



Institute of Certified Management Accountants of Sri Lanka Operational Level

Model Paper (Taxation part)

Instructions to Candidates

1. Time allowed is **two (2) hours.**
2. Total **100** Marks
3. Answer **all** questions.
4. Encircle the number of your choice in relation to Multiple Choice Questions.
5. Candidates are allowed to use non-programmable calculators.
6. The answers should be given in **English Language.**

Subject	Subject Code
Taxation	(BLT/ OL 4)

Part I

Question No 01

01. What is the main rational of taxation?

- a. Develop the infrastructure of the country.
- b. Pay salary to government employees
- c. Collect income to meet government expenditure
- d. Above all Correct

02. What should not be the principle of taxation out of following?

- a. Equity
- b. Progressivity
- c. Certainty
- d. Integrity

03. What is the income tax rate for the year of assessment 2018/19 in the case of a subsidiary of group of companies engage solely in export?

- a. 10%
- b. 12%
- c. 14%
- d. 28%

04. What is incorrect statement on exemption relevant exemption to employment income for the year of assessment 2018/19?

- a. Compensation or gratuity paid in lieu of personal injuries or death.
- b. Rent paid to provide a residence place in the case of differently able employee.
- c. Amounts paid on retirement from any provident fund approved by the commissioner General of Inland Revenue
- d. Pension received from the Sri Lankan Government or from a Department of the Government.

05. What is the correct withholding tax rate for Dividend income for the year of assessment 2018/19?

- a. 14%
- b. 12%
- c. 10%
- d. 5%

06. A company acquired a machine in 2017/18. Purchase cost was Rs. 600,000. What should be depreciation allowance for the year of assessment 2018/19?

- | | |
|----------------|----------------|
| a. Rs. 96,000 | c. Rs. 160,000 |
| b. Rs. 120,000 | d. Rs. 200,000 |

07. What is the correct definition of Business as per the Inland revenue act no 24 of 2017

- a. **Business include** a trade, profession, vocation or isolated arrangement with a business character however short the duration of the arrangement; and a past, present or prospective business; but exclude an employment

- b. **Business include** agriculture, Trading and adventure in the nature of business.
- c. **Business include** agriculture, Trade, Game & Grambling and adventure trade
- d. Above all correct

08. When is the due date/dates for Economic services charges (ESC) return>Returns for the year of assessment 2018/19?

- a. After the end of each quarter on or before 20th day of next month which mean on or before 20th July 2018, 20th Oct 2018, 20th Jan 2019 & 20th April 2019.
- b. After the end of half year on or before 20th day of next month which mean on or before 20th Oct 2018 & 20th April 2019.
- c. After the year end on or before 20th day of next month which mean on or before 20th April 2019.
- d. After year end or before 30th day of next month which mean 30th April 2019.

09. KK Super is a buying & selling company; Total turnover for the quarter ended 31.12.2018 was Rs. 38,500,000

What is the NBT liability for the quarter ended 31.12.2018

- a. Rs. 192,500
- b. Rs. 385,000
- c. Rs. 770,000
- d. Rs. 785,414

10. Where a taxpayer has not made a valid request within thirty days as specified, CGIR can accept late requests for review. What are the situations late appeal can be made?

- a. Absence of the country
- b. Sickness
- c. Any other acceptable reasons
- d. Above all

*(2 marks*10 - 20 Marks)*

Part II

Answer **all** questions

Question No 02 (20 Marks)

The "**payment**" means the conferring of value or a benefit in any form by one person on another person.

- i List out four types of payment as per the definition of Inland revenue Act No 24 of 2017
(04 Marks)
- ii Lead Builders is carrying a Construction project and obtain consultancy services from foreign agent. Company paid Rs. 500,000 as consultancy fee per month and company paid rent of Rs. 200,000 per month for the accommodation of foreign agent.

What should be the tax implication of the Lead Builders & the consultant?

