

## CA Sri Lanka – Strategic Level

### Corporate Taxation (Common Pre-seen analysis for taxation)

June 2024

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Resource Person:

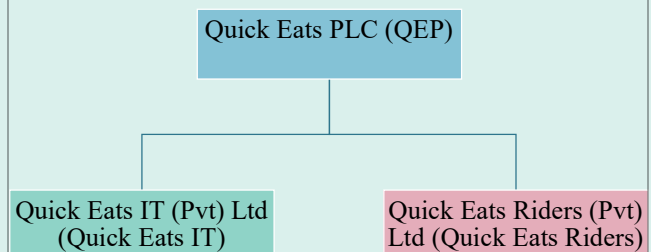
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## Group structure

- QEP – Public Quoted Company
- Quick Eats IT – Private Company
- Quick Eats Riders – Private Company

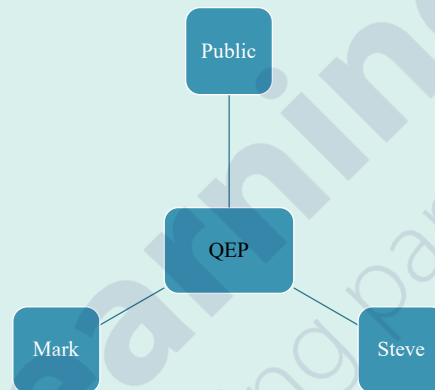
Resident companies for Income Tax



# Ownership structure and Nature of the business

## QEP – Public Quoted Company

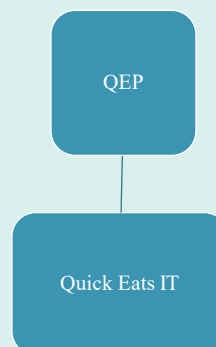
- Private ownership – 65%
- General Public – 35%
- Delivery services - food delivery IT platform



# Ownership structure and Nature of the business

## Quick Eats IT – Private Company

- QEP ownership – 100%
- Provide IT services to the group.



# Ownership structure and Nature of the business

## Quick Eats Riders – Private Company

- QEP ownership – 100%
- Manages the fleet of drivers



## QEP – Public Quoted Company

Delivery services – using food delivery IT platform

### Income – Unaudited Financial Statement

- Delivery service fee income – Liable for Income Tax at 30%, VAT and SSCL
- Commission - Liable for Income Tax at 30%, VAT and SSCL
- Promotion/Advertising - Liable for Income Tax at 30%, VAT and SSCL
- Interest – Bank deposit/saving – Subject to AIT at 5% (Not a final WHT) Gross interest income liable for tax at 30% and Tax credit can be claimed for AIT.
- Interest – Treasury Bills/Bond – Not subject to AIT. Liable for Income Tax at 30% (Investment assets/Financial assets)

## QEP – Public Quoted Company

Delivery services – using food delivery IT platform

### Expenses

- Director fee – Employment income subject to APIT (Table 1 or Table 7)
- IT platform – Intangible assets (Capital allowance useful life or 20year)
- Amortization/depreciation – Provisions disallowed (Unaudited Financials)
- Upgrading cost Platform/development/System security (Capital nature expenses) – Improvements
- Improvement cost – limitation (Previous year tax WDV - 20% or no Tax WDV - 03 year equally)
- Technological obsolete/discontinue - Write-off/Disposal (Assessable charges/balancing allowance)

## QEP – Public Quoted Company

Delivery services – using food delivery IT platform

### Expenses

- Payments to Quick Eats IT – Use of Intangible assets – Rent subject to AIT/WHT at 10% (Monthly payment exceeds Rs. 100K).
- RoU Assets – Depreciation and interest is disallowed. Payment/Rent (Unaudited Financials)
- Royalty/Trademark payment – Liable to WHT/AIT at 14%
- No deduction WHT/AIT – Disallowable expenses
- Payment to associate entities (AU)– Arm’s length principles (Market value)
- Annual maintenance charges – Capital/revenue nature (Repair/Maintenance fully deductible. Improvement – Limited (Definition for improvement)
- Marketing and communication expenses – Social media /marketing research even capital nature - allowable

