

Corporate Taxation Exercises

Chartered Accountancy Strategic Level Corporate Taxation (TAX)

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CORPORATE TAXATION - EXERCISES

Question 1

Sahasra International (Pvt) Ltd. (SIL), was incorporated on 01st April 2016 under the Companies Act and commenced its operations on the same date. It is engaged in the business of importing and selling building materials in the local market. The following information has been extracted from the financial statements of Sahasra International (Pvt) Ltd. for the year ended 31st March 2022.

1. Summarized Income Statement for the year ended 31st March 2022 is as follows:

	Rs.
Turnover	565,750,000
Cost of Sales	(339,450,000)
Gross Profit	226,300,000
Other Income:	
Interest income from Fixed deposit - Gross	350,000
Dividend received - Gross	122,980
Profit on disposal of delivery van	84,000
	226,856,980
Administration expenses	(114,500,000)
Distribution expenses	(43,650,000)
Finance expenses	(4,350,000)
Profit Before Income Tax	64,356,980

2. Administration expenses include the following:

- Depreciation charge for the year was Rs.4,876,000/-.
- Gratuity provision for the year was Rs.764,000/- and no gratuity payments have been made during the year.
- The company has donated Rs.1,000,000/- to the Api Wenuwen Api Fund.
- A penalty of Rs.53,500/- has been paid to pradeshiya sahbha on delay in renewal of trade license.
- The company has incurred Rs.800,000/- on a foreign tour to entertain the CEO and his family.

3. Distribution expenses include the following:
- Entertainment expenses were Rs.225,000/- and it was spent to entertain customers who had come for business negotiations.
 - Advertisements in local media were Rs.675,000/- and the cost of Rs.50,000/- was spent for a paper advertisement to recruit the Accountant.
 - The company has written off Rs.250,000/- receivable from a trade debtor due to bankruptcy and a general provision of Rs.500,000/- has been made on doubtful debts from remaining debtors.

4. Details of Property, Plant and Equipment are as follows:

Cost

Assets	Balance as at 01st April 2020 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31st March 2021 (Rs.)
Machinery	2,475,000	1,200,000	-	3,675,000
Motor Vehicles	5,675,000	4,000,000	2,400,000	7,275,000
Office Equipment	477,000	-	-	477,000
Computers	265,000	435,000	-	700,000
Total	8,892,000	5,635,000	2,400,000	12,127,000

- A delivery van was sold for Rs.1,200,000/-, on 01st January 2022. The company has purchased a new lorry for Rs.4,000,000/- on 10th January 2022 to replace the sold vehicle.
 - Balance motor vehicles represent a car used by CEO.
 - All assets as at 01st April 2021 were purchased at the time of incorporation of the company.
5. The company has a brought forward taxable loss from business of Rs.5,678,000/- from year of assessment 2020/21.
6. Economic Service Charge (ESC) payments carried forward from the year of assessment 2019/20 was Rs.2,828,750/-.
7. The company has paid Rs.8,000,000/- as quarterly installments of income tax for the year of assessment 2021/22.

You are required to:

Assess the following for the year of assessment 2021/22:

- (a) Assessable Income,
- (b) Taxable Income,
- (c) Gross Income Tax Payable, and
- (d) Balance Tax Payable.

Question 2

Supipi (Pvt) Ltd. (SPL) is engaged in the business of manufacturing and selling of dried flower arrangements to the local market. As at 31st March 2022, issued share capital and total reserves of the company were Rs.20,000,000/- and Rs.8,800,000/- respectively.

The following information was given in respect of the year of assessment 2021/22 for SPL:

1. Turnover and net profit before income tax of the company for the year of assessment 2021/22 were Rs.564,600,000/- and Rs.24,650,000/- respectively:
2. Other Income includes the following:

	Rs.
Interest received on Fixed Deposits	2,205,000
Dividend received	564,000
Profit on disposal of machinery	1,000,000
Rent Income	1,800,000
	5,569,000

3. Details of Property, Plant and Equipment:
 - Acquisitions made during the year:

	Rs.
Computers	600,000
Software - useful life 3 years	350,000
Motor Car used by the Chief Executive Officer	4,600,000
Furniture	165,000
Machinery	5,360,000
Building	10,450,000
	21,525,000

