



Association of Accounting Technicians of Sri Lanka

AA3 Examination - January 2020

**Suggested Answers
Subject No : AA35**

**CORPORATE AND PERSONAL TAXATION
(CPT)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EDUCATION AND TRAINING DIVISION

**AA3 Examination - January 2020
(AA35) Corporate and Personal Taxation**

SUGGESTED ANSWERS

SECTION – A

Four (04) compulsory Questions

(Total 20 marks)

Suggested Answers to Question One:

(a)

Chapter 06 - Concepts and Applications

Final withholding payments are the payments on which the deduction of relevant final withholding tax is required. Accordingly, once the relevant tax is deducted and paid to the Commissioner General of Inland Revenue, such payment shall not be liable for further tax. (Sec.88).

(03 marks)

- (b)
- Dividend paid by a resident company to a resident person.
 - Payment of interest to a resident individual (Other than interest paid to a senior citizen up to the relief threshold given.(i.e up to Rs.1.5Mn)
 - Interest paid to a charitable institution
 - Amount paid as winnings from a lottery, reward, betting or gambling, other than amounts received in conducting a business consisting of betting and gaming ,
 - Payments made to non-resident persons that are subject to withholding (other than payments derived through a Sri Lankan permanent establishment)

(02 marks)

(Total 05 marks)

Suggested Answers to Question Two:

Chapter 06 - Concepts and Applications

- Deduct income tax from the gross remuneration of the employees, who are liable to pay income tax according to tables provided by the Commissioner General of Inland Revenue.

-
- Keep proper records of payment of such remuneration in such pay sheet according or PAYE pay sheet.
 - Retain all such records for a period of not less than five years after the end of the year of assessment to which such records relate.
 - Remit tax deducted from employees remuneration to the CGIR on or before 15th of following month.
 - Furnish annual statement on or before 30th April of every year.
 - Issue a tax deduction (T10) to employees on or before 30th April of the immediate succeeding Y/A or within 30 days from the cessation of employment if the employee has ceased his employment.

(05 marks)

Suggested Answers to Question Three:

| |
|---|
| Chapter 06 - Concepts and Applications |
|---|

As per the information given, Samarasinghe received Rs.1 Million special payment for recognition of his long service.

According to the case law of Crib vs. CIT, the appellant being an estate superintendent had to undergo medical treatment and in recognition of his exceptional services the employer (company) has offered a special payment mentioned as bonus. The CIT has assessed this amount as a part of the appellant's income whereas the appellant has contended it as a personal gift which is not taxable employment income.

The court held;

- (i) That the payment was a personal gift which could not be regarded as profits from employment within the meaning of the tax law.
- (ii) That the long service rendered by the appellant to the company was the motive, but not the consideration, for the payment.

The mere fact that payment is made to an employee as a result of or in connection with his employment is not enough to render the payment liable to tax. Thus a special bonus paid to the employee in view of his exceptional service to the company and in consideration of the fact that he had to undergo medical treatment was held to be not a profit from employment.

However, as per section 5 of Inland Revenue Act No 24 of 2017,

Bonuses or similar payments and the other payments, including gifts received in respect of the employment are included in the employment income.

Further, it includes a past, present or prospective employment.

Therefore this payment will be taxable.

(05 marks)

Suggested Answers to Question Four:

Chapter 01 - Introduction to Taxation

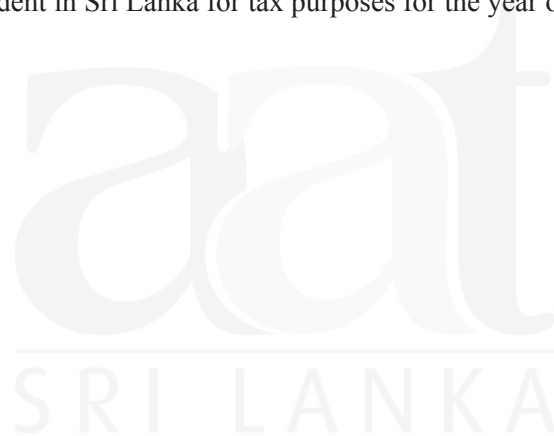
An individual shall be a resident in Sri Lanka for a year of assessment if the individual is present in Sri Lanka during the year and that presence falls within a period or periods amounting in aggregate to one hundred and eighty three days or more in any twelve month period that commences or ends during the year.

