

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF MANAGEMENT AND FINANCE

**Bachelor of Business Administration (Level II Semester VI) Examination - December
2017**

BEC/HRM/INB 2308 – Taxation

Three (03) Hours

Answer ALL questions.

Use of calculators is permitted.

Answers should be written legibly.

1. Mr. Gunathilaka is a director of a private company. The following information relating to him is provided in respect of the year of assessment 2016/17 (Hereinafter referred to as the 'year').

a. Following benefits were received by Mr. Gunathilaka from the company,

- Gross salary Rs.200,000/- per month.
- Bonus received of Rs.450,000/- out of the profit related to year of assessment 2015/16.
- Travelling allowance of Rs.80,000/- per month.
- Reimbursement of expenses;
 - o Medical bills Rs. 250,000/-
 - o Electricity bills Rs. 85,000/-
 - o Telephone bills Rs. 60,000/-
- A car 1,600cc with fuel and a driver has been provided by the company for his official and private use. The company does not maintain running records of this car.
- Rent free house provided by the company in Wattala which has a rating assessment of Rs. 160,000/- and rates paid at 20%. Monthly rent Rs. 60,000/- was paid by the company.

b. He lives with his family in a house inherited from his parents. Floor area of the house is 2,500 square feet and rating assessment is Rs.200,000/-. The house was entirely renovated in the year 2016.

- c. Construction of his new house in Kaduwala was completed in March 2016, and it was rented out for Rs.60,000/ per month from April 2016. Rating assessment of the house is Rs.160,000/- and rates are paid at 20%.
- d. - Interest received during the year by him on an investment in Treasury Bills was Rs.160,000/-
- Interest income on a fixed deposit in a finance company was Rs.160,000/-. (WHT was not deducted on this Interest)
 - Gross interest income on his daughter's fixed deposit was Rs.20,000/-.
- e. Summary of dividends received during the year is as follows;

	Rs.
Net Dividend received from ALC PLC	90,000
Dividend received from a tax exempted company	150,000

- f. He received a prize of Rs.1,000,000/- from the National Lottery on which withholding tax of Rs.100,000/- was deducted
- g. He has obtained a housing loan in respect of construction of the house from a commercial bank for which he has paid Rs.95,000/- and Rs.80,000/- during the year as interest and capital repayments, respectively.
- h. He donated Rs.650,000/- to a Government hospital for furnishing a ward and a certificate was obtained from the director of the hospital.
- i. Annual premium paid on a policy of life insurance was Rs.115,000/-.
- j. Self-assessment income tax payment for the year was Rs.120,000/-.
- k. PAYE deduction for the year was Rs.60,000/-.

You are required to calculate the Balance Income Tax payable or Refund due of Mr. Gunathilaka for the year of assessment 2016/17.

(You are required to show your workings on calculating, Statutory Income from each source of Income, Total Statutory Income, Assessable Income, Taxable Income, Gross Income Tax Payable)

(Total 30 Marks)

2. Prime Towers (Pvt) Ltd is a resident company incorporated in July 2015. The company is carrying out the business of importing and selling furniture and other related accessories. The net profit before income tax of company for the year ended 31st March 2017 after charging all expenses and crediting all income was Rs.9,550,000/-. Total turnover of the company for the same year was Rs.560,500,000/-.

Notes to the accounts:

Note 1 : Property, Plant and Equipment

Cost

Description	Balance as at 01.04.2016	Addition	Disposal	Balance as at 31.03.2017
Land	11,000,000	2,000,000		13,000,000
Buildings	5,000,000	3,000,000		8,000,000
Computer Hardware	4,750,000	1,500,000		4,050,000
Computer Software	3,550,000	1,250,000		4,800,000
Motor Vehicles	6,100,000		3,100,000	3,000,000
Photo Copy Machine	660,000		240,000	420,000
Total	31,060,000	7,750,000	3,340,000	33,270,000

Depreciation

Description	Balance as at 01.04.2016	Addition	Disposal	Balance as at 31.03.2017
Buildings	4,000,000	1,680,000		5,680,000
Computer Hardware	2,550,000	980,000		2,180,000
Computer Software	2,050,000	560,000		2,610,000
Motor Vehicles	4,325,000	845,000	2,250,000	2,920,000
Photo Copy Machine	550,000	250,000	150,000	650,000
Total	13,475,000	4,315,000	2,400,000	14,040,000

- a) A land was purchased to construct a building during the year and construction of the building has been completed within the year.
- b) A lorry purchased in February 2015 had met with an accident and it was fully destroyed. The market value of the lorry has paid to the company by the insurance company during the year.

- c) The Computer Software in use as at 01st April 2016 had been developed by the Sri Lankan Software Company in June 2015.
- d) The machine was obtained under a finance lease agreement in July 2015, for a period of 48 months. Rental value of the agreement is Rs. 50,000/- per month and during the year entire rental was paid. This machine was not included in Property, Plant and Equipment schedule provided.
- e) Unless stated otherwise, all items of Property, Plant and Equipment as at 01st April 2016 acquired in July 2015.

