



**Association of Accounting Technicians of Sri Lanka**

**Level III Examination - July 2023**

**Suggested Answers**

**(304) CORPORATE & PERSONAL TAXATION (CPT)**

**Association of Accounting Technicians of Sri Lanka**

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**A publication of the Education and Training Division**

**Level III Examination –June 2023**

**(304) CORPORATE & PERSONAL TAXATION**

**SUGGESTED ANSWERS**

(Total 20 Marks)

**SECTION - A**

*Suggested Answer\|s to Question One:*

*Chapter 01 : Introduction to Taxation of Sri Lanka*

As per the section 69 (1) of the Inland Revenue Act, an individual shall be a resident in Sri Lanka for a year of assessment if the individual:

- (a) resides in Sri Lanka;
- (b) 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;
- (c) is an employee or an official of the Government of Sri Lanka and his spouse is posted abroad during the year; or
- (d) is an individual who is employed on a Sri Lanka ship, within the meaning of the Merchant Shipping Act, during the period the individual is so employed.

As per the given case Mr. 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. And after assuming duties, he has stayed in Sri Lanka throughout the year of assessment 2022/23. Accordingly, as per the Section 69(1) (b) he has presented in Sri Lanka more than 183 days and therefore is a resident in Sri Lanka for tax purpose for the Y/A 2022/2023.

*(05 marks)*

## *Suggested Answers to Question Two:*

### Chapter 02 : Realization of Investment assets

(a)

Mr. Ranasinghe

Computation of Capital Gain Tax

For the Y/A 2022/2023

#### Permanent Residence with furniture - Exempt

As per the third schedule para "g", A gain made by a resident individual on the realization of the individual's principal place of residence, provided it has been owned by the individual continuously for the three years before being realized and lived in by the individual for at least two of those three years.

#### Marshy Land - Minuwangoda

Consideration Received (Market Value)	Rs. 9,200,000
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#### Less: Cost

Value as at 30th September 2017	8,000,000
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Broker's fees	500,000	<u>8,500,000</u>
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Gain on Realization	700,000
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Capital gain tax 700,000 @ 10%	70,000/-
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**(04 marks)**

(b)

As per section 93, Capital gains tax return has to be filed within thirty days after the end of the relevant calendar month in which the realization occurred.

**(01 marks)**

**(Total 05 marks)**

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

### ***Chapter 06 – Case law relating to taxation***

Whether there is a valid partnership between Siripala and his sons for tax purposes depends on whether the following requirements are met:

1. There must be an agreement between the parties to form a partnership.
2. The parties must contribute something to the partnership.
3. The parties must have a common intention to share profits and losses.
4. The business must be carried on for the mutual benefit of the parties.

In the case of Siripala and his sons, there is an agreement between them to form a partnership. Siripala is contributing his half share of the profits from Gunasiri Bakers to the new partnership. The parties have a common intention to share profits and losses, and the business is being carried on for the mutual benefit of the parties.

Therefore, there is a valid partnership between Siripala and his sons for tax purposes. This is supported by the decision in the case of A.A. Davordboy Vs CGIR, where the court held that a partnership can exist even if the only contribution of one of the partners is his or her skill and expertise.

The Inland Revenue Act No. 24 of 2017 also recognizes the validity of partnerships for tax purposes. Section 10(1) of the Act defines a partnership as "the relationship between persons carrying on a business in common with a view of profit". Section 10(2) of the Act provides that a partnership is not a separate legal entity, but is merely an association of persons.

As a result, the profits and losses of a partnership are taxed in the hands of the partners, in accordance with their respective profit-sharing ratios. In the case of Siripala and his sons, the profits and losses of the new partnership will be taxed in the hands of Siripala and his sons, in accordance with their respective shares of the profits.

***(05 marks)***

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

### ***Chapter 07 – Other Business Tax (VAT)***

- (a)** According to Section 20 (2) of the Value Added Tax (VAT) Act No. 14 of 2002, a valid tax invoice should include the followings:
- the name, address and the registration number of the supplier;
  - the name, address and the registration number of the person to whom the supply was made;
  - the date on which the tax invoice was issued and its serial number which does not exceed 40 characters without any space;
  - the date of supply and description of the goods or services;
  - the quantity or volume of the supply;
  - the value of the supply, the tax charged and the consideration for the supply; and
  - the words “TAX INVOICE” at a conspicuous place in such invoice.