As per the information given, Mr. Robbin has stayed 230 days as follows;

| From | To | Days stayed in Sri Lanka |
|----------------|----------------|---------------------------------|
| 15th July 2018 | 2nd March 2019 | 230 |

Accordingly, during the year of assessment 2018/19, he has physically spent more than 183 days in Sri Lanka & he becomes a resident in Sri Lanka for tax purposes for the year of assessment 2018/19.

(05 marks)



End of Section A

Three (03) compulsory questions
(Total 30 marks)

Suggested Answers to Question Five:

Chapter 04 - Taxation of Miscellaneous Undertakings

(a)

Computation of the partnership income/loss for the Y/A 2018/19

| | = | Rs. |
|--|---|----------------------------|
| Profit Before Tax | | 9,638,000 |
| Add/Less | | |
| Partners' Salary - Disallowed (1,320,000 + 1,560,000) | | = 2,880,000 |
| Depreciation on assets - Disallowed | | = 80,000 |
| Less: | | |
| Capital Allowance on assets | | = (90,000) |
| Partnership income for tax purpose | | = <u>12,508,000</u> |
| | | <i>(03 marks)</i> |

(b)

| | | |
|------------------------------|---|--------------------|
| 8% WHT on partnership income | = | 12,508,000 *8% |
| | | = <u>1,000,640</u> |
| | | <i>(02 marks)</i> |

(c.)

Withholding Tax Payable by the Partnership

Allocation of Share of Partnership Profit

| | Dayarathna | Dilum | Total |
|-------------------------|------------------|------------------|-------------------|
| Salary paid to Partners | 1,320,000 | 1,560,000 | 2,880,000 |
| Balance Profit | 6,418,667 | 3,209,333 | 9,628,000 |
| Share of Profit | 7,738,667 | 4,769,333 | 12,508,000 |

(03 marks)

(d)

Tax credit available to partners :

Dayaranthna = Rs.7,738,667 x 8% = **Rs. 619,093**

Dilum = Rs. 4,769,333 x 8% = **Rs. 381,546**

(02 marks)

(Total 10 marks)

Suggested Answers to Question Six:

(a)

Chapter 07 - Business Taxes

| Output Tax | | | | |
|--|------------------|--|-----------|-----------------------|
| Taxable Supplies | 7,425,000 | 15% | 1,113,750 | |
| Exempt Supplies | 1,856,250 | Exempt | - | |
| | 9,281,250 | | | 1,113,750 |
| Input Tax | | | | |
| On printing of tutorials for classes | 143,000 | Not allowed due to input is directly relevant to exempt supply | | |
| Local Purchases-common input | | | (264,000) | |
| Input attributable to exempt supplies | | | *52,800 | (211,200) |
| On insurance of cars used for travelling | Not allowed | | - | - |
| Unabsorbed input tax Brought Forward | | | (57,600) | (57,600) |
| Limited to 100% of Output Tax | | | | (268,800) |
| Tax Payable | | | | 844,950 |
| Less: Installments made | | | | (400,000) |
| Balance Payable | | | | <u>444,950</u> |

* $264,000 * (1,865,250 / 9,281,250) = \underline{52,800}$

(08 marks)

(b) 30th April 2019

(02 marks)

(Total 10 marks)

