



## UNIVERSITY OF COLOMBO, SRI LANKA

### FACULTY OF MANAGEMENT AND FINANCE

#### Postgraduate & Mid-career Development Unit

Master of Business Administration/Master of Business Administration in Finance/Master of Business Administration in Marketing/Master of Business Administration in HRM (Semester IV-Second-half) Examination – March, 2017

### MBAAC 613 – Tax Planning and Management

Three (03) Hours

#### Instructions:

- Answerer all questions.
- All explanations and workings should be clearly shown.

01.

➤ Mr. Colvin Brown is a British Citizen working in a BOI company as technical expert. He came to Sri Lanka in 2010 to resume duties in this Company which has signed an agreement with the BOI in 2008. As per the documents maintained for the year of assessment 2015/16, it has been found that the following payments have been made and benefits have been provided to Mr. Brown.

- Basic Salary - Rs. 230,000 per month after deducting 8% to the provident fund approved by the Commissioner General. Further, 50% of the basic salary was credited to his bank account in UK. PAYE tax has not been deducted on this amount.
- Vehicle allowance is Rs. 100,000 per month.
- Bonus paid is Rs. 300,000.
- Telephone allowance is Rs. 5,000 per month.

- As per the service agreement, he is entitled three air tickets to travel his home country per annum. According to the available information, he has visited twice his home country and once visited Australia to participate the graduation of his son. The cost relating to such visits are Rs, 230,000 and Rs. 94,000 respectively.
  - Leave encashment paid is Rs.84, 000.
  - Residential allowance is Rs.75, 000 per month.
  - He was admitted to a private Hospital, and the hospital bill was reimbursed. The amount of such reimbursement is Rs. 114,000.
  - Life insurance premium of Mr. Brown is reimbursed by the employer. The amount reimbursed per month was Rs. 15,000.
  - Deduction from salary to a provident fund which is an approved Fund by the Commissioner General is 8% of the basic salary. Further, employer's contribution to the fund is 12% on the same.
  - PAYE Tax deducted on his employment income is Rs. 493,120.
- Mr. Brown has made investments in banks and financial institutions in Sri Lanka as well as in UK. The investment in Sri Lanka is relating to Sri Lankan government securities, corporate debt securities and other companies in Sri Lanka, and received the following income.
- ✓ **From banks and financial institutions**
- From fixed deposits in commercial banks and received net interest amounting to Rs. 120,000.
  - From RFC account – US \$ 1200, one dollar equals to Rs.143.
  - He has maintained two savings accounts, and Rs. 89,500 was credited to such savings account as interest during the year of assessment, and all credited amounts per month relating to one account is less than Rs.1, 000. Total of such interest is Rs.10, 500. But the other account has been credited by more than Rs. 5,000 per month.
  - The interest received from deposits made in UK banks is equivalent to Sri Lankan Rs. 566,000 and it was remitted to Sri Lanka through the Sri Lankan bank account.

✓ **From Corporate Debt Securities**

Interest received during the year of assessment on securities issued in 2010 was Rs. 36,000. Relevant tax has not been deducted at the point of interest was paid on such Corporate Debt Securities.

✓ **From Unit Trust -**

He was paid Rs.10, 000 during the above year of assessment.

✓ **From investments made in companies.**

During the year of assessment, dividend received from such companies is amounting to Rs. 232,000. Out of this,

- Rs. 32,000 was paid by a company which enjoys a tax holiday under section 16C of the Inland Revenue Act. The residue was a dividend paid on the 14th of January 2016 out of the dividend received from a foreign company on December 24<sup>th</sup> of 2015.
- A dividend equivalent to Sri Lankan Rs.46, 000 has been distributed by a company in UK, and it has been remitted to Sri Lanka through a bank.
- Profit on sales of shares during the year of assessment is Rs. 106,000.

➤ **Mr. Brown has made the following payments**

- Rs. 35,000 as interest on a loan taken from a bank to purchase shares.
- Donation to an approved charity where sick and needy people are maintained is Rs. 50,000.
- Tax paid on self-assessment is Rs. 10,000.