***(03 marks)***

- (b)** The VFC (Pvt) Ltd, which is engaged in importing and selling shoes to the local market should apply the SSCL on its turnover as follows.

According To Section 02 (d) of the Social Security Contribution Levy Act, No. 25 OF 2022, where a person Carries on the business of wholesale or retail sale of any article Including import and sale, 50% of the Turnover will be liable for SSCL at the rate of 2.5

***(02 marks)***

***End of Section A***

***Suggested Answers to Question Five:******Chapter 07 – Other Business Tax (VAT)*****Super (Pvt) Ltd****Computation of VAT Payable****For the Quarter ended 31<sup>st</sup> March 2023**

<b><u>Output Tax</u></b>	<b><u>Value of Supply</u></b>	<b><u>Rate</u></b>	<b><u>Tax</u></b>
Sale of safety equipment in the local market	8,540,000	15%	1,281,000
Services provided to local clients	14,580,000	15%	2,187,000
Sale of old office furniture	74,000	15%	11,100
<b>Total Output Tax</b>			<b>3,479,100</b>

**Input Tax**

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	<u>22,500</u>
Input Tax	2,721,500
Allowable Input Tax Excluding B/F Amount	2,721,500
Brought Forward Unabsorbed input tax	<u>454,000</u>
<b>Total</b>	<b><u>3,175,500</u></b>

**Allowable Input Tax**

Allowable Input Tax	<u>(3,175,500)</u>
VAT Payable	303,600
<b>Less:</b>	
Monthly Payment	<u>(200,000)</u>
<b>Balance VAT Payable</b>	<b><u>103,600</u></b>

*(10 marks)*

## ***Suggested Answers to Question Six:***

### **Chapter 05 – Obligations and Procedures**

**(a)**

1. A member of the Institute of Chartered Accountants of Sri Lanka.
2. An attorney-at-law.
3. An employee regularly employed.
4. A member of the Sri Lankan Institute of Taxation.
5. An individual approved by the commissioner-general and registered as an auditor under the companies (Auditor) Regulations.
6. An individual specified by the Commissioner-General of any other kind, (Gazette 2194/50 dated 23.09.2020).
7. In the case of an individual, a relative.
8. In the case of a company, a director or the secretary of that company.
9. In the case of a partnership, a partner of that partnership.
10. In the case of a body of persons, a member of such body.

**(04 marks)**

**(b)**

A person who fails to file the income tax return on or before the due date, that person is liable to pay a penalty equal to the greater of,

- a) five percent of the amount of the tax owing, plus a further one percent of the amount of tax owing for each month or part of a month during which the failure to file continues and
- b) Fifty thousand rupees plus a further ten thousand rupees for each month or part of a month during which the failure to file continues.

**(03 marks)**

**(c)**

<b>Self-assessment</b>	<b>Default-assessment</b>
Self-assessment tax payer should file a self-assessed tax return.	Assistant commissioner makes an assessment based on his judgement when the self-assessment tax payer failed to file the tax return.
Self-assessment return should be filed within the 08 months after a year of assessment.	Default-assessment can be made at any time.

Tax payer makes the payment based on the self-assessment.

Commissioner informs the tax payment based on the default-assessment.

(03 marks)

(Total 10 marks)

***Suggested Answers to Question Seven:***

**Chapter 04 – Partnership Taxation**

**Sherani Flora  
Computation of Income Tax Payable  
For the Year of Assessment 2022/2023**

Description	Notes	Rs. +
Net Profit		5,600,000
Partner's Salary	1 (Disallowed)	3,240,000
Rent paid to Shirani - allowed	(Allowed)	-
Donations to approved charity	(Disallowed)	300,000
Salary to Irani's Husband	(Allowed)	-
Depreciation	(Disallowed)	360,000
Capital Allowance on machinery	3,600,000/5	(720,000)
Interest Income on Fixed Deposits		(2,100,00)
<b>Business Income</b>		<b>6,680,000</b>
Income of the Partnership		6,680,000
Interest Income on Fixed Deposits		2,100,000
Assessable income from partnership		8,780,000
Less: Qualifying Payment – Donation made to approved charity 1/5 of AI or 500,000 whichever is less		(300,000)
<b>Taxable Income - Partnership</b>		<b>8,480,000</b>
<b>Calculation of Partnership Tax Payable</b>		
- First 1,000,000 x 0%		Nil
- Balance Rs.7,480,000 @ 6%		448,800
<b>Tax Payable by the Partnership</b>		<b>448,800</b>



