

CA



THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA

SUGGESTED SOLUTIONS

KE3 (A) – Fundamentals of Taxation

September 2019

SECTION 1

Question 01

(a)

1.1.

Relevant Learning Outcome/s: 1.1.2 State the principles of taxation and the difference between direct and indirect taxes
Study Text reference : Page 8
Correct Answer : A

1.2.

Relevant Learning Outcome/s: 2.1.3 Explain the meaning of "person", "year of assessment", "sources of income" and the "residence rule".
Study Text reference : Page 22-24
Correct Answer : B

1.3.

Relevant Learning Outcome/s: 4.4.1 Explain the liability to settle income tax on a "self-assessment" basis, including due dates
Study Text reference : Page 150-151
Correct Answer : B

1.4

Relevant Learning Outcome/s: 4.5.1 Explain characteristics of withholding tax schemes (WHT on dividends , interest, sale of gem at auctions, lottery, royalties, rent, premium ,natural resource payments and other Prizes) and tax , interest, sale of gem at auctions, lottery, royalties, and tax credits where applicable.
Study Text reference : Page 155-156
Correct Answer : C

1.5

Relevant Learning Outcome/s: 5.2.2 List a few excepted articles and services.
Study Text reference : Page 178/179
Correct Answer : C

(b)

1.6.

Relevant Learning Outcome/s: 3.1.2 Explain specific adjustments applicable to the computation of assessable income of a company, from business (other than adjustments applicable to intercompany transactions).	
Study Text reference: Page 52	
	Rs.
Fee paid to a research institution	750,000
To improve employee satisfaction	not allowed
Additional deduction	<u>750,000</u>
Total Deduction	<u>1,500,000</u>

1.7.

Relevant Learning Outcome/s: 3.1.5 Explain the tax liability of a company on distributions	
Study Text reference: Page 75	
	Rs.
Gross dividend	2,000,000
(-) Out of net dividend received in Y/A 2017/18	<u>(225,000)</u>
Balance	<u>1,775,000</u>
WHT at 14%	248,500

1.8.

Relevant Learning Outcome/s: 4.5.2. /2.2.1 4.5.2 Explain the PAYE scheme and the obligations of an employer under this Scheme. 2.2.1 Calculate "assessable income" from employment income (including all cash and non-cash benefits)	
Study Text reference: Page 38	
Where the primary employment declaration has not been provided, the PAYE tax will be computed as follows:	
<ul style="list-style-type: none">• Where the monthly remuneration is less than or equal to Rs. 50,000 - Taxed at 10%.• Where the monthly remuneration is more than Rs. 50,000, up to Rs. 50,000 tax @ 10% and balance will be taxed @ 20%	

1.9.

Relevant Learning Outcome/s: 5.2.1 Explain the applicability of NBT to small and medium-sized businesses, and the registration threshold.
Study Text reference : Page 176
Buying and selling of printed books is excluded from NBT. Sale of paper bundles manufactured by the company is liable for NBT. Since the liable turnover from the sale of paper bundles does not exceed Rs. 3 Mn in a quarter, Elsewhere (Pvt) Ltd is not required to pay NBT for the quarter ended 31 December 2018.

1.10.

Relevant Learning Outcome/s: 5.1.2 Compute the tax payable for a given straightforward, non-complex scenario.				
Study Text reference : Page 165				
	<i>Taxable Supply</i>	<i>Rate</i>	<i>Tax</i>	
Sale of Coconut Oil	2,500,000	Exempt	Nil	
Sale of Vegetable Oil	1,500,000	15%	225,000	
Total			225,000	
Less : Input Tax				
On Packing material – Coconut Oil		Not Claimed	Nil	
On Packing material – Vegetable Oil			(100,000)	
VAT payable			125,000	

(Total: 20 marks)

SECTION 2

Answer 2

Relevant Learning Outcome/s: 3.1
Basic understanding of income tax liability of a resident company (non-complex straightforward scenario)
Study Text reference: chapter 8

(a)

