

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JULY 2021

(304) CORPORATE & PERSONAL TAXATION

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

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

24-10-2021
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

Ruwan who is a Sri Lankan citizen, works as a software engineer in **ABC Ltd.** He was sent to the subsidiary of **ABC Ltd.** located in Singapore on 29th August 2020 for a period of 3 months to develop an internal software. Though, he planned to come back to Sri Lanka on 02nd December 2020, due to COVID-19 restrictions, he was able to arrive in Sri Lanka on 14th March 2021.

You are required to:

Explain the residence status of **Ruwan** for taxation purpose in Sri Lanka for the year of assessment 2020/21 as per the provisions of the Inland Revenue Act No 24 of 2017.

(05 marks)

Question 02

MSL Garments (Pvt) Ltd. is in the business of manufacturing of Garments. As per the HR records, number of employees in the company is 120 during the year of assessment 2020/21 and salary per employee is more than Rs.50,000/- per month. The company has registered for stamp duty purpose.

You are required to:

- (a) **Calculate** the stamp duty payable on salary receipts for the quarter ended 31st December 2020. (03 marks)
- (b) **State** two(02) specific instruments liable for stamp duty as per the Stamp Duty Act in Sri Lanka. (02 marks)
(Total 05 marks)

Question 03

Ajith is a resident individual resides in Colombo. He has made the following transactions during the month of March 2021:

- He owned a land in Anuradhapura which was purchased in December 2010 at a cost of Rs. 5 million. This land was sold for Rs.8 million during the month of March 2021 and the market value as at 30th September 2017 of this land was Rs.6.8 million. **Ajith** paid Rs.50,000/- as broker's fee on this transaction.
- He disposed 12,000 unlisted shares for Rs.1,000,000/-. These shares were purchased at Rs.54/- per share in April 2018.

You are required to:

Assess the capital gain tax payable by **Ajith** on the above transactions. (05 marks)

Question 04

Silva, who is an estate superintendent of **Haritha Ltd.** had to undergo a heart surgery during the year of assessment 2020/21. The company has offered a special lump sum payment of Rs.1.2 million through the Corporate Social Responsibilities (CSR) fund of the company considering his long outstanding service. Tax consultant of **Silva** informed that the special lump sum payment received by him is chargeable to income tax purposes for the year of assessment 2020/21.

You are required to:

Explain whether the special lump sum payment received from **Haritha Ltd.** is a taxable income of **Silva** by referring to any decided cases. (05 marks)

SECTION B

(Total 30 marks)

Question 05

Neela is a resident individual and she failed to make any quarterly installment payments for the year of assessment 2019/20. However, she submitted her return of income for the year of assessment 2019/20 on 10th March 2021 together with tax payment.

The Assistant Commissioner conducted a tax audit in respect of the return of income filed by **Neela** for the above year of assessment and it was noted that certain income has not been declared by her for tax purpose. The Assistant Commissioner issued an assessment to **Neela**.

You are required to:

- (a) **State** the applicable penalties for non-payment of quarterly income tax installments as per the provisions of the Inland Revenue Act No. 24 of 2017. (03 marks)
 - (b) **State** the statutory time bar for issuing an assessment for **Neela** by the Assistant Commissioner. (03 marks)
 - (c) **List** four(04) conditions required to be satisfied by **Neela** to make a valid appeal against the assessment. (04 marks)
- (Total 10 marks)

Question 06

Win Traders is a partnership and it carries out a wholesale and retail business. **Raman** and **Chandra** are the partners of **Win Traders** sharing profits / losses at the ratio of 1:2 respectively.

The Income Statement of the partnership for the year ended 31st March 2021 is given below:

	Rs.
Gross Profit	54,862,000
Interest income on fixed deposits	650,000
	55,512,000
Less: Distribution Expenses	(12,554,000)
Administration Expenses	(34,580,000)
Net Profit for the partnership	8,378,000

The following expenses have been deducted when calculating the above net profit:

- (1) **Raman** and **Chandra** drew a monthly salary of Rs.200,000/- each.
- (2) Entertainment expenses of Rs.46,000/- were incurred during the year.
- (3) **Raman** has provided a loan to the partnership and interest of Rs.108,000/- has been paid to **Raman**.

- (4) A salary of Rs.150,000/- per year has been paid to **Chandra's** wife for assisting the work of the partnership.
- (5) Donation made to the National Hospital was Rs.100,000/-.

Assume that all other expenses are allowable for the purpose of taxation.

You are required to:

Calculate the Partnership Income tax payable by **Win Traders** for the Year of Assessment 2020/21. (10 marks)

Question 07

Rukee (Pvt) Ltd., a registered company for Value Added Tax (VAT) is engaged in manufacturing of plastic packages. It has both foreign and local customers.

The following information for the quarter ended 31st March 2021 was extracted from the books of the company:

- (1) Details of sales during the quarter ended 31st March 2021 are given below: (exclusive of VAT):

	Rs.
Export sales	24,500,000
Local sales to SVAT registered persons	6,500,000
Local sales to other persons	124,000,000

- (2) The company has paid the following input tax during the quarter:

	Rs.
On import of raw materials	7,825,000
On local purchases of materials	454,000
On repair expense of a motor car used by a Director	13,500

- (3) The excess input VAT brought forward from the previous quarter was Rs.954,600/-.
- (4) All the Simplified VAT (SVAT) Credit Vouchers relevant to the period were collected by the company.
- (5) The company has paid Rs.2,000,000/- as monthly VAT installments during the quarter.
(Consider standard VAT rate as 8%)

You are required to:

Assess the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st March 2021. (10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

Neet Manufacturing (Pvt) Ltd. is a company incorporated under the Companies Act No.07 of 2007 and it is engaged in the manufacturing of consumer goods for the domestic market.

