



**Association of Accounting Technicians of Sri Lanka**

**July 2020 Examination - Level III**

**Suggested Answers (304)**

**(304) CORPORATE & PERSONAL TAXATION**

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Level III Examination - July 2020

(304) CORPORATE & PERSONAL TAXATION

SUGGESTED ANSWERS

(Total 20 Marks)

SECTION - A

*Suggested Answers to Question One:*

Chapter 01 – Introduction to Taxation of Sri Lanka

Date of Arrival	Date of Departure	Days present in Sri Lanka
01.05.2018	15.08.2018	107
15.11.2018	20.01.2019	66
05.03.2019	31.03.2019	<u>26</u>
<b>Total</b>		<b><u>199</u></b>

As per the above information during the Year of Assessment 2018/19 he has physically present 199 days in Sri Lanka & hence he is a resident in Sri Lanka for tax purposes for that year of assessment. (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 183 days or more in any twelve month period that commences or ends during the year) (05 marks)

*Suggested Answers to Question Two:*

Chapter 07 - Other Business Taxes

a)

1. The name, address and the registration number of the supplier
2. The name and address of the person to whom the supply was made
3. The date on which the tax invoice was issued and its serial number
4. The date of supply and the description of the goods or services
5. The quantity or volume of the supply
6. The value of the supply, the tax charged and the consideration for the supply
7. The words "TAX INVOICE" at a conspicuous place in such invoice.

(03 marks)

b) 30<sup>th</sup> April 2019

(02 marks)

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***Suggested Answers to Question Three:***

***Chapter 06-Withholding Tax (WHT) and Capital Gain Tax and Case Laws Relating to Taxation***

In the case of Rajapakse Vs CIT (1 CTC 27) an advocate who was operating from his chamber at home was allowed travelling expenses between his residence cum chamber (“place of the business”) and the courts as an allowable expense for taxation, by the Supreme Courts. It is concluded as the travelling from one place of business to another place of business and not from or to the residence.

Accordingly Zoysa can claim (allowed) cost of travelling between his residence and these two departments such as Inland revenue Department and Registrar of Companies as allowable expenses and it can be deducted from Soysa’s business income. Here, place of residence should be considered as Place of business. **(05 marks)**

***Suggested Answers to Question Four:***

***Chapter 3- Taxation of Individuals & Companies (Resident)***

- 1) Withholding Tax (WHT) deducted on dividend income was Rs.32,760/ considered as final withholding payment.
- 2) Withholding Tax (WHT) deducted on Interest Income was Rs.16,250/ considered as final withholding payment.
- 3) Withholding Tax (WHT) deducted on Lottery Prize was Rs.85,000/ considered as final withholding payment.
- 4) Withholding Tax (WHT) deducted on Consultancy fee was Rs. 6,500/ not considered as final withholding payment.
- 5) Withholding Tax (WHT) deducted on Rent income not considered as final withholding payment.

**(05 marks)**

***End of Section A***

**Suggested Answers to Question Five:**

**Chapter 05 Chapter Name- obligations & procedures**

- a) 2<sup>nd</sup> Quarter - 15<sup>th</sup> November 2018  
 3<sup>rd</sup> Quarter - 15<sup>th</sup> February 2019 (04 marks)

- b) 

Estimated tax Payable for the Y/A	-	(Installation payments WHT upto date)	
Remaining No. of installment for the Y/A			
Estimated Tax Liability for the year		900,000/	
Estimated Tax Liability for the 2 <sup>nd</sup> Quarter		{900,000-(300,000+0)}/3	
		= <u>Rs.200,000/-</u>	(03 marks)

- c) 

a.	- Court proceedings	
b.	- Execution against tax payer’s property.	
c.	- Sale of seized property	
d.	- offset against payments	
e.	- Recovery from third party debtors	

(03 marks)

