

# Strategic Level Exam -December 2023

## Corporate Taxation – Model Paper 04

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### SECTION 1

#### Question 01

RJ Interior (Pvt.) Ltd incorporated and a resident company in Malaysia. Company manufactures furniture used for hotel industry and engaged of providing interior designing services. Company has been offered an interior designing and furnishing project by a hotel, Diyadahara Hotel (Pvt) Ltd a company incorporated in Sri Lanka. Project period was 1 year. Total project cost estimated by RJ Interior (Pvt.) Ltd is Rs. 700,000,000/- and quoted price for the project was Rs. 1,000,000,000/-.

RJ Interior (Pvt.) Ltd has manufactured furniture for the project in Malaysia and imported to Sri Lanka. Total Cost of the importation of furniture was Rs. 350,000,000/- (USD equivalent LKR value) cost of salary paid to designed works was Rs. 200,000,000/- . RJ Interior (Pvt) Ltd has sent their employees to Sri Lanka for facilitating the design of furniture and interior works, They stayed at the hotel project office and did the interior designing works. The team spent 2 months to finish a design and manufacturing plan.

Further RJ Interior (Pvt.) Ltd has obtained experts consultant services from Ms. Celestina lee, who is a Singapore resident person. Consultancy Agreement was entered by RJ Interior (Pvt.) Ltd. Ms. Celestina visit Sri Lanka for the above purposes. She stayed at the project office during the project implementation period. Cost incurred by the company for above was RS. 100,000,000/-

#### Required:

Discuss whether RJ Interior (Pvt.) Ltd, Employees and Interior consultant are liable to income tax in Sri Lanka in respect of:

1. any profits arising from the hotel project in Sri Lanka.
2. Supply of consultancy services made By Ms. Celestina to the above project in Sri Lanka.

Support your answer citing statutory provisions of the Inland Revenue Act No. 24 of 2017 (IRA) and the Double Tax Agreement between Sri Lanka and Malaysia.

**(12 marks)**

## SECTION 2

### Question 03

Ranvil Plantation (Pvt) Ltd is a company incorporated in Sri Lanka and engaged in the business of growing cinnamon and exports cinnamon sticks to European countries. Issued share capital of the company is Rs. 100 Mn and reserve Rs.75Mn as of 31st March 2023.

During the year of assessment 2022/23 Company has started manufacturing cinnamon powder and oil-based products. This product is a value-added product. Cinnamon from their farms is basically used as the main Raw material for the production of oil and value-added Cinnamon powder.

Company has invested Rs. 120Mn on the capital assets used for the new process of manufacturing value added cinnamon products.

The detailed unaudited income statement of Ranvil Plantation (Pvt) Ltd for the year ended 31 March 2023 is as follows.

Description	Note	Amount (LKR) '000
Revenue	01	2,000,000
Cost of sales	02	(800,000)
<b>Gross profit</b>		<b>1,200,000</b>
Other Income	03	500
Administration, Distribution, and other expenses	04	(232,500)
Profit from operating activities		968,000
Finance Income	05	4,000
Finance cost	06	(7,000)
<b>Profit before tax</b>		<b>965,000</b>
Income Tax expenses		(67,550)
<b>Profit for the year</b>		<b>897,450</b>

#### Note: - 01 - Revenue

Exports of Cinnamon sticks Rs. 1,000,000,000/-

Exports of Value-added Cinnamon products Rs. 1,000,000,000/-

#### Note: - 02 - Cost of sales

##### a) Cinnamon Sticks

	Cinnamon Stick (Rs.)
Opening inventory- 830,000,000 kg	250,000,000
Purchase - 1,000,000kg	300,000,000
own farm- 2,000,000kg	600,000,000
Labour Charges	100,000,000
	1,250,000,00,
Closing Inventory	650,000,000
Cost of produced	600,000,000

##### b) Value added Cinnamon product

	Value Added products (Rs.)
Opening inventory	-
Transfer from Farm – 1,000,000kg	
Other Manufacturing cost	350,000,000
Closing Inventory	150,000,000
Cost of sales	200,000,000

**Note: 03: – Other Income**

- a) Local Sale of second grade value added cinnamon Rs. 500,000/-.

