

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JULY 2020

(304) CORPORATE & PERSONAL TAXATION

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

- (1) **Time Allowed:** Reading : 15 minutes.
Writing : 03 hours.

04-10-2020
Afternoon
[01.45 – 05.00]

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

- (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.**

SECTION A

(Total 20 marks)

Question 01

Thomas is an Australian citizen. He visited Sri Lanka on 01st May 2018 to incorporate a company under the provisions of the Companies Act No. 7 of 2007 for providing investment advisory services to foreign clients in Sri Lanka. During the year of assessment 2018/19, his travel details are as follows:

Date of arrival to Sri Lanka	Date of departure from Sri Lanka
01.05.2018	15.08.2018
15.11.2018	20.01.2019
05.03.2019	31.03.2019

You are required to:

Explain the residence status of **Thomas** for taxation purpose in Sri Lanka in relation to the year of assessment 2018/19 as per the provisions of the Inland Revenue Act No. 24 of 2017.

(05 marks)

Question 02

Value Added Tax (VAT) is the main indirect tax in Sri Lanka. A registered person who makes a taxable supply shall issue a tax invoice to the person to whom such supply is made if that person is a VAT registered person.

You are required to:

- (a) **List** three(03) particulars to be included in a tax invoice as per the provisions of VAT Act. (03 marks)
- (b) **State** the due date for submitting VAT return for the quarter ended 31st March 2019. (02 marks)
- (Total 05 marks)

Question 03

Zoysa, who is carrying on an accounting firm in his residence, provides Accounting, Auditing and Tax Consultancy services. He has to attend for discussions with the officials of Department of Inland Revenue and Department of Registrar of Companies on behalf of his clients. He has claimed cost of travelling between his residence and these two departments as a deduction from his business income. However, the Assistant Commissioner has disallowed this expense.

You are required to:

Explain whether the above expense could be deducted from **Zoysa's** business income for tax purposes by referring to the decision given in the case of "*Rajapakse Vs CIT*". (05 marks)

Question 04

Perera who is a Chartered Engineer is working for a construction company. He has selected you as his tax consultant. The following transactions of **Perera** are related to the year of assessment 2018/19:

- (1) He has received a dividend income of Rs.234,000/- from a listed company and With Holding Tax (WHT) deducted on dividend income was Rs.32,760/-.
- (2) He has received interest income of Rs.325,000/- from a fixed deposit in a commercial bank and WHT deducted was Rs.16,250/-.
- (3) During the year, he won a lottery prize and Rs.85,000/- was deducted on that as WHT.
- (4) During the year, he has provided consultancy services to another private company and WHT deducted on such consultancy fee was Rs.6,500/-.
- (5) He has received a rent income of Rs.1,200,000/- on a house rented out to a hotel and WHT of Rs.120,000/- was deducted.

You are required to:

State whether each of the above payments are to be considered as final withholding payment. (05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

Fernando is the newly appointed Accountant of **ABC (Pvt) Ltd.** Estimated income tax liability of the company for the year of assessment 2018/19 is Rs.900,000/- and the company has paid Rs.300,000/- as the first quarterly installment of income tax payment for the year of assessment 2018/19.

You are required to:

- (a) **State** the due dates for payments of second and third quarterly installments of the year of assessment 2018/19. (04 marks)
- (b) **Calculate** the amount of income tax to be paid as the 2nd quarterly installment. (03 marks)
- (c) **Identify** three(03) methods available for the Inland Revenue Department to recover taxes in default. (03 marks)

(Total 10 marks)

Question 06

Jupiter Bookshop is a partnership carried out by **Namal** and his elder brother **Kamal** sharing profits and losses equally.

Net profit of the partnership was Rs.3,230,000/- as per the financial statements for the year ended 31st March 2019.

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

	Rs.
Salaries paid to partners	2,040,000
Depreciation	240,000

- (2) **Namal** and **Kamal** drew monthly salary of Rs.90,000/- and Rs.80,000/- respectively for their involvement in the business.
- (3) Capital allowance on assets for the income tax purposes for the year of assessment 2018/19 was Rs.360,000/-.
- (4) Part of the partnership building has been rented out to a pastry shop and Rs.480,000/- has been received as rent income. This has been considered when arriving at the above net profit. No withholding tax has been deducted by the tenant.

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. (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 07

Nature Lovers (Pvt) Ltd. which is a registered company for Value Added Tax (VAT), manufactures items such as Hats, Hand Bags, etc. Their customers are in Sri Lanka as well as overseas.

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

- (1) Details of sales during the quarter ended 31st March 2019 are given below:

Exports (US Dollar 1 = Rs.180/-)	USD 34,000
Local sales to VAT registered persons (exclusive of VAT)	Rs.4,425,000/-

- (2) The company has paid the following Input Tax during the quarter:

	Rs.
On import of packing materials exclusively used for exports	116,000
On office expenses	38,000
On repairs to a machine used in production	4,800
On repairs to the motor car used by the managing director	3,000

- (3) The company sold an old machine during the quarter for Rs.46,000/-.
- (4) The excess input VAT brought forward from the previous quarter was Rs.26,000/-.
- (5) The company has paid Rs.250,000/- as monthly VAT installments.

(Consider standard VAT rate as 15%.)

You are required to:

Assess the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st March 2019. (10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

Hash Trading (Pvt) Ltd. which is a company incorporated in Sri Lanka is engaged in the business of importing ready-made garments and selling those in wholesale market.

