

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Honors in Finance (Semester VII) Final Examination - June, 2022

FIN 4238 - Taxation

Instructions.

- This Paper Consists Four (04) Questions, on Eight (08) Pages.
 - Two (02) Hours.
 - Answer to All Questions.
 - This is an online and Open Book Examination.
 - Use of Calculators is Permitted.
 - State Clearly Assumptions, *if any*.
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01.

M/s. Pramuka Associates is a partnership formed by two Chartered Accountants *viz*, Amal and Nimal. They engage in providing professional services in relation to Audit, Accounts and Tax. There is no written partnership agreement for the business. However, the partners have mutually agreed to share profits or losses equally between them.

As per the financial statements prepared for the year ended March 31, 2022, the net profit for the partnership is Rs. 10,250,000/- after adjusting the following expenses and income.

- a. Partners' monthly salary are Rs. 100,000/- for Amal and Rs. 125,000/- for Nimal, respectively. In addition to the salaries, both partners are entitled for a traveling allowance of Rs. 10,000/- per month;
- b. Further to the remuneration drawn, Nimal has received Rs. 750,000/- as a service fee, for a special internal audit assignment that he engaged;
- c. Secretarial activities of the partnership are handled by Amal's wife at a monthly salary of Rs. 35,000/-. This was recorded under office staff salaries;
- d. Nimal's Son, Anil who works as an intern officer was paid a monthly allowance of Rs. 50,000/-;
- e. During the Y/A, Partnership has recorded a Dividend Income of Rs. 500,000/- (Fresh) for the share investment held at Siren Securities (Pvt) Ltd;

- f. Amal has provided a temporary loan of Rs. 500,000/- to the partnership on October 01, 2021 (*not settled as at March 31, 2022*) and interest was paid at the rate of 8% per annum;
- g. During the year of assessment (Y/A), the partnership has donated Rs. 100,000/- to the National Kidney Fund and distributed Rs. 50,000/- dry rations among needy families. These expenses were duly charged to comprehensive income statements;

Using the above information, you are required to;

- i. Compute the Partnership Tax Payable for 2021/2022
(07 Marks)
- ii. Show the allocation of Total Partnership Income and Tax Credits among partners (Partners' Share of Income Allocation) for 2021/2022
(08 Marks)
(Total 15 marks)

02.

Mr. Kamal Perera is a resident individual and retired Sri Lanka Army officer. After the retirement, he has joined with a leading security firm in Sri Lanka as the General Manager and employed since 2020. The following information relating to Mr. Kamal Perera is provided in respect of the year of assessment 2021/2022 (hereinafter sometimes referred to as the '*year*').

- a. Pension received from the government of Sri Lanka is Rs. 65,000/- per month;
- b. Total net salary (*after deducting 8% ETF contribution*) received from the security firm for the year is Rs. 3,036,000/-. The employer has contributed Rs. 396,000/- to EPF and Rs. 148,500/- to ETF on behalf of Mr. Kamal;
- c. Mr. Kamal is entitled for an entertainment allowance of Rs. 10,000/- per month *whereas* he has utilized only Rs. 105,750/- during the year;
- d. A cash bonus of Rs. 300,000/- was paid to him on April, 05 2022 from the annual profits of 2021/2022;
- e. A car (engine capacity 1800 CC), with fuel and driver has been provided by the firm for his official and private use. Neither firm nor Mr. Kamal maintains running records of this vehicle;
- f. Mr. Kamal reimbursed the telephone bills of Rs. 120,500/- during the year and that mobile is used for both official and private purposes;

- g. He was provided a rent free, fully furnished apartment owned by the security firm in Colombo and wages of Rs. 20,000/- per month has been paid for his domestic servant at the apartment;
- h. Mr. Kamal was given a staff loan of Rs. 3,000,000/- on January 01, 2022. This facility was provided at a nominal interest rate of 6% whereas the annual market rate specified by the CGIR was 9% for 2021/2022. Total interest charge during the period was Rs. 43,500/-;
- i. During the year of assessment, his son was hospitalized, and the 50% of the total medical bill of Rs. 100,000/-, was reimbursed by the company;
- j. Further, Rs. 10,000/- per month was paid by the employer, on a life insurance policy obtained by Mr. Kamal;
- k. The firm has paid his annual membership fee to Sri Lanka EX-Servicemen's Association in December 31, 2022 of Rs. 15,000/-;
- l. During the year, Mr. Kamal has been reimbursed Rs. 135,500/- as official traveling expenses incurred to visit site offices;
- m. Advance Personal Income Tax (APIT) deduction on remuneration for 2021/2022 is Rs. 125,500/-;
- n. Mr. Kamal is a non-executive director at Syber Security (Pvt) Ltd, which is a fully owned subsidiary of the firm that he currently serves. He was paid a fee of Rs. 30,000/- during the year for attending board meetings and no APIT has been deducted;
- o. The firm has granted 10,000 shares to Mr. Kamal on March 25, 2021 *whereas* the market price of a share was Rs. 15/-. This has been allotted on May 20, 2021 *whereas* the market price of a share was Rs. 17/-;
- p. His own house in Kandy was rented for Rs. 50,000/- per month from April 01, 2020. Rates paid by Mr. Kamal for the year was Rs. 5,000/-. During the year, he had incurred Rs. 125,500/- for repairs of the house;
- q. During the year Mr. Kamal has acquired Rs. 100,000/- worth of listed debentures from the Colombo Stock Exchange (CSE) and received Rs. 15,000/- as interest on March 20, 2022. No Advance Income Tax (AIT) has been deducted on such interest;
- r. During the year, Mr. Kamal has disposed the share investment made at ACL Cables PLC (a listed company on the CSE) for Rs. 500,000/-. Brokering fee of Rs. 5,000/- was incurred to affect this transaction. These shares were bought on September 01, 2017 at Rs. 425,000/- and the market value per share as at September 30, 2017 was Rs. 450,000/-;