**Note 1**

Salaries paid to partners are **disallowed**

Sherani	(Rs.135,000x12)	Rs. 1,620,000
Irani	(Rs.135,000x12)	<u>Rs. 1,620,000</u>
		<u>Rs. 3,240,000</u>

**(10 marks)**



**End of Section B**

***Suggested Answers to Question Eight:******Chapter 03 – Taxation of Companies***

**Modern Tech (Pvt) Ltd**  
**Computation of Assessable Income**  
**For the Y/A 2022/2023**

	Notes	
Assessable Income from Business	1	76,694,000.00
Assessable Income from Investment	2	16,610,000.00
<b>(a) Total Assessable Income</b>		<b>93,304,000.00</b>
Less: Qualifying Payments & Reliefs	3	(1,800,000.00)
<b>(b) Taxable Income</b>		<b>91,504,000.00</b>
<b>(c) Gross Tax Payable</b>	4	<b>27,451,200.00</b>
Less: Tax Credits		
WHT on interest income on FD		(535,000.00)
Installments Payments		(13,125,000.00)
<b>(d) Balance Income Tax Payable</b>		<b>13,791,200.00</b>

**Note 1 - Business Income**

**Modern Tech (Pvt) Ltd**  
**Computation of Assessable income from**  
**Business**  
**For the Y/A 2022/2023**

<b>Description</b>	<b>Workings</b>	<b>+</b>	<b>-</b>
Net Profit Before Tax		86,850,000.00	
Rent Income -Investment Income			6,000,000.00
Interest Income on Fixed Deposit - Investment Income			10,700,000.00
Dividend Income			2,850,000.00
Accounting Profit on disposal of computer equipment			1,200,000.00
Assessable charge on disposal of computer equipment	1	1,200,000.00	
Accounting Depreciation		5,650,000.00	

Capital Allowances	2		2,090,000.00
Gratuity Provision	3	3,432,000.00	
Legal Expense- not incurred for production of income		90,000.00	
Employee Training cost- allowed		-	-
Entertainment expense		452,000.00	
General provision for bad debt		620,000.00	
Bad debt Written off- Allowed		-	
Donation		1,800,000.00	
working capital loan interest- Allowed		-	
Gratuity paid			560,000.00
Total		100,094,000.00	23,400,000.00
Assessable income from Business		76,694,000.00	

### Working 1

Accounting profit on disposal of computer equipment is not considered as taxable profits or gain. According to the IR Act Assessable charge or balancing allowance should be calculated.

<b>Consideration</b>		1,200,000.00
<b>Less: Tax Written down value</b>		
Cost of Computer equipment	4,850,000.00	
(-) Capital Allowance claimed		
Y/A 2017/2018 -4,850,000*25%	1,212,500.00	
Y/A 2018/2019 -4,850,000*25%	1,212,500.00	
Y/A 2019/2020 -4,850,000*25%	1,212,500.00	
Y/A 2020/2021 -4,850,000*25%	1,212,500.00	
Y/A 2021/2022- Fully claimed	-	0
	4,850,000.00 (4,850,000.00)	
<b>Assessable Charge</b>		<b><u>1,200,000.00</u></b>

## Working 2

Accounting Depreciation is disallowed and eligible to claim capital allowance as per the IR Act for the assets used in production of business income.

Description	Year of Acquisition	Cost of Asset	Capital allowance Rate	Capital Allowance
Land	2017/2018	8,250,000.00	N/A	N/A
Office Building	2017/2018	7,900,000.00	10 Years	790,000.00
Moter Vehicle- Dilivery Van	2022/2023	6,500,000.00	5 Years	1,300,000.00
Computer Equipment	2017/2018	9,350,000.00	5 Years	Fully claimed
Total				2,090,000.00

## Working 3

Under Section 10 (1) (b) (viii), provision for gratuity is disallowed, and only the amount paid is allowed.