The following information was extracted from the financial statements of **Hash Trading (Pvt) Ltd.** for the year ended 31st March 2019:

- (1) The net profit before tax for the year ended 31st March 2019 after charging all expenses and crediting all income was Rs.64,240,000/-. Total turnover of the company was Rs.526,200,000/- for the year ended 31st March 2019.
- (2) Break-up of other income was as follows:

	Rs.
Rent income on land (Gross)	600,000
Profit on disposal of furniture	80,000
	680,000

(3) Cost of property, plant and equipment as at 31st March 2019 is as follows:

Description	Cost (Rs.)	Year of Acquisition
Buildings	8,000,000	2015/16
Motor car used by CEO	2,680,000	2017/18
Lorries	4,324,000	2016/17
Office Equipment	1,235,000	2018/19
Computers	2,875,000	2017/18
Furniture	1,859,000	2016/17
Computer software	1,000,000	2018/19

- Computer software was imported by the company during the year.
- Furniture which was purchased during the year of assessment 2016/17 at a cost of Rs.235,000/- had been sold in December 2018 for Rs.142,500/-. However, cost on this disposal has not been adjusted in the above given balance.

(4) Investment Property:

A land was acquired by the company during the year of assessment 2015/16 for Rs. 10 million. This land has been given on rent to a company from 01st April 2018 at Rs.50,000/- per month.

(5) Administration expenses include the following:

- Depreciation charge for the year was Rs.4,546,000/-.
- The company has donated Rs.1,000,000/- to an approved charity, which was established for the provision of institutionalized care for sick and needy people.
- During the year of assessment, the marketing director was sent to China to meet suppliers and the cost incurred on his tour was Rs.653,000/-.
- A legal expense of Rs.52,000/- has been incurred to secure the right of land which was rented out.
- Gratuity provision for the year of assessment 2018/19 was Rs.1,432,000/-.

(6) Distribution expenses include the following:

- An amount of Rs.267,000/- was spent to entertain the company's prospective buyers.
- A bad debt of Rs.143,500/- was directly written off to the income statement in respect of a trade debtor. A general provision made to the income statement was Rs.400,000/-.

(7) The following additional information is also provided:

- During the year, the company has paid Rs.765,000/- as gratuity to retired employees.
- The company has following unclaimed Economic Service Charge (ESC) balances:
Y/A 2017/18 : Rs.876,500/-
Y/A 2018/19 : Rs.2,631,000/-
- The company has paid Rs.5,000,000/- as quarterly installments of income tax for the year of assessment 2018/19.
- The company has received withholding tax (WHT) certificates amounting to Rs.60,000/- from the tenant of the land.
- The loss (adjusted for tax purposes) brought forward from the year of assessment 2017/18 was Rs.3,200,000/-.

You are required to:

Assess the following of **Hash Trading (Pvt) Ltd.** for the year of assessment 2018/19:

- Assessable Income.
- Taxable Income.
- Gross Income Tax Payable.
- Balance Tax Payable.

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

(25 marks)

Question 09

Ruwan Wijesinghe is a chartered accountant attached to a commercial bank in Sri Lanka as the Chief Financial Officer. He has given his primary employment declaration to the company.

The following information is available regarding his income for the year of assessment 2018/19 (*hereinafter referred to as the 'year'*):

(1) Income from Employment:

- Gross salary - Rs.200,000/- per month.
- The company has provided him with an electrical car (160 KW) with a driver.
- His life insurance premium of Rs.10,000/- per month is paid by the employer.
- While he was on compulsory leave, he went Nuwara-Eliya with his family. The hotel bill of Rs.164,000/- paid by **Ruwan** was reimbursed by the employer.
- PAYE deducted by the employer amount to Rs.192,440/-.

- (2) **Ruwan** owns an institution where classes are conducted for professional examinations. The summary of the income and expenditure account prepared for the year ended 31st March 2019 relating to **Ruwan's Institution** is as follows:

Expenses	Rs.	Income	Rs.
Salaries to staff	875,000	Income - class fees	3,876,000
Fees for lecturers	1,565,000		
Depreciation on photocopier machine	65,000		
Donation	250,000		
Electricity and water bills	223,000		
Other expenses	234,000		
Net Profit	664,000		
	3,876,000		3,876,000

- A photocopier machine was purchased for Rs.260,000/- during the year. There were no other qualifying assets on which capital allowances could be claimed.
 - Donation of Rs.250,000/- was made to Ministry of Education to improve mathematical skills of O/L students.
 - All other expenses are allowed for tax purposes.
- (3) **Ruwan** lives in a rented house close to his office. His own house is in Galle and it was rented out to a company for a monthly gross rent of Rs.45,000/-. Rating assessment of this house is Rs.280,000/- and rates were paid at 30% by **Ruwan**. Withholding tax of Rs.54,000/- has been deducted from the rent income.
- (4) **Ruwan** has made some investments, and received the following interest income during the year.
- From treasury bills : Rs.126,000/-.
 - From a fixed deposit : Rs.47,500/-. (*After deducting withholding tax at 5%*)
- (5) **Ruwan** had a land at Homagama which was purchased on 01st October 2017 at a cost of Rs. 50 million. He sold this land in March 2019 for Rs. 55 million and he has incurred the following expenses in lieu of the land:
- In January 2018, for a fence around the land Rs.825,000/-.
 - Broker's fee of Rs.100,000/-.
- (6) During the year, **Ruwan** has paid Rs.500,000/- as quarterly installment payments of income tax.

You are required to:

Assess the following for **Ruwan** 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)

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.