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Facts

ASB (hereinafter referred to as the "Board") has been granted land conversion permit to sell land in order to recover the cost of the Voluntary Retirement Scheme (VRS 1) in the year 2001.The lands were used for sugarcane plantation and have been owned by the Board for a considerable length of time. The Board has never been engaged in property development.

The land for sale was divided into 9 lots after obtaining Land Conversion Permit under Voluntary Retirement Scheme, in accordance with the Sugar Industry Efficiency Act 2001. Two of the lots were sold in 2007 for a total sum of Rs X million odds. The remaining lots have not yet been sold. The Board was directly involved in the conversion, development and parceling of the land and the only development costs were the survey fees, which were minimal.

The Board has spent some Rs Y million for the VRS scheme, financed by two loans contracted in 2001 and 2005 respectively from a domestic bank, and from its own working capital. The proceeds of the sale are being used to service the debts contracted.

Point in issue

Whether the surplus realised will be taxable or not.

Ruling

On the basis of facts provided, as the proceeds are used by the Board exclusively for the implementation of the 2001 Voluntary Retirement Scheme, the surplus realised on the sale of lands will not be taxable, in accordance with item 1 of Sub-Part C of Part II of the Second Schedule to the Income Tax Act.