Ayubowan Sri Lanka Pvt Ltd		
Income Tax computation for the year of assessment 2018/19		
		Rs.
Business income (Note 1)		7,750,000
Investment income		
Interest income from fixed deposit		2,400,000
Total Assessable income		10,150,000
Less: qualifying payments & Relief U.S 52		
Donation made to approved charity - Goods donation is not a QP		-
Taxable income		10,150,000
Tax Liability at 14 % - Information Technology > 80% from gross income (Note 2)		1,421,000
Tax credits on interest income		
WHT Credit - 2,400,000 x 5%		(120,000)
SA Payments Made		(925,000)
Balance Tax Payable		376,000
NOTE - 01 - COMPUTATION OF ASSESSABLE INCOME FROM TRADE / BUSINESS		
	Rs.	Rs.
	+	-
Net Profit Before Tax	10,230,000	
Less : Investment Income		
Interest income from fixed deposits - investment income - tax separately		2,400,000
Profit from disposal of computers – considered separately		1,080,000
Add/ Less		
Accounting depreciation – section ii (1)	5,300,000	
Donation – section ii (1)	800,000	
Rent - withholding tax has not been deducted-section 10 (2)	1,200,000	
Capital allowances section 16		
Information technology equipment - Y/A 2018/19 - 16,000,000/5 Yrs		3,200,000
Mini bus used for staff transport - Y/A 2018/19 - 2,800,000 /5 Yrs		560,000
Assessable charge on sale of computers 5,200,000 (4,500,000)	700,000	
	18,230,000	7,240,000
Assessable income from trade or business	10,990,000	
Less: Unabsorbed loss b/f - section 19	(3,240,000)	
Assessable income from trade or business	7,750,000	

Note 2

Ayubowan Sri Lanka (Pvt) Ltd is eligible for concessionary rate of income tax on its taxable income under three (3) categories as set out in the first schedule to the Inland Revenue Act No. 24 of 2017 as follows:

- Para 2 (a) - Small and medium Enterprise
- Para 2 (b) - Company predominantly conducting a business of exporting goods and services.
- Para 2 (g) - Company predominantly providing information technology services.

Answer 3

Relevant Learning Outcome/s: 2.1-2.6

2.1 Imposition of Income Tax

2.6 Gross Income Tax, Balance tax payable and partnership taxation

Study Text reference : chapter 3-6

Mr. Rangana

Income Tax computation for the year of assessment 2018/19

Employment income	Rs. '000		
Salary (400,000 x 12)		4,800,000	
<u>Value of transport facility (less than 1800 CC)</u>			
Vehicle (20,000*12)	240,000		
Fuel (20,000*12)	240,000	480,000	
Shares - Market Value - section 5 (2) j	1,200,000	-	
Cost	(600,000)	600,000	
Reimbursement of foreign travel - section 5 (3) (b)	Excluded		
Contribution to approved provident fund-section (83) (1)	Excluded		
Director's fee (22,500/90*100 x 12) 270,000			
WHT 30,000		300,000	
			6,180,000
<u>Business income</u>			
Net profit		943,500	
Add:			
Entertainment - section 10 (i) (b) (viii)		120,000	
Donation - section ii (1)		175,000	
Income tax instalments - section 10 (1) (b) (ii)		150,000	
Penalty - late tax payments - section 10 (1) (b) (iii)		5,400	
Foreign travelling - allowed		-	
Capital allowances on office furniture (Rs. 450,000/5)		(90,000)	
Business income			1,303,900
<u>Investment income</u>			
Rent income (40,000 x 12)		480,000	
Interest income from Fixed Deposits - WHT deducted is final tax - 88 (1) (b) (i) & section 84 (1) (a)		0	
Profit on sale of quoted shares - Exempt - section 9 (1) para (h)		0	
			480,000
Assessable Income			7,963,900
<u>Less: Qualifying payments</u> - section 52			
Donation to National Kidney Fund			
100% claimable - 5 th schedule para 1 (b) (x)			(175,000)
<u>Less: reliefs</u> - section 52			
Personal relief		(500,000)	
Relief for Employment income		(700,000)	
Relief for rent income (total rental income x 25%)		(120,000)	

<u>Relief for income earned in foreign currency</u>			
Income earned in foreign currency (USD 9,000X 170)	1,530,000		
Claimed limited to 15 million		(1,530,000)	
			(2,850,000)
Taxable income			4,938,900
<u>Tax liability</u>			
On First Rs. 600,000 @ 4%		600,000	24,000
On Next Rs. 600,000 @ 8%		600,000	48,000
On Next Rs. 600,000 @ 12%		600,000	72,000
On Next Rs. 600,000 @ 16%		600,000	96,000
On Next Rs. 600,000 @ 20%		600,000	120,000
Balance @24%		1,938,900	465,336
		4,938,900	825,336
Less: tax credits			
Instalment payments			(150,000)
WHT on rent @ 10%			(48,000)
PAYE on director's fee			(30,000)
PAYE on Employment Income			(256,000)
Balance payable			341,336

(Total 20 marks)

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