



**Association of Accounting Technicians of Sri Lanka**

**Level III Examination - January 2024**

**Suggested Answers**

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

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**Level III Examination – January 2024**

**(304) CORPORATE & PERSONAL TAXATION**

**SUGGESTED ANSWERS**

(Total 20 Marks)

**SECTION - A**

*Suggested Answers to Question One:*

*Chapter 01 - Introduction to Taxation of Sri Lanka*

(a)

As per the section 69 (4) of the Inland Revenue Act No. 24 of 2017, an company shall be a resident in Sri Lanka for a year of assessment if the company;

- Incorporated or formed under the law of Sri Lanka or,
- It is registered or the principal office is in Sri Lanka or,
- At the any time during the year the management and control of the affairs of the company are exercised in Sri Lanka.

As per the given case, Build Expert (PVT) Limited (BEL) is incorporated under the law of Sri Lanka. Therefore, as per the section 69(4)(a) BEL is a resident company for the year of assessment 2022/2023 for tax purpose.

**(03 marks)**

(b)

The taxation of a country is generally based on set of principles as follows;

- Equity
- Progressivity
- Economy/Efficiency
- Certainty
- Adequacy
- Simplicity
- Broad Base
- Stability
- Convenience and voluntary compliance

**(02 marks)**

**(Total 05 marks)**

## Suggested Answers to Question Two:

### Chapter 06 - Capital Gain Tax & Advanced Personal Income Tax (APIT)

(a)

		Rs.
Consideration Received (Market Value)		8,000,000
<b>Less: Cost of the Asset</b>		
Market value as at 30/09/2017 **	6,500,000	
Broker's fee	200,000	(6,700,000)
<b>Capital gain/ Gain on the realization of investment asset</b>		<b>1,300,000</b>
<b>Capital gain tax (CGT)</b>	<b>1,300,000 @ 10%</b>	<b>130,000</b>

\*\* As the land was acquired prior to 30th September 2017, the cost of such asset shall be equal to the market value of the asset as at 30th September 2017.

(03 marks)

(b) Obligations of an employer under the APIT scheme are;

- Deduct APIT from the gross remuneration of the employee.
- Remit APIT deducted from employee's gross remuneration to the Commissioner General of Inland Revenue (CGIR) on or before the 15<sup>th</sup> day of the following month.
- Issue a tax deduction certificate (T10 Certificate) to the employees on or before 30<sup>th</sup> April of the immediately succeeding year of assessment or within 30 days from the date of an employee who is ceased employment.
- Furnish Annual Statement of APIT to the CGIR on or before 30th April of the immediately succeeding year of assessment.
- Keep records of payment of remuneration as per the forms specified by the CGIR.

(02 marks)

(Total 05 marks)

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

### **Chapter 06 – Case Law**

Assumption: Nalin had initial intention to resell this land.

As per the *Mahavitharana Vs CIR* assessee and another acquired an option to purchase a tea estate of 583 acres by paying an advance and agreed to complete the transaction within a short time period. They did not have sufficient finance to purchase this nor intention to purchase the entire estate with their own funds or with borrowed funds. They quickly produced purchasers for 464 acres and out of the remaining area part was sold and the balance allowed the government to acquire. Even though the assessee argued that they agreed to purchase the estate as a source of green leaf to their tea factory, it was clear that they did not secure the option in order to purchase the estate for themselves.

That the facts and circumstances of the case, the transactions were an adventure or concern in the nature of trade. The intention at the time of entering to an agreement was to embark on a venture in the nature of the trade. Accordingly, Nalin also purchased the land for the purpose of resale. Therefore as per the facts in the given case study similar to the case in *Mahavitharana Vs CIR*. Finally can conclude that profit earned by Nalin through this transaction is to be considered for tax purposes as taxable.

As per the provisions of the Section 195 of Inland Revenue Act No. 24 of 2024 business is defined as,

- a trade, profession, vocation or isolated arrangement with a business character however short the duration of the arrangement;
- a past, present or prospective business; but excludes an employment

If it is a trade, it should be,

- Purchase of commercial quantities of product that cannot be used personally,
- If asset is held for a shorter period
- Repetition of transaction
- Intention of making profit and
- Intention to resale

In the given case also we can identify the characteristics of,

- Purchase of commercial quantities of product that cannot be used personally
- Intention to resale
- If asset is held for a shorter period

Therefore, we can identify there is a trade which takes business nature. Hence, the profits earned from this series of transactions is liable for income tax.

