested Answers to Question Five:***Chapter 07 – Other Business Tax (VAT)*****Rushi Ads (Pvt) Ltd****Computation of VAT Payable****For the Quarter ended 31st March 2022**

<u>Output Tax</u>	<u>Value of Supply</u>	<u>Rate</u>	<u>Tax</u>
Services provided to local clients - SVAT	22,671,600	8%	1,813,728
Services provided to local clients - Non SVAT	44,868,400	8%	<u>3,589,472</u>
Total Output Tax			5,403,200

Zero Rated Supplies (Services)

Income received from foreign clients

(USD 150,000 * 200) – Zero Rated

Total30,000,000

0%

97,540,000-**5,403,200****Input Tax**

On office expenses

On purchase of advertising material

On insurance premium on motor car used by CEO

Input Tax

Disallowable Input Tax

Allowable Input Tax Excluding B/F Amount

Brought Forward Unabsorbed input tax

Total

950,000

1,264,000

12,500

2,226,500

(12,500)

2,214,000

486,000**2,700,000****Allowable Input Tax**

Zero Rated Supplies/ Suspended Supplies/22(7)

Not Belongs to Above

Allowable Input Tax

VAT Payable

Less:

Monthly Payment

Tax Credit Base on SVAT Credit Vouchers(SV CV)

Balance VAT Payable

1,195,560

1,504,440(2,700,000)

2,703,200

(500,000)

(1,813,728)**389,472****(10 marks)**

Suggested Answers to Question Six:

Chapter 05 – Obligations and Procedures

(a)

Rosi Textiles (Pvt) Ltd

Year of Assessment -2021/2022

Calculation of 3rd Installment

$$\begin{aligned} &= \frac{\text{Current Estimated Tax Payable} - \text{Sum of any tax paid during the year of assessment}}{\text{Number of installments remaining for year of assessment}} \\ &= \frac{3,500,000 - 1,800,000}{2} \\ &= \underline{\underline{\text{Rs. 850,000/-}}} \end{aligned}$$

(02 marks)

(b)

Due dates of income tax installments payments for the year of assessment 2021/2022.

1st quarter payment – on or before 15th August 2021

2nd quarter payment – on or before 15th November 2021

3rd quarter payment – on or before 15th February 2022

4th quarter payment – on or before 15th May 2022

(04 marks)

(c)

1. Make installment tax payments on or before the due dates.
2. If the initially estimated tax liability is high, Rosi Textiles Pvt Ltd can submit a revised estimate.
3. To enter into an agreement with CGIR
4. To receive an extension and comply with terms of such arrangements.

(02 marks)

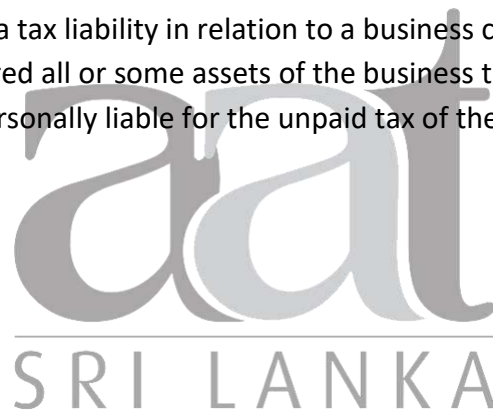
(d)

1. The CGIR has to commence recovery action within 5 years of default.
2. Where the CGIR is unable to recover an amount of tax, the minister may, on the recommendation of the CGIR and approval of the cabinet, order the extinguishment of the liability as a debt to government.
3. The Commissioner-General may commence proceedings in a court of competent jurisdiction to recover the debt outstanding in respect of the amount owing.
4. If taxpayer fails to pay a tax by the due date, a lien in favour of the Commissioner-General shall be created in the amount owing on all property belonging to the taxpayer.
5. The Commissioner-General shall sell the property seized pursuant to a levy.
6. CGIR may issue a certificate containing particulars of such tax and the name of such person to a Magistrate, who shall on receipt thereof issue a direction to the Controller General of Immigration and Emigration to take such measures as may be

- necessary to prevent such person from leaving Sri Lanka.
7. The trustee in bankruptcy of an individual or liquidator of a company shall take tax dues as a privileged debt in priority over all debts.
 8. Where a government, institution or Ministry is about to make a payment to any person, other than in respect of wages or salary, that department, institution or Ministry may apply the whole or part of that payment in settlement of that person's tax in default.
 9. CGIR may serve a notice on a third-party debtor upon receipt of such notice that third party debtor shall pay the default tax covered with the notice to the CGIR subject to the amount of debt.
 10. The CGIR has the power to apply to the District Court for an "Asset Preservation Order" against any asset of the taxpayer.
 11. Non-arm's length transferees (on assets transferred with in a period of 1 year preceding the date of the levy) shall be secondarily liable for tax to the extent of the value of the asset received.
 12. When a taxpayer has a tax liability in relation to a business carried on by him and the taxpayer has transferred all or some assets of the business to an association. The transferee shall be personally liable for the unpaid tax of the transferor in relation to the business.

