

EXAMINER'S REPORT**Level III EXAMINATION - JANUARY 2021****(304) CORPORATE & PERSONAL TAXATION**

Question No. 01**What was tested?**

This question was required to apply the residency rule as per the Section 69 (1) (b) of the Inland Revenue Act No. 24 of 2017 in relation to individual person who has left the country two times within the year of assessment 2019/20.

It was required to calculate number of days resides in Sri Lanka based on the information given in the question and to decide residency status for tax purpose in Sri Lanka.

Observations:

- (1) The majority had correctly applied the 183 days rule for the given scenarios, and decided that the said citizen is a non-resident for the tax purpose in Sri Lanka.
- (2) Some candidates have not properly read the question therefore they have not calculated number of days correctly.
- (3) Further some candidates have correctly calculated number of days but they have not stated whether he is a resident person or not.

Performance: Overall performance for this question is at satisfactory level.

Question No. 02**Part (a)**

This question was tested the knowledge of candidates in relation to the quarterly installment payments, which are due on

- 1st Quarter - on or before 15th August 2020
- 2nd Quarter - on or before 15th November 2020
- 3rd Quarter - on or before 15th February 2021
- 4th Quarter - on or before 15th May 2021

Observations:

Most of the candidates have scored full marks while few candidates were unable to provide the correct answer.

Performance: Overall performance for this part is at satisfactory level

Part (b)

This part was tested the general meaning of tax in default.

Observations:

The majority of candidates have been scored full marks. But some candidates have not answered this part due to not understanding what is tax in default.

Performance: Overall performance for this part is at satisfactory level.

Question No. 03

Part (a)

This question was tested in relation to Value Added Tax (VAT). It was required to mention Value Added Tax (VAT) liable threshold with effect from 01.01.2020.

Observations:

Majority of the candidates were not provided the correct answer for this question.

Performance: Overall performance for this question is not at satisfactory level.

Part (b)

What was tested?

This question was tested the knowledge pertaining to the responsibilities of a VAT registered person upon cancellation of registration.

Observations:

Majority of the candidates were unable to provide the correct answer and some have not given any answer for that.

Performance: Overall performance for this question is Poor.

Question No. 04

What was tested?

This question was tested the students' knowledge on the facts of decided case, **Hayley and Company Ltd. vs. Commissioner of Inland Revenue [1961] 3 CTC 115.**

It was expected to brief the case background and then apply it to the given scenario.

Observation:

- (1) Most of the candidates have repeated the facts of the question itself rather than referring to the facts of the given case.
- (2) The majority of candidates have argued that the loss suffered by the company must be allowed as a deduction for tax purpose, even in the absence of the facts of the case.
- (3) Only a few numbers of candidates have provided the expected answer by exactly referring to the facts of the given case.
- (4) Some candidates have noted that this cannot be claimed as an allowable expenses since cash is an asset not an expenses, This shows that they did not have a knowledge on cases applied for AAT CPT question paper.
- (5) It was observed that candidates were not devoted their adequate attention on study pack in which this particular case has been properly described.

Performance: Overall performance for this question is Average.

Question No. 05

What was tested?

This question tested the candidates' knowledge on partnership taxation. Further, it was tested the primary elements in partnership taxation such as partnership income for tax purpose, Withholding Tax (WHT) payable by partnership, share of partnership income of each partner, and WHT credit available to each partner. The following mistakes were found at the marking evaluation.

Observation:

- (1) Rent of Rs.240,000/- was added by some candidates when calculating partnership income. They did not understand that this is a part of partnership's expenses related to business.
- (2) Transport expenses of Rs.960,000/- was disallowed by some candidates since they misunderstood that this was related to business.
- (3) When calculating share of partnership income for each partner some have considered rent of Rs.240,000/- to **Dilum.**
- (4) When calculating withholding tax payable by the partnership some candidates applied company's income tax instead of 8%.

Performance: Overall performance for this question is at satisfactory level.

Question No. 06

Part (A) (a)

What was tested?

This question was required to state the due date to submit the return of income for the year of assessment 2018/19.

Observation:

It was observed that considerable number of candidates have failed to provide the correct answer, though it was a fundamental question from income tax return submission. The correct answer was on 30th November 2019 and some have stated that it was on 30th September 2019.

Performance: Overall performance for this question is average.

Part (A) (b)

What was tested?

The question was required to list down four items that should be included in the assessment notice.

Observation:

Majority of the candidates have performed well in this question. However some have stated the items that are included in VAT invoice.

Performance: Overall performance for this question is at satisfactory level.

Part (B)

What was tested?

This part of the question was tested newly introduced Capital Gain Tax. Basically, the knowledge pertaining to the application of Capital Gain Tax rate into tax base was tested.

