UNIVERSITY OF KELANIYA – SRI LANKA

Centre for Distance and Continuing Education

Faculty of Commerce & Management Studies

Bachelor of Commerce (Special) Degree Third Year Examination (External) – 2019

July – 2025

BCOM E 3063 - Taxation

No. of Questions :Four (04) **Time: 03 hours**

Answer all questions

Question No. 01

You are working as Mr. Kumara Perera's tax consultant. He is a retired government officer and currently runs a sole proprietorship business. The information below relates to his income and expenditure for the year ended 31st March 2024.

01) Monthly government pension – Rs. 50,000

02) Income/ Expenditure of the business

- Net profit as per financial statements – Rs. 6,500,000
- Other income is included in the net profit as follows.
  - Net interest income received on fixed deposit – Rs. 237,500
  - Rent income received from letting out the land which is used for the business car park – -
  - Rs. 120,000. No withholding tax has been deducted by the tenant.
- Expenditure includes the following.
  - Salaries – Rs. 500,000
  - Employee Provident Fund – Rs. 60,000
  - Employee Trust Fund – Rs. 15,000
  - Depreciation – Rs. 750,000
  - Entertainment expenses for a function held for suppliers – Rs. 100,000
  - Donations made to Api Wenuwen Api fund in Cash Rs. 60,000.
  - Book donations to an approved childcare home – Rs. 100,000
  - Provision for gratuity – Rs. 300,000 (Opening balance of the gratuity account was Rs. 120,000 and the closing balance was Rs. Rs. 100,000)
  - Provision for doubtful debts – Rs. 40,000
  - He obtained a Rs. 1,000,000 worth of loan during the last year and purchased a Rs. 200,000 worth of computer for office use. Another Rs. 500,000 was used for working capital

expenses, and the balance was used for his personal expenses. He paid Rs. 100,000 as interest expenses for this loan during the year.

- Penalty paid for non-filing the income tax return in 2021/2022 – Rs. 50,000
- Payment of course fee to follow a business management diploma for the office manager – Rs. 520,000.

- **Property, Plant and equipment**

Asset	Cost (Rs)	Purchase year and Remarks
Land	7,000,000	2015/2016
Shop building	6,500,000	2016/2017
Motor Car	3,500,000	2016/2017
Motor Van	2,500,000	2021/2022
Office furniture	500,000	2019/2020
Computers and Accessories	250,000	2022/2023

03) Other income receipts

- Net Dividend received from a resident company after deducting withholding taxes - Rs. 200,000
- Monthly rent income received from his house in Mahabage – Rs. 25,000. No repair expenses have been incurred during the year.

04) Mr. Perera paid Rs. 100,000 per quarter on a self-assessment basis for income taxes.

You are required to compute the final tax liability of Mr. Kumara Perea for the Year of Assessment 2023/2024. Show all the workings clearly.

(Total 30 Marks)

Question No. 02

Mr. Anuradha Gamage has been working as the Marketing Manager at Maxwell Limited since 16th November 2009. The following information is related to his employment for the year of assessment 2023/2024.

- Monthly salary – Rs. 600,000
- Monthly entertainment allowance – Rs. 30,000
- Monthly other allowances – Rs. 50,000
- EPF contribution by the company during the year– Rs. 979,200
- Bonus received – Rs. 900,000 (This bonus was announced in March 2023 and received in April 2023)

- Scholarship money paid by the company to his son for his outstanding achievements at the GCE (Advanced Level) examination – Rs. 250,000
- He was hospitalized during the year, and the company reimbursed medical expenses of Rs. 250,000. Moreover, he is entitled to health insurance by the company for its executive-level employees, and the insurance premium paid by the company for Mr. Gamage during the year was Rs. 240,000.
- He has lived in a house provided by his company in Nugegoda Municipal area.
- The company has provided him with a car, driver and fuel for his office and personal use. The company maintains accurate records of its travel. His travel records for the year of assessment 2023/2024 were as follows.
  - For office purposes – 15,500 KM
  - For private purposes – 28,000 KM
- Mr. Gamage received an option to purchase 1000 shares from the company for Rs. 100 each when the market value per share was Rs. 85. He bought 1000 shares during the year, paying Rs. 100,000. The market value per share at the time of purchase was Rs. 175.
- Mobile bill reimbursed – Rs. 80,000
- He received an air ticket worth Rs. 400,000 for his personal visit to Singapore and an air ticket worth Rs. 300,000 and hotel expenses of Rs. 500,000 for his business visit to India.
- The company reimbursed Mr. Gamage Rs. 15,000 for incurring an expense on the company's behalf.

You are required to compute Mr. Anuradha Gamage's taxable employment income for the year of assessment 2023/2024.

(Total 30 Marks)

Question No. 03

a) Identify the investment income types that are subject to final withholding tax in Sri Lanka.

(05 Marks)

b) Mr. Sarath Silva came to Sri Lanka after serving 15 years in a company abroad in 2013. Since his arrival, he has lived with his family at his residence in Gampaha. He transferred his properties to his family members through his last will and died on 17th June 2018, and his family lawyer exercised his last will as follows.

Property	Transferee	Cost (Rs)	Market Value at the time of transfer (Rs)
House in Gampaha	Wife	9,500,000	18,500,000
House in Galle	Daughter	5,500,000	8,750,000
House in Matara	Elder Son	6,000,000	9,500,000
Land in Kelaniya	Younger Son	5,750,000	10,500,000

The daughter continues to live with her mother in Gampaha. The elder son has lived at the house in Matara since 2012. During the year of assessment 2023/2024, the following transactions occurred.

- Daughter sold her house in Galle for Rs. 11,450,000. She incurred Rs. 100,000 for advertising, Rs. 114,000 for stamp duty and Rs. 114,000 for lawyer's fee.
- Younger son transferred his land to his mother for free. At the time of transfer, the market value of the land was Rs. 12,000,000, and he incurred Rs. 120,000 for stamp duty and Rs. 10,000 for the lawyer's fee.

You are required to identify the income tax liabilities of the members of the Silva family for the year of assessment 2023/2024 due to the above transactions.

(15 Marks)

(Total 20 Marks)

Question No. 04

a) Briefly explain the residence principle in Sri Lanka.

(03 Marks)

b) Differentiate between Primary employment and Secondary Employment.

(05 Marks)

c) List out and explain four principles of taxation.

(12 Marks)

(Total 20 Marks)