



Association of Accounting Technicians of Sri Lanka

Level III Examination - January 2025

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

As per the section 69 (1) of the Inland Revenue Act No 24 of 2017, an individual shall be a resident in Sri Lanka for a year of assessment if the individual:

- Resides in Sri Lanka;
- Is present in Sri Lanka during the year and that presence falls within a period or periods amounting in aggregate to one hundred and eighty-three days or more in any twelve-month period that commences or ends during the year;
- Is an employee or an official of the Government of Sri Lanka and his spouse is posted abroad during the year; or
- Is an individual who is employed on a Sri Lanka ship, within the meaning of the Merchant Shipping Act, during the period the individual is so employed.

As per the given case Mr. Raaman, spent 187 days in Sri Lanka. Accordingly, as per the Section 69(1) (b) he has presented in Sri Lanka more than 183 days and **therefore is a resident in Sri Lanka for tax purpose for the Y/A 2023/2024.**

(Total 05 marks)

Suggested Answers to Question Two:

Chapter 07 – Other Business Taxes

(a)

Mala Traders	
Computation of Social Security Contribution Levy Payable	
For the Quarter Ended 31 st March 2024	
	(Rs.)
Turnover for the quarter	165,000,000
Liab turnover (165,000,000 x 50%)	82,500,000
SSCL Payable @ 2.5%	2,062,500

(03 marks)

(b)

Selling Price per Share	Rs. 240
Number of Shares Disposed	50,000 Shares
Value of the transaction (Rs. 240 x 50,000 shares)	12,000,000
Share Transaction Levy Payable @ 0.3%	Rs. 36,000

(02 marks)
(Total 05 marks)

Suggested Answers to Question Three:

Chapter 06 - Case law relating to taxation

The validity of a partnership between Sirisena and his son for tax purposes depends on whether the following requirements are met:

1. **Existence of an Agreement** – There must be an agreement between the parties to form a partnership.
2. **Contribution by Partners** – Each party must contribute something to the partnership.
3. **Intention to Share Profits and Losses** – The partners must have a mutual understanding to share both profits and losses.
4. **Mutual Benefit** – The business must be conducted for the mutual benefit of the partners.

In this case, Sirisena and his son have entered into an agreement to form a partnership. Sirisena is contributing his half share of the profits from Jaya Sri Traders to the partnership. Additionally, both parties intend to share profits and losses, and the business is carried on for their mutual benefit.

The case of *A.A. Davordboy Vs CGIR* reinforces the principle that a partnership can exist even if one partner's sole contribution is skill and expertise. However, **Section 195 of the Inland Revenue Act No. 24 of 2017** defines a partnership as "an association of two or more individuals or corporations carrying on business jointly for the purpose of making profit, irrespective of whether the association is recorded in writing."

While the partnership appears to meet the general legal principles of a valid partnership, the **Inland Revenue Act No. 24 of 2017** imposes specific conditions for tax recognition. If the partnership does not satisfy these tax-related requirements, the Inland Revenue Department may not recognize it as a valid partnership for tax purposes.

As per the section 217 of the Inland Revenue Act No. 24 of 2017: Partnership shall not include any disposition, trust, grant, covenant, agreement, assignment, settlement or other arrangement by which the share of the divisible profits or the divisible loss, of a partner of any partnership is shared with any other person or partnership.

In the decided case of *A A Davoodbhoy Vs. CGIR*, appellant argued that the partnership formed between family members to share his share of another partnership is a valid partnership for income tax purpose. The court accepted that argument and decided that a non-notarial partnership agreement creating sub-partnership to share the profit and losses

of a main partnership is considered as a valid agreement.

Accordingly, new partnership stated in the question will not be a valid partnership under the Inland Revenue Act.

(05 marks)

Suggested Answers to Question Four:

Chapter 06 – AIT/WHT and Advanced Personal Income Tax (APIT)

(a)

Type of Income	AIT/WHT Rate	Liability (Rs.)
Rent	10%	120,000 x 10% = 12,000
Interim Dividend	15%	12,000,000 x 15% = 1,800,000

(02 marks)

(b)

- Deduct income tax from the gross remuneration of the employees, who are liable to pay income tax with his consent according to tables provided by the Commissioner General of Inland Revenue.
- Remit the taxes deducted in any month on or before the 15th of the following month.
- Maintain proper records on the specified forms in respect of each employee who is liable tax and retain all records for a period of five years from the end of Year of assessment to which such records relate.
- Furnish annual declaration on or before the 30th of April of immediately succeeding year.
- Issue a certificate of tax deduction to employees (T10 Certificate) on or before 30th of April immediately succeeding the end of the year of assessment or within 30 days from the cessation of employment if the employee has ceased his employment.

