



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA3 EXAMINATION - JANUARY 2020

(AA35) CORPORATE AND PERSONAL TAXATION

- **Instructions to candidates** (Please Read Carefully):

(1) **Time Allowed:** Reading : 15 minutes

Writing : 03 hours

(2) **All questions should be answered.**

(3) **Answers should be in one language, in the medium applied for, in the booklets provided.**

(4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**

(5) **Use of Non-programmable calculators is only permitted.**

(6) **Action Verb Check List with definitions is attached. Each question will begin with an action verb. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**

(7) **100 Marks.**

19-01-2020
Afternoon
[1.45 – 5.00]

No. of Pages : 08
No. of Questions : 09

SECTION A

Four (04) compulsory questions

(Total 20 marks)

Question 01

As per the Section 2 of Inland Revenue Act No. 24 of 2017, Income tax shall be payable for each year of assessment by:

- a person who has taxable income for that year; or
- a person who receives a final withholding payment during that year.

You are required to:

(a) **Explain** what is meant by Final Withholding Payments. (03 marks)

(b) **Identify** two(02) Final Withholding Payments under the Inland Revenue Act No. 24 of 2017.

(02 marks)

(Total 05 marks)

Question 02

You are the newly appointed Payroll Accountant of **AG Garments (Pvt) Ltd.**, a large scale garment manufacturing company. Management informed you that the Department of Inland Revenue recently inspected the documents and advised to follow the regulations on PAYE scheme.

You are required to:

State five(05) obligations of an employer under the PAYE scheme.

(05 marks)

Question 03

Samarasinghe works as a manager of **XYZ PLC** for a period of 20 years. During the year of assessment 2018/19 he had to undergo a surgery and the company paid him Rs. 1 million as a special payment for recognition of his long service.

Samarasinghe thinks that it is a gift from employer and it is not a part of taxable income.

You are required to:

Explain whether the special payment received from the company is a taxable income of **Samarasinghe**.
(Support your decision with reference to any decided case.) (05 marks)

Question 04

Hero Corporation India has undertaken a construction project in Sri Lanka through its project office in Sri Lanka. **Robbin**, Technical Engineer visited Sri Lanka on 15th July 2018 to accept his duties for two years employment contract as an Engineer and he stayed in Sri Lanka until on 02nd March 2019.

You are required to:

Explain the residence status of **Robbin** for taxation purpose in Sri Lanka in relation to the year of assessment 2018/19. (05 marks)

End of Section A

SECTION B

Three (03) compulsory questions

(Total 30 marks)

Question 05

D & Sons is a partnership formed in 2017 by **Dayarathna** and his elder son **Dilum** to act as a bakery products manufacturer. As per the partnership agreement it was agreed to share the profits and losses in the ratio of 2:1 between **Dayarathna** and **Dilum** respectively.

As per the financial statements for the year ended 31st March 2019, turnover and net profit of the partnership were Rs.46,550,000/- and Rs.9,638,000/- respectively.

(1) The following expenses have been deducted when arriving at the net profit:

	Rs.
Salary paid to partners	2,880,000
Rent	960,000
Depreciation	80,000

(2) **Dayarathna** and **Dilum** draw monthly salary of Rs.110,000/- and Rs.130,000/- respectively for their involvement in the business.

(3) Rent has been paid to **Dayarathna** for the use of first floor of his residence as office of the partnership.

(4) Capital allowance on assets for the tax purposes for the year of assessment 2018/19 was Rs.90,000/-.

You are required to:

Calculate the following for the year of assessment 2018/19:

- (a) The partnership income for tax purpose. (03 marks)
 - (b) The withholding tax payable by the partnership on partnership income. (02 marks)
 - (c) The share of partnership income of each partner. (03 marks)
 - (d) The withholding tax credit available to each partner. (02 marks)
- (Total 10 marks)

Question 06

BA Consultants (Pvt) Ltd. is a registered company for Value Added Tax (VAT). Its main activity is providing management consultancy services to clients in Sri Lanka. In addition to that the company conducts classes for professional examinations.

The following information for the quarter ended 31st March 2019 was extracted from the books of the company:

- (1) Details of turnover (exclusive of VAT):

	Rs.
From Consultancy services	7,425,000
From educational services - conducting classes	1,856,250
Total	9,281,250

- (2) The company has paid the following Input tax during the quarter.

