

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level II, Semester VI) Examination – December, 2018

ACT 2303/FIN 2308/HLM 2308/HRM 2308/ MKT 2308 – Taxation

Three (03) Hours

Answer All Questions

Use of Calculators is Permitted

1. Mr. Rathnayake worked as a Director of ABC Holding Ltd and got retired on 30.09.2018 after serving for 25 years. He received a monthly salary of Rs. 425,000. Further he was entitled for a company provided residence on which the company paid the tenant a monthly rent of Rs. 70,000. Further, he was provided a 1990cc car with a driver and fuel. The company paid him a bonus equal to his two months' salary in September 2018. As his retirement benefits he received Rs. 8,000,000 from Employee Provident Fund and Rs. 3,500,000 from Employee Trust Fund which includes Rs. 1,000,000 interest income accumulated during 25 years of contribution.

Soon after retiring from ABC Holdings he accepted another Director position at XYZ Company on 01.10.2018 for a monthly salary of Rs. 300,000. The company provided him a furnished residence facility in Colombo and a vehicle of 1490cc with a driver and fuel. The company agreed to bare his PAYE tax liability too.

Apart from above employment benefits, Mr. Rathnayake works as a Project Coordinator of a UN project throughout 2018/2019 Y/A for a monthly allowance of Rs. 100,000. He also works as a Visiting Lecturer of a University and earned lecture fees (hourly basis) as follows during 2018/2019 Y/A:

Month	Gross fee (Rs.)
April	60,000
May	40,000
June	100,000

July	20,000
August	50,000
September	70,000
October	80,000
November	30,000
December	-
January, 2019	50,000
February, 2019	70,000
March, 2019	20,000

Mr. Rathnayake has invested in shares and received the following dividend income during 2018/2019:

Source	Amount (Rs.)
Dividend from the profit of XYZ PLC	Rs. 86,000
Dividend distributed by XYZ PLC using dividends received from another local company	Rs. 43,000
Dividend from a foreign company	Rs. 70,000

He has received the following interest income during the year of assessment:

Source	Amount (Rs.)
Interest on fixed deposits at Bank of Ceylon	Rs. 247,000
Interest on savings deposits at LB Finance	Rs. 114,000
Interest on a loan given to a friend	Rs. 95,000

Mr. Rathnayake donated Rs. 100,000 to the President's Fund and another Rs. 80,000 to an approved charity which provides institutional care for sick and needy people.

Using the above information, calculate **final tax liability** of Mr. Rathnayake for the 2018/2019 year of assessment.

(30 Marks)

2. Tecso Lanka (Pvt) Ltd manufactures a food item and sells in the local market. Income Statement of the company for the year ended 31.03.2019 is given below:

	Rs.		Rs.
Opening Stock	5,000,000	Sales	45,000,000
Add: Purchases	30,000,000		
Less: Closing Stock	(5,000,000)		
Less: Cost of Sales	(30,000,000)		
Gross Profit	<u>15,000,000</u>		
	<u>45,000,000</u>		<u>45,000,000</u>
Interest expenses	300,000	Gross profit	15,000,000
Wages	540,000		
Utility Expenses	526,000		
Depreciation	900,000		
Travelling expenses	350,000		
Bad debt and provisions for doubtful debts	24,000		
Telephone expenses	220,000		
Advertisement	414,000		
Legal expenses	115,000		
Rent of the factory building	400,000		
Salaries	2,650,000		
Provision for gratuity	550,000		
Donations	350,000		
Repair expenses	800,000		
Net profit	<u>6,861,000</u>		
	<u>15,000,000</u>		<u>15,000,000</u>

Additional information:

i. Details of the assets

Asset	Cost/WDV as at 01.04.2018 (Rs.)	Year of acquisition	Additions in 2018/2019 (Rs.)	Disposals in 2018/2019 (Rs.)
Building	12,000,000	2010/2011	-	-
Motor car	2,500,000	2015/2016	3,000,000	2,500,000
Lorry	1,500,000	2016/2017	2,500,000	-
Machinery 1	800,000	2017/2018	-	800,000
Machinery 2	-	-	2,000,000	-

- Company sold the Machinery 1 for Rs. 900,000 and bought Machinery 2 during the year of assessment.
- After using Machinery 2 for a few months the company has decided to rent it out on 01.10.2018 to a sub-contractor of the company for a monthly rent of Rs. 100,000.
- Motor car which was acquired in 2015/2016 and used by a Director has been sold for Rs. 2,700,000 during the year to replace with a new one.

ii. Repair expenses of Rs. 500,000 are related to the lorry acquired in 2016/2017. The balance amount is related to the building.

iii. Interest expenses are related to a loan of Rs. 2,400,000 taken to buy a lorry (share capital of the company is Rs. 500,000).

iv. Donations made by the company are as follows:

- Food items worth Rs. 100,000 to an approved charity
- Food items worth Rs. 50,000 to University of Colombo
- SEVANA Fund Rs. 200,000

v. The breakdown of the legal expenses are stated below:

