INSTITUTE OF CHARTERED ACCOUNTANTS GHANA
ADVANCED TAXATION AND FISCAL POLICY
SOLUTIONS- MAY 2012

QUESTION 1

A). The types of supply stipulated in the Value Added Tax (VAT) Act, 1998 (Act 546) are:

i. Taxable Supply
ii. Exempt Supply
iii. Zero-rated Supply
iv. Relief Supply
v. Mixed Supply

i. Taxable Supply

A taxably supply generally takes the form of the supply of goods and services made by a taxable person for a consideration in the course of or as a part of his/her business activities. The applicable rate is the standard rate of 12•5%

ii. Exempt Supply

This refers to a supply of goods or services that is not subject to tax. VAT is thus not charged on the sale of exempt supplies but at the same time no credit may be allowed to the business making exempt sales for the VAT paid on purchases or expenses. This means that businesses which make only exempt supplies cannot register for VAT, since they are outside the scope of VAT.

iii. Zero-Rated Supply

This refers to the supply of goods and services whose output tax shall be zero. That is the rate of VAT is 0%.

iv. Relief Supply

This is a supply which is taxable supply for which the VAT Act has provided a relief from tax since it is a supply to specified individuals, organizations and business as mentioned in Schedule 3 of Act 546.

v. Mixed Supply

This is a supply of goods and services which are a combination of items some of which are taxable at the standard rate of 12•5% as well as items which are exempt. The supplier is expected to account for tax separately except where it is difficult to do so, especially where the items involved are of composite nature.

B). The basic rule is to allocate input tax to the class of supplies (taxable or exempt) on which it was incurred.

Where a taxable person has made both taxable and exempt supplies but cannot directly attribute the input tax to the taxable and exempt supplies, the formula below is applied in the determination of input tax deductible: A X B/C

Where: A: is the total amount of input tax for the period

B: is the total amount of taxable supplies made by the taxable person during the period (excluding VAT)

C: is the total amount of all supplies (i.e. taxable and exempt) made by the taxable person during the period.

Question 2

A). Fiscal policy describes the mechanism of government expenditure and income through taxes. According to the tenets of Keynesian Macroeconomics, rather than trying to design a neutral tax system, governments should deliberately use taxes to move the economy in the desired direction.

Thus if an economy is suffering from sluggish growth and high unemployment, the government should reduce taxes to transfer funds from the public to the private sector. The tax cut should be both stimulate demand for goods and services and increase the level of private investment. This should result an expansion of the economy and creation of new jobs.

On the other hand, if the economy is overheated, so that wages and price are in an inflationary spiral, the government could raise taxes. This would lead to people having less money to spend, causing demand for consumer and investment goods to fall. Thus the upward pressure of wages and prices would be relieved.

B). Tax Planning entails organizing one’s tax affairs in such a way as to pay just what is due. Tax Evasion refers to failing to pay legally due taxes or using illegal means to reduce taxes. It involves understatement of income, overstatement of expenditure, making incorrect returns and preparing false statements among others.

Tax evasion is criminal and punishable under the laws of Ghana in the form of heavy fines, imprisonment or both.

Tax avoidance generally takes the form of taking advantages of all entitlements, reliefs, rebates, exemptions or any loophole in the law. It is a legal way of operating within the ambit of the law to pay what is due.

To be successful in avoiding taxes, one has to be conversant with the tax laws and their provisions since there is a thin line between tax evasion and tax avoidance.

Question 3

A). Kwaku Boafo

Determination of Tax Credit Relief

1. Effective Rate of Tax on U.K. Income 1½ marks

$$\frac{\text{Tax Charged}}{\text{Total Income}} \times 100 = \frac{\text{GH¢}450 \times 100}{\text{GH¢}2{,}225} = 20\%$$

2. Effective rate of Tax in Ghana ½ mark

		GH¢	GH¢
Salary in Ghana			15,000
Add Partnership Income (U.K.)			2,250
			17,250
Less Reliefs			
SSF (5% X GH¢15,000)		750	
Marriage/ Responsibility		35	
Child Education (3 X GH¢30)		90	(875)
Chargeable Income			16,375
Tax Payable		Rate	Tax Charged
First	1,008	Nil	Nil
Next	240	5%	12
Next	720	10%	72
Next	14,232	17.5%	2,490•60
Remaining	175	25%	43•75
Tax Charged			2,618•53

Effective Rate of Tax in Ghana

$$\frac{\text{Tax Charged}}{\text{Total Income}} \times 100 = \frac{\text{GH¢}2{,}618{\bullet}35 \times 100}{\text{GH¢}17{,}250} = 15{\bullet}18\%$$

3. Since Ghana's rate is lower, the net amount transferred from UK has to be grossed up using Ghana's tax rate, thus

$$\frac{100 \times \text{GH¢}1{,}800}{34{\bullet}82} = \text{GH¢}2{,}122{\bullet}14$$

4. The Tax Credit Relief to be granted Kwaku Boafo is the difference between the re-grossed up amount and the net transferred to Ghana.

