

CA



THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA

SUGGESTED SOLUTIONS

KE3 (A) – Fundamentals of Taxation

March 2018

SECTION 01

Answer 01

1. (a)

1.1.

Relevant Learning Outcome/s: 3.1.2
Explain specific adjustments applicable to the computation of statutory income of a company, from rent, interest, dividend and profit from trade or business (other than adjustments applicable to intercompany transactions)
Study Text reference : Page 90
Correct Answer : B

1.2.

Relevant Learning Outcome/s: 4.1.2
State circumstances for issue of assessments and the statutory provisions for rejection of return by the assessor.
Study Text reference : Page 108
Correct Answer : C

1.3.

Relevant Learning Outcome/s: 4.5.1
Explain characteristics of withholding tax schemes (WHT on director fees, interest, dividends, sale of gems at auctions, lottery and other prizes) and tax credits where applicable.
Study Text reference : Page 115
Correct Answer : C

1.4.

Relevant Learning Outcome/s: 3.1.5
Explain the tax liability of a company on distributions.
Study Text reference : Page 51
Correct Answer : C

1.5.

Relevant Learning Outcome/s: 5.2.2
List a few excepted articles and services.
Study Text reference : Page 138
Correct Answer : B

(2 x 5 = Total 10 marks)

1. (b)

1.6.

Relevant Learning Outcome/s: 1.1.2
State the principles of taxation and the difference between direct taxes and indirect taxes.
Study Text reference : Page 08
<ul style="list-style-type: none">• Direct taxes should be paid by taxpayers directly to the government whilst indirect taxes are collected by a person other than the person on whom the tax is imposed.• The Tax burden cannot be shifted if it is a direct tax whilst the tax burden can be shifted to the final consumer if it is an indirect tax.• Collection cost of direct taxes are high unless there is voluntary compliance whilst collection cost of indirect taxes are low.• Generally, direct taxes are progressive whilst indirect taxes have regressive impact.

1.7.

Relevant Learning Outcome/s: 2.3.1																
Compute the total statutory income, assessable income and taxable income taking into consideration relevant statutory deductions and aggregation of child's income.																
Study Text reference : Page 62/63																
<table><tbody><tr><td>Statutory income from Rent</td><td>= 2,000,000</td></tr><tr><td>Add: Child's income</td><td>= <u>595,000</u></td></tr><tr><td>Total aggregated statutory income</td><td>= 2,595,000</td></tr><tr><td>Less: Interest</td><td>= <u>(124,000)</u></td></tr><tr><td>Assessable income</td><td>= 2,471,000</td></tr><tr><td>Less:</td><td></td></tr><tr><td>Personal allowance</td><td>= <u>(500,000)</u></td></tr><tr><td>Taxable income</td><td>= <u>1,971,000</u></td></tr></tbody></table>	Statutory income from Rent	= 2,000,000	Add: Child's income	= <u>595,000</u>	Total aggregated statutory income	= 2,595,000	Less: Interest	= <u>(124,000)</u>	Assessable income	= 2,471,000	Less:		Personal allowance	= <u>(500,000)</u>	Taxable income	= <u>1,971,000</u>
Statutory income from Rent	= 2,000,000															
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Assessable income	= 2,471,000															
Less:																
Personal allowance	= <u>(500,000)</u>															
Taxable income	= <u>1,971,000</u>															

1.8.

Relevant Learning Outcome/s: 5.1.2		
Compute the tax payable for a given straightforward, non-complex scenario.		
Study Text reference : Page 126		
Total supply	=	4,200,000
Less: Exempt supply	=	<u>(500,000)</u>
Liable supply	=	<u>3,700,000</u>
Output VAT		
3,700,000 @ 15%	=	555,000
Less: Input VAT	=	<u>(320,000)</u>
VAT payable	=	<u>235,000</u>

1.9.

Relevant Learning Outcome/s: 4.2.1.
State circumstances for issue of assessments and the statutory provisions for rejection of the return by the assessor.
Study Text reference : Page 108
<ul style="list-style-type: none">• Not paid tax due for any year of assessment• Paid less tax than the amount due

1.10.