- s. Mr. Kamal has taken an educational loan of Rs. 500,000/- from Commercial Bank on January 05, 2022 and spent for higher education of his daughter, who studies at NIBM University – Sri Lanka. Interest paid to a bank on this loan was Rs. 65,000/-;
- t. He has donated Rs. 25,000/- worth of wheel chair to “Ragama Ranawiru Sevana” for the use of disabled soldiers and Rs. 35,000/- worth of library books to Mathugama Central Collage;
- u. Mr. Kamal has made a contribution of Rs. 15,000/- for a female individual who is from a Samurdhi Beneficiary family as recommended and confirmed by the Department of Samurdhi Development’ to establish a shop;
- v. Tax paid on self-assessment during the year is Rs. 100,000/-;

Based on the above information, compute Mr. Kamal Perera’s Assessable Income from each source, Total Assessable Income, Taxable Income, Gross Tax payable, Balance Income Tax Payable / Refund Due and Exempted/Excluded Income, *if any* for the year of assessment 2021/2022.

(45 marks)

03.

Nextgen is a private limited company, incorporated and domiciled in Sri Lanka. It engages in providing interior designs for corporate and individual clients. The company has incorporated in April, 2018 and currently employed 105 staff members.

Extracts of the financial information of Nextgen (Pvt) Ltd for the year ended March 31, 2022 (hereinafter sometimes referred to as the ‘*year*’) are given below.

1. **Income Statement for the year ended March 31, 2022;**

Design Income	150,045,000
Direct Expenses (Note 1)	(73,670,000)
Gross Profit	76,375,000
Other Income (Note 2)	7,450,000
Administrative Expenses (Note 3)	(10,055,000)
Service and Distribution Expenses (Note 4)	<u>(2,450,000)</u>
Profit from Operations	71,320,000
Finance Cost (Note 5)	<u>(2,250,000)</u>
Profit before Tax	69,070,000
Tax	<u>(12,346,000)</u>
Profit after Tax	<u>56,724,000</u>

2. **Equity and Liability Position as at March 31, 2022;**

Stated capital	2,500,000
Revaluation Reserves (Land and Buildings)	1,700,000

Retained Profits	2,075,500
Long Term Loans	5,500,000
Lease Creditors	1,450,000
Bank Overdraft	2,500,500

3. Note 1: Direct Expenses;

An extract of direct expenses is given below.

Direct Wages	58,100,000
EPF	6,972,000
ETF	1,743,000
Training Expenses	2,125,000
Staff Meal Expenses	2,475,000
Staff Welfare and Medical Expenses	1,745,000
Staff Entertainment Expenses	<u>510,000</u>
	<u>73,670,000</u>

- a. Nextgen has included the salaries paid to Design Officers and Architectures as Direct Wages. The total has duly been considered when calculating Advance Personal Income Tax (APIT) deductions;
- b. Welfare Expense includes, Rs. 475,00/- of safety uniforms and caps provided to site officers;
- c. Meal Expense includes meals and refreshments provided to all the employees. This benefit is administratively impractical to allocate to each individual employee;
- d. Training Expense includes, training provided to intern officers and reimbursement of Architectural Diploma followed by one of the Senior Staff Official of Rs. 105,000/-. This has not been considered when calculating her Advance Personal Income Tax (APIT) deduction;

4. Note 2: Other Income;

Rent Income (Gross)	2,400,000
Gain on Disposal of Shares	845,000
Interest Income	3,705,000
Dividend Income	<u>500,000</u>
	<u>7,450,000</u>

- a. Nextgen has rented out its' bear land (kept as an investment property) for a monthly rental of Rs. 200,000/- to a company to use as car park. No Advance Income Tax (AIT) has been deducted;
- b. Nextgen has redeemed some shares (held as an investment) during the year and the details are given below;

