

Strategic Level Exam -December 2023

Corporate Taxation – Question bank

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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 01

Technopec Ltd is a Company incorporated in Germany and engaged in the business of manufacturing high tech machineries and equipment, used in the business of manufacturing of cosmetic products. Nature Lovers (Pvt) Ltd, is a company incorporated in Sri Lanka, engaged in the business of manufacturing cosmetic products. The Company, Nature Lovers (Pvt) Ltd directly imports machinery and equipment from Technopec Ltd. Total value of the importation done during the year 2022-23 was Rs. 500Mn.

Question 02

e-Tech Advisory Ltd is a Company incorporated in Germany and engaged in the business of providing financial consultation services. Soft Leather (Pvt) Ltd, is a company incorporated in Sri Lanka, engaged in the business of manufacturing leather-based products for exports market. The Company, Soft Leather (Pvt) Ltd is evaluating expansion option available with the company. Soft Leather (Pvt) Ltd has obtained financial advisory services from e-Tech Advisory Ltd. These services have been provided through internet-based platform. Total service bill value is Rs. 250Mn.

Question 03

Sinopec Ltd is a Company incorporated in China engaged in the business of distribution of fuel used by consumers at China. Sinopec Ltd has incorporated a subsidiary company, Sinopec Lanka (Pvt.) Ltd in Sri Lanka. The Company, Sinopec Lanka (Pvt.) Ltd imports fuel from India and China. These products are distributed in the Sri Lanka market. Total value of the importation made during the year 2022-23 was Rs. 500Bn from Indian suppliers and Rs. 1000Bn from China suppliers.

Question 04

Technopec Ltd is a Company incorporated in Germany and engaged in the business of manufacturing high tech machineries and equipment, used in the business of manufacturing of cosmetic products. Nature Lovers (Pvt) Ltd, is a company incorporated in Sri Lanka, engaged in

the business of manufacturing cosmetic products. The procurement team of Company, Nature Lovers (Pvt) Ltd visited Germany during the month of March 2023 and entered into an agreement with Technopec Ltd for purchase of machinery and equipment required by Nature Lovers (Pvt) Ltd. Accordingly, Nature Lovers (Pvt) Ltd imports machinery and equipment from Technopec Ltd. Total value of the importation done during the year 2022-23 was Rs.750Mn.

Question 05

e-Tech Advisory Ltd is a Company incorporated in Germany and engaged in the business of providing financial consultation services. Soft Leather (Pvt) Ltd, is a company incorporated in Sri Lanka, engaged in the business of manufacturing leather-based products for exports market. The Company, Soft Leather (Pvt) Ltd is evaluating expansion option available with the company. Soft Leather (Pvt) Ltd has obtained financial advisory services from e-Tech Advisory Ltd. The management consultancy team of the e-Tech Advisory Ltd came to Sri Lanka and provided advisory services during the month of April 2023. Total service bill value is Rs. 350Mn.

Question 06

Technopec Ltd is a Company incorporated in Germany and engaged in the business of manufacturing high tech machineries and equipment, used in the business of manufacturing of cosmetic products. Nature Lovers (Pvt) Ltd, is a company incorporated in Sri Lanka, engaged in the business of manufacturing cosmetic products. The sales team of Company, Technopec Ltd visited Sri Lanka during the month of June 2022 and entered into an agreement with few prospective buyers including Nature Lovers (Pvt) Ltd for purchase of machinery and equipment required by cosmetic manufactures. Accordingly, Nature Lovers (Pvt) Ltd imports machinery and equipment from Technopec Ltd. Total value of the importation made by Sri Lankan buyers during the year 2022-23 was Rs.750Mn.

Question 07

Sinopec Ltd is a Company incorporated in China engaged in the business of distribution of fuel used by consumers at China. Sinopec Ltd has establish a branch office in Sri Lanka. The branch office of the company, Sinopec Ltd imports fuel from India and China. These products are distributed in the Sri Lanka market. Total value of the importation made during the year 2022-23 was Rs. 300Bn from Indian suppliers and Rs. 1100Bn from China suppliers.

Question 08

Xe-Yang Ltd is a Company incorporated in China engaged in the business of providing construction and engineering services. Currently the services are providing for few customers at China and India. Xe-Yang Ltd has been offered a construction contact by a real estate company, Sky Ray (Pvt) Ltd company incorporated in Sri Lanka. The Engineering team of the Xe-Yang Ltd came to Sri Lanka on 05.05.2022 to provide the construction and engineering related service to the Sky Ray (Pvt) Ltd. The building project located at the one of main city in Sri Lanka. Total value of the contact will be Rs. 300Mn and project implementation period was 6month.

Question 09

Mitsu Construction Ltd is a Company incorporated in Singapore engaged in the business of providing construction and engineering services. Currently the services are providing for few customers at Malaysia and India. Mitsu Construction Ltd has been offered a construction contract by a real estate company, Sky Blue (Pvt) Ltd company incorporated in Sri Lanka. The Engineering team of the Mitsu Construction Ltd came to Sri Lanka on 01.05.2022 to provide the construction and engineering related service to the Sky Blue (Pvt) Ltd. The building project located at the one of main city in Sri Lanka. Total value of the contract will be Rs. 500Mn and expected duration for the completion of the contract will be 10 months. Further, Mitsu Construction Ltd has engaged a consultant, Mr. Jerom resident of Germany to provide technical support services to the engineering team of Mitsu Construction Ltd. Mr. Jerom came to Sri Lanka on 01.06.2022 and engaged with the engineering team located at the construction site. Mitsu Construction Ltd paid his total service bill and his expenses incurred during the period he stayed in Sri Lanka. Total period he spent in Sri Lanka for the consultation was 7 months.

Question 10

Singa Ltd is a Company incorporated in Singapore and engaged in the business of Software development for foreign market. Singa Ltd has incorporated a subsidiary company, Sin Sin Lanka (Pvt.) Ltd in Sri Lanka. The Company, Sin Sin Lanka (Pvt.) Ltd obtains software from Singa Ltd. These products are distributed in the Sri Lanka market. Total value of the importation made during the year 2022-23 was Rs. 500Bn. Company Sin Sin Lanka (Pvt) Ltd keep 30% margin on purchases and pays a 10% commission on the sale value of software to Singa Ltd.

Question 11

Singa Ltd is a Company incorporated in Singapore and engaged in the business of Software development for foreign market. Singa Ltd has establish a branch office in Sri Lanka. The Sri Lanka Branch obtains software from Singa Ltd. These products are distributed in the Sri Lanka market. Total value of the importation made during the year 2022-23 was Rs. 700Bn. Branch keep 40% margin on value of importation and pays a 10% commission on the sale value of software to Singa Ltd.

Question 12

CCC Bank Ltd is a Company incorporated in China and engaged in the business of bank and financial services. CCC Bank Ltd has establish a branch office in Sri Lanka and obtained the license from the Central Bank of Sri Lanka. The Sri Lanka Branch supply banking services to local and foreign customers. Branch earned a Rs. 100 Mn profit during the year 2022-23. Sri Lanka branch were funded by the CCC Bank Ltd and branch paid Rs. 30 Mn interest to CCC Bank Ltd. You may assume that the Rs. 100 Mn profit after deducting the interest paid to CCC Bank Ltd and profit has been ascertained as per the Inland Revenue act No. 24 of 2017 (As amended).