Relevant Learning Outcome/s: 5.2.4.
Explain the due dates for payment and submission of returns.
Study Text reference : Page 140
(i) On or before 20 th of February, 2017 On or before 20 th of March , 2017 On or before 20 th of April, 2017
(ii) Return should be furnished on or before 20 th of April , 2017

(2 x 5 = Total: 10 marks)

SECTION 2

Answer 02

Relevant Learning Outcome/s: 3.1		
Basic understanding of income tax liability of a resident company (non-complex straightforward scenario)		
Income tax Computation of CS Works (Pvt) Ltd for the year of assessment 2016/17		
	+	-
Net profit as per accounts	111,649,750	
Less: Other sources of income considered separately:		
Interest income-net		1,125,000
Dividend		392,400
Add or less Disallowable/allowable expenses:		
Depreciation	8,254,650	
Depreciation allowance		170,000
Gratuity provision	24,435,000	
Gratuity Paid		2,500,000
Donation	750,000	
	145,089,400	4,187,400
Adjusted profit from trade		140,902,000
Add: Other sources of income:		
Interest income		
Gross interest (1,125,000 x (100/90))		1,250,000
Dividend – Does not form part of assessable income since WHT has been deducted		-
Total statutory income		142,152,000
Less: Statutory deductions		-
Assessable income		142,152,000
Less: Qualifying payments:		
Lower of :		
Donation to approved charity -	750,000	
1/5 th of Assessable income	28,430,400	
	500,000	
		500,000
Taxable income		141,652,000
Tax liability :		
Business Income - 140,902,000 × 12% (Section 59 B)		16,908,240
Interest Income (1,250,000-500,000) = 750,000*28%		210,000
		17,118,240
Less: tax credits :		
ESC (Economic service charge)		(1,632,160)
Notional Tax Credit		(125,000)
Balance Tax Payable		15,361,080

SECTION 3

Answer 03

Relevant Learning Outcome/s: 2.2. / 2.3. / 2.4.
2.2 Statutory income form sources of profits & income listed in the Inland Revenue Act
2.3 Total statutory income, assessable income and taxable income
2.4 Gross income tax and balance tax payable

Computation of income tax payable by Seneviratne for the year of assessment 2016/17

Employment income		Rs.
Pension	Exempt	
Salary - 200,000 x 12		2,400,000
Bonus		200,000
Value of benefit from private use of motor vehicle (50,000x12)	600,000	
The value of private use of one motor vehicle	Exempt	
Wife's medical bill reimbursement		175,000
Foreign training	Not taxable	
Statutory income from employment		2,775,000
Income from property		
Net annual value of property in Nugegoda =(RA -25% of RA)		
1,200,000- 300,000=900,000		
Net annual value of property in Kalutara =(RA -25% of RA) 400,000- 100,000 = 300,000		300,000
NAV of one house is exempted.		
Income from investments		
From a fixed deposit - senior citizens	exempt	
Profit on sale of shares in a listed company	exempt	
Dividend income received from a unit trust	exempt	
Net dividend received from a listed company	final tax	
Business Income		
Net profits as per accounts	1,184,500	
Add/(Less):		
Loss on disposal of photocopy machine	65,000	
Accounting depreciation	636,000	
Taxable profit on disposal of photocopy machine:		
Sale Proceeds 250,000		
Less: Tax W.D.V-		

Cost	600,000		
Tax Dep	(400,000)	(200,000)	
Tax profit		50,000	
Donation		100,000	
Adjusted business profit			<u>2,035,500</u>
Total statutory income			<u>5,110,500</u>
Less: Deductions under section 32:			
Loss brought forward		1,350,000	
Claimed – limited to 35% of TSI other than employment income		<u>(817,425)</u>	<u>(817,425)</u>
Loss carried forward		<u>532,575</u>	
Assessable income			<u>4,293,075</u>
Less: Qualifying payments:-			
Employment income allowance			<u>(250,000)</u>
Donation to Api wenuwen Api Fund - 100% allowed			<u>(100,000)</u>
Personal allowance			<u>(500,000)</u>
Nothing can be deducted from employment income except employment income allowance. However, he has other sources of income)			
Taxable income			<u>3,443,075</u>
First 500,000 @ 4% =	20,000	20,000	
Next 500,000 @ 8% =	40,000	40,000	
Next 500,000 @ 12% =	60,000	60,000	
Business income (sec 59B) 2,035,500-(817,425-300,000)- 100,000 = 1,418,075@12% =		170,169	
Balance 525,000 @ 16%		<u>84,000</u>	
Gross income tax payable			<u>374,169</u>
Less: Tax credits;			
Self-assessment			<u>(100,000)</u>
PAYE			<u>(204,000)</u>
Balance tax payable/ (refund due)			<u>70,169</u>

(Total: 20 marks)

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