

# Strategic Level Exam -December 2023

## Corporate Taxation – Question bank 2

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– PIM USJP

### Required:

1. Evaluate the possibility of creation of Permanent Establishment (PE) in Sri Lanka, and
2. Ascertain the liability to Sri Lanka income tax by a non-resident person in respect of the Y/A 2022/23 as per the information given in the following questions. (State your assumption clearly, if any)

### Question 13

Maga Naguma (Pvt) Ltd is a Company incorporated in Sri Lanka. The Company, Maga Naguma (Pvt) Ltd entered into an agreement with Road Development authority of Sri Lanka to construct highway project. Project period is Five (5) years. Project bid was Rs. 200Mn. They have opened an office at the project, situated in Meerigama.

Maga Naguma (Pvt) Ltd entered into a sub contact agreement with Ceragem Construction Ltd is a resident company of Republic of Korea, is engaged in the business of construction services. As per the agreement, Ceragem Construction Ltd construct five (5) bridges which included to the highway project. Total value of the contact was Rs. 75Mn. According to the subcontract agreement machinery and equipment imported by the Ceragem Construction Ltd. Cost incurred by the company was Rs. 15Mn. Those machineries were fixed at the project site and company was given an office at the project office of Maga Naguma (Pvt) Ltd.

Further, Ceragem Construction Ltd entered into an agreement with Koun Yong Mixture Ltd a company incorporated in Korea specialist in constructing prefabricated aluminum structures, concrete block and beams. Ceragem Construction Ltd imported concrete block and beams required for the project from Koun Yong Mixture Ltd. Total cost incurred for concrete block and beams was Rs. 30Mn. Ceragem Construction Ltd incurred Rs. 25Mn as project and office administrative cost Rs. 35Mn. During the year 2022/23, all the bridges were completed and handed over to the Maga Naguma (Pvt) Ltd.

Maga Naguma (Pvt) Ltd obtained consultancy service from Mr. Rajan Kavith, resident person in India. He has visited Sri Lanka. During the year he spent 100 days in Sri Lanka for the consultation and he was given a place at the project office. Maga Naguma (Pvt) Ltd has paid Rs. 30Mn as the consultation fee and Rs. 5Mn as reimbursement of his expenditure.