(03 marks)

(Total 05 marks)

End of Section A

Suggested Answers to Question Five:***Chapter 07 - Other Business Taxes (VAT)*****Sky Kids (Pvt) Ltd.****Computation of VAT Liability****For the Quarter ended 31st March 2024**

<u>Output VAT</u>	Value of Supply	Rate %	VAT
Export sales	137,660,000	0%	-
Local Sale	87,764,000	18%	15,797,520
Total Output VAT	225,424,000		15,797,520
<u>Input VAT</u>			
On import of raw material	12,375,000		
On local purchase	765,000		
On office expenses	124,000		
Allowable Input VAT	13,264,000		
Excess Input VAT brought forward	48,000		
Total allowable input VAT			(13,312,000)
VAT Payable			2,485,520
Less: Installments paid			(500,000)
Balance VAT Payable			1,985,520

(10 marks)***Suggested Answers to Question Six:******Chapter 05 - Obligation and Procedure***(a) On or before 15th August 2023**(02 marks)**(b) Due dates for quarterly installments if the year of assessment ends 31st March 2024,

- 1st Quarter - On or before 15th August 2023
- 2nd Quarter - On or before 15th November 2023
- 3rd Quarter - On or before 15th February 2024
- 4th Quarter - On or before 15th May 2024

(04 marks)

(c) Yes

As per the section 903(1), subject to section 94 and subsection (2), every person shall file with the Commissioner-General not later than eight months after the end of each year of assessment a return of income for the year.

Therefore, Super (Pvt) Limited need to submit income tax return for the year of assessment 2023/24, on or before the 30th of November 2024.

(02 marks)

(d)

- A member of the Institute of Chartered Accountants of Sri Lanka
- An attorney-at-law.
- An employee regularly employed.
- A member of the Chartered Institute Taxation of Sri Lanka established under the Sri Lanka Institute of Taxation Act No. 21 of 2000.
- An individual approved by the commissioner-general and registered as an auditor under the companies (Auditor) Regulations.
- An individual specified by the Commissioner-General of any other kind
- In the case of an individual, a relative.
- In the case of a company, a director or the secretary of that company.
- In the case of a partnership, a partner of that partnership.
- In the case of a body of persons, a member of such body.

(02 marks)

(Total 10 marks)

Suggested Answers to Question Seven:

Chapter 04 – Partnership Tax

Winners Partnership Computation Income Tax Liability for the Year of Assessment 2023/24 (Rs.)				
	Note			
Profit as per accounts			14,974,700	
Less: Rent Income – Tax separately under Investment income			(216,000)	
Interest on Fixed Deposit – Tax separately under Investment Income			(5,700)	
Salaries paid to Partners				
-Nazeer	Disallowed		1,800,000	
- David	Disallowed		2,400,000	
Accounting depreciation	Disallowed		48,000	
Rates paid for rented building (30,000 x 50%)	Disallowed		15,000	
Donation	Disallowed		75,000	

Capital allowance (400,000x 20%)			(80,000)	
Business Income of Partnership			19,011,000	
Add: Investment Income				
Gross interest income	(57,000/93x100)	6,000		
Rent income	Note 1	201,000	207,000	
Assessable Income of Partnership			19,218,000	
Calculation of Income Tax Liability				
First	0%		1,000,000	Nil
On balance	6%		18,218,000	1,093,080
Partnership Income Tax Payable				1,093,080

Note 01

Gross rent income	216,000
(-) Rates paid	(15,000)
Taxable rent income	<u>201,000</u>

(Total 10 marks)



End of Section B

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

Publications (Pvt) Ltd.		
Computation of Balance Income Tax Liability for the Year of Assessment 2023/24		
		(Rs.)
Assessable Income from Business	Note 1	170,843,600
Assessable Income from Investment	Note 2	654,000
(a) Total Assessable Income		171,497,600
Less: Sec. 52 – Qualifying Payment & Reliefs	Note 3	(500,000)
(b) Taxable Income		170,997,600
(C) Gross Tax Payable (170,997,600 x 30%)	Note 4	51,299,280
Less: Tax Credits		
Installment Paid	(20,000,000)	
WHT on interest @ 5%	(32,700)	(20,032,700)
(d) Balance Income Tax Payable		31,266,580

Note 1 – Business Income**Publication (Pvt) Ltd.****Computation of Assessable Income from Business for the Y/A 2023/24**