- Rs. 25,000 on a price discrimination case
- Rs. 60,000 on debt collection from trade debtors
- Rs. 30,000 on a labor tribunal case filed by a former employee

vi. Bad and doubtful debt account of the company is as follows:

Bad debt expenses (written off) Rs. 15,000	Balance as at 01.04.2018	Rs. 10,000
Balance as at 31.03.2019	Provision for bad and doubtful Debts in the year	<u>Rs. 24,000</u>
<u>Rs. 19,000</u>		
<u>Rs. 34,000</u>		<u>Rs. 34,000</u>

vii. A trade debtor who had written off in 2017/2018 year of assessment has settled Rs. 15,000 in November, 2018. This has not been taken into account.

viii. Travelling expenses consist of;

- Travelling expenses of Rs. 250,000 of a Director to participate a foreign exhibition on new innovations for food manufacturing technology.
- Rs. 100,000 of maintenance expenses of the motor car provided to a Director.

ix. The company has a carried forward business loss Rs. 155,000 which incurred in the previous year of assessment.

Using the above information, calculate the **income tax liability** of Tecso Lanka (Pvt) Ltd for the year of assessment 2018/2019.

(30 marks)

3. i. Mr. Jayasinghe purchased a land in Wattala for Rs. 5,000,000 in 2005. He spent Rs. 150,000 and Rs. 50,000 as lawyer's fee and deed fee, respectively at the purchase. Later he filled the land with soil by spending Rs. 1,000,000 in 2008 as to improve the condition of the land. The estimated market value of the land as at 30.09.2017 was Rs. 8,500,000. He further spent Rs. 1,200,000 to construct a wall around the land in January, 2018. The land was sold in July, 2018 for Rs. 11,000,000. He incurred Rs. 200,000 as advertising expenses and Rs. 100,000 as broker's fee while selling the land.

Calculate the capital gain tax on the above selling.

(05 Marks)

ii. Mr. Amal and Mr. Kamal are partners of A&K Associates. A summary of the Income Statement of the partnership for the year ended 31.03.2019 is given below. The profit sharing ratio of the partnership is 3:2.

Gross profit		1,600,000
Interest on drawings (Kamal)	20,000	
Interest income	35,000	
Dividend from a resident company	55,000	<u>110,000</u>
		1,710,000
Expenses:		
Wages and salaries of employees	300,000	
General expenses	250,000	
Interest on loan (Amal)	120,000	
Donations to an approved charity	50,000	
Interest on capital		
- Amal	15,000	
- Kamal	15,000	
Salary (Amal)	90,000	<u>(840,000)</u>
Net profit		<u>870,000</u>

Using the above information, calculate partners' share of profit and prepare the statement for sharing the profit.

(10 Marks)

(Total 15 marks)

4. i. Briefly explain confidentiality of information of tax payers according to the Inland Revenue Act No. 24 of 2017.

(04 Marks)

ii. Differentiate self-assessment, default assessment and advanced assessment according to the Inland Revenue Act No. 24 of 2017.

(06 Marks)

iii. Mr. Rathnasooriya carries a business of wholesale and retail trade and is a registered taxpayer for the year of assessment 2017/2018. Mr. Rathnasooriya has failed to submit the tax return to the Department of Inland Revenue and an Assistant Commissioner has issued a default assessment for him. According to the default assessment issued, tax liability for the year of assessment 2016/2017 is Rs. 1,500,000. Further, the notice has stated to pay the tax liability on or before 31st March 2018 which Mr. Rathnasooriya has already failed to pay.

Calculate the total penalty payable by Mr. Rathnasooriya.

(05 Marks)

(Total 15 marks)

5. i. Modern Furniture Company is engaged in manufacturing furniture for local market. The transactions for the quarter ended 30th September 2018 are given below. All transactions are shown exclusive of VAT except for sales to unregistered persons.

Description	Rs.
Sales to registered persons	10,000,000
Sales to unregistered persons (with VAT)	4,000,000
Purchases of Air Conditioners for the factory	1,000,000
Purchase of office equipments for the sales office	200,000
Electricity	256,000
Salaries and wages	1,250,000
Purchases of raw materials from VAT registered persons	3,000,000
Purchase of raw materials from unregistered person	2,000,000

Using the above information, compute VAT payable by the Modern Furniture Company for the quarter ended 30th September 2018.

(06 Marks)

ii. Briefly explain the restrictions of input tax claim on VAT.