## QEP – Public Quoted Company

Delivery services – using food delivery IT platform

### Expenses

- Cash collection/Card payment – fee/commission/service fee
- Payments to Quick Eats Riders – Delivery charges.
- Payment to associate entities (AU)– Arm’s length principles (Market value)
- Trade receivables – Provision – disallowed
- Cash loss – Hayley and Co Court case – Involuntary cash loss, working capital allowed.
- Litigation cost – allowed
- Finance cost – Thin Capitalization (Unaudited Financials) – Revaluation reserve
- Payment to Lawyer (Resident Individual) – subject to 5% WHT (Monthly/payment Exceeds Rs. 100k)
- Bank credit card commission/charges – Finance cost/charges allowable (No limitation)

## QEP – Public Quoted Company

### Share Holders (Mark/Steve)

- Dividends from subsidiary - subject to WHT/AIT at 15% (Final WHT)
- Redistribution of Dividends – Exempted for Income Tax
- Share disposal profit – Quoted shares – Exempted form Capital Gain tax

Quick Eats IT –  
Private Company –

IT related Services to  
Group companies

**Income**

- IT related services/Annual maintenance fee – Software development services – to local clients/QEP Liable for Income Tax at 30%, VAT 15%/18% and SSCL 2.5%
  - Income from associate entities (AU)– Arm's length principles (Market value)
  - IT related services – Software development services – to Foreign clients – Exemption for Income Tax and SSCL 2.5% VAT 0%.
  - Income use of Intangible assets – Rent subject to AIT/WHT at 10% (Monthly payment exceeds Rs. 100K).
  - Royalty/Trademark payment – Liable to WHT/AIT at 14%
- (Gross income – Tax credit for AIT )

Quick Eats IT –  
Private Company –

IT related Services to  
Group companies

**Expenses**

- IT services obtained from foreign party – Software development services – AIT Liable at 14% (DTAA Rate)
- Software development services obtained from resident individual – Consultants - AIT Liable at 5% monthly payment is exceed Rs. 100K.
- No deduction WHT/AIT – Disallowable expenses
- IT/Accessories – Capital allowance
- Intangible assets – Capital allowance
- Disposal/write off – Assessable charges/balancing allowance

Quick Eats IT –  
Private Company –

IT related Services to  
Group companies

**Expenses**

- Annual Maintenance agreement – Lawyer fee resident individual - AIT Liabli at 5% monthly payment is exceed Rs. 100K.
- No deduction WHT/AIT – Disallowable expenses
- Cash payment – Exceeds Rs. 500K – Disallowable

Quick Eats  
IT – Private  
Company –

IT related  
Services

**New business/Market**

- Possible tax concession on Port city opportunities
- Funding from overseas
- Secondary Business of Strategic Importance
- Services to outside client (Not domestic market)
- Employment remuneration exempt from Income Tax and can be made in designated foreign currency
- Income Tax exemption

Quick Eats IT –  
Private Company

**Share Holder - QEP**

- Dividends - subject to WHT/AIT at 15% (Final WHT)
- Share disposal profit – Investment Income – Liable for Capital Gain tax (QEP at 30%)

Quick Eats Riders –  
Private Company –

Manages the fleet of  
drivers - Services to Group  
companies

**Income**

- Services fee – clients/QEP  
Liable for Income Tax at 30%,  
VAT 15%/18% and SSCL 2.5%
- Income from associate entities  
(AU)– Arm's length principles  
(Market value)



Quick Eats Riders –  
Private Company –

Manages the fleet of  
drivers - Services to Group  
companies

**Expenses**

- Drivers commission – Independent service providers (Not subject to AIT)
- Drivers commission/salary to employees.
- Salaries/Remuneration to employees - No deduction APIT – Disallowable expenses
- Litigation expenditure
- RoU Assets or PPE – Capital allowance
- Delivery service fee – Not subject to AIT
- Leased assets – Capital allowance
- Lease interest – Thin Capitalization
- Assets disposal (Vehicle) – Balancing allowance/assessable charges

Quick Eats Riders –  
Private Company

**Share Holder - QEP**

- Dividends - subject to WHT/AIT at 15% (Final WHT)
- Share disposal profit – Investment Income – Liable for Capital Gain tax (QEP at 30%)

Prospective  
investment

Hotel  
Industry

**Investment in Hotel**

- Investment in shares
- Investment in depreciable assets
- Funding – Finance cost
- Tax at 30% (Under Inland Revenue Act)
- Service fee – VAT/SSCL Liable
- TDL Liable (1%)

Prospective  
investment

Hotel  
Industry

**Existing share holders liability**

- Disposal of shares – Investment assets – Capital Gain tax at 30% (Market Value as at 30<sup>th</sup> Sept 2017- shall be Cost)
- Listed shares – Exemption