Suggested Answers to Question Seven:

| |
|--|
| Chapter 05 - Obligations and procedures |
|--|

- a) On or before November 30th 2019 **(02 marks)**
- b) **Penalties that could be imposed on failure to submit the return of income**
A penalty equal to the greater of
5% of the tax owing,
plus a further 1% of the tax owing for each month or part of the month during which the failure to file continues,
and Rs.50, 000 plus
a further Rs.10, 000 for each month or part of a month during which the failure to file continues.
However, the penalties cannot exceed Rs.400, 000. (Maximum Penalty is limited to Rs.400,000)
(04 marks)
- c) After 30 months from filing the return
i.e after 31st May 2022 **(02 marks)**
- d) Where a tax payer has failed to file a tax return but the Assistant Commissioner having to his or her judgment to the liability may make a default assessment for amount payable by the tax payer for the period.
(02 marks)
(Total 10 marks)

End of Section B

Two (02) compulsory questions.
(Total 50 marks)

Suggested Answers to Question Eight:

Chapter 03 - Taxation of Individuals and Companies (Resident)

**Smart Look (Pvt) Ltd
Income Tax Computation for year of assessment 2018/19**

| | | <i>Rs'000</i> |
|--|-------------|-------------------|
| Business Income (Note 1 below) | | 29,930,000 |
| Investment Income | | |
| Interest Income from Fixed deposit | | 800,000 |
| Interest income from loan given to parent company | | 200,000 |
| Investment income –Net Dividend - (WHT deducted is a final tax) -Exempt | - | - |
| Total Assessable Income | | 30,930,000 |
| Less: Qualifying payments and Relief | | |
| Donation made to approved charity-Goods donation is not a QP | - | - |
| Taxable income | | 30,930,000 |
| Tax liability @ 28%-SME Rate can't apply as group of companies | | 8,660,400 |
| Less : Tax Credits | | |
| ESC payments | (1,840,750) | |
| Self- Assessment Payments | (3,400,000) | |
| WHT credit on fixed deposit interest (800,000*5%) | (40,000) | (5,280,750) |
| Balance Tax Payable | | 3,379,650 |

Note 01 : Computation of Assessable Income from Trade/Business

(Rs. '000)

| | | | | + | - |
|---|-------------------------|-------------|---------------|-------------------|------------------|
| Net Profit (Loss) Before Tax | | | | 34,520,000 | |
| Less: Investment Income: | | | | | |
| Interest income from Fixed Deposits - Investment Income- Tax Separately | | | | | 800,000 |
| Interest income from loan given to parent company | | | | | 200,000 |
| Dividend income (Net)-Final WHT Payment | | | | | 500,000 |
| Accounting profit from disposal of Machinery-Cancelled | | | | | 600,000 |
| Add/Less: | | | | | |
| Accounting Depreciation Disallowed | | | | 3,500,000 | |
| Gratuity Provision | | | | 2,900,000 | |
| Gratuity Paid | | | | | 1,000,000 |
| Donation | | | | 850,000 | |
| Income Tax Paid for Y/A 2017/18 | | | | 340,000 | |
| Advertisement -Purchase Land-Capital nature- not allowed | | | | 90,000 | |
| Advertisement –Tender Quotations- allowed | | | | - | - |
| Entertainment expenses –Annual Get together -Disallowed | | | | 350,000 | |
| Foreign Travelling –Allowed-No adjustment | | | | - | - |
| Assessable Charge on Machinery Disposal | | | | | |
| Profit/loss = 600,000-[900,000-(900,000*33.33%*1 year)] | | | | | |
| = 600,000- 600,030 | | | | | |
| = -30 | | | | | 30 |
| Capital Allowances | Year of Acquired | Cost | | | |
| Land-Not entitled | - | | | | |
| Machinery | 16/17 | 2,200,000 | Fully claimed | | |
| Machinery | 18/19 | 5,200,000 | 5 years (20%) | | 1,040,000 |
| Buildings | 16/17 | 15,000,000 | 10% | | 1,500,000 |
| Motor Vehicles Lorry | 16/17 | 3,400,000 | 20% | | 680,000 |
| | | | | 42,550,000 | 6,320,030 |
| Assessable Income From Trade or Business | | | | 36,229,970 | |
| Less :B/F loss can be claimed fully | | | | (6,300,000) | |
| Assessable Income From Trade or Business after deducting loss | | | | 29,929,970 | |