- Disposal made during the year:
The machinery which was sold for Rs.1,300,000/- on 30th June 2021 was acquired during the year of assessment 2019/20 at a cost of Rs.5,000,000/-. A new machinery was purchased at a cost of Rs.5,360,000/- on 01st July 2021 to replace the old one.
 - Depreciation allowance for tax purposes on assets as at 01st April 2021 has been claimed in full except for the disposed machinery.
4. Expenses include the following:
- Accounting depreciation charged for the year ending 31st March 2022 was Rs.11,800,000/-.
 - The company has incurred Rs.645,000/- for repairs of the building given on rent. This building is not used for any business activities of the company. This building was constructed by SPL and it has been given on rent for Rs.150,000/- per month.
 - SPL has paid a rent of Rs.600,000/- for its showroom.
 - SPL wanted to carry out their production in accordance with the customers' needs. Accordingly, during the year of assessment 2021/22, an industrial research was carried out by an external institution to improve the quality of the products. The company has paid Rs.2,500,000/- as research fee during the year.
 - The company has obtained a loan of Rs.90,000,000/- from its holding company Best Homes PLC. During the year, the company has paid Rs.7,127,500/- as interest to the holding company and charged it to the finance expenses.
 - During the year of assessment 2021/22, the company has made a donation of Rs.2,000,000/- to the Government of Sri Lanka for a community development project in a rural area.
5. All other expenses are allowable for the purposes of taxation.
6. The company has a brought forward tax loss from the year of assessment 2020/21 amounting to Rs.20,000,000/-.
7. The company has paid Rs.1,000,000/- as self-assessment income tax payments.

You are required to:

Assess the following for the year of assessment 2021/22:

- (a) Assessable Income,
- (b) Taxable Income,
- (c) Gross Income Tax Payable, and
- (d) Balance Tax Payable.

Question 3

Stella Beach Hotel (Pvt) Ltd (SBH) was incorporated as a subsidiary of Stella Beach Management (Pvt) Ltd (SBM) in 2012 and operates a hotel business, with the approval of the Ceylon Tourist Board.

An extract of the income statement of SBH for the year ended 31 March 2022 is as follows.

	Rs. '000
Revenue	108,000
Cost of sales	(75,200)
Gross profit	32,800
Other income	17,600
Administrative & general expenses	(28,400)
Selling & distribution expenses	(11,300)
Finance cost	(4,800)
Profit before taxation	5,900

An extract of the equity and liability position as at 31 March 2022 is shown below:

Equity & liabilities	Rs. '000
Stated capital	2,000
Reserves	16,000
Long term loan	80,000

Additional information:

(i) **Break up of revenue**

	Rs. '000
Food & accommodation income	74,400
Tourist transport income	24,000
Bar income	21,600
Gross revenue	120,000
Less: Tourism Development Levy (TDL)	(12,000)
Net revenue	108,000

(ii) **Break up of other income**

	Rs. '000
Rent income (gross) - Note 1	12,000
Interest income - Fixed Deposits	1,900
Dividend income	3,000
Cash prize awarded by Hotels Corporation identifying SBH as the best hospitality service provider during the year	700
	17,600

Note 1:

- Part of the hotel premises has been given on rent temporally, to a shopping arcade at a monthly rent of Rs. 240,000, to facilitate tourists.
- A building recorded under 'investment property' had been given on 10 years lease term at a monthly rent of Rs. 760,000 to operate a ticketing agency.

(iii) Administrative & general expenses include the following.

- Book depreciation of Rs. 6,250,000 and gratuity provision of Rs. 5,200,000 had been provided.
- During the year Rs. 8,000,000 had been paid as management fees to SBM for the hotel management services provided by them.
- Rs. 1,800,000 had been incurred on facilities provided in the hotel for the guest entertainment (music and other) and Rs. 500,000 had been spent on a tour arranged to entertain the selected team in the catering division.
- Staff training included Rs. 900,000 incurred on a hospitality management diploma followed by the front office manager.
- Repairs & maintenance expense represent the following.
 - Rs. 3,500,000 had been incurred to add more floor space to the ticketing agency building which was fully depreciated for tax purposes.
 - Rs. 480,000 had been incurred for office maintenance.

