

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JULY 2023

(304) CORPORATE & PERSONAL TAXATION

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

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

20-08-2023
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

Jason, a citizen of Australia was appointed as an officer in Australian High Commission in Sri Lanka with effect from 01st May 2022 for a period of three years. He was provided an apartment in Colombo and his salary will continue to be credited to his bank account in Australia.

After assuming duties, he has stayed in Sri Lanka throughout the year of assessment 2022/23.

You are required to:

Explain the residence status of **Jason** for taxation purpose in Sri Lanka for the year of assessment 2022/23 as per the provisions of the Inland Revenue Act No. 24 of 2017. (05 marks)

Question 02

Ranasinghe plans to migrate Australia with his family and the following capital sale transactions were taken place during the year of assessment 2022/23:

Type of Asset	Purchase Cost / Value as at 30 th September 2017 (Rs.)	Broker's fees (Rs.)	Consideration Received (Rs.)
Permanent Residence with furniture	98,500,000	5,000,000	110,000,000
Marshy Land - Minuwangoda	8,000,000	500,000	9,200,000

You are required to:

- (a) **Calculate** the Capital Gain Tax (CGT) payable by **Ranasinghe** on the above transactions. (04 marks)
- (b) **State** the due date of filing the CGT return by **Ranasinghe**. (01 mark)

(Total 05 marks)

Question 03

Siripala and **Gunapala** are carrying on a partnership business called **Gunasiri Bakers** sharing profits and losses equally. **Siripala** has two sons and he entered into a new partnership agreement with them, to share his profit share of **Gunasiri Bakers**.

The only revenue of the new partnership is the half share of the profits received by **Siripala** from **Gunasiri Bakers**.

The Assistant Commissioner has challenged the agreement between **Siripala** and his sons stating that there is no valid partnership among them.

You are required to:

Explain whether there is a valid partnership between **Siripala** and his sons for the tax purposes by referring to *A.A. Davordboy Vs CGIR* and the provisions of the Inland Revenue Act No. 24 of 2017. (05 marks)

Question 04

VFC (Pvt) Ltd. is engaged in importing and selling shoes to local market and registered for Value Added Tax (VAT) and Social Security Contribution Levy (SSCL). Newly recruited Accountant approached you to have a basic advice on the following areas:

Being the Tax Consultant;

You are required to:

(a) **State** three(03) items to be included in a valid Tax Invoice as per the VAT Act. (03 marks)

(b) **State** the applicable tax rate of SSCL on its turnover of shoes. (02 marks)
(Total 05 marks)

_____ *End of Section A* _____

SECTION B

(Total 30 marks)

Question 05

Super (Pvt) Ltd. is a registered person for Value Added Tax (VAT), engaged in providing security services. Further, it sells imported safety equipment in the local market. The following information for the quarter ended 31st March 2023 was extracted from the books of accounts of the company:

(1) Details of sales during the quarter ended 31st March 2023 are given below (exclusive of VAT):

	Rs.
Sale of safety equipment in the local market	8,540,000
Services provided to local clients	14,580,000
Sale of old office furniture	74,000

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

	Rs.
On import of safety equipment	1,465,000
On local purchases	1,234,000
On repairs of motor cycles used by officers to visit clients' places	22,500

(3) The excess input VAT brought forward from the previous quarter amounts to Rs.454,000/-.

(4) The company has paid Rs.200,000/- as monthly VAT installments.

(Consider the 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 2023. (10 marks)

Question 06

Ran Sihina (Pvt) Ltd. was incorporated on 01st May 2021, under the Companies Act No.07 of 2007 and commenced its business operations on the same day. It is engaged in the business of manufacturing jewellery. Though the company has registered with Department of Inland Revenue, it has not submitted the Return of Income for the year of assessment 2021/22 yet. Further, no payment of income tax was made during the year of assessment.

The Assistant Commissioner has issued a default assessment based on his judgment. The company wishes to appoint you as the authorized representative to negotiate with the Department of Inland Revenue in the future.

You are required to:

- (a) **State** four(04) persons that can be appointed as an authorized representative by the company as per section 195 of Inland Revenue Act No. 24 of 2017. (04 marks)
- (b) **State** the applicable penalties for failure to furnish a return of income as per the provisions of the Inland Revenue Act No. 24 of 2017. (03 marks)
- (c) **Explain** the difference between a “Self-Assessment” and a “Default Assessment”. (03 marks)
- (Total 10 marks)

Question 07

Sherani Flora which is a partnership carried out by two friends namely **Sherani** and **Irani** and maintains a flower farm in Nuwaraeliya. They have agreed to share profits / losses in the ratio of 2:1 respectively.

The summarized Income Statement for the year ended 31st March 2023 is as follows:

	Rs.
Gross Profit	6,750,000
Interest Income on Fixed Deposits (Gross)	2,100,000
	8,850,000
Less: Administration & Distributing Expenses	(3,250,000)
Net Profit of the Partnership	5,600,000

The following expenses have been deducted when arriving at the above profit:

- (1) Both partners drew Rs.135,000/- each as monthly salary.
- (2) Flower plants are grown on a land belongs to **Sherani** for which a ground rent of Rs.80,000/- is paid in each month.
- (3) An amount of Rs.300,000/- has been donated during the year of assessment to an approved charity established for the provision of institutionalized care for elderly persons.
- (4) **Irani's** husband works as the manager of partnership and an amount of Rs.600,000/- was paid as his salary during the year.
- (5) During the year, high tech agricultural machinery was purchased at a cost of Rs.3,600,000/- and Rs.360,000/- has been recorded as depreciation under the administration expenses.