**Suggested Answers to Question Six:**

**Chapter 04 - Taxation of Miscellaneous Undertakings**

- a. **Computation of the partnership income/loss for the Y/A 2018/19**
- |  |   | Rs               |
|--|---|------------------|
| Net profit of the partnership                              | = | 3,230,000        |
| <b>Add:</b>  |   |                  |
| Salaries paid to partners (1,080,000+960,000) – Disallowed | = | 2,040,000        |
| Depreciation on assets-Disallowed                          | = | 240,000          |
| <b>Less:</b>   |   |                  |
| Capital Allowance on fixed assets                          | = | (360,000)        |
| Partnership income for tax purpose                         | = | <b>5,150,000</b> |
- (03 marks)
- b. **Withholding tax Payable by the partnership**
- |                              |   |                |
|------------------------------|---|----------------|
| 8% WHT on partnership income |   | = 5,150,000*8% |
|                              | = | <u>412,000</u> |
- (02 marks)

c. Allocation of share of partnership profit

	Namal	Kamal	Total
Salary paid to partners	1,080,000	960,000	2,040,000
Balance Profit	1,555,000	1,555,000	3,110,000
Share of Profit	2,635,000	2,515,000	5,150,000

(03 marks)

d. Withholding tax credit available to each partner

Namal = 2,635,000 \* 8% = Rs. 210,800/-

Kamal = 2,515,000 \* 8% = Rs. 201,200/-

(02 marks)

(Total 10 marks)

**Suggested Answers to Question Seven:**

**Chapter 07 – Other Business Taxes**

<b>Output Tax</b>					
Exports	6,120,000	Zero rated			0
Local Sales	4,425,000	15%			663,750
Sale of machine	46,000	15%			<u>6,900</u>
	<b>10,591,000</b>				<b>670,650</b>
<b>Input Tax</b>					
On import of packing materials	116,000	Allowed input relevant to Zero rated supply	116,000	-	
On office expenses	38,000		38,000		
On repairs to a machine used in production	4,800		4,800		
On repairs to the motor car	3,000	Not allowed due to personal use	-		
Allowable input tax			158,800		
Unabsorbed input VAT B/F	26,000		<u>26,000</u>		
			184,800		
Input tax attributable to zero rated supplies			157,785		
Balance input claim, limited to 100% of output Tax			27,015		
Total Input VAT					<u>(184,800)</u>
VAT payable					485,850
Less					(250,000)
Installment payment					
<b>Balance Payable</b>					<b>235,850</b>

(10 marks)

**End of Section B**

## Suggested Answers to Question Eight:

### Chapter 03-Taxation of Individuals and Companies(Resident)

Hash Trading (Pvt.) Ltd  
Income Tax Computation for year of assessment 2018/19

		Rs.
Business Income (Note 1)		64,088,150
Investment income (Note 2)		600,000
<b>Total Assessable Income</b>		<b>64,688,150</b>
<b>Less : Qualifying payments &amp; Reliefs</b>		
Donation to an approved charity Limited to Rs.500,000 or 1/5 of TI	1,000,000	(500,000)
<b>Taxable income</b>		<b>64,188,150</b>
Tax liability @ 28%		17,972,682
<b>Less : Tax Credits</b>		
ESC payments ( 876,500 + 2,631,000)		(3,507,500)
Payments as quarterly installments		(5,000,000)
WHT on rent		(60,000)
<b>Balance Tax Payable</b>		<b>9,405,182</b>

#### Note 1 - Computation of Business Income

				+	-
				Rs.	Rs.
Profit before Tax				64,240,000	
Investment Income - Rent income					600,000
Accounting profit from disposal of Furniture					80,000
<b>Assessable Charge on disposal of furniture</b>					
Sales Proceed	=	142,500			
TWDV {235-(235*20%*2)}	=	(141,000)		1,500	
Accounting depreciation				4,546,000	
<b>Capital Allowances</b>	<b>Year of Acquired</b>	<b>Cost</b>			
Buildings	15/16	8,000,000	10%		800,000
Lorries	16/17	4,324,000	20%		864,800
Motor Vehicles – not entitled	17/18	2,680,000			
Office Equipment	18/19	1,235,000	20%		47,000
Computers	17/18	2,875,000	25%		18,750
Furniture	16/17	1,624,000	20%		324,800
Computer software	18/19	1,000,000	25%		250,000
Donation				1,000,000	
Foreign Travel - Allowed				-	
Legal expenses(Capital nature expense)				52,000	
Provision for Gratuity				1,432,000	

