



Association of Accounting Technicians of Sri Lanka

Level III Examination - July 2024

Suggested Answers

(304) CORPORATE & PERSONAL TAXATION (CPT)

Association of Accounting Technicians of Sri Lanka

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Level III Examination –July 2024

(304) CORPORATE & PERSONAL TAXATION

SUGGESTED ANSWERS

(Total 20 Marks)

SECTION - A

Suggested Answers to Question One:

Chapter 01 – Introduction to Taxation

1. Ravi is an individual who is employed on a Sri Lanka ship. Therefore, he is a resident of Sri Lanka.
2. Amara is not in Sri Lanka 183 days or more during the year of assessment. Therefore, he is a non-resident person.
3. Sarah is a resident of Sri Lanka. She is in Sri Lanka more than 183 days.

(Total 05 marks)

Suggested Answers to Question Two:

Chapter 07 – Other Business Taxes

(a)

As per section 2 of Social Security Contribution Levy Act No. 25 of 2022, the Act shall apply to every person who -

- (i) Imports any article
- (ii) Carries on the business of manufacturing any article
- (iii) Carries on the business of providing a service of any description
- (iv) Carries on the business of wholesale or retail sale of any article including importation and sale of such article.

(03 marks)

(b)

Hela Rasa

**Computation of Social Security Contribution Levy Payable
For the Quarter Ending 31st December 2023**

Turnover for the quarter	35,000,000.00
Liabile turnover (85% x 35,000,000)	29,750,000.00
SSCL payable @ 2.5%	743,750.00

(02 marks)
(Total 05 marks)

Suggested Answers to Question Three:

Chapter 06 - Concepts and Applications of WHT, Capital Gains Tax and Case Laws

Facts in the given question, is similar to that of decided case Ram Iswera Vs CIR. In the case of Ram Iswera Vs CIR, the assessee, a proctor and his wife, resident at Hulfsdorf.

The question in this case was that the profit made was an adventure in the nature of trade. Rs. 45,000 was paid as a forfeitable deposit and agreed to pay the balance Rs.450,000 within a short period of time. The assessee's wife didn't have money to purchase the land and she entered into an agreement with the seller. Soon after entering into the agreement a sketch was prepared dividing the land into fourteen lots. One lot was reconvened to the seller as agreed upon earlier. Two lots comprising 70 perches and two lots comprising road reservations were transferred to the assessee's wife.

The balance nine lots were sold to others and made a profit from this transaction. The Inland Revenue Department considered the profit as adventure in the nature of trade and assessed the profit rejecting the contention that the dominant intention of assessee's wife to live near St. Bridget Convent to facilitate her children's schooling.

Similar to above case, Sarath entered into an agreement to purchase 2-acre land near a famous school in Horana for Rs. 16 million by paying an advance of Rs.1 million and agreed to pay the balance within 6 months. Soon after entering into the agreement blocked the land into 15 block of perches. One lot was reconvened to the land lord as agreed and kept another lot for him. The balance was sold to others and made a profit from this transaction.

In line with the decided case Ram Iswera Vs CIR, purchasing the land of 2 acres and selling within a short period of time and making a profit constitute an adventure in the nature of trade. Accordingly, the profit made from this entire transaction is liable to income tax.

(05 marks)

Suggested Answers to Question Four:

Chapter 06 - Concepts and Applications of WHT, Capital Gains Tax and Case Laws

(A)

1. Permanent Residence – Exempted, accordingly no capital gain is payable.
2. Office Building – No capital gain tax is payable on the realization of depreciable asset
3. Rented out Building:

Consideration Received (Market Value)	26,800,000
Less: cost:	
Value as at 30 th September 2017	22,500,000
Gain On Realization	4,300,000
Capital gain tax (4, 300,000/- @ 10%)	430,000

(03 marks)

(B)

Sanara (Pvt) Ltd	
Dividend paid out of profits	150,000,000.00
AIT @ 15%	22,500,000.00

(02 marks)
(Total 05 marks)

End of Section A

Suggested Answers to Question Five:***Chapter 07 – Other Business Taxes*****RAN SALU****Computation of Value Added Tax Payable****For the Q/E 31.03.2024**

