

Executive Level I
KE 3 Fundamentals of Taxation
(Pilot Paper)

Instructions to candidates

- (1) Time allowed: Reading and planning – 10 minutes
Writing – 90 minutes

Part A-Fundamentals of Taxation

- (2) Section 1(a): 5 multiple choice questions (MCQs) – **all questions are compulsory**
Section 1(b): 5 short questions – **all questions are compulsory**
Section 2: 1 mini scenario question – **compulsory**
Section 3: 1 large question – **compulsory**

- (3) Answers to Section 1(a) should be in the special paper given to you. The most suitable answer (A, B, C or D) should be entered in the paper against the relevant question number.

Answers to questions in all other sections should be in the answer booklet provided to you.

- (4) Begin each answer in Section 2 and Section 3 on a separate page in the answer booklet.

- (5) All answers should be in **one language** and in the **medium applied for**

K
E
3

SECTION 1

All questions are compulsory.

Total marks for Section 1 is 20 marks.

Recommended time for the section is 36 minutes.

Question 01

1(a): You are required to choose the most appropriate answer.

(Total 10 marks)

1.1. Which is the correct category that represents the principles of taxation.

- A. Equity, progressivity, simplicity, certainty
- B. Economy, effectiveness, certainty, efficiency
- C. Equity, progressivity, fairness, cost effectiveness
- D. Efficiency, effectiveness, progressivity, transparency

(2 marks)

1.2. Identify which income or the receipt given below becomes a part of assessable income of a resident individual as per the provisions of the Inland Revenue Act.

- A. Singapore Dollars 1,000 being interest on a NRFC fixed deposit maintained at a commercial bank.
- B. Rs. 420,000 being interest received as net of withholding tax at 2.5% on a fixed deposit maintained at a commercial bank.
- C. Rs. 1,800,000 being net rent received from his residential house in Kandy.
- D. Rs. 900,000 being a prize won after deduction of With Holding Tax at a lottery conducted by the National Lotteries Board.

(2 marks)

1.3. Heladiva Creation (Pvt) Ltd is a subsidiary company of Heladiva Group and engages in the business of manufacturing tobacco base products. The company has sold Rs.380,000,000 worth manufactured goods in the local market during the year. What is the applicable income tax rate for business profit of Heladiva Creation (Pvt) Ltd ?

- A. 10%
- B. 12%
- C. 28%
- D. 40%

(2 marks)

1.4. Identify which statement correctly states the income tax final payment due date and income tax return filing due date for Y/A 2015/2016.

- A. On or before 15th May 2016 & 30th September 2016
- B. On or before 15th May 2016 & 30th November 2016
- C. On or before 30th September 2016 & 30th November 2016
- D. On or before 30th November 2016 & 30th November 2016

(2 marks)

1.5. The turnover of Kamal Enterprises for the quarter ended on 31st March 2016 includes Rs. 2,400,000 from the paint manufacturing shop and Rs. 1,400,000 from paint container manufacturing shop. The liable turnover of Kamal Enterprises for Nation Building Tax for the quarter ended on 31st March 2016 was:

- A. Rs. 3,800,000
- B. Rs. 2,400,000
- C. Rs.1,300,000
- D. Rs.1,200,000

(2 marks)

1(b): You are required to write short answers or provide calculations to all questions, with attention given to action verbs.

(Total 10 marks)

1.6. There are a number of Government Departments which function as tax authorities for collection of various taxes in the present tax system of Sri Lanka.

Required:

State four (04) tax authorities responsible for collection of tax in Sri Lanka.

(2 marks)

1.7. Mr. Ajith Wanasinghe completed the construction of a new house in June 2014 and immediately rented it at a monthly rent of Rs. 25,000 for a period of three years. The house is assessed by the local government authority for Rs. 200,000 for rating purposes. Mr. Ajith has incurred rates at 30% and another sum of Rs. 128,000 to repair the drainage system.

Required:

Calculate the statutory rent income of the owner for the year of assessment 2015/2016.

(2 marks)

1.8. A lorry acquired by Global Travel (Pvt) Ltd in the year of assessment 2011/2012 for hiring purposes was sold for Rs. 520,000 during the year of assessment 2015/2016. The purchase price of the lorry was Rs. 2,000,000.

Required:

Calculate the profit or loss on disposal of the lorry for tax purposes.

(2 marks)

- 1.9. Mr. Samaradivakara received a tax in default notice from the Department of Inland Revenue on 15.02.2016 and he does not agree with the tax in default notice.

Required:

State two (02) actions taken by Commissioner General of Inland Revenue to collect tax in default?

(2 marks)

- 1.10. Supreme Industries manufactured two products namely Alfa and Beta during the quarter ended on 31.12.2015. Beta is an exempted product under the Value Added Tax Act.

Value of supplies – Alfa Rs. 4,500,000

Value of supplies – Beta Rs. 1,500,000

VAT paid on purchases related to both manufactured products Rs. 360,000

VAT component of a Tax Credit Note received from a supplier Rs. 30,000

Required:

Calculate the Value Added Tax (VAT) payable for the quarter ended on 31st December 2015 with the above information.

