

Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

THIRD YEAR SECOND SEMESTER EXAMINATION – JANUARY/FEBRUARY 2016

EMG 313-2 Taxation



**Uva Wellassa
University**

Instructions to candidates:

No. of pages : Seven (07)
No. of questions : Five (05) Essay
Time : Two (02) Hours
Marks allocated : 100 Marks
Answer **any four (04)** questions.

Index No:

01.

- i) Mr. Hasitha is a marketing manager of a well reputed Company and received the following benefits during the Year of Assessment 2013/14.
- A salary of Rs. 70,000 per month and an entertainment allowance of Rs 10,000 per month.
 - He is entitled to use company owned Toyota car (CC 1500). The car is allowed to use with both driver and fuel. Company bears the maintenance cost at Rs.40,000 per quarter.
 - The Company also provided a furnished house in Colombo to Mr. Hasitha at rent free basis. Rating Assessment of the house is Rs.180,000 and rates are paid at 30%. Employer has paid Rs.20,000 per month as rent to the owner of this house.
 - The Company has reimbursed Rs.25,000 to Mr. Hasitha for his unofficial travelling.
 - The Company provides Rs.10,000 as uniform allowance per annum.
 - Employer paid Rs.2,000 per month to Mr. Hasitha for his telephone bill.
 - Mr. Hasitha received an annual bonus of Rs. 150,000 in February 2014 in respect of the year of assessment 2013/14.
 - The Company is maintaining a special insurance scheme for Mr. Hasitha. The annual contribution paid by the company is Rs. 110,000.
 - Rs.50,000 which was paid to temporary watcher of Mr. Hasitha was reimbursed by the company

- Rs.20,000 worth of medical bill was reimbursed by the company on 20.08.2014 to Mr. Hasitha under the normal medical scheme of the company.

You are required to calculate the Employment income of Mr. Hasitha. (12 Marks)

ii) Mr. Kamal retired from Government Service and joined to a private company as an Accountant on 01/04/2013. The following payments were made and benefits were provided to Mr. Kamal during the year of assessment 2013/14.

- Government pension per month is Rs. 20,000
- He received a gratuity of Rs.100,000 for his government service.
- Gross salary received from the new employment was Rs.100,000 per month.
- Vehicle allowance - Rs. 40,000 per month
- Bonus received– Rs.800,000. This payment was made by company out of the profits earned in the year of assessment 2013/14.
- Private telephone bills amounting to Rs.50,000 were reimbursed by the employer during the year of assessment 2013/14.
- The hospital bill of Rs. 200,000 was reimbursed by the company to Mr. Kamal in respect of surgery performed to his wife.
- As the employer does not provide a house, Mr. Kamal lives in a rented house. He pays Rs.25,000 per month and the total amount was reimbursed by his employer.
- Deduction from salary to a provident fund which has been approved by the Commissioner General of Inland Revenue is 8% of the gross salary. Employer's contribution to the fund is at 12%.
- PAYE deduction - Rs. 155,000.

You are required to compute the employment income of Mr. Kamal (13 Marks)

(Total Marks-25)

02.

i) Mr. Sisira is working in a company as a Finance Controller. His incomes from employment for the year of Assessment 2013/14 are as follows.

- Monthly salary Rs. 120,000/-

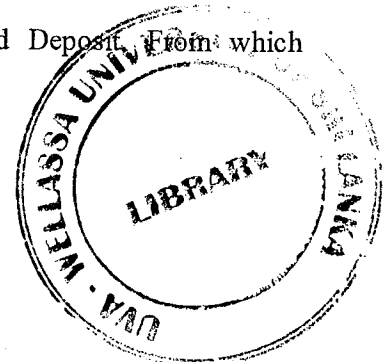
- Travelling Allowance paid by the Company for the car belong to him Rs. 80,000/-.
Engine capacity of this car which is used for personal travelling was 1500 cc.
- Reimbursement of medical expenses incurred for family members during the year was Rs. 45,000/-.
- Life insurance premium paid by the company in respect of him is Rs.8,000/- per month.
- Monthly rent paid by the Company in respect of rent free residence provided to him was Rs. 18,000/-. Rating Assessment of this house is Rs. 300,000/- while rate paid at 20%)

You are required to compute his income tax liability for the Year of assessment 2013/14

(12 Marks)

ii) Mrs. Sajeewani retired from the Government service at the age of 60 years on 01.09.2012. After her retirement she joined to a Private Company as a Consultant. Her incomes during the year of Assessment 2013/14 are as follows.

