

**KB3 - Business Taxation**  
**(Answer on Model Question)**

## Model Answer on Tax Computation

(a)

<b>Business Income</b> (Note 1)		105,376,000
<b>Investment Income</b>		
Dividend - Exempt, WHT deducted		-
Interest income - Fixed deposit	570,000	
WHT at 5%	<u>30,000</u>	600,000
<u>Profit from sale of land</u>		
Consideration received	13,500,000	
Cost/Market value as at 30.09.2017	(12,750,000)	
Advertisement	<u>(63,000)</u>	<u>687,000</u>
<b>Assessable Income</b>		106,663,000
Less: Qualifying payments and reliefs		
Donation to an approved charity that maintains the sick and needy (limited to lower of 1/5 of taxable income or Rs.500,000)		(100,000)
Donation made to the Municipal Council		<u>(850,000)</u>
<b>Taxable Income</b>		105,713,000
Tax liability at 14% ( exports > 80% of total income)		14,703,640
Capital Gain Tax at 10%		<u>68,700</u>
<b>Total tax liability</b>		<u><b>14,772,340</b></u>
Less: Tax credits		
Withholding tax on interest		(30,000)
Capital gain tax paid		(68,700)
Self-assessment payment		<u>(5,000,000)</u>
<b>Balance tax payable</b>		<b>9,673,640</b>

### Note 1

Profit before tax	102,460,000	
Less: Investment income		
Dividend		1,300,000
Interest income - Fixed deposit		570,000
Accounting profit from sale of land		3,830,000
Add/ less		
Survey expense - Allowed		-
Research expense - Allowed		
Additional 100% within 3 Y/A - (6th Schedule)		5,252,000

Penalty ( <i>Sec. 10(1)(b)</i> )	236,000	
Book depreciation	14,435,000	
Entertainment ( <i>Sec. 10(1)(b)</i> )	632,000	
Donation to the Municipal Council	850,000	
Donation to an approved charity	100,000	
Subscription to club	500,000	
Subscription to professional body - Allowable	-	
Advertising - Capital nature	63,000	
Accounting profit from disposal of generator		220,000
Taxable loss on disposal of generator		
Sales proceeds - (cost of acquisition - capital allowance granted)		
= 1,500,000 - (4,800,000 - 3,200,000)		
= 1,500,000 - 1,600,000		
Balancing allowances		100,000
<u>Capital allowances</u>		
Lab equipment Rs. 1,400,000 at 20%		280,000
Generator Rs. 5,400,000 at 20%		1,080,000
Mini bus Rs. 6,340,000 at 20%		1,268,000
Car - not entitled for capital allowances		
	119,276,000	13,900,000
<b>Business income</b>	<b>105,376,000</b>	

- (b) Capital Gain Tax should be paid within 30 days from the date of disposal i.e. before 15.09.2018