**(a) Compute the income tax liability, tax credits and balance tax payable by Mr. Brown for the year of assessment 2015/16.**

**(b) What is your advice with regard to the deduction of income tax made by the company under the PAYE scheme?**

**(Total Marks 30)**

02.

Mr. Suresh Sahabandu, owns the following houses, and during the year of assessment 2015/16, some of the houses were let and earned income details are given below.

➤ **Property 1**

The house he occupies was purchased in 2015. The net annual value of this house is Rs.150, 000.

➤ **Property 2**

A house which was kept purely for renting has been let for a monthly rent of Rs. 100,000. The rating assessment is Rs.200, 000. The rates paid is at 10% of the rating assessment. During the year of assessment, it was occupied only for 10 months and the balance two months it was vacant.

➤ **Property 3**

Mr. Suresh Sahabandu has rented out one of his houses to a company for two years with effect from 01.04.2014, and the house is used as its office. He received a monthly rent of Rs. 100,000. As agreed, rates are paid by the tenant, and the tenant agreed to repair the house too. The rating assessment is Rs.100, 000. The rates paid is at 30% of the rating assessment.

➤ **Property 4**

Mr. Suresh Sahabandu has converted one of his ancestral houses into four residential units. The conversion has been recognized by the local authority in the Y/A 2015/2016 and there were separate rating assessments available for each unit. Rates are to be paid at 30% for all the property, the details are as follows.

Unit No	Floor Area (sq.ft)	Rent Per Month	Rating Assessment
1	2800	80,000.00	200,000.00
2	1600	45,000.00	100,000.00
3	1400		60,000.00
4	900		40,000.00

Unit 1 and 2 are given on rent. Unit 3 is occupied by his parents on behalf of him. Unit 4 was vacant for all the months during the year of assessment 2015/16.

➤ **Property 5**

Mr. Suresh Sahabandu owns a holiday bungalow and during the above year of assessment, occasionally it was occupied by himself, his relatives and friends. When numbers of such days are aggregated, the total number comes to three months. It was given on rent for all other days for visitors except for June and October. The total rent collected from visitors is Rs. 4,000,000.

Rates paid for 12 months (20% of the rating assessment)	Rs. 40,000
Repairs to the house	Rs. 86,000
Furniture maintenance	Rs. 30,000
New furniture cost	Rs. 70,000
Purchase of an air conditioner	Rs. 74,000

**You are required to compute the statutory income from the above properties for the year of assessment 2015/16. If any income is exempt, it should be clearly stated and also up to which year the income is exempt should be stated.**

**(Total Marks 25)**

03.

Wasantha and Priyantha are partners, and the profit ratio is 1:1. The partnership carries on the business of manufacturing of electrical items for the domestic market. Ms. Sonali, the wife of Priyantha is working as the accountant, and receives a monthly salary of Rs. 50,000.

The net profit of the partnership for the year ended 31<sup>st</sup> March 2016 was Rs. 4,600,000 after deducting all expenses including the following. Further, this net profit includes accounting profit of the sold asset which is Rs. 1,340,000.

- Salaries to partners
  - Wasantha Rs. 700,000
  - Priyantha Rs. 700,000
- Interest paid to Mr. Wasantha on a loan taken from him is Rs. 66,000
- Wasantha has been provided a vehicle which has engine capacity of 1800 cc with fuel and driver. The actual cost of such provision of the vehicle is Rs. 170,000.
- The following is the assets disclosed to the statement of financial position (balance sheet).

Description	Date of purchase	Cost of purchase
Motor lorry	14.03.2012	5,500,000
Motor car	25.06.2012	5,200,000
New machine	30.11.2015	5,200,000
Factory building	14.08.1998	3,000,000
Office Building –constructed	14.12.2011	8,000,000
Photocopy machine	01.07.2015	240,000
Furniture	13.08.2011	2,000,000
Computers - Hardware	10.05.2013	200,000
Computers - Software	06.02.2014	80,000

- Book depreciation charged to the income statement is Rs. 5,800,000.