	GH¢
Re-grossed Amount	2,122•14
Net amount Remitted	1,800•00
Tax Credit Relief	(322•14)

B). Kwaku Boafo's net tax liability will be

GH¢	GH¢		
Salary in Ghana			15,000•00
Add Re-grossed Income (U.K.)			2,122•14
			17,250•14
Less Reliefs			
SSF (5% X GH¢15,000)		750	
Marriage/ Responsibility		35	
Child Education (3 X GH¢30)		90	(8750•0)
Chargeable Income			16,247•14
Tax Payable		Rate	Tax Charged
First	1,008	Nil	Nil
Next	240	5%	12
Next	720	10%	72
Next	14,232	17.5%	2,490•60
Remaining	47•14	25%	11•78
Tax Charged			2,586•38

Net Tax Liability is:	GH¢
Tax Charged	2,586•38
Less Tax Credit Relief	322•14
Net Tax Liability	2,264•24

C). Countries with which Ghana has Double Taxation Treaty are:

a. South Africa

b. Germany

c. Belgium

d. Italy

e. United Kingdom

f. France

g. Netherlands

h. Switzerland

Question 4

KWADWOVI AMEKO
DETERMINATION OF CHARGEABLE INCOME – 2009 YEAR OF ASSESSMENT

	01/01/09	31/12/09
ASSETS	GH¢	GH¢
Bank	6,000	11,000
Water purifying machine	2,500	2.500
BMW Car	25,000	25,000
2 New machines		5,000
Delivery Van		3,000
Extension Of Factory/ Garage		2,000
Debtors/ Receivables		7,500
	33,500	56,000
Less Liabilities: Creditors		(1,500)
Opening / Closing Income	**33,500**	**54,500**
Drawings		
Rent /Rates	400	
Food	2,400	
Social Activities	250	
	3.050	
Closing Capital		54,500
Less Opening Capital		(33,500)
Add Drawings		3,050
		24,050
Less Non-taxable Income (Football pools)		(5,000)
Chargeable Income		19,500

Explanations

1. Although Kwadwovi Ameko has a wife and children, they are not with him in Ghana. He does not therefore qualify for any personal reliefs.

2. The amount remitted to him as winnings of football pools is non-taxable as it is income from betting, hence it has been deducted as non-taxable income

3. All private expenses have been calculated and added as drawings as it is assumed that they were borne out of business income/profits.

4. The building was acquired years ago and has not been included for private occupation. The extension is however, included as the garage is used as the factory.

Question 5

A). AMAZON GHANA LIMITED

DETERMINATION OF ALLOWABLE INTEREST -2009 YEAR OF ASSESSMENT

Interest allowable shall not exceed debt to equity ratio of 2:1 as provided for under thin capitalization rules. Amadeus Limited is an exempt person with Amazon Limited being an exempt-controlled resident entity. So with an exempt equity of GH¢200,000, the interest payable on the exempt debt of GH¢4,000,000 has to be subject to the thin capitalization rule. [5 marks]

	GH¢
Interest charged	600,000
Equity Investment	200,000
Maximum Exempt loan Allowed	2 X 200,000 = 400,000

Interest Allowed

$$\frac{2 \text{ X Equity X Interest Charged}}{\text{Total foreign loan from parent company}} \qquad \frac{2 \text{ X } 200{,}000 \text{ X } 600{,}000}{4{,}000{,}000}$$

0•10 X 600,000

= 60,000

B). GYAPS GHANA BRANCH
DETERMINATION OF BRANCH PROFITS TAX PAYABLE
2010 YEAR OF ASSESSMENT

A tax is imposed on a non-resident person carrying on business in Ghana through a permanent establishment which has repatriated profits for a basis period ending within a year at a rate of 10%. GYAPS Ghana Branch is a permanent establishment of GYAPS Limited in Australia. As a non-resident person carrying on business in Ghana through GYAPS Ghana Branch, the rule stated above shall apply.

	GH¢
Net Asset at beginning of the year	10,000,000
Add Net Profit for the year	3,000,000
Total	13,000,000
Less Net Assets at the close of the year	(12,000,000)
Repatriated / Transferred Branch Profits	1,000,000
Tax thereon @ 10%	100,000