### Note 02- Investment Income

Rent Income(Rs.6,000,000-90,000)	5,910,000.00
Interest income on fixed deposit	10,700,000.00
Dividend income- Final with holding payment	-
<b>Assessable income from investment</b>	<b><u>16,610,000.00</u></b>

### Note 03- Qualifying payment

Company has donated Rs. 1,800,000.00 worth of IT equipment to Pradeshiya Sabha. As per the section 52 (fifth schedule item (1) (b) (ii), donation made by individual or entity in money or otherwise to local authority is considered as qualifying payment without any limitation.

**Note 04- Gross Income Tax payable**

Description	Assessable Income	Qualifying Payments	Taxable Income	Rate	Tax Liability
Assessable Income from Business (Excluding Investment Income)	76,694,000.00	(1,800,000.00)	74,894,000.00	30%	22,468,200.00
Assessable Income from Investment	16,610,000.00	-	16,700,000.00	30%	4,983,000.00
<b>Total</b>	<b>93,304,000</b>	<b>(1,800,000)</b>	<b>91,504,000</b>		<b>27,451,200.00</b>

(25 marks)

***Suggested Answers to Question Nine:***

***Chapter 03 – Taxable income of an individual***

**Mr. Ananda**

**Income Tax Computation**

**For the Y/A 2022/2023**

	Note	Rs.	Rs.
Assessable income from Employment	1		4,830,000
Assessable income from Business	2		3,044,000
Assessable income from Investment	3		<u>950,000</u>
<b>Total Assessable Income</b>			<b>8,824,000</b>

**Less: Relief and Qualifying Payments**

Personal Relief 1,200,000

**Total Relief 1,200,000**

**Qualifying payments:**

Donations 4 300,000

**Total Relief and Qualify Payments (1,500,000)**

**(a) Taxable Income 7,324,000**

**(b)Tax Liability**

First 500,000 x 6% 30,000

Next 500,000 x 12% 60,000

Next 500,000 x 18% 90,000

Next 500,000 x 24% 120,000

Next	500,000 x 30%	150,000
Balance	<u>4,824,000</u> x 36%	<u>1,736,640</u>
<b>Total</b>	<b><u>7,324,000</u></b>	<b><u>2,186,640</u></b>

<b>Total Gross Tax Payable</b>		<b>2,186,640</b>
Less: Tax Credits		
APIT Deducted	856,800	
Self-Assessment Payments	600,000	
		<u>(1,456,800)</u>
<b>(c) Balance Tax Payable/(Over Paid)</b>		<b><u>729,840</u></b>

**(d) Exempted Income:**

Capital Gain on quoted shares	Rs. 740,000
Medical Benefit	Rs. 500,000
Dividend Income	Rs. 450,000

**Workings**

**Note 1 - Employment Income**

**Primary Employment**

Basic Salary (300,000 x 12)	3,600,000
Bonus	150,000
Fuel allowance (60,000 x 12)	720,000
Medical benefit – not form a part of employment income	-
Vehicle Benefit (30,000 x 12)	<u>360,000</u>
<b>Assessable Income from Employment</b>	<b><u>4,830,000</u></b>

**Note 2 – Business Income from Notary Firm**

	(+)	(-)
Profit Before Tax	2,580,000	
<b>Add:</b> Entertainment of clients	200,000	
Purchase of a Photocopier machine	330,000	
<b>Less:</b> Capital Allowance (Rs. 330,000/5)		66,000
<b>Total</b>	<b>3,110,000</b>	<b>66,000</b>
<b>Business Income</b>	<b>3,044,000</b>	

**Note 3 – Investment Income**

## Interest Income

- Treasury bill Interest income	Rs. 900,000	
- Loan Interest income	Rs. 50,000	950,000
Capital Gain on quoted shares	Rs. 740,000	Exempt
Dividend Income – Final WHT		<u>Exempt</u>
<b>Assessable income from Investment</b>		<b><u>950,000</u></b>

**Note 4 - Qualifying Payment**

Donations to Government - (Can be claimed upto the Assessable income) – Rs. 250,000

Donation to Charity – (assumed as an approved charity) - 50,000**Total** **Rs. 300,000***(25 marks)*

*End of Section C*

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These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”. The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.



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