- i. CTB PLC (Listed Company on the CSE) – 20,000 shares acquired on May 01, 2017 at Rs. 675,000/- and sold during the year for Rs. 1,000,000/-. Market value per share as at September 30, 2017 was Rs. 35/-;
- ii. Solutions Lanka (Pvt) Ltd - 50,000 shares acquired on December 15, 2020 at Rs. 455,000 and sold during the year for Rs. 975,000/-. Market value per share as at September 30, 2017 was Rs. 12.50, no tax is paid;
- c. Interest income is derived on listed debenture investment made with Siyapatha Finance PLC in 2020/2021. No Advance Income Tax (AIT) is deducted;
- d. The dividend income received from Renuka Hotels Group of Company was Rs. 350,000/- and this amount has distributed out of the dividends received to Renuka Hotels Group of Company and rest is directly received from Horana Planation (Pvt) Ltd;

5. Note 3: Administrative Expenses include the following;

- a. Accounting depreciation for the year amounting to Rs. 4,450,000/-;
- b. Gratuity provision for the year amounting to Rs. 2,150,000/-. Gratuity paid to employees during the year is Rs. 2,450,000/-;
- c. Rs. 75,000/- was spent for placing a tender advertisement;
- d. Rs. 225,000/- has been provided for the impairment of financial instruments;
- e. An entertainment expense of Rs. 450,000/-;
- f. A staff loan amounting to Rs. 50,000/- was written off during the year;
- g. Cash donation made to SOS Children Village (an approved charity which provides institutionalized care for needy children) of Rs. 600,000/-;
- h. Office sanitizer expenses of Rs. 105,000/- and Rs. 110,000/- payment for quarantine expenses of Managing Director's family member;
- i. An additional charge of Rs. 195,500/- was paid to one of corporate clients on delaying the site works;
- j. Legal expense of Rs. 55,000/- has been incurred for sending letters of demands to Debtors and Rs. 126,500/- to defend "Design Right";
- k. A book loss of Rs. 150,000/- from sale of a generator;

6. Note 4: Service and Distribution Expenses include the following;

- a. Rs. 850,000/- was incurred to carry out a market research & media campaign through “Design and Architectural Institute – Sri Lanka”;

7. Note 5: Finance Costs consist the following;

- a. Total interest paid on Bank over draft taken during the year is Rs. 950,500/-;
- b. The lease interest paid on staff bus acquired in 2021/2022 is Rs. 250,250/-;
- c. Interest paid on term loan obtained from Central Finance PLC of Rs. 1,049,250/-, where the borrowings were used to construct the new warehouse;

8. Property, Plant and Equipment (PPE)

- a. Details of the “Cost of PPE” in operation as at March 31, 2022 are as follows;
 1. Land, acquired in 2018/2019 - Rs. 8,000,000/-;
 2. Main Administration building, constructed in 2020/2021 - Rs. 10,500,000/-;
 3. Office furniture and equipment, acquired in 2020/2021 - Rs. 1,300,000/-;
 4. Computers and peripherals, acquired in 2020/2021 - Rs. 2,500,000/-;
 5. Designing software, acquired in 2021/2022 - Rs. 400,000/- (for the use of 2 years);
 6. A reconditioned motor jeep, acquired in 2020/2021 - Rs. 2,500,000/- (for the use of General Manager);
 7. Solar panel fixed on the roof in 2021/2022 - Rs. 1,250,000/-
 8. During the year, the company has acquired a staff bus at a cost of Rs. 3,525,000/-. A full lease was obtained for 4 years to purchase the above vehicle and the monthly lease rental amounts to Rs. 175,250/-;
- b. The new warehouse building is under construction as at March 31, 2022 and work in progress is recorded at Rs. 5,250,000/-;
- c. Nextgen has disposed a generator at a reduced price of Rs. 500,000/- in June 2021, which were bought at a total cost of Rs. 1,100,000 in July 2019;

Additional Information

9. There is an unrevealed brought forward business loss of Rs. 1,025,250/- from the year of assessment 2020/2021;
10. Self-assessment Corporate Income Tax (CIT) payments for the year is Rs. 7,240,000/-;

Based on the above information, compute Total Assessable Income, Taxable Income, Gross Tax Payable, Balance Income Tax Payable / Refund Due and Exempt/Excluded Income *if any*, of Nextgen (Pvt) Ltd for the year of assessment 2021/2022.

(35 marks)

04.

Cable Lanka is a private limited company, engages in the business of manufacturing the power cables and supplying to domestic market. The Company is registered for Value Added Tax (VAT) w. e. f January 01, 2022 and expects to submit the first VAT return to the Inland Revenue Department.

a. State the due dates for the payments of VAT for the quarter ended March 31, 2022 (2210).

(02 Marks)

b. State the due date for the filing of VAT Return for the quarter ended March 31, 2022 (2210).

(01 Mark)

c. State two (02) consequences, *where* any VAT payment is in default for a taxable period.

(02 Marks)

(Total 05 marks)