The following information has been extracted from the financial statements of **Neet Manufacturing (Pvt) Ltd.** for the year ended 31st March 2021:

- (1) The net profit before tax for the year ended 31st March 2021 after charging all expenses and crediting all income was Rs.64,250,000/-. Total turnover of the company was Rs.954,600,000/- for the year ended 31st March 2021.
- (2) Break-up of other income:

	Rs.
Dividend income (Gross)	1,500,000
Interest Income on fixed deposits (Gross)	2,254,000
Profit on disposal of lorry	122,000
	3,876,000

- (3) Details of property, plant and equipment as at 31st March 2021 are as follows:

Asset	Year of Purchase	Cost (Rs.)
Land	2014/15	24,000,000
Buildings	2015/16	46,000,000
Machinery	2016/17	12,450,000
Motor Lorries	2018/19	8,650,000
Motor Lorry	2020/21	4,320,000
Office Equipment	2019/20	1,656,000
Computers	2019/20	450,000
Computer software	2020/21	840,000
		98,366,000

- A lorry which was purchased in the year of assessment 2016/17 at a cost of Rs.3,250,000/- has been disposed in June 2020 for Rs.1,200,000/-. A new lorry was purchased during the year using the proceed received from the sale of lorry.
- The company has purchased a new software for the inventory management and the cost is amortized within a period of 6 years.

(4) Administration expenses include the following:

- Depreciation charge for the year was Rs.16,457,000/-.
- The company has donated Rs.1,000,000/- to the Ministry of Disaster Management to provide facilities for flood victims. Further Rs.500,000/- was donated to the National Kidney Fund.
- Gratuity provision for the year was Rs.4,214,000/-.
- Economic Service Charge written off was Rs.1,485,000/-.

(5) Distribution expenses include the following:

- The provision made for specific debtors was Rs.3,250,000/- and the general provision which is equal to 2% of debtors was Rs.1,300,000/-.
- Rs.1,500,000/- was paid to a research institution in Sri Lanka, in respect of an industrial research conducted on improving the quality of the company's products.

(6) The following information is also provided:

- Gratuity paid during the year was Rs.568,000/-.
- The company has paid Rs.5,000,000/- as quarterly installments of income tax for the year of assessment 2020/21.

You are required to:

Assess the following of **Neet Manufacturing (Pvt) Ltd.** for the year of assessment 2020/21:

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

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

(25 marks)

Question 09

Surangi, a resident individual is a Chartered Accountant by profession. She works as the Chief Financial Officer of a company in Sri Lanka.

The following information is available regarding her income for the year of assessment 2020/21 (*hereinafter referred to as the 'year'*):

(1) Income from Employment:

- Gross salary - Rs.300,000/- per month.
- Travelling allowance - Rs.50,000/- per month.
- Bonus paid in December 2020 - Rs.300,000/-.

- During the year, she had to undergo a surgery and the company has reimbursed Rs.240,000/- under a medical scheme which is available for all employees of the company.
 - The company bears her mobile phone bills and has reimbursed Rs.24,000/- during the year.
 - During the year, she participated for a conference in India and cost of the air ticket & accommodation cost of Rs.500,000/- were reimbursed by the company.
 - Tax deducted for the year as Advance Personal Income Tax (APIT) was Rs.90,720/-.
- (2) **Surangi** lives in her husband's house from 15th January 2019. She has a newly constructed house in Kandy and it was rented out to a company to use as a holiday bungalow for a monthly rent of Rs.100,000/-. Annual value of this house is Rs.1,000,000/- and rates were paid at 30% by the tenant.
- (3) **Surangi** has a fixed deposit of Rs.1,000,000/- in a state bank and has received an interest of Rs.72,000/- during the year. The bank has not deducted Withholding Tax (WHT) on interest.
- (4) **Surangi** has invested in shares of listed companies and she has incurred Rs.900,000/- during the year to purchase those listed shares. Details of dividend received during the year were as follows:
- Dividend paid out of dividend received - Rs.35,000/-
 - Dividend paid out of profits earned - Rs.145,000/-
- (5) **Surangi** is following an MBA degree in a local University and she has paid Rs.250,000/- during the year.
- (6) She has donated goods worth of Rs.50,000/- to flood victims. Further, she has donated medical equipment worth of Rs.100,000/- to the COVID-19 ward at Base Hospital, Horana.
- (7) **Surangi** has paid Rs.10,000/- as quarterly installment payments of income tax for the year of assessment 2020/21.

You are required to:

Assess the following for **Surangi** for the year of assessment 2020/21:

- (a) Taxable Income.
- (b) Gross Income Tax Payable.
- (c) Balance Income Tax Payable.
- (d) Exempt Income, if any.

(N.B: If any income is not taxable, it should be clearly stated.)

(25 marks)

End of Section C

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.