(05 Marks)

- iii BBB is company engaged in business of import & selling. The following information for the quarter ended 31st December 2018 was extracted from the books of the company:

Whenever applicable figures are including VAT;

Sales – Taxable	Rs. 25,500,000
Sales – SVAT Registered Customers	Rs. 2,500,000
Sales – Exempt	Rs. 1,500,000

Payment made during quarter excluding VAT

Import Goods	Rs. 10,000,000
Building rent (VAT registered supplier)	Rs. 900,000
Stationary (VAT Registered Supplier)	Rs. 60,000
A/C Machine Purchased from VAT Reg Person)	Rs. 1,500,000
Janitorial services (VAT registered supplier)	Rs. 300,000
Security Services (VAT registered supplier)	Rs. 550,000

Company has paid Rs. 1,120,000 for the quarter on instalment basis

Simplified VAT Credit Vouchers (SVCV) of Rs. 367,500 have been collected on SVAT sales.

- a. Assess the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st December 2018

(10 Marks)

- b. When is the due date for the return in this quarter?

(01 Marks)

(Total 20 Marks)

Question No. 03 (20 Marks)

Mr. Thejaka Bandara furnishes the Income Tax Return as a resident individual. The following information is related year of assessment 2018/19. (hereinafter referred to as the 'year').

1. Mr. Bandara is employed as a Chief Financial Officer of ABA Lanka (Pvt) Ltd from the date of 13.12.2014. He received following remuneration from the employer.

a. Gross Salary for the year	Rs. 12,000,000
b. Bonus received (for 2017/18) on 10.04.2018	Rs. 1,000,000
c. Medical Bill reimbursement	Rs. 300,000
d. Telephone Bills	Rs. 200,000
e. School Fees of Daughter	Rs. 50,000
f. Annual Subscription ACCA UK	Rs. 78,000

- g. Company has provided residence place by charging Rs. 20,000 per month. Rent paid by company was Rs. 75,000 per month and Rs. 248,000 was paid during the year for maintenance including electricity and water. Rating assessment was 200,000 and rate paid by owner amounting to Rs. 5,000 per quarter.

- h. 2000 CC Car was provided by company for personal & official travelling. Rent paid by company for this Car was Rs. 115,000 per month. Company paid driver was allocated to him (Drivers' salary was Rs. 45,000 per month) and for the fuel Rs. 25,000 allowances were given.

2. 15th January 2019, He sold his land for Rs. 9,000,000. This land was purchased in 2002 for Rs. 4,100,000 and market value as at 30.09.2017 was 7,000,000.

He has made following expenses from the date of purchase this land.

On 20.12.2016 to Construct a fence around the land Rs. 1,200,000

On 15.5.2017 to obtain electricity & water Rs. 200,000

On 10.12.2018 to concrete access road Rs. 300,000

On 5.01.2019 in relating to advertisement Rs. 100,000

3. He is carrying personal consultancy services and following transactions information available for the year.

		Rs.
Consultancy Revenue		3,600,000
Less: Expenses		
Professional Fees paid	1,000,000	
Salary	600,000	
EPF/ETF	96,000	
Bonus Paid	300,000	
Stationaries	100,000	
Laptop	120,000	
Furniture	45,000	
Donation to temple	50,000	
Electricity & Water	70,000	
Annual get-together	100,000	2,481,000
Net Profit		1,119,000

4. He has donated cash Rs. 100,000/- to an approved charity which provides institutionalized care for needy people.

5. PAYE deduction for the year was Rs. 2,160,000

Based on above information

Assess the following for the year of assessment 2018/19.

- (a) Taxable income,
- (b) Gross income tax payable,
- (c) Balance tax payable,

(Total 20 Marks)

Answers - Model Paper (Taxation part)

Part I

Question	Answer	Question	Answer
1	c	6	d
2	d	7	a
3	c	8	c
4	b	9	b
5	a	10	d

Part II

Question 02

i). Payment includes

- a the transfer by one person of an asset or money to another person or the transfer by another person of a liability to the one person;
- b the creation by one person of an asset that on creation is owned by another person or the decrease by one person of a liability owed by another person;
- c the provision by one person of services to another person; and
- d the making available of an asset or money owned by one person for use by another person or the granting of use of such an asset or money to another person;

ii). This is as per the definition of payment c & d provision of services to another person and make available an asset to another person

In the hand of Company

Total consultancy fees paid would be Rs. 700,000 as rent payment also should be considered as consultancy fee expense

In the hand of Foreign Agent

Total consultancy fees received would be Rs. 700,000 per month and to be paid tax accordingly.

