

**UNIVERSITY OF COLOMBO, SRI LANKA**  
**FACULTY OF LAW**  
**BACHELOR OF LAWS DEGREE EXAMINATION - YEAR IV- 2020**

**TAX LAW**  
(Three Hours)

Total Number of Questions: 07

Answer any **FOUR** questions and **NO MORE**  
(Candidates will be penalized for illegible handwriting.)

---

1. 'A simple tax system better enables taxpayers to understand the tax consequences of their actual and planned transactions, reduces errors and increases respect for that system. Taxpayers should be able to understand the rules and comply with them correctly and in a cost-efficient manner'

Critically evaluate to what extent the principles of 'Simplicity, Convenience and Stability' have been followed under the current tax regime of Sri Lanka.

(25 Marks)

2. Sumith Fernando is the owner of a software company. He incurred the following expenses during the year of assessment 2019/2020 and wishes to deduct the said expenses in calculating his income. How do you advise him?

- a) Rs. 1,000,000/- for installing a mainframe computer that centralizes the entire work of the company. This is expected to last ten years.
- b) Rs.250,000/- that was spent on research and development of a new software to protect personal information.
- c) Legal costs of Rs.500,000/- incurred in challenging the assessment made after he defaulted in filing his tax returns.
- d) Rs.75,000/- that was spent to renovate the office premises and upgrade the computers.
- e) Rs 100,000/- that was spent on the annual staff trip.

(25 Marks)

3. Discuss in parts (a) and (b), the income tax liability arising from the following factual scenario in terms of the year of assessment 2019/2020 with reference to relevant statutory provisions and decided cases.

a) Mr. Sajith Perera works at the Suntel Telecom Head Office in Fort. He is the branch manager of the International Calls Division. Twenty-five staff members work under him. Other than the salary of Rs. 300,000/-, Suntel has provided him with a car plus a petrol allowance of Rs. 100,000/- and also pays his house rent, which amounts to Rs. 75,000. Due to his service being of an essential nature requiring him to be accountable 24 hours of the day, the company has provided another car for his family to use. Recently, Mr. Sajith was admitted to the hospital due to a sudden health condition and the welfare fund of the company paid the bill amounting to Rs. 150,000/-. Furthermore, the 2019 year-end evaluations indicated that Mr. Sajith's Division earned the highest profits among all divisions. Suntel awarded him Rs. 500,000/- for his performance.

(12.5 Marks)

b) Raja, a cellphone dealer, owned a shop in the public market, Homagama. His monthly income from the business is Rs. 75,000/-. With the intention of expanding his business, he opened an agency post office in Homagama. He provided various services in his new shop including, outgoing calls facilities, email facilities, fax facilities and internet facilities. His monthly income multiplied three-fold because of the fees he obtained from the services he provided. He received an award of Rs. 250,000/- for being the best upcoming employer among the members of the trading association in Homagama. After several months, he sold two modern photocopy machines and used office furniture for Rs. 150,000/- and 50,000/- respectively.

(12.5 Marks)

4. Answer both (a) and (b):

a) Distinguish between "Investment income" and "Capital Gain" with suitable examples, comparing and contrasting the distinctive characteristics of each category.

(10 Marks)

b) "Capital Gain Tax helps to decrease the unnecessary tax burden on consumers who might otherwise be required to pay a high amount of tax in the form of numerous indirect taxes which affect the poor rather than the wealthy".

Do you agree with the above statement? Support your answer by discussing the provisions of the Inland Revenue Act, No. 24 of 2017, which impose tax liability on capital gains, with special reference to the definitions of the terms “investment asset”, “consideration”, “cost” and “realization”.

(15 Marks)

5. Mr. Sankar and Giant (Pvt) Ltd are equal partners of a partnership known as S&G Enterprise. For the year of assessment 2019/20 both parties received the following incomes;
- S&G Enterprise has a total business income of Rs. 1,000,000/- and a rental income of Rs. 500,000/-. Both Mr. Sankar and Giant (Pvt) Ltd received equal shares in the above incomes on March 2020. However, S&G Enterprise has deducted 8% withholding tax from the total income of the partners and paid this to the Inland Revenue Department.
  - In addition to the above Mr. Sankar has received an employment income of Rs 800,000/- and Investment income Rs 200,000/- which comprise Rs 150,000/- of gains from the realization of investment assets and Rs 50,000/- of dividends. Mr. Sankar made a monetary donation of Rs. 200,000/- to an approved charitable institution.
  - Giant (Pvt) Ltd received a total income of Rs. 2,500,000/- for the year of assessment which includes Rs. 750,000/- being the business income received from S&G Enterprise. Giant (Pvt) Ltd issued bonus shares valued at Rs. 1,000,000/- out of its profits to its existing shareholders on March 2020.

Discuss the income tax liability of each of the parties and advise them as to how to maximize available reliefs when calculating the tax payable with reference to the relevant statutory provision.

(25 Marks)

6. Answer **EITHER (a) OR (b)**:

- “A taxpayer who defaults in filing tax returns when they are due is punished severely by the statute and denied even the ordinary protection offered by administrative processes.”

Evaluate this statement, relying on the provisions of the Inland Revenue Act, No 24 of 2017 and relevant judicial opinion.

b) Even though the avoidance of one's tax liability before it falls due is a perfectly legitimate exercise, the Revenue constantly makes inroads into this area, by closing loopholes as they come up.

With reference to the key provisions and methods by which this is done, critique tax avoidance schemes from the viewpoint of the Revenue.

(25 Marks)

7. Answer both (a) and (b)

(a) "A self- assessment taxpayer who has filed a self-assessment return in the approved form for a tax period shall be treated, for all purposes of this Act, as having made an assessment of the amount of tax payable as set out in the return (including a nil amount) for the tax period to which the return relates." (Section 132, the Inland Revenue Act, No 24 of 2017)

Discuss the procedure of tax returns and assessments with reference to relevant statutory provisions and case law.

(12.5 Marks)

(b) "A person aggrieved by the decision of administrative review may appeal against the decision to Tax Appeals Commission;" (Section 140, the Inland Revenue Act, No 24 of 2017)

Critically discuss the appeal process in the light of the Provisions of the Inland Revenue Act No 24 of 2017.

(12.5 Marks)

\*\*\*\*\*