- The old machine which was purchased for 1,200,000 was sold during the year of assessment for Rs.1, 300,000, and new machine was purchased. The total allowance for depreciation on the old machine has already been claimed.
- The old photo copy machine which was purchased in August 2010 for Rs.160,000 was sold for Rs. 40,000 in July 2015, and it was the book profit from the disposal.
- Locally developed computer software was purchased.
- Business advertising expenditure is Rs. 1,200,000.
- Donation in cash to an approved charity is Rs. 50,000. Differently able inmates are maintained in this charitable institution.
- Bad debt written off is Rs. 60,000 and it is relating to a loan given to an employee.
- Rent paid to the Land Lord in respect of a house provided to the Manager is Rs.400,000, and the Manger has been remunerated Rs. 2,100,000 during this year of assessment
- All other expenses are allowable for the purpose of taxation.
- Partnership does not have other source of income
- Partnership is not entitled to claim any tax exemption provided in the Inland Revenue Act.

**Note:** Disregard the Nation Building Tax liability of the partnership.

**You are required to compute;**

- (a) the divisible profit of the above partnership for the year of assessment 2015/16,**
- (b) the tax payable by the partnership on the divisible profit.**

**(Total Marks 20)**

**04.**

- (a) Ceyolin Holidings PLC. is a holding company which has eleven subsidiaries. Its Equity capital is Rs.100, 000,000. The main income of the company is dividend, interest and rent. The net profit of the year of assessment 2015/2016 is Rs. 63,245,000.

Brought forward tax loss from the year of assessment 2014/15 which includes many losses from previous years of assessment is Rs 44,750,000.

During the year of assessment 2015/16, company had received Rs. 31,500,000 interest income on government securities which is subject to withholding tax at the point of issue. The accounting method of the company with regard to such interest income is net of tax. The net interest received on fixed deposit and accounted in the income statement was Rs. 2,790,000. Further, interest income and the net dividend income received from its subsidiaries is Rs, 13,245,000 and 9,272,000 respectively. Further, dividend received from the investment made in certain listed companies is Rs.14, 563,000.

The borrowing cost charged to the income statement is Rs. 16,986,000. The repair expenses amounting to Rs. 852,000 is connected to the building given on rent, and it is 30% of the gross rent.

Donation made to the Api Wenuwen Api Fund is Rs. 100,000.

Tax paid on Dividend distributed is Rs.200, 000 (assume that required amount of dividend has been distributed)

Tax paid on self-assessment basis is Rs.2, 000,000

**You are required to compute the income tax liability of the Company for the year of assessment 2015/16.**

(12 marks)

- (b) The Company has received a letter sent by one of the Assistant Commissioners of the Inland Revenue Department asking for a breakup of the borrowing cost relating to dividend and interest income in respect of previous years of assessments including the year of assessment 2014/15. What is your view in this regard?

(03 marks)

**(Total Marks 15)**



05.

Photo Technica PLC. has distributed Rs. 5, 000,000 dividend on 08<sup>th</sup> of April 2015 out of the profit of 2014/15. Out of such distribution, Rs, 500,000 has been paid out of the net dividends received from other companies.

The under-mentioned shareholders have received the following amounts based on its number of share holdings.

Api Wenuwen Api	Rs. 250,000
XXX Unit Trust	Rs. 1,250,000

The Balance was paid to other minority shareholders.

The operation profit of the company as per the books of accounts for the year of assessment 2015/16 is Rs. 96,500,000. Since the company is a PLC, it is required to follow the Sri Lanka Financial Reporting Standards. The company has revalued its immovable properties, and it has been found that the fair value increase is Rs. 134,000,000. It was credited to the Other Comprehensive Income.

During the year of assessment, machinery was purchased for Rs.9, 000,000, and book depreciation has been charged amounting to Rs. 3,000,000. Income tax paid in respect of profits and income for the year of 2015/16 was Rs. 17,252,000.

- (i) Compute the “relevant part” of the company in respect of the year of assessment 2015/16.
- (ii) Compute the “distributable profit” of the company for the above year of assessment based on the information given.
- (iii) What is the quantum of minimum dividends which had to be distributed before September 30<sup>th</sup> of 2016?
- (iv) Compute the tax on non-distribution of the required amount of dividends (Section 61(1) (b) (ii)), if any.

**(Total Marks 10)**

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