	Rs.
On printing of tutorials for classes	143,000
On office expenses (office is used for both activities)	264,000
On insurance premium made for car used for travelling	9,000
	416,000

- (3) The excess input VAT brought forward from the previous quarter amounts to Rs.57,600/-.
- (4) The company has paid Rs.400,000/- for the quarter ended 31st March 2019 as VAT installments.

You are required to:

- (a) **Assess** the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st March 2019. (08 marks)
 - (b) **State** the due date for submitting VAT return for the quarter ended 31st March 2019. (02 marks)
- (Total 10 marks)

Question 07

ABC (Pvt) Ltd. is a resident company incorporated in Sri Lanka. The company has not submitted the return of income for year of assessment 2018/19 yet. You are the tax consultant of **ABC (Pvt) Ltd.**

You are required to:

- (a) **State** the due date for the submission of the return of income for year of assessment 2018/19. (02 marks)
 - (b) **Explain** the penalties that could be imposed on failure to submit the return of income. (04 marks)
 - (c) If the return of income for year of assessment 2018/19 was submitted on or before the due date, **state** the statutory time bar for issuing an assessment by the assistant commissioner. (02 marks)
 - (d) **Explain** what is meant by default assessment. (02 marks)
- (Total 10 marks)

————— *End of Section B* —————

SECTION C

Two (02) compulsory questions.

(Total 50 marks)

Question 08

Smart Look (Pvt) Ltd. (SLP) was formed in 2014 as a fully owned subsidiary of **Fashion Designers Holdings Ltd. (FDH)**. **Smart Look (Pvt) Ltd.** is engaged in the business of manufacturing kids ware and selling to the domestic market.

The following information was extracted from the financial statements of **SLP**:

- (1) Summary of the income statement for the year ended 31st March 2019 is as follows:

	Rs.
Turnover	368,150,000
Cost of Sales	(254,250,000)
Gross Profit	113,900,000
Other Income:	
Interest income from loan given to FDH	200,000
Interest income from Fixed Deposit (Gross)	800,000
Dividend Income (Net)	500,000
Profit on disposal of machinery	600,000
	116,000,000
Distribution Expenses	(27,300,000)
Administration Expenses	(51,780,000)
Finance Expenses	(2,400,000)
Profit Before Income Tax	34,520,000

(2) Administration expenses include the following:

- Gratuity provision for the year was Rs.2,900,000/- and an amount of Rs.1,000,000/- was paid during the year for retired employees.
- Depreciation charge for the year was Rs.3,500,000/-.
- Rs.340,000/- has been paid as additional tax to the Department for the year of assessment 2017/18 as per the agreement reached with Assistant Commissioner.
- The company has donated Rs.850,000/- worth of goods to an elders home which is an approved charity.

(3) Distribution expenses include the following:

- An amount of Rs.1,100,000/- was incurred on Directors' foreign travelling to meet the overseas material suppliers.
- A paper advertisement published to purchase a land was Rs.90,000/- and an amount of Rs.110,000/- was spent for a paper advertisement on tender quotation made to find out fabric suppliers.
- A cost of Rs.350,000/- was incurred on annual get together organized to entertain staff members.

(4) Details of Property, Plant and Equipment are as follows:

Cost

Assets	Balance as at 01st April 2018 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31st March 2019 (Rs.)
Land	28,000,000	-	-	28,000,000
Building	15,000,000	-	-	15,000,000
Machinery	4,000,000	5,200,000	900,000	8,300,000
Motor Lorry	3,400,000	-	-	3,400,000
Total	50,400,000	5,200,000	900,000	54,700,000

- A machinery purchased in May 2017 was sold for Rs.600,000/- in December 2018.
- Building and Motor Lorry were purchased / acquired during the year of assessment 2016/17.
- Capital allowance on all other assets as at 01st April 2018 were claimed fully for tax purpose.

- (5) Brought forward taxable loss from the year of assessment 2017/18 was Rs.6,300,000/-.
- (6) Economic Service Charge (ESC) payments for the year of assessment 2018/19 were Rs.1,840,750/-.
- (7) The company has paid Rs.3,400,000/- as quarterly installments of income tax for the year of assessment 2018/19.
- (8) WHT at relevant rate has been deducted by the bank on FD interest.
- (9) All other expenses of the business are allowed for income tax purpose.