You are required to:

Assess the Income Tax payable of the Partnership for the year of assessment 2022/23.

(10 marks)

_____ *End of Section B* _____

SECTION C

(Total 50 marks)

Question 08

Modern Tech (Pvt) Ltd. which is a subsidiary of **High Tech PLC** is engaged in importing and selling musical instrument in the local market.

The following information was extracted from the financial statements of **Modern Tech (Pvt) Ltd.** for the year ended 31st March 2023 (*You may consider that the income tax amendments introduced during the year of assessment 2022/23 are applicable for the whole year of assessment irrespective of the time period*) :

- (1) The net profit before tax for the year ended 31st March 2023 after charging all expenses and crediting all income was Rs.86,850,000/-. Total turnover of the company was Rs.785,000,000/-.
- (2) Break-up of other income:

	Rs.
Rent Income (Gross)	6,000,000
Interest income on Fixed Deposit (Gross)	10,700,000
Dividend Income – Net of WHT	2,850,000
Profit on Disposal of Computer Equipment	1,200,000

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

Assets (Cost)	Balance as at 01.04.2022 (Rs.)	Additions / Acquisitions (Rs.)	Disposals (Rs.)	Balance as at 31.03.2023 (Rs.)
Land	8,250,000	-	-	8,250,000
Office Building	7,900,000	-	-	7,900,000
Motor vehicles	-	6,500,000	-	6,500,000
Computer Equipment	14,200,000	-	4,850,000	9,350,000
Total	30,350,000	6,500,000	4,850,000	32,000,000

- The company had disposed of its old computers for Rs.1,200,000/-.
- A delivery van was purchased during the year.
- Unless mentioned specifically, all the assets have been purchased in May 2017 when it commenced its business operation.

(4) Administration expenses include the following:

- Depreciation charge for the year is Rs.5,650,000/-.
- Gratuity provision for the year is Rs.3,432,000/-.
- Legal expenses of Rs.90,000/- incurred for signing of the rent agreement relating to rented out property.
- During the year of assessment, selected employees were sent to a recognized university for IT training by incurring a cost of Rs.1,000,000/-.

(5) Distribution expenses include the following:

- An amount of Rs.452,000/- was spent to entertain the company's prospective buyers.
- After taking many recovery actions, the company has written-off a trade debt of Rs.325,000/- during the year. No provision was made in previous year for this. Further, a general provision for doubtful debt made to the income statement was Rs.620,000/-.
- The company has donated Rs.1,800,000/- worth of IT equipment to the Pradeshiya Sabha.

(6) Finance expenses include the interest of Rs.550,000/- paid to holding company for the working capital loan obtained.

(7) An amount of Rs.560,000/- has been paid as gratuity to a resigned employee during the year.

(8) Interest income on the fixed deposit was received in February 2023 and an amount of Rs.535,000/- was deducted by bank on fixed deposits interest income as Withholding Tax (WHT) / Advance Income Tax (AIT).

(9) Taxes paid on self-assessment basis for the year of assessment 2022/23 was Rs.13,125,000/-.

(10) All other expenses of the business are allowed for income tax purposes.

You are required to:

Assess the following of **Modern Tech (Pvt) Ltd.** for the year of assessment 2022/23:

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

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

(25 marks)

Question 09

Ananda, a resident individual is an Attorney-at-Law and he works as a Legal Officer in a commercial bank in Sri Lanka.

The following information relating to **Ananda** is provided in respect of the year of assessment 2022/23 (*hereinafter referred to as the 'year'*):

(You may consider that income tax amendments introduced during the year of assessment 2022/23 are applicable for the whole year, irrespective of the time period.)

(1) Income from Employment:

- Gross salary - Rs.300,000/- per month.
- A bonus equal to half a month salary was paid in December 2022.
- Fuel allowance - Rs.60,000/- per month.
- During the year, he had to undergo a heart surgery and entire hospital bill of Rs.500,000/- was borne by the company in November 2022. Medical benefits are available to all full-time employees of the company, on equal terms.
- The company has provided a vehicle (1500 CC) with a driver.
- Advance Personal Income Tax (APIT) deducted for the year was Rs.856,800/-.

(2) He carries on a notary office and its receipts and payments details for the year are as follows:

	Rs.	Rs.
Revenue from Clients		4,370,000
Less: Payments		
Salary to the Assistant	600,000	
Entertainment of Clients	200,000	
Office Expenses	660,000	
Purchase of a Photo Copier	330,000	(1,790,000)
Net Profit		2,580,000

(3) During the year, **Ananda** has received the following interest income:

Description	Date Received	Amount (Rs.)
On Treasury Bill	01.11.2022	900,000
On Loan given to a Friend	01.02.2023	50,000

(4) **Ananda** has invested in shares of some quoted companies and he has earned a gain of Rs.740,000/- by share trading in December 2022.

(5) Dividend income received in January 2023 from quoted public companies (paid out of dividend received) was Rs.450,000/-.

(6) In December 2022, he has donated Rs.250,000/- to the Apeksha Hospital, Maharagama and also he has donated Rs.50,000/- in February 2023 to a charitable institution which maintains a children's home.

(7) He has sponsored Rs.50,000/- in December 2022 for the annual get together of Old Boys Association of his school.

(8) He has paid Rs.600,000/- as installment payments for the year of assessment 2022/23.

You are required to:

Assess the following for **Ananda** for the year of assessment 2022/23:

- (a) Taxable Income.
- (b) Gross Income Tax Payable.
- (c) Balance Income Tax Payable / (overpaid), and,
- (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.