

Part C – Essay Questions

Answer only three (03) questions including question No. 01.

Marks allocation: 50 Marks

01. You are provided with the following information of Mr. Chamila Jayakody employed as an executive in a private firm, for the purpose of computing his tax liability for Sri Lanka income tax for the year of assessment 2010/2011.

	Rs.
- Monthly remuneration (gross)	160,000
- Cash allowances (per month)	20,000
- EFF – Employee’s Contribution (per month)	12,800
- PAYE tax deducted (per month)	32,750

In addition to the above, the firm has been provided him;

- A house in Colombo
Monthly rent paid by the firm Rs.150, 000
Rating assessment of the house assessed by the Colombo Municipal Council is Rs. 800,000 and the rates paid at 30%.
 - The firm maintained motor car with an engine capacity of 2,000 cc (The firm owned the car)
- (ii) Mr. Jayakody owns a furnished holiday bungalow at Nuwara Eliya. This is occupied by the owner for a period of 3 months from April to June for every year. The bungalow is available for rent during the balance period of the year. Rs. 460,000 has been received from renting. Rs. 12,000 has been paid for brokerage and Rs. 30,000 has been paid for upkeep of furniture. Annual value of the Bungalow is Rs. 300,000 and the rates are at 30% thereof.
- (iii) Mr. and Mrs. Jayakody have constructed a commercial building on a land jointly owned by them. The rent received from letting the premises is Rs. 150,000 per month for the entire year. The rating assessment of the building is Rs. 340,000 and the rates are at 30% thereof.



- (iv) A joint loan has been obtained from a commercial bank for the construction of the building which has been given on rent. Rs. 182,000 as interest and Rs. 72,000 as payment of capital have been paid during the year of assessment.
- (v) Mr. Jayakody has two sons. His elder son celebrated his 18th birthday on 30th March 2011 and the younger son is 16 years old. The grandmother has gifted a house in equal shares to these children. This house was given on rent for Rs. 15,000 per month. The rating assessment is Rs. 300,000 and the rates are at 30% per annum.
- (vi) Mr. Jayakody has donated Rs. 80,000 to an approved charity during the year of assessment 2010/2011.
- (vii) Mr. Jaykody has invested Rs. 1,000,000 to purchase Treasury Bills which have a face value of Rs. 1,219,000. These Treasury Bills have matured on 02.03.2011.
- (viii) Mr. Jayakody has a house owned by him in Galle. This house has been occupied rent free by the mother of Mr. Jayakody. The rating assessment of the house is Rs. 300,000 and the rates are at 30% thereof.

You are required to:

Compute the Statutory Income, Assessable Income and Taxable Income and balance tax payable by Mr. Jayakody for the year of assessment 2010/2011.

(Any assumptions should be clearly stated)

(30 Marks)

02. a) PAYE System is the withholding tax system under employment income. That means when an employer makes the payment of income, he will deduct the taxes payable by the employee in respect of employment income and remit to the Department of Inland Revenue.

You are required to:

Explain four (04) obligations of the employer under the PAYE scheme.

(08 marks)

b) The VAT on financial services reduced from 20% to 12% with effective from 01.01.2011.

Discuss the possible strategy behind the said rate deductions.

(02 marks)

(Total – 10 Marks)

03. P.N. Engineering Company is a partnership business of Piyal and Nimal, two brothers. They are engaged in the manufacture of household appliances using patented rights of a Singaporean Company. Profits and Losses are shared equally. During the year ended 31st March 2011 the business had a turnover of Rs. 53,245,860. The Profit & Loss Account disclosed a net profit of Rs. 4,580,720, after deducting the following expenses.

	Rs.
Salary paid to Piyal	1,200,000
Salary paid to Nimal	1,200,000
Salary paid to wife of Piyal	240,000
Salary paid to wife of Nimal	240,000
Royalty paid to the Singaporean Company	4,800,000

The partners had income from other sources as well, the details of which are as follows:

Piyal :

Rs.

Net rent	170,000
Net dividends	90,000

Nimal

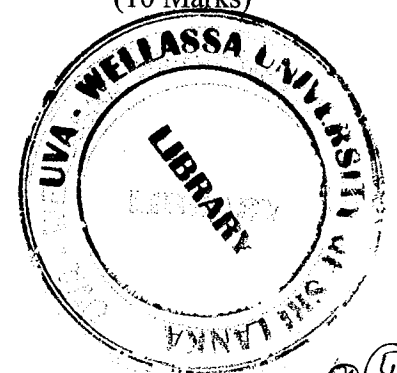
Interest on deposits with Finance Companies Rs. 200,000

(Withholding tax has not been deducted)

You are required to:

- a) Compute the divisible profit of P.N Engineering Company
- b) Show the allocation of divisible profit among partners

(10 Marks)



04. a) Every person who is dissatisfied with an assessment can make an appeal to the Commissioner General against the assessment.

Explain what are the conditions such notice of appeal must be confirmed. (06 marks)

b) Any person or partnership liable to income tax is required to compute his tax and remit it in four (04) quarterly installments, although no assessment has been made based on section 113 (1) of the Inland Revenue Act.

State the due dates of such quarterly installments. (04 marks)

(Total – 10 Marks)