Entertainment				267,000	
Written offs - Allowed				-	
Provision for Bad and doubtful debt				400,000	
Gratuity paid					765,000
Adjusted Profit				<b>60,888,150</b>	
Less :B/F losses 2017/18				(3,200,000)	
Business income				64,088,150	

Note 2 – Computation of Investment Income

Rent Income			600,000	
Less: Expenses				
Legal Fee	Not allowed			600,000
Investment Income				600,000

(25 marks)

**Suggested Answers to Question Nine:**

**Chapter -03 Chapter Name-Taxation of Individuals and Companies (Resident)**

Mr. Ruwan

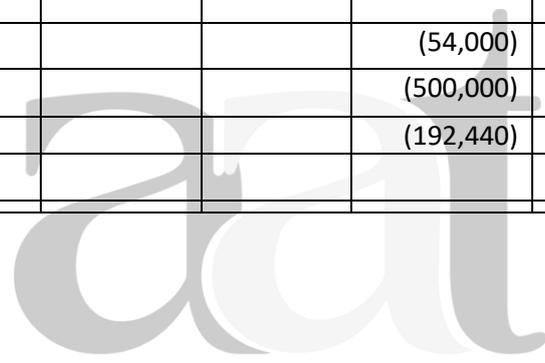
Income Tax Computation

For the Year of Assessment 2018/19

<b>Primary Employment</b>					
<b>Employment Income</b>					
Salary ( 200,000*12)				2,400,000	
Value of transport facility	30,000x12			360,000	
Life insurance				120,000	
Family trip				164,000	
<b>Employment Income</b>					<b>3,044,000</b>
<b>Business Income</b>					
Net Profit				664,000	
Add: Donation				250,000	
Photocopy machine				65,000	
Less : Capital Allowance		260,000	5 years	(52,000)	
<b>Business Income</b>					<b>927,000</b>
<b>Investment income</b>					
<b>Interest income</b>					
On fixed deposit	Final WHT			-	
From Treasury bills				<b>126,000</b>	
<b>Rent income</b>					
Gross rent ( 45x12)				540,000	
Less : Rates				(84,000)	
<b>Realization of Investment Assets</b>					<b>456,000</b>
Consideration			55,000,000		
Less: Cost			(50,000,000)		
Broker fees			(100,000)		
Fence			(825,000)	<b>4,075,000</b>	
<b>Investment Income</b>					<b>4,657,000</b>

<b>Assessable Income</b>					<b>8,628,000</b>
<b>Less: Qualifying payments and reliefs</b>					
Personal allowance				(500,000)	
Allowance for employment				(700,000)	
25% of gross rent (540x25%)				(135,000)	
Donation to government	Claimable amount		250,000	(250,000)	
<b>Taxable Income</b>					<b>7,043,000</b>
Tax Liability					
Treasury Bill interest	126,000	5%	6,300		
Capital gain	4,075,000	10%	407,500		
	600,000	4%	24,000		
	600,000	8%	48,000		
	600,000	12%	72,000		
	600,000	16%	96,000		
	442,000	20%	88,400		
	<b>7,043,000</b>		<b>742,200</b>		
<b>Less : Tax Credits</b>					
WHT on rent @ 10%			(54,000)		
Installment payment			(500,000)		
<b>PAYE</b>			(192,440)		
<b>Balance overpaid</b>					<b>4,240</b>

(25 marks)

  
 SRI LANKA

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