Observation:

- (1) Almost all candidates have applied 10% Capital Gain Tax rate even though the tax base was incorrect.
- (2) Considerable numbers of candidates have not identified the correct tax base, which must be obtained by subtracting market value as at 30.09.2017 and broker fees from the sale proceeds.
- (3) Some of the students have not considered the broker fees when calculating tax base.

Performance: Overall performance for this question is average.

Question No. 07

What was tested?

This question was tested the knowledge related to Value Added Tax (VAT). Further, it was required to assess the balance tax payable/(over paid) of VAT for the quarter ended 31st March 2020 using the given information.

Observation:

- (1) It was observed that few candidates did not have proper knowledge on VAT liable income and VAT exempt income.
- (2) Most of the candidates have not calculated the proportionately disallowable input tax ($85,750,000/98,000,000 \times 448,000 = 392,000$), which was associated with the both taxable and exempt activities.
- (3) Some candidates have applied different VAT rates, though the applicable tax rate 8% was provided by the question itself.
- (4) Though input VAT on flowers farms cannot be claimed since it is related to exempted supplies some candidates have considered input VAT.

Performance: Overall performance for this question is at satisfactory level.

Question No. 08

What was tested?

This question was tested the basic theoretical knowledge of candidates in relation to corporate taxation in terms of the Act, regardless amendments made during the year of assessment 2019/20. The question was required,

- (1) To assess the Assessable Income, Taxable Income, Gross Income Tax Payable, and Balance Tax Payable of a resident company.
- (2) To decide the rate of Income Tax in a situation where the company is engaged in the business of manufacturing and exporting.
- (3) To evaluate the practical aspect of applying allowable and disallowable expenses for the purpose of ascertaining the business income.

Observations:

- (1) Almost all the candidates have attempted this question, and were able to score considerable marks.
- (2) Few candidates have shown an extremely poor performance in presentation and identification of statutory content of the corporate Income Tax computation.

- (3) Most of the candidates were correctly calculated the applicable rates for capital allowances as stipulated by the act.
- (4) Majority of the candidates has applied the correct treatment for gratuity provisions, foreign tour expenses and entertainment expenses by adding back to the profit before tax.
- (5) Considerable number of candidates were not able to identify the correct adjustment for approved charity under qualifying payments and reliefs
- (6) Most of the candidates have applied the normal corporate tax rate of 28%. Some candidates have applied the individual slab rates of 4% to 24% for corporate taxation. However correct tax rate is 14% since this company is engaged in export business.
- (7) Majority of the candidates have claimed Economic Service Charges (ESC) and quarterly installment payments as tax credit.

Performance: Overall performance for this question is at satisfactory level.

Question No. 09

What was tested?

This question was tested the computation of personal income tax for the year of assessment 2019/20 of a resident individual who is an Attorney at Law by profession. The sources of income included income from employment, income from business, and income from an investment.

Observations:

Almost all the candidates have attempted the question and the following common mistakes were observed:

❖ Employment Income:

- (a) Some candidates have considered per month salary as gross for the year without multiplying it by 12 months.
- (b) The reimbursed expenses on foreign trip were not part of employment income. But some have considered as a part of employment income.
- (c) Pay As You Earn (PAYE) has been deducted from employment income when calculating the Assessable Income.
- (d) Some candidates have considered monthly figure of housing benefit for the whole year without multiplying it by 12 months.
- (e) Some candidates have identified housing benefit under business income and some candidates identified it under an investment income.

❖ **Income from investment:**

- (a) Rent income was calculated correctly; however repair allowance was not claimed under qualifying payment.
- (b) Most of the candidates have not identified dividend and interest income has final withholding payment and instead they have considered dividend and interest income under assessable income from Investment.
- (c) Most of the candidates have not identified gain from realization of listed shares as an exempt income

❖ **Income from business:**

Few candidates have started the computation of business income from “income figure” instead of “net profit”.

❖ **Application of tax rates**

Some candidates were not able to apply the correct individual Income Tax rates in their tax computation.

❖ **Balance Tax Payable**

Few candidates have identified self-assessment payment and PAYE deductions as tax credits but they have deducted it from Taxable Income instead deducting it from gross tax liability.

Performance: Overall performance for this question was at satisfactory level.

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Hints to improve performance:

- (1) Time allocation must be considered before start answering questions.
- (2) Summarizing answers as much as possible depending on the requirement of the question and marks allocated.
- (3) Answering the past question papers and check with model answers to improve the examination skills and answering speed before sitting for the examination.
- (4) Focusing on basic fundamental principles of taxation with arithmetical accuracy of calculations.
- (5) Making clear and realistic assumptions that need to answer questions.
- (6) Answering the question paper with legible handwriting that will enable the marking examiner to understand the facts.
- (7) Providing appropriate workings for each and every calculations if necessary and link them with the answers.

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