- Government Pension Rs. 20,000
- Income from Employment
 - Monthly salary from the Company Rs. 100,000/-
 - Leasing payment made by the Company for the car belongs to her Rs. 50,000/- per month. Engine capacity of this car which she used for official and personal travelling was 1,300 cc.
 - She entitles to have Rs.60,000 of medical allowance per year. From this she has used Rs.45,000 during the year.
 - Monthly rent paid by the Company in respect of residence provided to her was Rs.20,000/-. Rating Assessment is Rs.300,000/- while rate paid at 10%
- Sajeewani has rented out his home situated in Piliyandala for a monthly rent of Rs.10,000/- and the house was let out throughout the year. Rates are not paid by Mrs.Sajeewani for this house. The Rating Assessment of this house is Rs.200,000 while Rate payable at 30%.
- She received Rs.200,000 form Peoples bank for her Fixed Deposit. From which withholding Tax is not deducted.
- She has paid PAYE tax of Rs.10,000.



You are required to compute his income tax liability of Mrs. Sajeewani for the Year of assessment 2013/14

(13Marks)

(Total Marks-25)

03. Dr. Ivan who is a Government Medical officer retired at the age of 60. He is living in a House owned by him situated in Nugegoda of which the Rating Assessment is Rs.400,000 and presently working in a Private hospital. Particulars of his income for the year of assessment 2013/14 are as follows:

➤ Pension Rs.40,000

➤ Employment Income:

- Salary received from the private hospital Rs.100,000 (per month)
- Bonus Rs.500,000 (Y/A 2013/2014)
- Travelling allowance Rs.40,000 (per month)
- Reimbursement of private telephone bills Rs.10,000 (per month)
- He has given a Toyota Prius car by the hospital without driver and fuel for official use. The engine capacity of this car is 1,800 CC

➤ Mr. Ivan also working with several hospitals. Incomes from those hospitals during the years were as follows.

- Manuranjana Hospital Rs.720,000
- Dedans Hospital Rs.600,000
- Nawaloka Hospital Rs.840,000

➤ Mr.Ivan owns a private hospital and the turn over during the year was amounted to Rs.1,500,000. Expenses incurred on this hospital during the year were as follows.

- Payments to other doctors for assistance Rs.200,000
- Cost of Medicine Rs.220,000
- Other allowable costs Rs.320,000

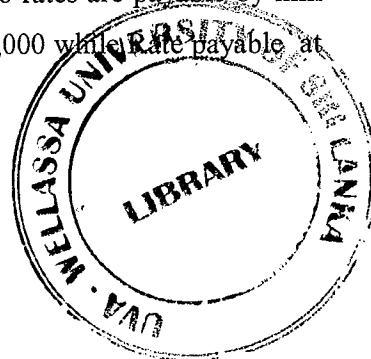
➤ Interest Income

- Treasury Bill income Rs.360,000
 - Bank of Ceylon Rs.600,000
 - National Savings Bank Rs.450,000
- Dr. Ivan has given his house on rent from 01.01.2013 at Rs.20,000/- per month. The house was vacant from April to July 2013. Rating assessment of the house was Rs.150,000/- per annum and rates were paid @ 20% (area of the house was 2,100 sq.ft.). This house was constructed in 2006.
- Dr. Ivan has constructed another house in Nuwara Eliya in 2007 with a bank loan. Loan installment paid during the year consist of capital Rs.200,000 and interest Rs.300,000. The Rating Assessment of this house is Rs.200,000 while Rates applicable for the area is at 20%.
- PAYE deductions - Rs.65,000,
- Donations to Government in cash Rs.75,000