<u>Output Tax</u>	Value of Supply	Tax Rate	Tax Amount
Sale of locally manufactured handloom textiles	3,786,000	Exempted	-
Sale of imported textiles	27,764,000	18%	4,997,520
	<u>31,550,000</u>		<u>4,997,520</u>
<u>Less: Input Tax</u>			
On imported textiles		1,325,000	
On travelling vehicles	Not Allowed	-	
On office expenses		464,000	
Total input tax for the period		2,037,500	
<u>Less: Restricted input tax</u>			
For exempted supplies $(3,786/31,550 \times 464)$		(55,680)	
Claimable input tax for the period		1,733,320	
Add: Excess input VAT brought forward		36,000	
Total claimable input tax		1,769,320	
Claimed,			(1,769,320)
VAT payable for the quarter			3,228,200
Less: Monthly Installment payments			(2,000,000)
Balance VAT payable			1,228,200

(10 marks)

Suggested Answers to Question Six:

Chapter 04 - Taxation of Miscellaneous Undertakings

Cake Factory

Computation of Tax Payable

For the YA 2023/2024

Assessable Business Income - Note 01		11,588,000.00
Total Assessable Income		11,588,000.00
<u>Deductions</u>		
<u>Qualifying payments</u>		
Donation to National Hospital	100,000.00	(100,000.00)
Taxable Income		11,488,000.00
<u>Gross Income Tax Payable</u>		
First Rs. 1,000,000 @ 0%		-
Balance Taxable Income (Rs. 11,488,000 - Rs. 1,000,000) @ 6%	629,280.00	
Income tax payable		629,280.00

Note 01 - Computation of Assessable Business

Income

Cake Factory

For the YA 2023/2024

Net profit before income tax	8,450,000.00		
Salaries to partners - Disallowed (Rs. 1,200,000 + Rs. 1,800,000)	3,000,000.00		
Salary paid to book-keeper - Allowed	-		-
Loan interest paid to Radha - Disallowed	38,000.00		
Office building rent paid to Dhara - Allowed	-		-
Donation to National Hospital - Disallowed (Not incurred in the production of income)	100,000.00		
Assessable Business Income	11,588,000.00		

(10 marks)

Suggested Answers to Question Seven:

Chapter 05 – Obligations and Procedures

(a) Return should be filed for the YA 2022/2023, on or before 30th November 2023.

(02 marks)

(b)

1. A request for review shall be made to the Commissioner-General in writing not later than 30 days after the taxpayer was notified of the decision.
2. Shall specify in details the grounds upon which it is made.
3. If the request is an objection against an assessment which has been made in the absence of a return required to be made, the notice of request relating to the objection shall be sent together with a return duly made.

(05 marks)

(c)

Yes. Shenila is entitled to claim of refund of excess tax she paid. It should be claimed through the Return of Income. However, as per section 150 (1) (c), 60% of the refund can be set off against her tax liability prior to a tax audit of the refund claimed with effect from YA 2023/2024.

(03 marks)

(Total 10 marks)

End of Section B

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

Suwa Saara (Pvt) Ltd
Computation of Income Tax Payable
Year of Assessment 2023/2024

<u>Business Income</u>		
Assessable Business Income (Note - 01)		394,987,200
<u>Investment income</u>		
Gross interest income received		260,000
Received out of Dividend (Exempt Section 9 - III Schedule)	Not Allowed	
Assessable Investment Income		260,000
TOTAL ASSESSABLE INCOME		395,247,200
<u>Deductions as per section 52</u>		
<u>Qualifying payments</u>		
Donation to Department of Ayurveda	1,000,000	
Donation to a past employee	Not Allowed	(1,000,000)
TAXABLE INCOME		394,247,200
Gross income tax payable @ 30%		118,274,160
<u>Less: Tax Credits</u>		
AIT @ 5% on fixed deposit interest (Rs. 260,000 x 5%)	13,000	
Quarterly installment payments	50,000,000	(50,013,000)
Balance income tax payable		68,261,160

Note 01 - Computation of Assessable Business Income
Year of Assessment 2023/2024

	+	-
Net profit before income tax	372,148,000	
Profit on disposal of PPE - Cancelled (Accounting profit on disposal is disregarded)		38,000
Interest income - Cancelled (As investment income)		260,000
Dividend income - Cancelled (As investment income)		1,150,000
<u>Computation of Balancing Allowance</u>		
Sale Proceed 3,000,000		

