

KC3 - Corporate Taxation
(Answer on Model Question)

Model Answer on Tax Computation

Electro Techno Distributors PLC

TIN : 123456789 0000

Year of Assessment 2018/2019

Computation of Income Tax Payable

Based on the Budgeted Accounts for the Financial Year Ending 31 March 2019

Computation of assessable income from business

	Notes		Rs.'000
Net profit before taxation (per accounts)			137,642
Add			
Director fees - Disallowed as it is not considered for PAYE purpose - U.S 10 (2)			18,500
Provision for gratuity - U.S 10 (b)			12,990
Donations - U.S 11			1,750
Staff welfare - Provision of meals to employees - S 5(3) (d)			-
Entertainment expenses			670
Depreciation			95,775
Repairs & maintenance			
- Renovation of building given on rent - cancelled - related to investment income	1	1,400	
- Repairs on office furniture	1	500	
- Generator repair	1	-	
- Office maintenance	1	_____ -	1,900
Advertisement/business promotion - Allowed - U.S 11			-
Royally including WHT - Allowed U.S 11			-
Fall in value of investment property - Disallowed - U.S 10			1,399
Amortisation - Disallowed - U.S 10			9,960
Collective impairment for debtors (general provision) - Disallowed - U.S 10			25,000
Foreign travelling			
Cost relates to tour of Managing Director - Disallowed - U.S 10	2		800
Cost relates to inspect the quality of products - Allowed U.S 11	2		-
Research expenses	3		
Lab Equipment - Disallowed U.S 15 & Claimed Depreciation allowance	3		1,100
Warranty provision - Disallowed - U.S 10			3,200
			-
Impairment of related party receivables			24,068
Interest paid on loan obtained in 2012 to invest in ET Electricals (Pvt) Ltd - U.S 10			144,000
Bank loan			

Bank loan interest - unutilised loan	4		7,000
Bank loan interest - utilised loan - No adjustment can be claimed fully U.S 18	4		-
Lease interest -No adjustment can be claimed fully U.S 18			-
			485,754
Less: Other sources of income/final withholding payments			
Rent Income - Tax at separately as investment income - U.S 7			7,500
Dividend income - Final withholding payment - U. S 88			3,200
Writing back of service fees payable to ET Electricals (Pvt) Ltd - No adjustment			-
Writing back of temporary loan payable - No adjustment - U.S 6 - Gift received in respect of business			-
Royalty income Tax at separately as investment income - U.S 7			4,300
Profit from disposal of Motor cars			8,992
Reversal of provision for slow moving stock			2,470
Research expenses			-
Additional 100% can be claimed under six schedule - Transitional provision	3		800
Gratuity paid	6		3,420
Capital allowances	7		30,920
Warranty claim - U.S 11			14,539
Interest from fixed deposits (gross) - Tax separately under investment income			3,210
Interest from listed debt securities (gross) - Tax separately under investment income			4,000
			83,351
Assessable income from business for tax purposes			402,403
Computation of assessable income from investment			
Interest from fixed deposits (gross)			3,210
Interest from listed debt securities (gross)			4,000
Rent income		7,500	
Less : Expenditure			
Repairs made on building - cannot be claimed S 14 as this building is not a depreciable asset			-
It is assumed that no any other expenses applicable to rent income			-
Royalty income - Net		4,300	
Add : WHT at 14%		<u>700</u>	
Gross royalty			5,000
Assessable income from investment			19,710
Summary of sources of income			
Assessable income from business			402,403
Assessable income from investment			<u>19,710</u>
Total assessable income			422,113

Less: Qualifying payments & relief U.S 52			
Donation to approved charity (restricted to 1/5th of the taxable income or Rs. 500,000 whichever is lower)			(500)
Taxable income			421,613
Income tax liability at 28%			118,052
Less: Tax credits			
WHT paid	8		(1,810.5)
Self-assessment payments made	8		<u>(12,475)</u>
Balance tax payable			<u>103,766.50</u>

Note 1 - Repairs & improvements				
Repair & Maintenance		5,215		
Less : Renovation of Kollupitiya old building given on rent	Disallowed	(1,400)	Relates to investment income and tax depreciation cannot be claimed under S 14	
Office furniture repairs	Disallowed as no WDV for previous year and added to depreciation base	(500)	Cost	8,000
			Less : Depreciation over 5 years	<u>1,600</u>
Repairs made on generators	Acquired in Y/A 2017/18 - Allowed	<u>(900)</u>	WDV as at 31/03/2019	6,400
Office maintenance	Allowed	<u>2,415</u>	Add : Unclaimed repair allowance	<u>500</u>
			Depreciation base for 2019/2020	<u>6,900</u>

Note 2 - Foreign travelling disallowed		
Foreign travelling		2,000
Less: Cost related to the tour of managing director - Disallowed - U.S 10		<u>800</u>
Cost related to inspect the quality of products - Allowed U.S 11		<u>1,200</u>

Note 3 - Research expenses		
Research expenses		1,900
Less : Lab equipment - Disallowed U.S 15 & claimed depreciation allowance		<u>(1,100)</u>
Claimed amount U.S 15		800
Additional 100% can be claimed under six schedule		<u>800</u>
Total research expense claimed for the year		<u>1,600</u>

Note 4 - Bank loan interest	
Bank loan interest	14,000
Less : Interest relates to the loan provided to the managing director - disallowed - U.S 12	<u>(7,000)</u>
Balance can be claimed fully - U.S 18	<u>7,000</u>

Note 5 - Lease interest	460
Can be fully claimed U.S 18	<u>460</u>

Note 6 - Gratuity paid	
Opening balance as at 01/04/2018	149,770
Add: Provision for the year	12,990
Total	162,760
Closing balance as at 31/03/2019	159,340
Gratuity paid	3,420

	(Rs.'000)
Finance cost	7,000
Total borrowings	50,000
SC + Reserves	5,307,248
Four times from equity(as service organisation)	21,228,992

Lease cost	460
Total borrowings	40 000
SC + Reserves	5,307,248
Four times from Equity(as service organisation)	21,228,992

Note 7 -Capital allowance				
Description	Year	Cost	Rate	Amount
		(Rs.'000)	%	(Rs.'000)
Capital allowance				
For the Y/A 2017/2018				
Generators		30,000	33.33%	10,000
Motorcycle		10,000	20%	2,000
Imported software		8,000	25%	2,000
				14,000
For the Y/A 2018/2019				
Building		122,000	Over 20 Yrs	6,100
Generators		40,000	Over 5 Yrs	8,000
Motorcycles		50,000	Cannot be claimed	-
Office furniture		8,000	Over 5 Yrs	1,600
Lab equipment		1,100	Over 5 Yrs	220
Locally developed software		12,000	Over 12 Yrs	1,000
				16,920
Total				<u>30,920</u>
WHT paid at source				
Interest from fixed deposits (gross)		3,210 x 5%	160.5	
Interest from listed debt securities (gross)		4,000 x 5%	200	
Rent income (gross)		7,500 x 10%	750	
Royalty income - net		4,300/0.86 x 14%	700	
Total			1,810.5	
Total income tax receivable			14,285	
Self-assessment payments made			12,474.5	