You are required to calculate Income Tax Payable by Mr. Ivan for the year of assessment 2013/14 (25 Marks)

04. Pradeep was a government engineer. After his retirement, he joined to a private company as the Managing Director. The particulars of his income for the year of assessment 2013/14 are as follows:

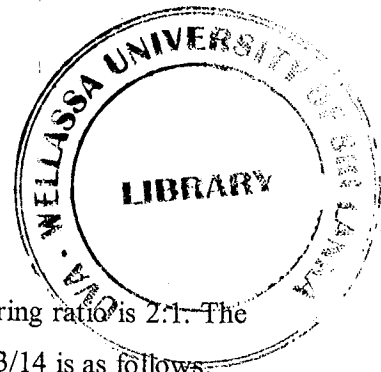
- Emoluments from new employment.
- Monthly Salary (gross) Rs.120,000.
 - Performance Bonus for the year Rs.540,000.
 - PAYE Tax deduction Rs.233,750.
 - Pradeep has given house on rent free basis by his employer. The employer has paid the owner a rent of Rs.50,000/- per month for this house which has a net annual value of Rs.30,000/- The rate paid by the owner is Rs.8,000/- for the year.
- Pradeep has rented out his own house situated in Warakapola for a monthly rent of Rs.40,000/- and the house was let out throughout the year. No rates are payable by him for this house. The Rating Assessment of this house is Rs 300,000 while Rate payable at 20%.



- Pradeep has rented out a house in Gangodawela to one of his friend for a monthly rent of Rs.20,000 since his son is studying in University of Jayawardenepura. The Rating assessment of this house is Rs. 400,000
- Pradeep has a fixed deposit of Rs.2,000,000/- at a Finance Company. Interest for the year amounted to Rs.200,000/- (gross). The withholding tax at 10% was deducted. In addition to that he received interest amounting to Rs.700,000 by Bank Of Ceylon on the Fixed Deposit from which no withholding tax was deducted.
- Pradeep's son who is 15 years of age has a Savings Account in NSB Bank. The money available in that account had been gifted by his grandfather. Interest earned on this account amounted to Rs.15,000/- for the year. Pradeep and his wife have been divorced and the son is living with his mother who is a tax payer. No withholding tax has been deducted.
- Pradeep has paid interest on his Credit Card amounting to Rs.48,000/- for the year. The Credit Card is used to settle the personal expenses.
- Cash donation made by him to a elder's home (an approved charity by government) was Rs.25,000/-.

You are required to calculate the Income Tax Liability of Pradeep for the year of Assessment 2013/14

(25 Marks)



05. Amal and Kamal are the partners of a partnership and their profits sharing ratio is 2:1. The income statement of Amal Kamal Partnership for the financial year 2013/14 is as follows.

	Rs.	Rs.
Gross profit	5,050,000	
Interest - Investments	100,000	6,150,000
Less; Expenses		
Administration expenses	1,800,000	
Selling and Distribution	1,400,000	
Salaries for Amal's wife	500,000	
Salary paid to employees	1,200,000	
Interest on loan taken from Kamal	10,000	
Approved donation to the government	50,000	
Ground rent paid	240,000	
Royalty paid	100,000	(5,300,000)
Operating Profit for the year		850,000
Salaries for partners		
Amal 50,000		
Kamal 50,000	100,000	
Interest on capital		
Amal 20,000		
Kamal 10,000	30,000	130,000
Net profit for distribution	-	720,000

You are required to compute;

- i) the distribution of divisible profit among individual partners including deductions (10 Marks)
 - ii) net income tax payable by the individual partners and (08 Marks)
 - iii) any income tax payable by the partnership (07 Marks)
- (Total Marks-25)