

Strategic Level Exam – June 2026

Strategic Tax Planning – Question bank 4

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Question 1

Business Infra (Pvt) Ltd (BIPL) is a company incorporated in Sri Lanka and is engaged in providing outsourcing services to both local and international customers.

BIPL has invested in **Alien Solution (Pvt) Ltd (ASPL)**, a company incorporated in Hong Kong, by acquiring **20% of its issued share capital**. The total number of shares held by BIPL amounts to **10,000,000 shares**, with a value of **Rs. 100 per share** (HKD-equivalent value).

In addition, BIPL has established a **wholly owned subsidiary** in Hong Kong named **Business Infra HK (Pvt) Ltd (BIHL)**. BIHL has an issued share capital of **500,000 shares**, with a par value of **Rs. 50 per share** (HKD-equivalent value).

BIHL, in turn, has invested **20% of the issued share capital** of **City Homes HK (Pvt) Ltd (CHL)**. The total investment in CHL comprises **200,000 shares**, valued at **Rs. 200 per share**.

ASPL is currently undertaking a **capital restructuring program**, under which it has proposed a **buy-back of 10% of its issued shares**, including the shares held by BIPL, at a price of **Rs. 120 per share** (HKD-equivalent value).

At the same time, BIPL is pursuing a **business expansion strategy** and is exploring potential funding sources to support this expansion. Accordingly, prior to accepting ASPL's buy-back proposal, BIPL is considering the **sale of its shareholding in ASPL at Rs. 115 per share**.

Furthermore, BIPL intends to **receive dividends from BIHL** arising from BIHL's business profits. Furthermore, discussions have also been held on the **disposal of BIHL's investment in CHL at one shares at Rs. 300**, with the intention of up-streaming the proceeds to BIPL by way of **dividends**.

Required:

Advise on the potential income tax consequences arising from the above proposals.

Question 2

Equity One (Pvt) Ltd (EOL) is the parent company of Paragon International (Pvt) Ltd (PIL). PIL is a company incorporated in Sri Lanka and engaged in the hospitality sector. The principal sources of income for EOL consist of dividends received from its subsidiary companies and interest earned from money market investments.

PIL owns and operates three five-star hotels located in the Southern Province and two eco-friendly hotels in the Northern Province of Sri Lanka. In addition, EOL holds 80% of the equity capital of Fly Eagle (Pvt) Ltd (FEL), a Sri Lankan-incorporated travel services company.

As part of its strategic objective to diversify its investment portfolio, EOL plans to acquire Maduwela Plantation (Pvt) Ltd (MPL). MPL is a Sri Lankan company engaged in the production of Ceylon black tea for the export market. The total value of MPL's equity capital is Rs. 250 million, and the company has an outstanding long-term bank loan of Rs. 150 million. The total value of its non-current assets amounts to Rs. 300 million, which includes a block of bare land with a current market value of Rs. 100 million.

To finance the proposed acquisition, EOL is evaluating the following funding options:

- Issue of debentures to existing shareholders, carrying an annual interest rate of 9%.
- Issue of cumulative preference shares to existing shareholders, offering an annual dividend of 10%.
- Disposed one of the hotel owned by PIL and from the disposal profit declare the dividends to EOL
- Obtaining a bank loan at an interest rate of 10%, with a portion of the loan to be settled through the disposal of the bare land owned by MPL.

Required:

Advise on the potential income tax consequences arising from the above proposals.

Question 3

Mr. Samaranayake and Mrs. Samaranayake are Sri Lankan tax residents and are subject to income tax in Sri Lanka. Their taxable income falls within the highest tax bracket, making it liable to income tax at the rate of 36%.

They jointly hold the share capital of Samaranayake Textile (Pvt) Ltd (STL) in equal proportions. STL is a Sri Lanka–resident company engaged in the business of selling clothing and textile products in the domestic market.

Both Mr. and Mrs. Samaranayake serve as directors of STL and receive a monthly director's fee of Rs. 500,000 each. In accordance with company policy, one-third of the company's taxable income is declared as dividends. During the current year of assessment 2025/26, they collectively received dividends amounting to Rs. 150 million.

They have three children two sons and one daughter all of whom are married. The two sons are currently residing in the UK and Australia, respectively. As Mr. and Mrs. Samaranayake are planning for retirement, they intend to distribute their wealth among their children.

As part of this succession plan, Mr. Samaranayake is considering introducing Mr. Kasun—one of their children's spouses and a businessman—to STL as a shareholder and director. To facilitate this, Mr. Samaranayake is evaluating either issuing new shares to Mr. Kasun or alternatively disposing of a portion of both his and Mrs. Samaranayake's existing shareholdings in STL. Following the proposed transaction, Mr. Samaranayake, Mrs. Samaranayake, and Mr. Kasun would each hold an equal share of the company's share capital.

Required:

Advise on the potential income tax consequences arising from the above proposals.