(2 marks)

SECTION 2

Compulsory question.

Total marks for Section 2 is 10 marks.

Recommended time for the section is 18 minutes.

Question 02

1(c): You are required to provide calculations for question, with attention given to action verbs.

(Total 10 marks)

Nomad Manufactures (Pvt) Ltd is a company that incorporates under the companies act no. 07 of 2007 and it is also a subsidiary company of Nomad Group and engages in the business of manufacturing toys. The company has sold Rs.260, 000,000 worth manufactured toys in the local market and exported Rs.240, 000,000 worth manufactured toys during the year. You are provided following additional information.

- Statutory business profit received by Nomad Manufactures (Pvt) Ltd for Y/A 2015/2016 is Rs.100,000,000 and Rs. 40,000,000 relevant to the export business.
- Company has received following other income during the Y/A 2015/2016.

Item	Rs.
Interest on fixed deposit (net)	180,000
Interest on Treasury bills	45,000
Dividend (net)	90,000
Dividend exempt from income tax	50,000

- During the Y/A 2015/2016 the company has incurred a loss of Rs. 800, 000 from the share trading due to bad conditions in the share market.

- Company has made the following payments during the Y/A 2015/2016.

Item	Rs.
Repayment of loan installment on loan obtained from Bank of Ceylon to construct a new factory building. (This includes a capital repayment of Rs.1,200,000)	2,400,000
Cash donation to an approved charity which provides institutional care for sick and needy.	750,000
Cement donation to "Api Wenuwen Api Fund"	400,000
Self-Assessment income tax payments	18,000,000

- Nomad Manufactures (Pvt) Ltd has declared Rs.5,000,000 as dividend to its shareholders on 10.04.2015 based on the profit earned during the Y/A 2014/2015 and dividend tax was paid on 30.04.2015.

Required:

Compute the gross income tax liability and balance the tax payable by Nomad Manufactures (Pvt) Ltd for the Y/A 2015/2016

(10 marks)

SECTION 3

Compulsory question.

Total marks for Section 3 is 20 marks.

Recommended time for the section is 36 minutes.

Question 03

You are required to provide calculations for question, with attention given to action verbs.

(Total 20 marks)

Mr. Uthpala Perera is an Engineer employed in a mercantile organization. Following information relates to his receipts and payments for the year ended on 31/03/2016.

Employment

Item	Rs.
Net salary (refer the note below)	1,340,000
EPF 12%	180,000
PAYE	40,000

Note: Net salary is arrived after deducting the due proportion of EPF and PAYE.

In addition to that the company paid him a festival allowance of Rs. 50,000 in December 2015 and also reimbursed a medical bill of his minor son (10 years), amounting to Rs. 60,000 in March 2016.

Mr. Uthpala is residing in a house provided by the company. The company pays a monthly rent of Rs. 25,000 to the owner of the house. Rating assessment of the house is Rs. 200,000 and the rates payable at 20%.

Profession

During the weekends he undertakes independent consultancy assignments and had earned a net profit of Rs. 600,000 during the year. In arriving at this profit, he had deducted the following expenses.

Expense	Rs.
Salaries to assistants	240,000
Printing and stationary	50,000
Newspaper advertisements	60,000
Purchase of a computer	80,000
Entertainment expenses for clients	20,000
Depreciation	32,000
Electricity & telephone	80,000

Salaries include Rs. 150,000 paid to his wife for preparation of reports. Advertising expenses includes Rs. 12,000 paid for a staff vacancy notice. The total residential electricity and telephone cost has been charged to the income. It is estimated that approximately 20% of this cost is relevant to his professional service.

In addition to the computer purchased during the year, there is an office table and few chairs purchased in 2013/2014 for Rs. 60,000.

Other income

Item	Rs.
Interest on fixed deposit (net)	276,000
Interest on Treasury bills	90,000
Interest on son's bank account (gross)	45,000
Profit on sale of shares	300,000

He owns a house in Nugegoda and has rented it out from 01 January 2015 for a monthly rent of Rs.50, 000/= . The construction of this house was completed in 2014 and floor area of the house is 1,800 square feet. Rating assessment of house is Rs.200,000/= and rates paid at 30%.

Mr. Perera received Rs.20, 000/= gross dividend from Namal Unit Trust and received Rs. 63, 000/= net dividend from Toyota Lanka PLC.

Payments

Interest paid on loan obtained for the purpose of construction of house and the interest paid on Credit Card were Rs. 123,000 and Rs. 18,000 respectively.

He donated Rs. 100,000 to construct a laboratory in a national school and a further sum of Rs. 80,000 in cash to an approved charity which provides institutional care for sick and needy. Insurance premiums paid for a medical insurance policy to cover incurable diseases was Rs. 48,000. Self-assessment tax installments paid for 2015/2016 is Rs. 40,000.

Required:

Compute the total statutory income, assessable income, taxable income, gross income tax liability and the balance tax payable by Mr. Uthpala Perea for the year of assessment 2015/2016.

(Total 20 marks)