(04 Marks)

(Total 10 marks)

Annexures:

Table 6 (Part – I) Tax on Tax rates

Monthly Tax (Rs.)	Tax on Tax Rate
0 – 2,000	4.17%
2,001 – 6,000	8.70%
6,001 – 12,000	13.64%
12,001 – 20,000	19.05%
20,001 – 30,000	25.00%
30,001 and above	31.58%

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බදු වනු පොත. 2

இலங்கை உள்ளூர் இறைவரி
வரி அட்டணை இல. 2

Sri Lanka Inland Revenue
Tax Table No.2

කොටස பகுதி : PART	M 1.5	එකවර ගෙවීම් (ප්‍රසාද දීමනා යනාදිය) / தொகைக் கொடுப்பனவுகள் (மிகை ஊதியம் போன்றவை) / Lump Sum Payments (Bonus etc.) සාමාන්‍ය මාසික සේවා නියුක්ති ලාභ (ආදායම්) / ஊழியத்திலிருந்தான சராசரி மாதாந்த இலாபங்கள் (வருமானம்) / Average Monthly Profits (Income) From employment	=	1.50
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දේශීය ආදායම් ප්‍රමාණය (සාමාන්‍ය) (Average) රු./ලුපා./Rs.	එකවර ගෙවීම් වලට යෙදිය යුතු ප්‍රතිශතය Rate Applicable to Lump Sum Payments %	දේශීය ආදායම් ප්‍රමාණය (සාමාන්‍ය) (Average) රු./ලුපා./Rs.	එකවර ගෙවීම් වලට යෙදිය යුතු ප්‍රතිශතය Rate Applicable to Lump Sum Payments %	දේශීය ආදායම් ප්‍රමාණය (සාමාන්‍ය) (Average) රු./ලුපා./Rs.	එකවර ගෙවීම් වලට යෙදිය යුතු ප්‍රතිශතය Rate Applicable to Lump Sum Payments %
Up to 88,889	0.00				
88,890 - 89,498	0.25	188,209 - 189,602	10.25	299,955 - 313,243	20.25
89,499 - 90,129	0.50	189,603 - 191,017	10.50	313,244 - 315,449	20.50
90,130 - 90,768	0.75	191,018 - 192,453	10.75	315,450 - 317,686	20.75
90,769 - 91,416	1.00	192,454 - 193,911	11.00	317,687 - 319,955	21.00
91,417 - 92,074	1.25	193,912 - 195,391	11.25	319,956 - 322,256	21.25
92,075 - 92,741	1.50	195,392 - 196,893	11.50	322,257 - 324,591	21.50
92,742 - 93,418	1.75	196,894 - 198,419	11.75	324,592 - 326,960	21.75
93,419 - 94,104	2.00	198,420 - 199,969	12.00	326,961 - 329,364	22.00
94,105 - 94,801	2.25	199,970 - 223,745	12.25	329,365 - 331,803	22.25
94,802 - 95,509	2.50	223,746 - 225,321	12.50	331,804 - 334,279	22.50
95,510 - 96,227	2.75	225,322 - 226,919	12.75	334,280 - 336,792	22.75
96,228 - 96,956	3.00	226,920 - 228,539	13.00	336,793 - 339,343	23.00
96,957 - 97,696	3.25	228,540 - 230,183	13.25	339,344 - 341,933	23.25
97,697 - 98,447	3.50	230,184 - 231,851	13.50	341,934 - 344,563	23.50
98,448 - 99,210	3.75	231,852 - 233,543	13.75	344,564 - 347,234	23.75
99,211 - 99,985	4.00	233,544 - 235,260	14.00	347,234 - & above	24.00
99,986 - 134,247	4.25	235,261 - 237,002	14.25		
134,248 - 135,193	4.50	237,003 - 238,771	14.50		
135,194 - 136,151	4.75	238,772 - 240,566	14.75		
136,152 - 137,124	5.00	240,567 - 242,388	15.00		
137,125 - 138,110	5.25	242,389 - 244,238	15.25		
138,111 - 139,111	5.50	244,239 - 246,116	15.50		
139,112 - 140,126	5.75	246,117 - 248,024	15.75		
140,127 - 141,156	6.00	248,025 - 249,961	16.00		
141,157 - 142,202	6.25	249,962 - 268,494	16.25		
142,203 - 143,263	6.50	268,495 - 270,385	16.50		
143,264 - 144,340	6.75	270,386 - 272,302	16.75		
144,341 - 145,433	7.00	272,303 - 274,247	17.00		
145,434 - 146,543	7.25	274,248 - 276,220	17.25		
146,544 - 147,670	7.50	276,221 - 278,221	17.50		
147,671 - 148,815	7.75	278,222 - 280,252	17.75		
148,816 - 149,977	8.00	280,253 - 282,312	18.00		
149,978 - 178,996	8.25	282,313 - 284,403	18.25		
178,997 - 180,257	8.50	284,404 - 286,525	18.50		
180,258 - 181,535	8.75	286,526 - 288,679	18.75		
181,536 - 182,832	9.00	288,680 - 290,866	19.00		
182,833 - 184,147	9.25	290,867 - 293,086	19.25		
184,148 - 185,481	9.50	293,087 - 295,340	19.50		
185,482 - 186,835	9.75	295,341 - 297,629	19.75		
186,836 - 188,208	10.00	297,630 - 299,954	20.00		