



ACC 2212 – Taxation

BACHELOR OF BUSINESS ADMINISTRATION DEGREE 2000 LEVEL

Three Hours

SECOND SEMESTER END EXAMINATION – 2015 JUNE/JULY

Instructions:

- ➔ Answer all questions.

01. (i) "Any tax system should be based on certain characteristics and principles". Explain briefly.

(05 marks)

(ii) How do you determine the residential status of a person?

(02 marks)

(iii) Mr. Dilanka is a resident individual working as a Director of "Maga Builders" (Pvt.) Ltd. Following information has been provided relating to Mr. Dilanka in respect of the year of assessment 2013/2014.

- The gross salary received from Maga Builders (Pvt) Ltd. was Rs. 240,000 per month. EPF deduction was 8% of the salary.
- He received a bonus of Rs. 365,000 in August 2013. This payment was made out of the profits for the year of assessment 2012/2013.
- The company has provided a motor car (1550cc) to Mr. Dilanka with fuel and a driver. In addition, he received Rs.38, 000 per month for the outside travelling expenses.
- Company paid Rs. 25,000 per month for his mobile bill reimbursement.
- PAYE deduction during the year of assessment was Rs. 238,000.
- The company has a medical scheme and Mr. Dilanka has been reimbursed Rs. 68,000 for a surgery on his leg.
- Mr. Dilanka's daughter won a cash price of Rs.100, 000 for being the Island first at G.C.E. (O/L) exam during this year of assessment.
- Company provided an estate bungalow to Mr. Dilanka and he paid Rs. 500 per month.

- Interests received during the year were as follows.

Commercial Bank – Savings Account Rs. 135,000 (Net)

National Savings Bank – NRFC Account USD 140

Bank Of Ceylon – Fixed Deposit Rs. 27,000 (Net)

- The daughter of Mr. Dilanka deposited the money she received as the cash prize in a fixed deposit at National Savings Bank. The gross interest paid to her is amounting to Rs. 15,000 during the year of assessment.
- The monthly entertainment allowance received was Rs. 12,000.
- Mr. Dilanka has two houses. One house is rented out to a friend at Rs. 6,000 per month. The annual value of the house is Rs. 90,000. The other house is occupied by Mr. Dilanka and his family. The annual value of the house is Rs. 120,000. Rates payable is 10%.
- He made following donations during the year of assessment.
- | | |
|---|------------|
| Village temple | Rs.40, 000 |
| Ruhuna University | Rs. 32,000 |
| A fund of Tsunami victim rehabilitation | Rs. 25,000 |
- Mr. Dilanka paid Rs. 15,000 as interest on a housing loan. Capital repayment is Rs. 45,000.

You are required to calculate the followings of Mr. Dilanka for the year of assessment 2013/2014.

- Statutory income from each source of income
- Total statutory income.
- Assessable income
- Taxable income
- Gross income tax payable
- Balance tax payable

(18 marks)

(Total marks 25)

02. (i) Justify the use of capital allowance instead of depreciation and explain its suitability to charging tax in Sri Lanka.

(03 marks)

- (ii) Vijaya PLC is a resident company commenced on 1st April 2013. The net profit before income tax of Vijaya PLC for the year ended 31st March 2014 was Rs. 9500,000.

Additional information:

- Company has made a provision of Rs. 65,000 for doubtful debts.
- Company paid Rs.150,000 for training employees.
- Rs.250, 000 was paid as entertainment allowance during the year.
- Company organized a New Year celebration spending Rs. 435,000.
- Company made a provision for gratuity of Rs.455, 000.
- Advertising expenses for the recruitment is Rs. 70,000 and promotion campaign is Rs. 100,000.
- Company donated Rs. 200,000 to cancer hospital, Maharagama.
- Company purchased machinery in June 2013 for Rs. 1,200,000 and a computer software package was purchased for Rs. 400,000 during the year. The annual depreciation for the machinery and the software package were Rs. 100,000 and Rs. 50,000 respectively.
- Rs. 130,000 interest has paid for the loan obtained to purchase a land.
- Company received following other incomes.

Dividend (net)	Rs. 90,000
Interest from a Fixed deposit (net)	Rs. 270,000

You are required to compute the followings for the year of assessment 2013 / 2014.

- a. Total statutory income
- b. Assessable income
- c. Taxable income
- d. Gross tax payable

(12 marks)

(Total marks 15)

03. (i) What are the main income sources arising from property?

(01 mark)

- (ii) "Net Annual Value (NAV) is not a realizable income generated from property. Therefore it should be ignored in assessing tax liability of a person".

Critically evaluate the above statement.

(02 marks)

(iii) A house located in Kadawatha was rented out in March 2014 by Mr. Lara to his friend at Rs. 5,000 per month. The annual value of the house is Rs. 72,000. However, the friend went abroad on 31st December 2014 for his higher studies. The rates and repairs borne by the owner and rates is 20%.

Assess the rent income and the occupier's income if any, for the year of assessment 2014 / 2015.

(04 marks)

(iv) A Director of a company occupies in a furnished house in Haggala during the period from April to June for 3 months. The house was kept vacant for one month for the cleaning purposes. The balance 8 months reserved for rent out the house. Mr. Kamal supported to find a tenant for the balance 08 months and he was given Rs. 16,000 as a commission. The expenses for upkeep the furniture was Rs. 4,500. Monthly charge for the renting was Rs. 10,000. The Rental value of the house and rates are Rs. 190,000 and 20% respectively.

Assess the profit on furnishing and the Net Annual Value (NAV) of the house.

(04 marks)

(v) Mrs. Nilanthi has received following interests and dividends for the year of Assessment 2014/2015.

- a. She received Rs. 430,000 for a fixed deposit from the Commercial bank.
- b. Interest received by investing on treasury bills was Rs. 82,000.
- c. Received a bonus share amounted Rs. 35,000 as dividends.
- d. Received Rs. 42,000 dividend from distributable profits.
- e. Received Rs. 33,000 dividends from a unit trust.
- f. Received interests from NRFC account in Bank of Ceylon amounted USD 15,000.
- g. Received Rs. 18,000 from a savings account in National Savings Bank as interest.

You are required to calculate total interest and dividend incomes separately taxed at source.

(04 marks)

(Total 15 marks)

04. Briefly explain any five (05) terms with examples out of followings according to the Inland Revenue Act, No.10 of 2006.

- (i) Tax credit
- (ii) Occupier's income
- (iii) Withholding Tax (WHT)
- (iv) Pay As You Earn (PAYE) scheme
- (v) Tax concessions
- (vi) Statutory income

(03 marks each)

(Total marks 15)