**Note 04: - Extract of some of the expenses recorded under administrative, distribution and other expenses**

Description	Note	(Rs.) '000
Salaries and wages		75,000
EPF & ETF	(i)	11,250
Provision for retirement benefits	(ii)	4,750
Provision for Bad and doubtful debts	(iii)	500
Other exports expenses	(iv)	200
Staff welfare	(v)	100
Machine Repair expenses	(vi)	700
Advertising and promotion	(vii)	2,500
Marketing expenses	(viii)	6,200
Donation	(ix)	5,000
Depreciation – New Factory and machinery		43,750
Fines and penalties	(x)	4,000
Legal fees	(xi)	1,550
Training cost	(xii)	7,300
Product development expenses	(xiii)	70,000

EPF 12% and ETF 3% has been made for all staff.

- i. Gratuity provision represent the provision for retirement benefit. During the year Gratuity payment of Rs. 2,000,000/- was made for staff members who got terminated their employment during the year.
- ii. Amount represents the bad debt provision made for trade debtors.
- iii. Exports related expenses for both value added and cinnamon sticks
- iv. Staff welfare expenditure shows tea and water provided to factory staff.
- v. Lubricant used for machines at the new plant are included in the repair cost
- vi. Advertising and promotion expenses are related to payment of Rs. 2,500,000/- made to local advertising firm for new product launch
- vii. Marketing expenses is for the promotion campaign made at foreign market.
- viii. Donation represented the cash donated to government school. This is an approved donation.
- ix. Tax authority has issued an assessment for the year 2019/20. Company lodged an administrative review. Tax authority and the company came for an agreement. Fine and penalties are related to the Income tax and penalties paid at the settlement.

- x. Legal fee was made to tax consultants for the settlement of above tax matter.
- xi. Training cost of Rs. 7,300,000/- has been paid for training program conducted for new factory staff during the month of January 2023. This was paid to training institute which is a partnership established in Sri Lanka. No withholding tax has been deducted from the fee payment.
- xii. Total cost other than capital nature expenditure incurred in the development of innovative cinnamon product project. This was done by the Agri faculty of University of Ruhuna.

**Note 5:-Finance income**

- a) Interest Income – RFC Rs. 3,000,000/- (USD equivalent value)
- b) Exchange gain – Transaction Gain Rs. 1,500,000/-. Translation gain Rs. 2,500,000/-

**Note 6:- Finance costs**

Interest on export loan obtained and used for the value added product business is Rs. 6,000,000/- (Loan balance as of 31.03.2023 is Rs. 30Mn)

Overdraft interest Rs. 1,000,000/-

**Note 7:- Property, plant and equipment acquired during the year is as follows:**

Description	Cost Rs. '000
Land	75,000
Factory Building - new	150,000
Plant and machinery - new	30,000
Motor vehicles – Cars – executive director's	20,000
Computer equipment	5,000
Computer software – ERP with 8-year warranty period	40,000

Capital allowance have been fully claimed for all other assets remaining as at 01.04.2022

**Note 8:-** Bank overdraft has been used for the business: Balance as of 31.03.2033 was. Rs. 10,000,000/-

Unless otherwise stated all the expenses are incurred to produce income. You may assume that expenses are incurred propionate to generate the respective business income. The information and details are given for the purpose of the examination that will be held on June 2023

**Required:**

**Assess the balance income tax payable, by Ranvil Plantation (Pvt) Ltd in respect of the Y/A 2022/23.**

- b) Board of directors of Ranvil Plantation (Pvt) Ltd has made a dividend distribution in the month of September 2022 and in the month of January 2023 for the year and they are seeking your advice on the distribution of dividends for the year 2022-23 and tax liability for individual shareholders.

**Required:**

**Advice the possible tax implication and procedure to follow for the distribution of dividends, by Ranvil Plantation (Pvt) Ltd in respect of the Y/A 2022/23.**