

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Honours in Accounting (Semester V) Examination
– August, 2021

ACT 3313 – Taxation

Three (03) Hours

This is an Open Book Examination

Answer All Questions

Use of Calculators is Permitted

State Assumptions, if any, Clearly

This Paper Consists of Three (03) Questions Printed in Six (06) Pages

1. Mr. Dissanayake served as the Chief Engineer at AE Engineering Ltd and retired from the service on 31.12.2020 upon reaching retirement age according to the company policies. He is a qualified engineer and holds a masters degree qualification as well. He has declared his consent to the company to deduct Advance Personal Income Tax (APIT) for the year of assessment (Y/A) 2020/2021. He received Rs. 460,000 monthly salary after contributing 8% to Employees Provident Fund. In addition, he received cost of living allowance of Rs. 7,800 per month, and telephone allowance of Rs. 4,000 per month. The company paid him Rs. 400,000 of bonus in April, 2020 from the profit earned by the company in 2019/2020. Also, the company paid another bonus of Rs. 500,000 on the date of his retirement. The company paid him a monthly Rs. 10,000 of an entertainment allowance. Mr. Dissanayake was provided a company-owned vehicle (1,990cc) with a driver and fuel for his official and personal usage. In addition, he resided in a company-owned furnished residence in Colombo till 31.12.2020. A medical bill of Rs. 350,000 of Mr. Dissanayake was reimbursed in December, 2020 through the funds available in medical insurance scheme which is uniformly applicable to all staff of the company.

Mr. Dissanayake serves as a part time engineering consultant at another engineering firm. He earns Rs. 100,000 per month for this service. He has not furnished the consent to deduct

APIT from this receipt. He earned Rs. 50,000 per month until 31.12.2020 as rental income by renting out his house in Gampaha. Total interest income during the year of assessment was Rs. 100,000 on his bank balances, and he received Rs. 50,000 as dividend from ABC Plc in 2020/2021. During the year of assessment, he has donated Rs. 100,000 to the Presidents Fund and medicine worth Rs. 300,000 to a government hospital. His child studies at a private university and incurred Rs. 1,500,000 during 2020/2021 as educational expenses.

Mr. Dissanayake received Rs. 14,000,000 from Employees Provident Fund (EPF) in March 2021 and his retirement benefit from Employees Trust Fund (ETF) has not received by the end of the year of assessment.

Mr. Dissanayake and Mr. Perera are partners of the D&P Construction Services. Extracts of the Income Statement for the year ended 31.03.2021 is as follows. The profit sharing ratio is 2:1.

Gross profit		4,300,000
Interest on drawings (Mr. Perera)	120,000	
Dividend from a resident company	30,000	<u>150,000</u>
		4,450,000
Expenses:		
Salaries of employees	1,550,000	
Utility bills	840,000	
Interest on loan (Mr. Dissanayake)	220,000	
Interest on capital		
- Mr. Dissanayake	55,000	
- Mr. Perera	35,000	
Research and development expenses	200,000	
Depreciation	<u>150,000</u>	<u>3,050,000</u>
Net profit		<u>1,400,000</u>

Note: Details of the assets which qualify for capital allowance are as follows:

Asset	Cost (Rs.)
Computer (purchased in 2019/ 2020 Y/A)	150,000
Office furniture (purchased in 2018/ 2019 Y/A)	200,000
Equipment (purchased in 2020/ 2021 Y/A)	500,000

Using the above information, compute Mr. Dissanayake's final tax liability of 2020/2021 year of assessment.

(40 Marks)

2. i. Mr. Jayaruwan is the owner of three houses situated in Colombo, Kandy and Gampaha. He has been the owner of these houses for last 10 years. He and his family live in the Colombo house and other two houses have been rented out. He is planning to sell these houses and migrate to Australia during 2022/2023 year of assessment. He seeks your consultancy on the imposition of capital gain tax and his tax responsibilities in this regard.

Prepare a consultancy note which would help him to understand relevant clauses of capital gain tax imposition and his tax responsibilities.

(10 Marks)

- ii. Explain prevailing taxation responsibilities for a partnership and a company with reference to the Inland Revenue Act of Sri Lanka.

(08 Marks)

- iii. Pay As You Earn (PAYE) scheme was a withholding tax scheme applied on employment income to deduct tax at source. It was abolished with effect from 01.01.2020. Advance Personal Income Tax (APIT) was introduced with effect from 01.04.2020 as a mean of collecting tax from employment income. Describe the responsibilities of employer and employee with regard to APIT deductions.

(06 Marks)

iv. Explain how residence status of an individual and a company determines as per the provisions in the Inland Revenue Act of Sri Lanka.

(06 Marks)

(Total 30 marks)

3. i. Medicare (Pvt) Ltd is a company registered for Value Added Tax (VAT) and engages in the business of importing and selling medical equipment for elderly community. Recently, the company has started a new business of providing medical research services to India. The following information for the quarter ended 31st March 2020 was extracted from the books of the company.

Description	Rs.
Sale of wheel chairs	4,500,000
Sale of syringes and nebulizers	6,000,000
Sale of crutches	6,200,000
Foreign currency income earned from medical research services to India (1 Indian Rupee = LKR 2.50)	1,300,000

- Income (exclusive of VAT)
- The company has paid the following input tax during the quarter.

Description	Rs.
On local packaging relating to wheel chairs	100,000
On syringes and nebulizers	150,000
On local packaging relating to crutches	70,000
Office expenses (office is common for all distribution activities)	100,000

- Further, the company has paid the following expenses during the quarter ended 31st March 2020.

Description	Rs. (Exclusive of VAT)
Salaries	150,000
Purchase of refrigerator	80,000
Electricity	20,000

- Unclaimed input VAT brought forward from the previous quarter amounts to Rs.60,000
- The company has paid Rs.200,000 for the quarter ended 31st March 2020 as VAT installment.

Based on the above information;

- a. Assess the balance payable / overpaid of Value Added Tax (VAT) for the quarter ended 31st March 2020.

(10 Marks)

- b. State the due date for submitting VAT return for the quarter ended 31st March 2020.

(02 Marks)

- ii. Evaluate the impact of any two budget proposals of the year 2021 relating to Value Added Tax provisions of Sri Lanka.

(03 Marks)

- iii. Estimated income tax liability of Amaya (Pvt) Ltd for the year of assessment 2020/2021 is Rs.600,000 and the company has paid Rs.150,000 as the first quarterly installment of income tax payment for the year of assessment 2020/2021.

You are required to:

- a. State the due dates for payments of second and third quarterly installments of the year of assessment 2020/2021.

(02 Marks)

- b. Calculate the amount of income tax to be paid as the 2nd quarterly installment.

(02 Marks)

- iv. Kudaoya Tea (Pvt) Ltd is a resident company engaged in the business of manufacturing Tea. The company has filed its' return of income for the year of assessment 2019/2020 in time. The Assistant Commissioner has rejected the return and has issued an additional assessment. The company wishes to submit a request to review (an appeal) the decision. Advice the company on the submission process of an appeal and the decision making hierarchy for a valid appeal submitted.

(06 Marks)

- v. Briefly explain possible measures that the Inland Revenue Department can take to collect default taxes of a person.

(05 Marks)

(Total 30 marks)
