

THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES
BMSHONS IN ACCOUNTING AND FINANCE
AFU5421 TAXATION AND TAX PLANNING
FINAL EXAMINATION –2024/2025
DURATION – THREE (03) HOURS



DATE: 29th NOVEMBER 2025 **100 MARKS** **TIME: 01.30 pm – 04.30 pm**

INSTRUCTIONS:

- Number of questions 04 and answer all questions.
- Marks have been mentioned at the end of each question.
- All the workings should be shown clearly.
- Start each answer on a new page.
- Calculators are permitted.
- Number of pages 06.

Question No 01

“Taxation is vital for Sri Lanka as it enables the government to mobilize internal resources, fund essential public services, and support economic development. By generating tax revenue, the country can also reduce reliance on borrowing and money creation, helping maintain fiscal stability and prevent issues such as inflation and excessive debt.”

- a) What is the **primary/main objective** of taxation in the context of Sri Lanka? (3 Marks)
- b) State the **four main (04) sources of income** that are chargeable to income tax under the Inland Revenue Act of Sri Lanka. (6 Marks)
- c) Briefly explain the **four (04) components of the legal framework** applicable to taxation in Sri Lanka. (6 Marks)
- d) Name **five (05) individuals/entities** that can be included under the definition of “**person**” as per section 02 of the Inland Revenue Act No. 24 of 2017. (5 Marks)

(Total 20 Marks)

Question No. 02

- a) “The principles of taxation are critically important because they ensure that a tax system is fair, efficient, transparent, and easy to comply with, thereby fostering public trust and voluntary compliance”.

Name **five (05) main principles** guiding a fair and effective tax system. (05 Marks)

- b) Name **five (05) categories** of income that can be included in “Investment income”.

(05 Marks)

c) You have been given the following information:

- i. Mr. Srikanth is a citizen of India. He was employed on a Sri Lankan ship from 1st June 2023 to 31st May 2025.
- ii. Mr. Premarathna was born in Sri Lanka and migrated to Israel for employment in March 2024. He earns a rent income from a house in Sri Lanka.
- iii. Mr. Anderson, a citizen of the United Kingdom, was appointed as an officer in the UK High Commission in Sri Lanka with effect from 15th March 2024 for a period of three years. He was provided an apartment in Colombo, and after assuming duties, he had not left Sri Lanka.

You are required to: Explain the residence status of the above individuals for taxation purposes in Sri Lanka for the year of assessment 2024/25 as per the provisions of the Inland Revenue Act No. 24 of 2017.

(10 Marks)

(Total 20 Marks)

Question No. 03

BrightHome (Pvt) Ltd., a Sri Lankan incorporated company, specializes in manufacturing home appliances for the domestic market. The following information has been extracted from the financial statements of BrightHome (Pvt) Ltd., for the year ended 31 March 2025;

- (1) The net profit before tax for the year ended 31st March 2025, after charging all expenses and crediting all income, was Rs. 23,750,000/-. The total turnover of the company was Rs. 528,500,000/-.
- (2) Break-up of other income:

	Rs.
Gain on disposal/sale of quoted shares	825,000
Interest income from fixed deposits (Gross)	1,650,000
Dividend income - Out of dividends received	1,450,000
Profit on the disposal of machinery	185,000

(3) Details of Property, Plant and Equipment are as follows:

Assets (Cost)	Balance as at 01.04.2024 (Rs.)	Additions / Acquisitions (Rs.)	Disposals (Rs.)	Balance as at 31.03.2025 (Rs.)
Land	9,250,000	5,500,000	-	14,750,000
Office Building	10,500,000	-	-	10,500,000
Motor Vehicles	12,500,000	6,750,000	-	19,250,000
Machineries	15,350,000	-	(1,350,000)	14,000,000
Furniture and Fittings	5,200,000	900,000	-	6,100,000
Total	52,800,000	13,150,000	(1,350,000)	64,600,000

- A 20-perch land plot was acquired during the year to construct a new warehouse.
- Except for the 20-seater minibus purchased during the year for staff transportation, the entire fleet of motor vehicles consists of delivery vans and lorries.
- A new conference table was purchased during the year for Rs. 900,000/-
- A machinery brought in the year of assessment 2021/22 was sold for Rs. 950,000/-
- Other than those mentioned specifically, all the other assets as at 01st April 2024 have been acquired in the year of assessment 2022/23 and claimed for capital allowance from the date of acquisition.

