



Association of Accounting Technicians of Sri Lanka

Level III Examination - July 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, an individual shall be a resident in Sri Lanka for a year of assessment if the individual:

- a. resides in Sri Lanka;
- b. 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;
- c. is an employee or an official of the Government of Sri Lanka and his spouse is posted abroad during the year; or
- d. 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.

(a)

As per the given case Mr. Indika, a citizen of Sri Lanka but worked in Pakistan Since 2020. He visited to Sri Lanka on 06th July 2024 and departure on 14th October 2024. During that period, he physically presented in Sri Lanka 101 days only. Total 101 aggregate number of days physically present in Sri Lanka any twelve-month period that commence during the year of assessment 2024/25. Accordingly, as per the Section 69(1) (b) he has presented in Sri Lanka less than 183 days and therefore is a non-resident in Sri Lanka for tax purpose for the Y/A 2024/2025.

(b)

As per the given case Ms. Mala, a citizen of Sri Lanka. Migrate to Saudi Arabia on 05th January 2025 for two-year contract period to work as an Accountant. During that period, of 01st April 2024 to 05th January 2025, she physical presence in Sri Lanka 280 days. Total 280 aggregate number of days physically present in Sri Lanka any twelve-month period that commence during the year of assessment 2024/25. 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 2024/2025.

(Total 05 marks)

Suggested Answers to Question Two:

Chapter 07- Other Taxes

(a)

Win (Pvt) Ltd.	
Computation of Social Security Contribution Levy Payable	
For the Quarter Ending 31st December 2024	
	(Rs.)
Turnover for the quarter	200,250,000
Liable turnover (200,250,000 x 85%)	170,212,500
SSCL Payable @ 2.5%	4,255,313

(03 marks)

(b) The stamp duty could be settled in method of following, (as amended by Act No. 10 of 2008)

- Affixing adhesive stamps
- Direct payment to the bank
- Compounding the stamp duty

(Expect only two methods)

(02 marks)

(Total 05 marks)

Suggested Answers to Question Three:

Chapter 06 - Case law relating to taxation

The profit earned by Ravi from the sale of subdivided land blocks is liable for income tax as it constitutes income from an adventure in the nature of trade. This is clearly supported by the judicial precedent set in the case of Ram Iswara vs. Commissioner of Inland Revenue, where the court held that if a person acquires land not merely to hold as an investment but with the intention of making a profit by means of a scheme of development and sale, such activity amounts to a trade, and any resulting profit is taxable as business income. In Ravi's case, although he initially entered into an agreement to purchase one acre of land ostensibly for personal reasons, he subsequently subdivided the land into 10-perch blocks, retained only two blocks for himself, and sold the remaining to the public within a short period of time.

This sequence of events indicates a clear intention to carry out a profit-making scheme, rather than holding the land as a capital investment. The act of subdividing the land and selling the majority of it to the public is a commercial activity involving the application of business strategies, which reflects characteristics similar to those of a trading enterprise.

According to the Inland Revenue Act No. 24 of 2017, income derived from such trading or business activities is subject to income tax. Therefore, the profit earned by Ravi is not treated as a mere capital gain but as taxable business income. Accordingly it is liable to income tax.

(05 marks)

Suggested Answers to Question Four:

Chapter 06 – WHT and Capital Gain Tax

(A)

Consideration received		90,000,000
(-) Cost of the land		
Acquisition cost		
(100,000*500)	50,000,000	
Valuation report cost	500,000	(50,500,000)
Capital Gain		39,500,000
CGT @30%		11,850,000

(03 marks)

(B)

Type of Income	AIT/WHT Rate	Liability (Rs.)
Legal Advice I	5%	200,000 x 5% = 10,000
Rent	10%	250,000,000 x 10% = 25,000

(02 marks)
(Total 05 marks)

End of Section A

Suggested Answers to Question Five:***Chapter 07 – Other Business Taxes***

Dhana (Pvt) Ltd.
Computation of VAT Liability
For the Quarter ended 31st March 2025