**(05 marks)**

## *Suggested Answers to Question Four:*

### **Chapter 07 - Other Business Taxes (TVRS & SSCL)**

**(a)**

Following tourist eligible for refund under TVRS;

- A non-citizen and non-resident of Sri Lanka.
- Stayed in Sri Lanka for less than ninety (90) days, under a visitor visa issued by the Controller General of Immigration and Emigration of Sri Lanka.
- Should not be less than 18 year of age as of the first day his visit Sri Lanka.

**(02 marks)**

**(b)**

SSCL liability is Rs. 52,000,000 \* 2.5% = Rs. 1,300,000.

**(03 marks)**

**(Total 05 marks)**



**End of Section A**

***Suggested Answers to Question Five:******Chapter 07- Other Business Taxes (VAT)***

**Tast (Pvt) Ltd.**  
**Computation of VAT Liability**  
**For the Quarter ended 31<sup>st</sup> March 2023**

<b>Output Tax</b>	<b>Value of Supply</b>	<b>Rate %</b>		<b>VAT</b>
Export	6,692,000	0%		-
Local Sale (SVAT)	9,368,800	15%		1,405,320
Other local sale	17,399,200	15%		2,609,880
<b>Total Output VAT</b>				<b>4,015,200</b>
<b>Input Tax</b>				
Import of packing material			845,000	
Local purchases			1,645,000	
Repair of car used by MD	Not allowed			
Allowable Input VAT			<b>2,490,000</b>	
B/F Unabsorbed input tax			36,000	
<b>Total allowable input VAT</b>				<b>(2,526,000)</b>
<b>VAT Payable</b>				<b>1,489,200</b>
<b>Less:</b>				
SVAT Credit Voucher ***			(1,405,320)	
Monthly installment			(50,000)	(1,455,320)
<b>Balance VAT Payable</b>				<b>33,880</b>

\*\*\* Assuming SVAT Credit vouchers have been collected.

(10 marks)

## Suggested Answers to Question Six:

### Chapter 04 – Partnership Tax

**T & S Property Valuers**  
**Computation Income Tax Liability**  
**for the Year of Assessment 2022/23 (Rs.)**

		(+)	(-)
Net profit		7,600,000	
Interest income			3,400,000
Rent income			1,500,000
Partner's salary - Disallowed	Note 1	6,000,000	
Professional fees to Sunimal – Disallowed	Note 2	1,200,000	
Tharaka's wife salary - Allowed		-	
Donation to Cancer Hospital – Disallowed		1,000,000	
Depreciation – Photo Copier Machine – Disallowed		400,000	
Capital allowance	Note 3		800,000
		<b>16,200,000</b>	<b>5,700,000</b>
		<b>(5,700,000)</b>	
<b>Partnership Business Income</b>		<b>10,500,000</b>	
<b>Add: Investment Income</b>			
Interest income		3,400,000	
Rent income		1,500,000	
<b>Partnership, Assessable Income</b>		<b>15,400,000</b>	
<b>Less: Sec. 52 – Qualifying Payments &amp; Relief</b>			
Donation made to Cancer Hospital		(1,000,000)	
<b>Partnership Taxable Income</b>		<b>14,400,000</b>	
<b>Calculation of Partnership Payable</b>			
- First 1,000,000 @ 0%			Nil
- On balance 13,400,000 @ 6%			804,000
<b>Partnership Tax Payable</b>			<b>804,000</b>

#### Note 1

Salaries paid to partners are **disallowed**

Tharaka	Rs. 2,000,000
Sunimal	Rs. 4,000,000
	<u>Rs. 6,000,000</u>

**Note 2**

Professional fee received by Sunimal is **disallowed**

Sunimal (Rs. 100,000 \*12) Rs. 1,200,000

**Note 3**

Capital allowance on Photo Copier Machine

Asset	Cost (Rs.)	Acquired Y/A	Useful Life	Capital Allowance (Rs.)
Photo Copier Machine	4,000,000	2022/23	5 year	800,000

(10 marks)

### *Suggested Answers to Question Seven:*

<b>Chapter 05 - Obligation and Procedure</b>
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**(a)**

As per the section 90 (3) of the act, installment tax payable need to be calculated using following formula:

$$\text{Installment payment} = \frac{\text{Estimated tax liability for Y/A 2022/23} - (\text{Installment paid} + \text{WHT})}{\text{Remaining no. of installments}}$$

$$03^{\text{rd}} \text{ installment value} = \frac{43,500,000 - (20,000,000 + 26,400)}{2}$$

$$= \text{Rs. } 11,736,800$$

(03 marks)

**(b)**

Payment of third quarter of the Y/A 2022/23 should be made on or before 15<sup>th</sup> of February 2023.