(02 marks)

(Total 10 marks)



Suggested Answers to Question Seven:

Chapter 04 – Partnership Taxation

Laa Fashion
Computation of Income Tax Payable
For the Year of Assessment 2021/2022

		Rs.
Description	Notes	+
Net Profit		5,675,000
Partner's Salary	1	3,600,000
Interest Payment to Working Capital Loan	2	120,000
Donations to approved charity		100,000
Interest Income – Tax separately as investment income.		(200,000)
Allowance to Manel's Daughter - allowed		-
Business Income		9,295,000
Interest Income		200,000
Assessable Income of the Partnership		9,495,000
Less: Qualifying Payment – Donation made to approved charity 1/5 of AI or 500,000 whichever is less		(100,000)
Taxable Income - Partnership		9,395,000
Calculation of Partnership Tax Payable		
- First 1,000,000 x 0%		Nil
- Balance Rs.8,395,000 @ 6%		503,700
Tax Payable by the Partnership		503,700

Note 1

Salaries paid to partners are **disallowed**

Nelum	(Rs.150,000x12)	Rs. 1,800,000
Manel	(Rs.150,000x12)	<u>Rs. 1,800,000</u>
		<u>Rs. 3,600,000</u>

Note 2

Interest payment on the working Capital loan provided by Nelum is **disallowed**.

Nelum Rs. 120,000

(10 marks)

End of Section B

Suggested Answers to Question Eight:***Chapter 03 – Taxation of Companies***

Soorya (Pvt) Ltd.
Computation of Assessable Income
For the Y/A 2021/22

	Note	
Assessable Income from Business	1	17,904,500
Assessable Income from Investment	2	<u>2,395,000</u>
(a) Total Assessable Income		20,299,500
Less: Qualifying payments and Relief	3	<u>(2,400,000)</u>
(b) Taxable Income		17,899,500
(c) Gross Income Tax Payable	4	2,745,430
<u>Less : Tax Credits</u>		
Installment Payments		<u>(1,500,000)</u>
(d) Balance Income Tax Payable		<u>1,245,430</u>

Note 1 - Business Income

Soorya (Pvt) Ltd.
Computation of Assessable Income from Business
For the Y/A 2021/22

Description	Workings	+	-
Net Profit Before Tax		21,450,000	
Gain on disposal of quoted shares – Investment Income			1,230,000
Interest Income – Investment Income			2,395,000
Dividend Income – Investment Income			3,840,000
Profit on Disposal of computer tables – Accounting Profit			25,000
Assessable charge on asset disposal	1	240,000	
Capital allowance	2		4,960,500
Book Depreciation – disallowed		4,150,000	
Gratuity Provision	3	2,190,000	
Repair & maintenance – Business purpose		-	-
Advertising – Business purpose		-	-
Entertainment – disallowed		1,425,000	
Donation – Qualifying payment		2,400,000	
Research expenses – additional deduction	4		1,500,000

Total	31,855,000	13,950,500
Assessable income from Business	17,904,500	

Working 1 : Profit on Disposal of Computer Tables

Accounting profit on disposal of computer table is not considered as taxable profits or gain. According to the IR Act, we have to calculate Assessable Charges or Balancing Allowance on disposal of depreciable assets used in business.

Consideration			600,000
Less: Tax Written Down Value			
Cost of Computer Table		900,000	
<u>(-) Capital Allowance Claimed</u>			
Y/A 2018/19 - 900,000/5 Years	180,000		
Y/A 2019/20 - 900,000/5 Years	180,000		
Y/A 2020/21 - 900,000/5 Years	<u>180,000</u>		
	<u>540,000</u>	<u>540,000</u>	<u>360,000</u>
Assessable charge			<u>240,000</u>

Working 2 : Capital Allowance

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

Description	Year of acquisition	Cost of Assets	Capital Allowance Rate	Capital Allowance
Land	2019/20	2,420,000	Not entitled	-
Office Building	2019/20	8,250,000	20 Years	412,500
Motor Vehicle - Mini Bus	2021/22	5,500,000	5 Years	1,100,000
Motor Vehicle - Delivery Van & lorry	2019/20	14,870,000	5 Years	2,974,000
Furniture & Fitting	2019/20	2,370,000	5 Years	474,000
				4,960,500

Working 3 : Gratuity

Under Section 10 (1) (b) (viii), provision for gratuity is disallowed, and only the amount paid is allowed.