<u>Output VAT</u>	Value of Supply	Rate %	VAT
Export sales	6,764,000	0%	-
Local Sales - SVAT	17,662,000	18%	3,179,160
Other Local Sale	25,450,000	18%	4,581,000
Total Output VAT			7,760,160
<u>Input VAT</u>			
On import of raw material	1,100,000		
On local purchase	1,127,000		
On office expenses	173,000		
Allowable Input VAT	2,400,000		
B/F Unabsorbed input tax	25,540		
Total allowable input VAT			(2,425,540)
VAT Payable			5,334,620
Less:			
Monthly installments paid	(500,000)		
SVCV	(3,179,160)		(3,679,160)
Balance VAT Payable			1,655,460

(10 marks)

Suggested Answers to Question Six:

Chapter 04 – Taxation of Miscellaneous Undertakings

Home from Heaven Partnership			
Computation Income Tax Liability for the Year of Assessment 2024/25 (Rs.)			
	Note	(+)	(-)
Net profit before Tax		43,829,500	
Interest income received on Foreign Currency Banking Units (FCBU) deposits			575,000
Interest on Treasury bill			922,500
<u>Salaries paid to Partners - disallowed</u>			
- Jane		4,200,000	
- Jack		3,600,000	
Donation - Disallowed Sec.11		750,000	
Jane's daughter		Allow	
		52,379,500	1,497,500
Partnership Business Income		50,882,000	
Add: Investment Income			
Interest income received on Foreign Currency Banking Units (FCBU) deposits		Exempt	
Interest on Treasury bill		922,500	
Partnership, Assessable Income		51,804,500	
<u>Less: Sec. 52 – Qualifying Payments & Relief</u>			
Cash Donation made to Approved Charity.	Note 1	(500,000)	
Partnership Taxable Income		51,304,500	
<u>Calculation of Partnership Payable</u>			
First 1,000,000 @ 0%			Nil
On balance 50,304,500 @ 6%			3,018,270
Gross tax payable			3,018,270

Note 01

Lower value of,

Actual cash donation 750,000

Maximum limit 500,000

1/5 x Taxable income 10,360,900

Lower Value 500,000

(10 marks)

Suggested Answers to Question Seven:

Chapter 05 – Obligations and Procedures

(A)

(a)

$$\begin{array}{rcl} \text{Third installment} & \text{Estimated tax liability for} & \text{(Installments paid \&)} \\ & \text{Y/A 2024/25} & \text{AIT Paid)} \\ = & \underline{\hspace{10em}} & \\ & \text{Remaining installment} & \end{array}$$

$$\begin{aligned} &= [32,500,000 - (12,000,000 + 115,000)] / 2 \\ &= \text{Rs. } 10,192,500 \end{aligned}$$

(03 marks)

(b) Third installment shall be pay on or before 15th February 2025

(01 marks)

(B)

(a)

- Name of the taxpayer
- Taxpayer Identification Number (TIN)
- The date of the issue of the notice
- A demand for payment of these amounts
- Amount of Tax in Default
- Applicable penalty on tax default
- Type of Tax
- Tax Period(s) Concerned
- The place for payment of these amounts

(02 marks)

(b)

Criteria	Penalty
Failure to pay all or part of an installment tax within 14 days of the due date – Sec. 179(2)	10% of the tax due (but not paid)
Failure to pay tax due for a tax period ; Within 14 days of the due date or by the due date per notice of assessment Sec. 179(1)	20% of the tax due (but not paid)
For negligent or fraudulent underpayment (International conduct or negligence) Sec.180 i)	It under payment is higher than Rs. 10 million or (ii) Higher than 25% of the persons liability for the period , the penalty will be 75% of the under payment. In other cases, 25% of the under payment.