(02 marks)

**(c)**

As per the section 90 (1), subject to section 94 and subsection (2), every person shall file with the Commissioner-General not later than eight months after the end of each year of assessment a return of income for the year.

Therefore, Super (Pvt) Limited need to submit income tax return for the year of assessment 2022/23, on or before the 30<sup>th</sup> of November 2023.

(02 marks)



**(d)**

The Assistant Commissioner may amend a tax assessment,

- i. In the case of fraud or gross or willful neglect by or on behalf of the taxpayer at any time; or
- ii. As per the Section 135 of, Act No. 24 of 2017 Inland Revenue Act applicable time bar is within the 30 months of self-assessment date that tax payer filed the self-assessment return.

Therefore, time bar limit to 30 months from 30<sup>th</sup> November 2023.

**(03 marks)**  
**(Total 10 marks)**



***End of Section B***

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

**Fashion (Pvt) Ltd.**  
**Computation of Balance Tax Liability**  
**for the Year of Assessment 2022/23 (Rs.)**

Assessable Income from Business	Note 1	69,105,000
Assessable Income from Investment	Note 2	400,000
<b>(a) Total Assessable Income</b>		<b>69,505,000</b>
Less: Sec. 52 – Qualifying Payment & Reliefs	Note 3	(500,000)
<b>(b) Taxable Income</b>		<b>69,005,000</b>
<b>(C) Gross Tax Payable @ 30%</b>		<b>20,701,500</b>
<u>Less: Tax Credits</u>		
Installment Paid		(10,000,000)
<b>(d) Balance Income Tax Payable</b>		<b>10,701,500</b>

**Note 1 – Business Income****Fashion (Pvt) Ltd.****Computation of Assessable Income from Business for the Y/A 2022/23**

Description	Working	(+)	(-)
Net profit before tax		64,250,000	
Dividend income			650,000
Interest income on Treasury Bill			400,000
Profit on disposal of a motor vehicle			216,000
Assessable charge	W1	1,810,000	
Accounting depreciation		4,860,000	
Capital allowance	W 2		5,730,000
Gratuity provision		4,200,000	
Entertainment expense – Sec. 10, disallowed		320,000	
Penalty payment – Sec. 10, disallowed		136,000	
Foreign travelling expense – Sec.11, allowed		-	
Advertisement Expense (Capital Nature – Not allowed)		50,000	
Donation- flood victims		500,000	
-Approved charity		600,000	
Gratuity paid			625,000
		<b>76,726,000</b>	<b>7,621,000</b>

		<b>(7,621,000)</b>	
<b>Assessable income from business</b>		<b>69,105,000</b>	

### W 1 – Assessable Charge of Motor Vehicle

Accounting disposal gain is not considered as taxable income. Therefore, as per the provision of the IR act assessable charge or balancing allowance should be calculated as follows,

<b>Consideration</b>			<b>2,850,000</b>
<b><u>Less: Tax written down value</u></b>			
Cost		2,600,000	
(-) Capital allowance claimed			
Y/A 2019/20-(2,600,000 * 25%)	520,000		
Y/A 2020/21-(2,600,000 * 25%)	520,000		
Y/A 2021/22-(2,600,000 * 25%)	520,000		
Y/A 2022/23	Not eligible	(1,560,000)	(1,040,000)
<b>Assessable Charge</b>			<b>1,810,000</b>

### W 2 – Capital allowance

Accounting depreciation not allow to deduct as an expense for tax purpose and capital allowance can claimed a deductible expense as per section 16 of Act no. 24 of 2017 IR Act.