(iv) Selling & distribution expenses include the following.

- Rs. 1,700,000 had been paid as director's remuneration to George who is the director of SBH.

- Rs. 360,000 had been incurred during the year for Cutlery, Crockery and Glassware items, and these items are replaced after every three months period, as per SBH policy.
 - SBH had donated Rs. 1,434,000 to the ministry of tourism.
- (v) Finance cost represents Rs. 4,800,000 loan interest made on the bank loan obtained for working capital requirements.
- (vi) Details of the assets acquired are as follows.

Description	Cost Rs.	
	Acquired in 2020/21	Acquired in 2019/20
Kitchen equipment - Note 2	2,900,000	2,400,000
Motor cars for tourist transport	6,000,000	nil

Note 2: Rs. 1,500,000 worth of kitchen equipment has still not been used by the company.
 Except for the above, all other assets have been depreciated fully for the purpose of income tax.

- (vii) Brought forward tax losses from the previous Y/A were Rs. 2,834,000.
- (viii) The company has paid a total of Rs. 200,000 as quarterly instalment of income tax for Y/A 2021/22.

Required:

Assess the income tax liability, tax credits and balance tax payable/(refund due) by SBH for the Y/A 2021/22.

Question 4

Ride & Race (Pvt) Ltd (R&R) was incorporated as a limited liability company and commenced its business from April 2018. Its core business is to manufacture radial tyres for buses and trucks, for both local and export markets.

An extract of the income statement for the year ending 31 March 2022 is as follows.

	Rs. '000
Revenue - export	522,350
- local	114,450
Total	636,800
Cost of sales	(496,600)
Gross profit	140,200
Other income	9,400
Administrative and general expenses	(85,070)
Selling and distribution expenses	(33,040)
Profit before taxation	31,490

Additional information:

(i) Break-up of other income

	Rs. '000
Exchange gain	2,400
Interest income - fixed deposit	4,000
Dividend income	3,000
	9,400

- The company received an exchange gain as a result of its foreign currency transactions.
- (ii) Administrative expenses include the following.
- Accounting depreciation of Rs. 8,235,000.
 - During the Y/A, the marketing team was sent to Singapore for a training programme and the cost incurred on such training was Rs. 900,000. This was included in salaries and other staff benefits.
 - Machinery purchased during the Y/A at a cost of Rs. 15,000,000 had to be sold for Rs. 13,500,000 due to a technical default found in that machinery.

Book loss of Rs. 1,000,000 has been recorded under administrative expenses.

- Gratuity provision for the Y/A 2021/22 amounted to Rs. 250,000.
- (iii) Selling and distribution expenses include the following.
- A scientific research was carried out to improve the tyre manufacturing process at a cost of Rs. 3,700,000.
 - Advertising expenses include the cost of an advertisement published in the newspapers to find a suitable land for setting up a new warehouse amounting to Rs. 40,000 and advertising of radial tyre products in foreign magazines and media amounting to Rs. 180,000.
 - The managing director visited a few European countries to negotiate export orders and product prices with existing customers. Costs relating to such visits amounted to Rs. 1,280,000 and it was included in foreign travelling.
 - Company has spent Rs. 320,000 to entertain its prospective customers during the Y/A 2021/22.
 - Rs. 4,900,000 worth of tyres were manufactured as a trial production and it was donated to the government of Sri Lanka.
- (iv) The cost of capital assets acquired during the Y/A 2021/22 was as follows.

Description	Cost Rs.
Land	34,210,000
Plant & machinery (including the cost of the machinery sold)	25,200,000
Motor lorry	5,100,000
Office furniture	1,235,000

- (v) A new factory building is under construction. The value of construction recorded under work-in-progress: Rs. 112,000,000.
- (vi) The company has paid a total of Rs. 250,000 as self-assessment income tax payments for the Y/A 2021/22.
- (vii) All other expenses of the business are allowed for income tax purposes.

Required:

- (a) **Assess** the tax payable on taxable income, tax credits and balance tax payable/ (refund due) by R&R for the year of assessment 2021/22.

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