

Strategic Level Exam – June 2026

Strategic Tax Planning – Question bank 7

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Question 01

Under the ambit of the National Transport Plan initiated by the Government of Sri Lanka, the contract for the development of a strategic urban toll road (the “Project”) was awarded to ND Construction PLC (NDC) a company incorporated in Sri Lanka and renowned for its expertise in road construction and integrated transportation solutions. The Project was awarded through a competitive bidding process with a value of USD 500 million and a stipulated completion period of 12 months.

In pursuit of technical excellence, NDC engaged the services of Logistics Network Vietnam Company Ltd. (LNVC), a Vietnam incorporated company recognized for its capabilities in bespoke transportation infrastructure. LNVC secured a service contract valued at USD 250 million and was entrusted with the end-to-end design and structural fabrication of modular road components. These components were engineered and manufactured at LNVC’s facility in Vietnam and subsequently shipped to Sri Lanka for on-site installation. In addition, LNVC was responsible for overseeing the installation phase by providing supervisory and technical support on location.

To formalize the collaboration, ND Construction PLC (NDC) entered into two distinct contractual agreements with Logistics Network Vietnam Company Ltd. (LNVC):

Agreement 01: - encompassed the design, structural fabrication, and overseas shipment of modular road components, with a total contract value of USD 180 million. The agreed duration for the completion of this phase was three months.

Agreement 02: - related to the provision of supervisory and advisory services during the on-site installation and integration of the prefabricated infrastructure. This agreement carried a total contract value of USD 70 million, with an implementation period of 110 days.

In executing its responsibilities under Agreement 01, LNVC incurred costs amounting to USD 150 million, encompassing design, engineering, manufacturing, and logistics to Sri Lanka. Under Agreement 02, LNVC expended USD 50 million in relation to the deployment of its expert personnel, who were engaged in overseeing the installation works, offering technical supervision, and ensuring adherence to project specifications.

You are required to determine the tax liability of Logistics Network Vietnam Company Ltd (LNVC), and its employees, involved in the project. The analysis should address their respective tax exposures in Sri Lanka in connection with this engagement, as well as the obligations of ND Construction PLC (NDC) in relation to fee settlement.

Question 02

Sunshine Holiday Resort (Private) Limited (SHR) is a company incorporated under the Companies Act No. 07 of 2007 as a Private Limited Liability Company. The registered office of the company is situated at No. 36, Ranawaka Street, Matale. The principal business activity of SHR involves the maintenance of hotels and villas.

The capital structure of the company comprises both equity and debt capital. The equity holdings are distributed as follows:

- Prorider Inc: 24%
- Parker Inc: 25%
- Annya Villa (Pvt) Ltd: 51%

Additionally, SHR has secured loans from domestic lenders. The company is currently facing operational challenges due to a high gearing ratio. Lily Resorts (Pvt) Ltd (LR), a company incorporated in Sri Lanka, has submitted a bid for SHR. Both Parker Inc and Prorider Inc are British Corporation, incorporated in the United Kingdom, while Annya Villa (Pvt) Ltd is also incorporated under the Companies Act No. 07 of 2007 as a Private Limited Liability Company in Sri Lanka. The directors of SHR have engaged an external consultancy firm to recommend a reconstruction of the company's capital structure. One of the key recommendations is to settle the existing loans, as the debt service costs are comparatively high, and negotiations are not feasible.

The consultancy has proposed the following options for raising funds and settling the loans:

Option 01: Transfer one of the land parcels and buildings held as part of the company's investment property to LR. This option entails transferring ownership of the land and building without altering the existing shareholding structure. The proceeds from the sale will be utilized to settle the loan, allowing the company to continue its operations.

Option 02: Transfer the equity shares held by, Prorider Inc, Parker Inc and Annya Villa (Pvt) Ltd to LR. Under this option, shareholders may transfer their equity shares in the company. LR will assume responsibility for settling the loan and will continue the business operations.

You are required to discuss income tax exposure in Sri Lanka to Prorider Inc, and Parker Inc on the above option.