Less: Tax Written Down Value		
Cost		
22,550,000		
Less: Capital Allowance		
YA 2018/2019 (22,550,000/5)	4,510,000	
YA 2019/2020 (22,550,000/5)	4,510,000	
YA 2020/2021 (22,550,000/5)	4,510,000	
YA 2021/2022 (22,550,000/5)	4,510,000	
YA 2022/2023 (22,550,000/5)	<u>4,510,000</u>	
(22,550,000)	<u>0</u>	
Assessable Charge		
3,000,000		3,000,000
Depreciation - Specifically disallowed.		44,680,000
Gratuity provision - Specifically disallowed.		26,732,000
Entertainment expenses - Specifically disallowed		450,000
Donations - Disallowed. Not incurred in the production of income (1,000,000 + 200,000)		1,200,000
Finance Expenses 4,800,000 – (8,000,000 + 1,450,000) x 4		
Maximum Allowable 40,000,000		
= 4,536,000		
Not allowed (4,800 – 4,536)		264,000
Capital Allowance - Working 01		51,538,800
Gratuity paid in cash		500,000
		448,474,000
		53,486,800
Assessable Business Income		394,987,200

Workings 01

Capital Allowance

Asset	Year of Purchase	Cost (Rs.)	CA Period (Yr)	CA for the YA (Rs.)
Land	2016/2017	12,000,000	Not entitled	-
Building	2016/2017	84,000,000	10	8,400,000
Motor Lorries	2020/2021	65,000,000	5	13,000,000
Plant & Machinery	2016/2017	96,000,000	3	Fully Claimed
Plant & Machinery	2023/2024	145,000,000	5	29,000,000
Office Equipment	2021/2022	1,759,000	5	351,800

Computers	2022/2023	2,435,000	5	487,000
Computers software	2023/2024	1,200,000	4	300,000
				51,538,800

Building - Assumed to be a qualified building. Accordingly, CA period 10 years.

(25 marks)

Suggested Answers to Question Nine:

Chapter 03 – Taxation of Individuals and Companies (Resident)

**Dimuthu
Computation of Income Tax Payable
Year of Assessment 2023/2024**

<u>1) Employment income</u>		
Salary (Rs. 260,000 x 12 months)	3,120,000	
Traveling benefit (Motor car with fuel) Rs. 20,000 + Rs. 20,000 x 12 months	480,000	
Rent Allowance (Rs. 80,000 x 12 months)	960,000	
Reimbursement of telephone bills (Rs. 85,000 x 50%)	42,500	
Medical insurance - Not liable	-	
Assessable Employment income		4,602,500
<u>2) Business income</u>		
Net Profit	1,665,000	
<u>Add: Disallowable expenses</u>		
Gifts - Specifically disallowed.	820,000	
Rent - Domestic expenses not allowed	720,000	
Furniture depreciation - Specifically disallowed.	65,000	
<u>Less: Allowable expenses</u>		
Capital Allowance (Rs. 650,000/5Years)	(130,000)	
Assessable Business income		3,140,000
<u>3) Investment income</u>		
<u>i. Rent Income</u>		
Gross Rent income (Rs. 60,000 x 12 months)	720,000	
<u>ii. Interest income</u>		
Gross interest received	1,300,000	
Gross interest received	600,000	
<u>iii. Realization of investment assets</u>		
Profits from sale of listed shares	Exempt	

Net dividend received	Final WHT	
TOTAL ASSESSABLE INCOME		10,362,500
Reliefs		
Personal Relief	1,200,000	
25% relief on rental income (25% x 720,000)	180,000	(1,380,000)
QP - Donation to Polonnaruwa General Hospital	540,000	(540,000)
TAXABLE INCOME		8,442,500
Gross income tax payable		
First 500,000 x 6%	30,000	
Next 500,000 x 12%	60,000	
Next 500,000 x 18%	90,000	
Next 500,000 x 24%	120,000	
Next 500,000 x 30%	150,000	
Balance Tax Payable 5,942,500 x 36%	2,139,300	
		2,589,300
Less: Tax Credits		
APIT	204,600	
AIT @ 5% fixed deposit interest	65,000	
Quarterly installment payments	1,000,000	(1,269,600)
Balance income tax payable		1,319,700

(25 marks)

End of Section C

Notice:

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