Note 2: Details of some of the expenses charged and income credited to income statement in arriving at the net profit for the year ended 31st March 2017 were as follows:

a) Summary of other income:

	Rs.
- Insurance receipt on the fully destroyed lorry	2,100,000
- Dividend received from a Company	180,000
- Profit on sale of Photo Copy Machine	50,000

b) Details of interest expenses are as follows:

	Rs.
- Over draft interest	2,600,000
- Leasing interest	225,000
- Loan interest	2,650,000

- c) The company has made donations amounting to Rs.700,000/- to a Government Hospital.
- d) Total expenses for research and development was Rs. 800,000. The above amount included cost of equipment amounting to Rs. 400,000.
- e) A legal expense of Rs.100,000/- has been incurred for the recovery of bad debts and Rs. 25,000/- of legal fee was paid to lawyer for a case filed by the local authority.
- f) The company has made a provision for gratuity of Rs.1,100,000/- for the year and a payment of Rs.750,000/- was made during the year as gratuity.

g) Advertising costs are as follows;

	Rs.
- Paper notices for supplier registrations	120,000
- Sales promotion	1,100,000
- Advertisements in electronic media	1,600,000

- h) Foreign travelling expense of the director to participate a convocation of his son, amounting to Rs.500,000/- was charged to the Income Statement. In addition Rs. 1,500,000/- was incurred to visit supplier warehouse in India. Taxable profit for the year of assessment 2015/16 was Rs. 30 million.
- i) Finance Director of the company was provided a house for which monthly rent of Rs. 480,000 has been paid to the owner. Rental value of the house was Rs. 160,000 and Monthly salary of the Director was Rs. 350,000.

j) Details of bad debts charged to the Income Statement are as follows:

- Specific Provision	Rs. 85,000
- General Provision	Rs. 213,000

Note 3: Economic Service Charge (ESC) paid for the period was Rs. 800,000/- and self assessment tax payments for the year of assessment 2016/17 were Rs.600,000/-.

You are required to calculate the Balance Income Tax payable or Refund due of the Prime Towers (Pvt) Ltd for the year of assessment 2016/17.

(You are required to show your workings on calculating, Statutory Income from each source of Income, Total Statutory Income, Assessable Income, Taxable Income, Gross Income Tax Payable)

(Total 30 Marks)

3. "Vidula" Traders is a partnership carrying on a business of importing and selling electrical tools and equipment to the domestic market. Vidura and Lahiru are the partners who have introduced the capital and sharing profits and losses equally. After deducting the following expenses, the net profit before income tax of the partnership for the year ended 31st March 2017 was Rs.4,200,000/- including gross interest income of Rs. 300,000/-.

a) Administration expenses include salaries paid to partners as follows:

Vidura	Rs. 300,000
Lahiru	Rs. 200,000

b) During this year of assessment, Rs.100,000/- was paid to a Tax Consultant in respect of an appeal made against an additional assessment of income tax.

c) Finance cost includes the following:

Interest paid to Vidura for loan taken by the partnership from him	Rs. 160,000
Interest paid on both partners' Capital	Rs. 800,000

d) The partnership has purchased equipment in June 2016 for Rs.600,000/-. Depreciation of Rs.90,000/- has been charged on that. All other assets are fully depreciated for both accounting and tax purposes.

Using the above information you are required to compute;

- i. **The divisible profit / loss of the partnership.** (08 Marks)
- ii. **Gross partnership tax payable by the partnership.** (03 Marks)
- iii. **Apportionment of the divisible profit / loss between partners and the statutory income from business of each partner.** (04 Marks)

(Total 15 Marks)

4. i. Sumalka International (Pvt) Ltd is a VAT registered person and engaged in manufacturing and Distribution to Local Market. The following is a breakup of the supply and purchases **exclusive of VAT**, wherever applicable, for the taxable period.

Supply:

Taxable supply Rs. 31,000,000

Local Purchases:

Equipment from VAT registered persons Rs. 5,400,000

Furniture Machine from VAT not registered persons Rs. 520,000

Expenditure incurred from VAT registered persons Rs. 4,400,000

Expenditure incurred from persons not registered for VAT Rs. 2,100,000

Imports:

Input tax on import a Machinery Rs. 900,000

Sum of Rs. 250,000/- was available as unabsorbed brought forward input tax and amount of Rs. 200,000/- was made as installment payment during the first two months of the quarter.

Using the above information calculate the output tax of the company and the input tax that could be claimed against the output tax for the quarter ended on 31.03.2017.

(10 Marks)

- ii. Define the "Time of Supply" in respect of goods, according to the provisions of Value Added Tax Act.

(02 Marks)

- iii. Nation Building Tax (NBT) has been imposed as provision of Nation Building Tax Act No 09 of 2009. List the activities chargeable with Nation Building Tax (NBT), according to the provisions of the Act.

(02 Marks)

- iv. State the date of Economic Service Charge return has to be submitted and payments to be made for the year of assessment 2016/17.

(01 Mark)

(Total 15 marks)

5. i. List the procedure to be applied in submitting the Return of Income.

(02 Marks)

- ii. What are the actions taken by the Inland Revenue Department (IRD), if tax payable as mentioned in Return of Income will not be paid?

(02 Marks)

- iii. State the basis for payment of income tax under the self-assessment system.

(02 Marks)

iv. State the four (04) elements in the Section 02 of the Inland Revenue Act.

(02 Marks)

v. What are the four (04) responsibilities of the employer in the deduction of Pay As you Earn (PAYE) from the remuneration of an employee.

(02 Marks)

(Total 10 marks)

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