Question No 02

iii) a.

BAMA Lanka (Pvt) Ltd**VAT Liability for the quarter ended 31.12.2018**

<u>Out Put Tax</u>					
-			Value	Rate	Tax
<u>Taxable Supply</u>					
Sales - Taxable			25,500,000	15%	3,825,000
<u>Suspended Supply</u>					
Sales - SVAT			2,500,000	15%	375,000
<u>Exempt Supply</u>					
Sales - Exempt			1,500,000		-
-					
			29,500,000		4,200,000
<u>Input Tax</u>					
Import Good	10,000,000				
Building Rent	900,000				
Stationary	60,000				
A/C Machines	1,500,000				
Janitorial services	300,000				
Security services	550,000				
	13,310,000	15%	1,996,500		
Less: Input attributable to Exempt supplies					
(1,500,000/29,500,000) x 1996,500			- 101,517		1,894,983
					2,305,017
Less: -SVAT Credit					- 367,500
Installment Payment					-1,120,000
Balance VAT Payable					817,517

b. Final Installment to be paid on or before 15.01.2018

Question No 03

Mr. Thejaka Bandara

For the year of assessment 2018/19

AI, TI, Gross Tax liability & Balance Tax liability

Employment Income	-	-			LKR
Salary				12,000,000	
Bonus Received 10.4.2018				1,000,000	
Medical Reimbursement				300,000	
Telephone Bills				200,000	
School fees of daughter				50,000	
Annual Subscription to ACCA UK				78,000	
Housing Benefits					
Rent Paid			900,000		
Maintanance Cost			248,000		
Less:- Rent paid by Mr Bandara			- 240,000	908,000	
Motor Vehicle					
Rent Paid by Company			1,380,000		
Driver's Salary			540,000		
Fuel cost			300,000	2,220,000	16,756,000
Investment Income					
Capital Gain					
Consideration Received				9,000,000	
Cost/Market value as at 30.09.2017		-	7,000,000		
Cost incurred after 30.09.2017					
Access Road			300,000		
Advertisement			100,000	7,400,000	1,600,000
Business Income					
			+	-	
Net Profit			1,119,000		
Professional Fees - Allowed			-	-	
Salaries - Allowed			-	-	
EPF/ETF - Assumed Approved (Allowed)			-	-	

Bonus Paid - Allowed			-	-	
Stationaries - Allowed			-	-	
Laptop (Capital Expenditure Disallowed)			120,000		
Furniture (Capital Expenses Disallowed)			45,000		
Electrical cost allowed			-	-	
Donation to Temple - Disallowed			50,000	-	
Electricity & Water - Allowed			-	-	
Annual Get-together - Entertainment Disallowed			100,000		
Depreciation Allowances					
Laptop (2018/19)	120,000	20%		24,000	
Furniture (2018/19)	45,000	20%		9,000	
			1,434,000	33,000	1,401,000
Assessable Income					19,757,000
Less: - Qualifying payment and relief					
Tax free allowance					- 500,000
Qualifying Payments					
Donation made to approved charity (Maximum up to Rs. 75,000)					- 75,000
Qualifying payment from employment income					- 700,000
Taxable Income					18,482,000
Gross Tax Liability					
1st	600,000	4%		24,000	
2nd	600,000	8%		48,000	
Capital Gain Tax	1,600,000	10%		160,000	
3rd	600,000	12%		72,000	
4th	600,000	16%		96,000	
5th	600,000	20%		120,000	
Balance Income	13,882,000	24%		3,331,680	3,851,680
Less: - Tax Credit					
PAYE tax				- 2,160,000	
Capital Gain Tax Paid				- 160,000	- 2,320,000
Balance Tax Payable					1,531,680

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