(4) Administration expenses include the following:

- Depreciation charge for the year is Rs. 2,480,000/-.
- Gratuity provision for the year Rs. 1,950,000/-.
- An amount of Rs. 240,000/- was paid as a penalty for late payments to the Employees' Provident Fund.

(5) Distribution expenses include the following:

- During the year of assessment, Rs. 950,000/- was incurred on an advertising campaign carried out on social media.
- The company has incurred Rs. 2,150,000/- for entertainment of customers.
- The company donated computers valued at Rs. 3,500,000/- to the Faculty of Management Studies of the Open University of Sri Lanka.
- The company has incurred Rs. 2,400,000/- for research on improving the efficiency of the production process.

- (6) The following other information is also provided:
- An amount of Rs. 1,100,000/- has been paid as gratuity to a retired employee during the year.
- (7) All other expenses of the business are allowed for income tax purposes.

You are required to:

Assess the Statutory Income from Business (adjusted Business Profit for tax purposes) of **BrightHome (Pvt) Ltd.**, for the year of assessment 2024/25.

(Total 30 Marks)

Question No. 04

Mr. Thusitha Pradeep Wanigasekara, a former Senior Tax Officer in the Government service, joined **Prime Tax Consultants**, a tax advisory firm based in Colombo, following his retirement in 2022.

The following information relating to **Mr. Thusitha Pradeep Wanigasekara** is provided for the Year of Assessment 2024/25 (hereinafter referred to as “the year”):

01. During the year, he has received the following from **Prime Tax Consultants**;
- Gross salary - Rs. 320,000/- per month.
 - Monthly Allowance – Rs. 100,000/-
 - The company has provided him with a motor car and a driver for his travel needs. Additionally, he receives a monthly fuel allowance of Rs. 80,000/-.
 - During the year, he was hospitalized and incurred a total medical bill of Rs. 350,000/-. In accordance with his employment contract, the company reimbursed Rs. 300,000/-. However, the company does not follow a uniform policy for reimbursing medical expenses for all employees.
 - The total commission fee received during the year amounted to Rs. 1,450,000/-
 - The company has provided Mr. Thusitha with an apartment in Colombo and pays a monthly rent of Rs. 120,000/- directly to the landlord on his behalf.
 - August 2024, Mr. Thusitha was sent to Australia, representing the company, to attend a conference on Modern Tax Policy and Compliance. The company has spent the expenses of his hotel accommodation and airfare, amounting to Rs. 2,450,000/-
 - Advance Personal Income Tax (APIT) deducted for the year was Rs. 650,000/-.
02. Government pension received during the year is Rs. 1,400,000/-.

03. He is also engaged in a personal business providing tax consultancy services, and the receipts and payment details related to this business for the year are as follows:

	Rs.	Rs.
Revenue from Clients		6,200,000
<i>Less: Payments</i>		
Salary to the Assistant	1,100,000	
Entertainment of Clients	550,000	
Office Expenses	870,000	
Depreciation	650,000	
Donations	200,000	(3,370,000)
Net Profit		2,830,000

Capital Allowances for the year is amounting to Rs. 780,000/-.

04. During the year, Mr. Thusitha has received the following interest income:

Description	Date Received	Amount (Rs.)
On Fixed Deposits (Net)	22.08.2024	680,000
On a Loan given to a Friend	15.02.2025	350,000

05. Dividend income received in January 2025 from quoted public companies (paid out of dividend received) was Rs. 620,000/-.
06. His personal residence in Malabe has been rented out from 1st July 2024 at a monthly rent of Rs. 80,000/-. In addition, Mr. Thusitha received non-refundable key money of Rs. 100,000/- from the tenant on the same date.
07. During the year, Mr. Thusitha cashed a cheque of Rs. 1,500,000/- by keeping a margin of 5%.
08. During the year, he donated books on the latest tax reforms valued at Rs. 550,000/- to the Main Library of the Open University of Sri Lanka.
09. Further, he has made a cash donation of Rs. 150,000/- to an approved adult care home at Nawala.
10. Withholding Tax/ Advanced Income Tax (WHT/AIT) deduction on interest on Fixed Deposits: Rs. 55,000/-.
11. He has paid Rs. 960,000/- as instalment payments for the year of assessment 2024/25.

You are required to:

Assess the following for **Mr. Thusitha Pradeep Wanigasekara** for the year of assessment 2024/25:

- a) Taxable income,
- b) Gross income tax payable,
- c) Balance tax payable, and
- d) Exempt income, if any.

(Note: Students are required to show all the workings with the answer) **(Total 30 Marks)**

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