(02 marks)

(c)

- Write off as bad debts as considering receivable to the government
- Court proceedings
- Execution against tax payer's property
- Sales of seized property
- Offset against government payments
- Imposed restrictions against foreign travelling
- Recovery from third party debtors

(02 marks)
(Total 10 marks)



End of Section B

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

Haritha Plantation Ltd
Computation of Income Tax Liability
For the year of Assessment 2024/25 **(Rs.)**

Business Income (Note 01)		102,186,750
Investment Income:		
Interest Income - FD	15,540,000	
Rent Income	5,600,000	
Total Investment Income		21,140,000
Total Assessable Income		123,326,750
Less: Qualifying payments & reliefs		-
Goods Donation to approved Charity – Not A QP		-
Taxable Income		123,326,750
Tax Liability at 30%		36,998,025
Tax Credits:		
Installments paid		(15,600,000)
WHT on FDs		(777,000)
AIT on Rent		(560,000)
Balance Income Tax Payable		20,061,025

Note 01 – Computation of assessable income from trade / business

	Rs.'000	Rs.'000
	+	-
Net Profit / (Loss) Before Tax	121,010,000	
Less: Investment Income		
Interest Income from FD – Investment Income – Tax Separately		15,540,000
Rent Income – Investment Income – Tax Separately		5,600,000
Accounting profit from land disposal		10,100,000
Add / Less		
Book Depreciation	8,210,000	

Gratuity Provision	1,940,000	
Late Payment charges EPF	64,000	
Rent payment made to chairman residence	525,000	
Bad debt written off – Trade debt allowed	-	
Doubtful debt provision	136,000	
Foreign Travelling – Not incurred for the production of income	800,000	
Donation	300,000	
Capital Allowance		
During the year addition		
Tractor – 3,000,000 over 5 yrs		600,000
Furniture – Chairman residence -Not allowed		-
Furniture – Office – 4,000,000 over 5 Yrs		800,000
Previous years		
Land – Not Entitled		-
Office & warehouse building – 50,125,000 over 20 yrs		2,506,250
Furniture & Fittings -22,890,000 over 5 yrs		4,578,000
Motor Vehicle -Jeep not entitled		-
Other motor vehicle–5,870,000 over 5 yrs (13,870,000–8 million)		1,174,000
Profit on Land disposal:		
Consideration 38,100,000		
Less : Cost (28,000,000)		
Tax profit on disposal	10,100,000	
	143,085,000	40,898,250
Business Profit		102,186,750

Suggested Answers to Question Nine:

Sunil

Income Tax Computation

Year of Assessment 2024/25

(Rs.)

Employment Income			
Gross Salary	400,000*12		4,800,000
Value of Conveyance	(20,000+20,000) *12		480,000
Value of residence	400,000*12.5%*12	600,000	
Cost of Employee	250,000*12	3,000,000	
	Whichever lower		600,000
Foreign Travel	Not Taxable		

Medical Bills	Not Taxable		
Telephone Bills	(780,000*50%)		39,000
Total Employment Income			5,919,000
Investment Income			
Interest Income	Treasury Bills		57,000
	FD	<u>228,000*100</u>	240,000
Dividend Income	Final WHT	95	-
Gain on sale of quoted shares	Exempt		-
Rent Income	100,000*12		1,200,000
Investment Income			1,497,000
Assessable Income			7,416,000
Less – Qualifying Payments:			
Donations to flood Victims	Not Entitled		-
Donations to elders home - Cash	Rs.75,000/- or 1/3 of TI, Whichever lower		(75,000)
Reliefs			
Personal Relief		1,200,000	
Rent Relief*	25% of Gross Rent	300,000	(1,500,000)
Taxable Income			5,841,000
Tax Liability:			
Frist	500,000	6%	30,000
Next	500,000	12%	60,000
Next	500,000	18%	90,000
Next	500,000	24%	120,000
Next	500,000	30%	150,000
Next	3,341,000	36%	1,202,760
Gross Tax Liability	5,891,000		1,652,760
Less: Tax Credits			
Installment Payments			(300,000)
APIT Deducted			(1,248,840)
AIT on Interest			(12,000)
Balance Tax Payable / (Overpaid)			<u>91,920</u>

(25 marks)

End of Section C

Notice:

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

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