

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF LAW

BACHELOR OF LAWS DEGREE EXAMINATION (Online) - YEAR IV- 2021

TAX LAW
(Three Hours)

Total Number of Questions: 06

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

1. 'Governments change their tax laws and policies for economic and political reasons. However, the income tax law of a country should be based on certain principles and objectives, in order for it to assess the tax burden of the citizen accurately.'
Discuss the validity of the above statement.
(100 Marks)
2. Mr. Deepal Fernando has been working at *Sweets Biscuits Pvt Ltd* as an accountant since 2000. As an Executive officer, he receives many facilities from the company. The Company pays Rs. 500,000/- as his monthly salary. He has also been given a three-bedroom house in Colpetty, for which the monthly rent of Rs. 150,000/- is paid by the company. Further, he has been given a car with a driver and fuel, which amounts to Rs. 300,000/- per month. The company gives him Rs. 500,000/- to complete his postgraduate degree and with this qualification, he is promoted as Chief Accountant in January 2021 with an allowance of Rs. 100,000/-, which is added to his salary for his new appointment. Apart from that, Mr. Fernando has equal shares in his family business, which is a furniture shop run by his two brothers. They sell their old showroom in Walisara for Rs. 7,500,000/- and share the amount equally among them. They earn Rs. 6 million as annual profits and share this among them equally. Furthermore, Mr. Fernando has bank deposits worth Rs. 2 million in *Super Bank, Bambalapitiya*. Discuss the tax liability of Mr. Fernando in the assessment year 2020/2021.
(100 Marks)

3. 'The rationale behind the re-introduction of Capital Gain Tax (CGT) is to reduce the inequalities through redistribution policy. If capital gains are not taxed, certain individuals will receive preferential treatment over others which undermines the progressivity of tax revenue of the country'

Do you agree? Critically evaluate the above statement with reference to the provisions of the Inland Revenue Act No.24 of 2017 which impose tax liability on Capital Gains.

(100 Marks)

4. Sandu is working as a software Architect at M1 (Pvt) Ltd, a leading Telecommunication company in Sri Lanka. Because of his expertise in multi-software languages and mobile application developments, M1 allows him to have his own software development team to provide software development services for domestic and international clients.

Assume you are the legal adviser retained by Sandu to advise on his income tax liabilities for the year 2020/2021. The following expenses are incurred in the context of his **employment and software development business**. Advise him regarding the **permissible deductions** for his income. Your advice should be supported by relevant authorities;

- a) Receipt of annual income of Rs. 06 million from M1 (Pvt) Ltd. The company deducted Rs. 480,000/= of withholding tax from his income.
- b) Payment of Rs.200,000 as a fine to the Western Provincial Council for violation of the rules relating to Business name registration.
- c) Expenditure of Rs. 550,000/= for researching and developing a new software application for automated medical services for elderly people. The said application is beneficial for the country to overcome many issues during travel restrictions. Further expenditure of Rs. 200,000/= for purchasing proprietary rights for the newly invented software product and Rs. 250,000/= for legal and consultancy fees.
- d) Expenditure of Rs. 400,000/= for repairing ten computers and Rs.150,000/= for server maintenance. The written down value of the computers is calculated as Rs.1,150,000/=.

- e) Purchase of a new car rental software for Rs. 10 million and expenditure of Rs. 08 million for resolving the bugs and technical issues in the software to make it usable in the market.

(100 Marks)

5. Answer **either** (a) **or** (b):

- a) Though tax avoidance and tax evasion are two different concepts, the negative impacts of both are equally detrimental to the tax income of the country. Discuss.

or

- b) The Income Tax Act No. 24 of 2017 introduced an imperative procedure for tax in default. Discuss the practical impact of these procedures.

(100 Marks)

6. Answer **both** (a) **and** (b)

- a) The provisions of the Inland Revenue Act No.24 of 2017 provide more than one type of assessment for a particular tax period. Discuss the different types of assessment and comment on the powers of the assessor to get involved in the assessment process and alter the assessments of the taxpayer.

(50 Marks)

- b) Critically analyse the appeal process under the relevant laws in offering relief for the taxpayer who is not satisfied with the decision of the Commissioner of Inland Revenue.

(50 Marks)