You are required to:

Assess the following for the year of assessment 2018/19:

- (a) Assessable Income,
- (b) Taxable Income,
- (c) Gross Income Tax Payable, and
- (d) Balance Tax Payable.

N.B: The reasons for allowing or disallowing any expenses should be clearly stated. (25 marks)

Question 09

Suresh, who is a Software Engineer, works in **Zeena PLC**, a Sri Lankan software company. He has given his primary employment declaration to **Zeena PLC**. He also serves as a Director of a subsidiary company of **Zeena PLC**. The following information relating to **Suresh** is provided in respect of the year of assessment 2018/19 (*hereinafter referred to as the 'year'*):

- (1) During the year he has received the following from **Zeena PLC**:
 - Gross salary - Rs.220,000/- per month.
 - The company has provided him a motor car with fuel for his travelling (Engine Capacity of the car is 1,750cc).
 - During the year, he was hospitalized, and the total bill was Rs.254,000/-. As per the employment contract, the company has reimbursed Rs.230,000/-. The company does not have an equal terms policy for all employees in respect of medical reimbursement expenses.
 - Leave encashment paid during the year for unused leave of previous year was Rs.70,000/-.
 - EPF and ETF contributions by the employer are at 12% and 3% respectively of the gross salary.

- (2) **Suresh** received a director fee of Rs.636,000/- from the subsidiary company (second employment) for the year after deducting a withholding tax of Rs.84,000/-.
- (3) **Suresh** has received USD 2,500 as fee for a consultancy service provided to a foreign company. This income was credited to his Resident Foreign Currency (RFC) account in a commercial bank (USD 1 = LKR 180/-).
- (4) He has made investments in public listed companies. During the year, net dividend received was Rs.215,000/- and profit made on the sale of listed shares in Colombo Stock Exchange was Rs.153,000/-.
- (5) **Suresh** has received Interest income of USD 170(net of WHT) (USD 1 = LKR 180/-) on RFC account during the year.
- (6) **Suresh** lives in an apartment at **Nugegoda**. His ancestral house is situated in Galle which is rated at Rs.250,000/-. Rates were paid at 25%. This house was rented out at a monthly rent of Rs.100,000/- to a company from 01st April 2018. Rent relevant for the year was paid at the end of each month. The company has deducted Withholding Tax (WHT) when making monthly rent payments.
- (7) During the year he has donated computers worth of Rs.800,000/- to the University of Moratuwa for the use of undergraduates.
- (8) PAYE deduction for the year by **Zeena PLC** was Rs.164,000/-.

You are required to:

Assess the following for **Suresh** for the year of assessment 2018/19:

- (a) Taxable income,
- (b) Gross income tax payable,
- (c) Balance tax payable, and,
- (d) Exempt income, if any. (25 marks)

End of Section C

ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
Level 01 Comprehension Recall & explain important information	Define	Describe exactly the nature, scope, or meaning.
	Draw	Produce (a picture or diagram).
	Identify	Recognize, establish or select after consideration.
	List	Write the connected items one below the other.
	Relate	To establish logical or causal connections.
	State	Express something definitely or clearly.
	Calculate/Compute	Make a mathematical computation
	Discuss	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	Explain	Make a clear description in detail revealing relevant facts.
	Interpret	Present in an understandable terms.
	Recognize	To show validity or otherwise, using knowledge or contextual experience.
	Record	Enter relevant entries in detail.
Summarize	Give a brief statement of the main points (in facts or figures).	

Knowledge Process	Verb List	Verb Definitions
Level 02 Application Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	Apply	Put to practical use.
	Assess	Determine the value, nature, ability, or quality.
	Demonstrate	Prove, especially with examples.
	Graph	Represent by means of a graph.
	Prepare	Make ready for a particular purpose.
	Prioritize	Arrange or do in order of importance.
	Reconcile	Make consistent with another.
	Solve	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
Level 03 Analysis Draw relations among ideas and compare and contrast / Solve open-ended problems.	Analyze	Examine in detail in order to determine the solution or outcome.
	Compare	Examine for the purpose of discovering similarities.
	Contrast	Examine in order to show unlikeness or differences.
	Differentiate	Constitute a difference that distinguishes something.
	Outline	Make a summary of significant features.