(25 marks)

Suggested Answers to Question Nine:

Chapter 03 - Taxation of Individuals and Companies (Resident)

**Mr. Suresh
Income Tax Computation
For the Year of Assessment 2018/19**

| | | Schedule No | Rs. | Rs. |
|--|------------------|-------------|-------------------------|-------------------------|
| Employment income | | 1 | | 4,140,000 |
| Business income | | 2 | | 450,000 |
| Dividend Income | - | | | |
| Dividends-received from listed companies, which have been subject to WHT | Final Tax | | | |
| Profit from sale of listed shares | Exempted | | | |
| Interest Income | - | | | |
| on RFC Account-(WHT deducted, Final Tax) | | | | |
| Rent Income | - | 3 | | <u>284,375</u> |
| | | | | 4,874,375 |
| Less: Qualifying Payments and reliefs | | | | |
| Personal Allowance | | | (500,000) | |
| Allowance for employment | | | (700,000) | |
| Foreign currency income* | | | (450,000) | |
| 25% of Gross Rent | | | (300,000) | |
| Donation to university | Claimable Amount | | <u>(800,000)</u> | <u>(2,750,000)</u> |
| Taxable income | | | | <u>2,124,375</u> |
| Tax Liability | | | | |
| 600,000 | 4% | | 24,000 | |
| 600,000 | 8% | | 48,000 | |
| 600,000 | 12% | | 72,000 | |
| 324,375 | 16% | | <u>51,900</u> | 195,900 |
| Less: Tax Credits | | | | |
| WHT on rent @10% | | | (120,000) | |
| WHT on secondary employment | | | (84,000) | |
| PAYE | | | <u>(164,000)</u> | <u>(368,000)</u> |
| Balance Payable/(Overpaid) | | | | <u>(172,100)</u> |

Schedule 01 - Employment Income

| Description | | Value/Rs. |
|---------------------------------------|----------------------|------------------|
| Gross salary per annum | (220,000*12) | 2,640,000 |
| Non cash benefit for traveling | (40,000*12) | |
| Vehicle | (20,000*12) -240,000 | |
| Fuel | (20,000*12) -240,000 | 480,000 |
| Reimbursed hospital bill | | 230,000 |
| Leave encashment paid during the year | | 70,000 |
| Director salary | | 720,000 |
| Total Employment Income | | 4,140,000 |

Schedule 02 - Business Income

| Description | Value/Rs. |
|------------------------------|----------------|
| Consultancy service | 450,000 |
| Total Business Income | 450,000 |

Schedule 03 - Rent Income

| Description | Value/Rs. |
|-------------------------------|----------------|
| Rent (1,200,000 - 62,500)*25% | 284,375 |
| Rent Income | 284,375 |

(25 marks)

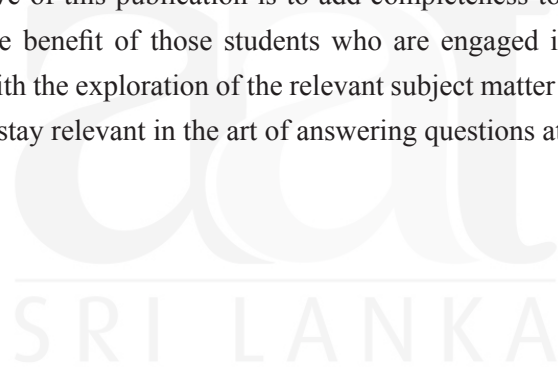
End of Section C

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