Description	Working	(+)	(-)
Net profit before tax		103,450,000	
Dividend income			166,600
Interest income			654,000
Accounting depreciation expenses		63,275,000	-
Capital allowances	W1	-	16,430,800
Accounting disposal loss of machinery		543,000	
Assessable charge on machinery	W2	1,000,000	
Gratuity provision Sec.10 - Disallow		16,327,000	
Sponsorship for LPL - Sec.11		4,000,000	
Participation fee for conference - Sec.11		Allow	
Air ticket & accommodation - Sec.11		Allow	
Free advertisement to SOS - Sec.11		600,000	
Donation made to University of Kelaniya - Sec. 11		500,000	

Gratuity paid			1,600,000
		189,695,000	18,851,400
Assessable Income			170,843,600

W 1 – Capital allowance

Accounting depreciation not allow to deduct as an expense for tax purpose and capital allowance can claimed a deductible expense as per section 16 of Act no. 24 of 2017 IR Act.

Description	Acquired Y/A	Cost (Rs.)	Useful life	Capital allowance (Rs.)
Land	Not Entitled			-
Buildings	2020/21	96,000,000	20 years	4,800,000
Buildings	2023/24	600,000	20 years	30,000
Plant & Machinery	2020/21	2,500,000	5 years	8,500,000
Plant & Machinery	2023/24	8,000,000	5 years	1,600,000
Office Equipment	2020/21	3,254,000	5 Years	650,800
Computer	2020/21	4,250,000	5 years	850,000
Total				16,430,800

W2 - Calculation of assessable charge		
Sales consideration		2,000,000
(-) Tax written down value		
Cost	2,500,000	
(-) Accumulated capital allowance	(1,500,000)	(1,000,000)
Assessable charge		1,000,000

Note 2 – Business Income

Publications (Pvt) Ltd.

Computation of Assessable Income from Investment for the Y/A 2023/24

Interest from Fixed Deposit	654,000
Dividend income - Net	Final tax
Assessable income from investment	654,000

Note 3 - Sec. 52 – Qualifying Payment & Reliefs

Sponsorship to LPL cricket series	Not allowed
Donation made to University of Kelaniya	500,000
Free advertisement to SOS	Not allowed
	500,000

(25 marks)

Suggested Answers to Question Nine:

Mr. Saliya Perera		
Computation of Income Tax Liability for the Year of Assessment 2023/24 (Rs.)		
Assessable income from Employment	Note 1	5,120,000
Assessable income from Business	Note 2	435,000
Assessable income from Investment	Note 3	297,000
Total Assessable Income		5,852,000
Less: Sec.52 – Qualifying Payment & Reliefs		
Personal Relief	1,200,000	
Donation to Approved Charity – Goods	Not allow	
Donation to Approved Charity – Cash W1	75,000	(1,275,000)
Total Taxable Income		4,577,000
(b) Gross Tax Liability	W2	1,197,720
Less: Tax Credits		
APIT paid	(918,000)	
WHT on Interest	(6,000)	
Installment paid	(160,000)	(1,084,000)
(c) Balance Tax Payable		113,720
(d) Exempted Income	Dividend Income	44,200
	Business Income - Agriculture	660,000

Note 1 – Employment Income

Mr. Saliya Perera

Computation of Assessable Income from Employment for the Y/A 2023/24 (Rs.)

Gross salary	(300,000 x 12)	3,600,000
Bonus received		450,000
Travelling allowance	(60,000 x 12)	720,000
Vehicle maintenance allowance		80,000
Life insurance premium	(10,000 x 12)	120,000
Share received	(200 -50) x 1,000	150,000
Assessable Income from Employment		5,120,000

Note 2 – Business Income

Business - Agriculture	Exempt	-
Business Income – IT Services		435,000
Business Income		435,000

Note 3 – Investment Income**Computation of Assessable Income from Investment for the Y/A 2023/24 (Rs.)**

<u>Interest Income</u>		
FD interest ($\frac{114000}{95} \times 100$)		120,000
Net dividend received	exempted	-
<u>Rent Income</u>		
Gross rental income (25,000 x 10)	250,000	
(-) Repair expenses	(73,000)	177,000
Assessable Income from Investment		297,000

W1 Donation to approved charity

Actual Cash donation	100,000	Whichever is lower amount Rs. 75,000
Maximum allow	75,000	
1/3 of taxable income	$(1/3) \times 4,562,000 = 1,550,667$	

W2 – Gross tax liability

First	Rs. 500,000 x 6%	30,000
Next	Rs. 500,000 x 12%	60,000
Next	Rs. 500,000 x 18%	90,000
Next	Rs. 500,000 x 24%	120,000
Next	Rs. 500,000 x 30%	150,000
On balance	Rs. 2,077,000 x 36%	747,720
		1,197,720

(25 marks)**End of Section C**

Notice:

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