

CA Strategic Level Exam – June 2026

CA SL 25 4 Strategic Tax Planning – Target Questions pack 001

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Question 1

Arunodaya (Pvt) Ltd is a company incorporated in Sri Lanka and is engaged in the manufacture and sale of fiber-based products. According to the Statement of Income for the year of assessment 2025/26, the company recorded earnings before interest, depreciation, and amortization (EBIDA) amounting to Rs. 125 million.

A significant portion of the machinery currently in use reached the end of its depreciable life by the end of the year of assessment 2024/25. An internal assessment revealed that production efficiency has declined considerably due to the continued use of outdated machinery, both in terms of reduced operational capacity and technological obsolescence. The absence of modern technological support has further had a negative impact on overall productivity.

Existing Machinery Details

Machine	Cost (Rs.)	Year of Purchase and employed	Estimated Upgrade Cost (Rs.)
Production Machine 01	150,000,000	2018/19	75,000,000
Production Machine 02	100,000,000	2019/20	45,000,000
Packing Machine	75,000,000	2021/22	30,000,000
Labeling and Finishing Machine	40,000,000	2020/21	12,000,000

Cost of Replacing Machinery with Latest Technology

Machine	Replacement Cost (Rs.)
Production Machine 01	200,000,000
Production Machine 02	150,000,000
Packing Machine	90,000,000
Labeling and Finishing Machine	60,000,000

In view of these challenges, the company is presently considering alternative options to improve productivity and enhance operational efficiency. Options Under Consideration are;

Option 01: - Upgrade Existing Machinery (2026/27).

The company plans to upgrade its existing machinery during the year of assessment 2026/27 by incurring the estimated improvement costs outlined above. This option is expected to increase the company's profitability by 20%, with effect from the year of assessment 2027/28, and the enhanced level of profitability is expected to be sustained for a period of four consecutive years thereafter.

You may assume that the upgrading process will be completed by September 2026, after which the machinery will be put into use for the production process, and the company will continue to operate at the same level of profitability.

Option 02: -Replace Existing Machinery (2026/27).

Alternatively, the company may replace all existing machinery with new, technologically advanced equipment during the year of assessment 2026/27. This option is expected to improve the company's profitability by 30% each year from the year of assessment 2026/27. You may assume that the new machinery can be deployed for the production process without any waiting period. The expected disposal proceeds from the existing machinery amount to Rs. 50,000,000.

The Board of Directors has requested your professional advice on the most tax-efficient option between upgrading the existing machinery and replacing it with new machinery.

You are required to advise the Board strictly on the income tax implications arising from the above two options, in accordance with Sri Lankan income tax law

(8 marks)

Question 2

Banana Tranquil (Pvt) Ltd (“BTL”) is a company incorporated in Sri Lanka and is a fully owned subsidiary of Salad Investment Lanka (Pvt) Ltd (“SIL”). SIL, in turn, is a fully owned subsidiary of Lanka Dessert (Pvt) Ltd (“LDL”), with both SIL and LDL being companies incorporated in Sri Lanka. SIL operates as the strategic investment holding company of the Group.

Currently, BTL is in a tax loss position, primarily attributable to substantial interest expenses arising from its borrowings. While these borrowings have not resulted in adverse tax implications, they have led to significant challenges in managing the company’s working capital. Notwithstanding these constraints, BTL has identified potential opportunities for business expansion and has developed plans to scale up its operations. However, its high gearing level remains a key obstacle in raising additional funding to support the proposed expansion initiatives.

BTL owns a block of land that was acquired in the month of September 2017 at a cost of Rs. 350 million. The current market value of this land is Rs. 400 million, and it is presently recognized as a non-current assets in the company’s financial statements. As part of its debt-reduction strategy, BTL is considering the disposal of this land and intends to utilize the resulting proceeds to settle its outstanding loans amounting to Rs. 100 million.

It is anticipated that, even after the repayment of these borrowings, excess funds will be available, which could be deployed to finance the planned business expansion.

In this context, the Board of Directors of SIL has proposed to acquire the land currently owned by BTL. The land will be retained as non-current asset of SIL.

You have been appointed as the tax consultant to the Group, and the Board of Directors has requested your professional advice on identifying and implementing the most tax-efficient option for executing this transaction.

You may assume that none of the above companies are entitled to any preferential tax rates or tax exemption and that all of them carry on their business operations in Sri Lanka.

You are required to advise the Board strictly on the tax implications arising from the above proposal

(6 marks)

Question 3

Sandaruru Computers (Pvt) Ltd (“SCL”) is a company incorporated in Sri Lanka and is engaged in the manufacture of computer equipment. The company owns a manufacturing plant with an original cost of Rs. 200 million, which was purchased/constructed approximately 20 years ago. The plant is situated on land owned by the company. The current market valuation of the plant is Rs. 100 million, while the land is valued at Rs. 500 million (original cost: Rs. 100 million).

SCL has two shareholders who are also the directors of the company. Due to financial difficulties, the company was unable to obtain banking facilities. Consequently, loan facilities were obtained by the initial shareholders/directors in their personal capacities, and the same funds were subsequently advanced to the company as director loans. These loans were supported by formal loan agreements entered into between the company and the directors.

At present, SCL is experiencing significant challenges due to intense market competition and ongoing cash flow constraints. The company has brought-forward accumulated tax losses amounting to Rs. 100 million, along with carried-forward finance costs of Rs. 50 million, primarily arising from sustained operating losses. The current market value of SCL’s shares stands at Rs. 12 per share, compared to the issue price of Rs. 10 per share. Each shareholder holds 25,000,000 issued shares of the company.

Binara Digits (Pvt) Ltd (“BDL”) is a company engaged in the manufacture of mobile phone parts and is currently looking to diversify its business operations. In this context, the shareholders of SCL are considering either selling the company or disposing of its key assets in order to settle outstanding borrowings.

Accordingly, the shareholders have approached you to seek your professional tax advice on the following alternative options:

1. Selling the shareholding stake in SCL to BDL and utilizing the proceeds to settle the outstanding director loans; or
2. Selling the land together with the plant and machinery and using the proceeds to settle the outstanding loans.

You may assume that capital allowance has been fully claimed for all above assets.

You are required to advise

The Board of SCL will consider the above proposal strictly from the tax implication perspective, taking into account the impact on both SCL and BDL.

(10 marks)