Working 4 : Research expense

Under item 8 of Sixth schedule, A person is entitled to an additional deduction when calculating the person's income from business for a year of assessment equal to 100% of the total amount of research and development expenses deducted for the year under section 15, for five years of assessment after the commencement of this Act.

Note 2 - Computation of Assessable Income from Investment

Gain on disposal of quoted shares	Exempt
Interest Income - FD	2,395,000
Dividend Income – Out of Dividend Received	<u>Exempt</u>
Assessable income from Investment	<u>2,395,000</u>

Note 3 – Qualifying payments

Company has donated Rs.2,400,000/- worth of educational equipment to medical faculty of University of Colombo. As per the section 52 (Fifth schedule item (1) (b) (iii), a donation made by an individual or entity in money or otherwise to any Higher Education Institution established or deemed to be established under the Universities Act, No. 16 of 1978 is considered as qualifying payment without any limitation.

Note 4 – Gross Income Tax Payable

Description	Assessable Income	Qualifying Payments	Taxable Income	Rate	Tax Liability
Assessable Income from Business (Excluding Investment Income)	(17,904,500-2,395,000) 15,509,500	5,000	15,504,500	14%	2,170,630
Assessable Income from Investment	2,395,000	-	2,395,000	24%	574,800
Total					2,745,430

(d)

Soorya (Pvt) Ltd.

Computation of Balance Income Tax Payable

For the Y/A 2021/22

Tax Payable

Special Rate - Export (17,899,500 x 14%) 2,745,430

Less: Tax Credits

Installment Payments (1,500,000)

Balance income tax payable 1,245,430

(25 marks)

Suggested Answers to Question Nine:

Chapter 03 – Taxable income of an individual

Ms. Ranjani

Income Tax Computation

For the Y/A 2021//2022

	Note	Rs.	Rs.
Assessable income from Employment	1		5,390,000
Assessable income from Business	2		4,457,000
Assessable income from Investment	3		<u>605,300</u>
Total Assessable Income			10,452,300
Less: Relief and Qualifying Payments			
Personal Relief		3,000,000	
Expenditure Relief	4	350,000	
Rent Relief (25% allowed for repair, 25%*360,000)		90,000	
Total Relief		3,440,000	
Qualifying payments:			
Donation to Government		<u>500,000</u>	
Total Relief and Qualify Payments			(3,940,000)
(a) Taxable Income			<u>6,512,300</u>
(b) Tax Liability			
First	3,000,000 x 6%	180,000	
Next	3,000,000 x 12%	360,000	
Balance	<u>512,300 x 18%</u>	<u>92,214</u>	
Total	<u>6,512,300</u>		632,214
Total Gross Tax Payable			632,214
Less: Tax Credits			
APIT Deducted		143,400	
Self-Assessment Payments		300,000	
			<u>(443,400)</u>
(c) Balance Tax Payable	/(Over Paid)		<u>188,814</u>
(d) Exempted Income:			
Interest Income from RFC Account			Rs.1,200,000

Workings

Note 1 - Employment Income

Primary Employment

Basic Salary (350,000 x 12)	4,200,000
Bonus	350,000
Vehicle Benefit (40,000 x 12)	480,000
Housing Benefit (30,000 x 12)	360,000
Reimbursement of south Korea regional conference	-
Assessable Income from Employment	<u>5,390,000</u>

Note 2 – Business Income from Accounting Firm

	(+)	(-)
Profit Before Tax	4,445,000	
Add: Depreciation	60,000	
Less: Capital Allowance (Rs. 240,000/5)		48,000
Total	4,505,000	48,000
Business Income	4,457,000	

Note 3 – Investment Income

Rent Income (30,000 x 12)	360,000
Interest Income	
- FD Interest income Rs. 245,300	
- RFC Interest income Rs. 1,200,000 - Exempt	<u>245,300</u>
Assessable income from Investment	<u>605,300</u>

Note 4 - Expenses Relief

Contribution to medical insurance	300,000
Education Expenses (Local University)	<u>50,000</u>
Total	<u>350,000</u>

*Expenditure relief is limited to Rs. 1,200,000 for the Y/A

Note 5 - Qualifying Payment

Donations to Government - (Can be claimed upto the Assessable income) – Rs. 500,000	
Donation to Charity – (Good donations are not allowed Rs. 100,000)	<u>-</u>
Total	<u>Rs. 500,000</u>

(25 marks)

End of Section C

Notice:

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