Description	Acquired Y/A	Cost (Rs.)	Useful life	Capital allowance (Rs.)
Disposed motor Lorry	2019/20	2,600,000	5 years	Disposed during the Y/A
Motor Lorries	2019/20	24,300,000	5 years	4,860,000
Office equipment	2019/20	2,150,000	5 years	430,000
Office equipment	2019/20	460,000	5 years	92,000
Computer	2019/20	1,430,00	5 years	286,000
Computer software	2022/23	620,000	10 years	62,000
<b>Total</b>				<b>5,730,000</b>

### Note 2 – Business Income

#### Fashion (Pvt) Ltd.

#### Computation of Assessable Income from Investment for the Y/A 2022/23

Interest from Treasury Bill	650,000
Dividend income (out of dividend received)	Exempt
<b>Assessable income from investment</b>	<b>650,000</b>

### Note 3 – Qualifying Payment & Relief

Donation made to flood victims Rs. 500,000 worth of garments is not allow claim under Sec. 52. Rs. 600,000 made to approved charity can be claim under section 52 subject to below restriction.

#### Lower value of,

Actual donation	Rs. 600,000 or
1/5 * Taxable income	Rs. 13,941,000 or
Maximum	Rs. 500,000

Therefore, lower value of Rs. 500,000 can deduct under section 52, qualifying payment & relief

*(25 marks)*



## Suggested Answers to Question Nine:

### Chapter 03 – Taxation of an Individual

Ms. Sally

#### Computation of Income Tax Liability for the Year of Assessment 2022/23 (Rs.)

Assessable income from Employment (Note 1)		3,060,000
Assessable income from Business (Note 2)		1,050,000
Assessable income from Investment (Note 3)		1,200,000
<b>Total Assessable Income</b>		<b>5,310,000</b>
<b>Less: Sec.52 – Qualifying Payment &amp; Reliefs</b>		
Personal Relief	(1,200,000)	
Donation – Medical Faculty of Colombo University	(400,000)	(1,600,000)
<b>(a) Total Taxable Income</b>		<b>3,710,000</b>
<b>(b) Gross Tax Liability (W1)</b>		
		<b>885,600</b>
<b>Less: Tax Credits</b>		
APIT paid	(266,400)	
WHT on Interest	(25,000)	
Installment paid	(350,000)	<b>(641,400)</b>
<b>(c) Balance Tax Payable</b>		<b>244,2000</b>
<b>(d) Exempted Income</b>		
Capital gain on quoted share	200,000	
Dividend income	300,000	
Medical insurance premium - Excluded	96,000	
Air ticket & accommodation - Excluded	500,000	

#### Note 1 – Employment Income

Ms. Sally

#### Computation of Assessable Income from Employment for the Y/A 2022/23 (Rs.)

Gross salary	(180,000*12)	2,160,000
Medical insurance premium (Provide benefits all employees equally)	Excluded	-
Residence provide by employer	(45,000 – 10,000)*12	420,000
Fuel allowance	(40,000*12)	480,000
Air ticket & accommodation (Represent the company)	Excluded	-
<b>Assessable Income from Employment</b>		<b>3,060,000</b>

**Note 2 – Business Income****Ms. Sally****Computation of Assessable Income from Business for the Y/A 2022/23 (Rs.)**

	(+)	(-)
Net profit before tax	1,070,000	
Personal telephone charges – Disallow (Sec. 11) 150,000*20%	30,000	
Accounting depreciation	100,000	
Capital allowances (750,000/5)		150,000
	<b>1,200,000</b>	<b>150,000</b>
	(150,000)	
<b>Assessable Income from Business</b>	<b>1,050,000</b>	

**Note 3 – Investment Income****Ms. Sally****Computation of Assessable Income from Investment for the Y/A 2022/23 (Rs.)**

<b><u>Interest Income</u></b>		
FD interest	500,000	
Treasury Bill	700,000	1,200,000
Gain on quoted share disposal	Exempt	-
Dividend (out of dividend received)	Exempt	-
<b>Assessable Income from Investment</b>		<b>1,200,000</b>

**W1 – Gross tax liability**

First	Rs. 500,000 x 6%	30,000
Next	Rs. 500,000 x 12%	60,000
Next	Rs. 500,000 x 18%	90,000
Next	Rs. 500,000 x 24%	120,000
Next	Rs. 500,000 x 30%	150,000
On balance	Rs. 1,210,000 x 36%	435,600
		<b>885,600</b>

**(25 marks)****End of Section C**

**Notice:**

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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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