

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF LAW

BACHELOR OF LAWS DEGREE EXAMINATION - YEAR IV- 2019

TAX LAW
(Three Hours)

Total Number of Questions: 07

Answer any **FOUR** questions and **NO MORE**

(Candidates will be penalized for illegible handwriting.)

1. Discuss the income tax liability of the following persons, with reference to the relevant statutory provisions and case law:
 - a. Mr. William, a software consultant is engaged by a telecommunication company to design a new mobile application. The company provides him with a laptop and other technical facilities and required instructions. He is required to be in office during office hours until completion of the assignment and not permitted to perform other consultancy services during that period. As part of his remuneration package, the company provides Mr. William with a car and the services of a driver and an option to acquire 500 shares of the company at the price of Rs.250 per share. The actual market value of the option is Rs.375, 000/=
 - b. Ms. Shavitha is an owner of a fancy goods store. She purchases a new showroom to expand her business, which she expects will grow in two years' time. Currently, she does not need all the floor space and rents out the excess floor space to a flower shop. Since she makes profit in excess of her operating capital needs, she deposits some of the excess funds with a bank and derives interest from the deposit. Ms. Shavitha uses the remainder of the excess in purchasing a residential property. The balance payment for the property is funded through a bank loan. She rents out the residential property and pays the interest on the bank loan.
2. "A well-drafted tax law spells out with precision the matters that are within its scope. But precision is not enough. A law should not be precise at the expense of being complicated

and impossible to understand. The easier a tax law is to understand, the lower will be the compliance costs, both for taxpayers and for tax administrators.”

(“Drafting Tax Legislation, Vol. 1 (1996)” by Victor Thuronyi)

In light of the above statement, critically analyze the statutory provisions laid down in the Inland Revenue Act, No 24 of 2017, to what extent this has been followed.

3. ABC (Pvt) Ltd, a leading software development company in Sri Lanka, uses a trust called “Remuneration Trust” to confer benefits on its employees. The company makes a cash payments to the said trust in respect of that employee and recommends the trustees of the Remuneration Trust to resettle the sum on to a sub-trust. It further recommends that the income and capital of the sub-trust should be applied in accordance with the wishes of the respective employee. In this way, 75 sub-trusts are established in the name of individual employees of the company. The employees are allowed to obtain loans from their relevant sub-trusts up to the limit of the payment made to it. The same mechanism is used to give retirement benefits and bonuses to the employees.

Shehan Fernando, an employee of ABC (Pvt) Ltd submits his return of income for the year of assessment 2018/19 without indicating the payments made to the Remuneration Trust and relevant sub-trust. However, the Commissioner General of Inland Revenue is not satisfied with his return and issues an assessment making adjustments which includes the payments made to the Remuneration Trust as his employment income.

Giving special reference to the anti-avoidance provisions contained in the Inland Revenue Act, No. 24 of 2017, discuss the income tax liability of Shehan with reference to the relevant statutory provisions and case law.

4. The Inland Revenue Act, No. 24 of 2017 provides wide-ranging methods for the recovery of tax in default. Identify relevant provisions which provide these recovery methods and recommend whether these provisions may be amended to make their application less severe on taxpayers and to create a sense of balance in the power-relationship between the Commissioner General of Inland Revenue and tax payers.
5. Critically evaluate the tax liability of the following, focusing on the reasons as to why these two items are included in the 2017 tax legislation:
 - a. Capital Gains tax
 - b. Investment income

6. Modern Tech Ltd., is a company that manufactures computer accessories for both the local and world market. Its annual income and profits are estimated at Rs. 2.5 Billion. The statement of profits and losses of Modern Tech Ltd. for the year 2018/2019 are as follows:

- i. Depreciation of plant and equipment is valued at Rs. 4.5 Million.
- ii. A property was purchased in Biyagama at a cost of Rs. 10 million, to expand the manufacturing capacity of the company.
- iii. Rs. 600,000/- for legal and consultancy fees spent in defending intellectual property rights in the products manufactured.
- iv. Office maintenance expenses include the cost of two new safes that were purchased when the old safes were damaged when the office was broken into by thieves. Each safe costs Rs. 75,000/-.

Advise Modern Tech Ltd. on the permissible deductions when preparing its accounts for the above year of assessment. Your answer should be supported by relevant authorities.

7. Answer both parts:

- i. Assess the provisions in the Inland Revenue Act No. 24 of 2017 that relate to the filing of returns, commenting on the impact of the powers of the assessor to alter the assessment on the rights of the taxpayers.
- ii. Comment on the appeals process in the Inland Revenue Act No. 24 of 2017, from the viewpoint of whether this process facilitates the objectives of tax collection of the Act.
