

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF LAW

BACHELOR OF LAWS EXAMINATION (ONLINE), YEAR IV– 2022

TAX LAW
(Three Hours)

Total Number of Questions: **06**

Answer Three **(03)** questions and **no more**.
(Candidates will be penalized for illegible handwriting.)

1. 'Taxation principles are a set of guidelines that help lawmakers and governing bodies to formulate strategies and plan their execution to ensure a robust tax structure, which aims to not only increase revenue but also bring social and economic equality to its citizens.'

Discuss to what extent taxation policies have had an effect on Sri Lanka's current economic crisis and suggest measures that may be taken to rectify the situation.

(100 Marks)

2. Answer both parts:
- a) 'Tax avoidance and Tax Evasion have similar effects - namely a reduction of revenue yields - and are based on the same desire to reduce the tax burden. Nonetheless the implications of one and the other are dissimilar'.

Outline the concepts of Tax Avoidance and Tax Evasion, with reference to the pertinent statutory provisions and decided cases.

- b) 'The Commissioner General of Inland Revenue has immense powers to recover tax in default, which may affect the tax payer negatively.'

Critically evaluate the validity of the above statement with reference to the existing Statutory Provisions of Inland Revenue Act No.24 of 2017 and support your answer with concrete examples.

(50 X 02 = 100 Marks)

3. Prof. Ravi Subramaniam is a well-qualified senior professor attached to the student counselor unit of the Metropolitan University, Colombo. He conducts lectures and workshops mainly on positive thinking and he receives a monthly salary of Rs. 400,000/- which includes cost of living and research allowances. Currently, he is the Director of the unit and receives an allowance of Rs. 20,000/- per month in addition to his salary. The University provides fuel and a driver, which costs Rs.150,000/- every month. The University nominates him as a representative to a world conference named 'Youth Counseling' in Singapore in January 2022, which costs Rs.1, 000,000/- to the University. He wins the best presenter award at the Conference and receives a cash prize of \$1000 with a certificate of appreciation.

Further, he is the author and publisher of a book titled 'Positive Thinking'. Unfortunately, due to the Covid pandemic he is unable to sell his books which are valued at around Rs.3,000,000/- and the same were kept stacked with a private printer. He sells the said books, three laptops and printing materials to one of his fellow publishers in order to cover his expenses. Nevertheless, he receives the award for the best book at an international book fair held in Singapore during his official tour. He donates the prize money of Rs. 500,000/- to the government social welfare fund for helping needy people in Sri Lanka.

Discuss the tax liability of Prof. Ravi Subramaniam during the assessment year 2021/2022 with reference to the relevant statutory provisions and decided cases.

(100 Marks)

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

a. 'Income tax assessment is the process of collecting and receiving the information filed by assesseees in their income tax returns. At the end of each financial year, all persons and entities are required to file an income tax return by self – computing the amount

of income earned and pay the tax due. Hence, an income tax assessment would happen subsequent to the filing of an income tax return.'

Critically evaluate the above statement with reference to the provisions of the Inland Revenue Act No. 24 of 2017.

- b. 'Chapter XIII of the Inland Revenue Act of Sri Lanka outlines the process whereby taxpayers may challenge a tax assessment or other decision of the officers of the Inland Revenue Department and provides procedural safeguards and required timelines for both taxpayers and the Commissioner-General. Notably, the particular Chapter in the Inland Revenue Act of Sri Lanka streamlines and makes the review and appeal processes more effective and efficient.'

Critically evaluate the tax appeals procedure referring to the relevant applicable laws and fortify your answer with relevant case laws as well.

(100 Marks)

5. 'Kidde Taste (Pvt) Ltd' is a private company incorporated in Sri Lanka. The main business of the company is manufacturing foods and energy boosters for infants. The company has incurred the following expenses in the year of assessment 2021/2022:

- a. Legal and registration charges amounting to Rs. 1,000,000/= in obtaining a patent for a new formula for an organic energy booster.

(20 Marks)

- b. A penalty of Rs.500,000/= payable to the National Accreditation Authority of Sri Lanka for the failure to produce the periodical quality assurance certificate for the past two years.

(20 Marks)

- c. Rs. 1,500,000/= that was spent to hire foreign nutritionists who excel in infant research to educate the staff of the company in research and development.

(30 Marks)

- d. Factory maintenance costs including expenses of upgrading the internal refrigerating system that was purchased and installed when the old refrigerating system was damaged due to the continued power outages. The total cost for the installation amounted to Rs.3,500,000/=.

(30 Marks)

(100 Total Marks)

6. Policymakers were of the opinion that the tax on capital gain will bridge the income gap among the stakeholders and assist government initiatives in poverty alleviation. Against this background, the Act No.24 of 2017 re-introduced the provision that imposes “Gains from the realization of assets and liabilities” with the tax on income.

- a. Examine the difference between ‘*income from investment*’ and ‘*gains from the realization of investment assets*’.

(20 Marks)

- b. Analyze the relevant provisions relating to the calculation of capital gain tax under the Act No.24 of 2017.

(40 Marks)

- c. Critically comment on whether the mechanism introduced under the above Act is capable of fulfilling the expectation of the policymakers.

(40 Marks)

(100 Total Marks)
