SOLUTION 1

(a) **Income Splitting**

This is where income from an entity or person with higher marginal rate of tax is transferred to another entity or person with a lower marginal rate of tax. For instance a parent whose income attracts tax at the current top rate of 28%, transfers additional income to a child or spouse with a marginal rate of say 15% or less. Another example would be where a parent company, which pays tax at a rate of 32.5%, transfers income to an exporting company which is its subsidiary that pays tax at 8%. Common instances could be found in family businesses where children are made partners or directors of the firm. In this situation the income of the firm is shared among the members of the family for tax purposes.

The Act specifically prohibits this type of income arrangement. Sub-section 1 of section 69 provides that where a person attempts to split income with another person, the commissioner may adjust the chargeable income of both persons to prevent a reduction in tax payable as a result of the splitting of income.

(b)

1. **Tax Avoidance**

Tax avoidance is synonymous to tax planning in the sense that it also takes advantage of the provision of the tax laws to pay the minimum tax. Secondly it does not involve itself in anything illegal.
Tax avoidance schemes operate by finding loopholes in the tax laws and using them to pay the minimum of tax or not paying anything at all. It therefore requires a comprehensive knowledge of the tax laws to determine what exemptions, reliefs and other incentives are available to take advantages of them.

2. **Tax Evasion**

Tax evasion, unlike tax avoidance is illegal. It involves a deliberate act of:

- Failure to declare and under declarations,
- Submitting false statement and returns
- Overstating expense and cost
- Keeping one set of books containing false entries for the tax authorities and another set of books with the correct business operations for himself and,
- Any other fraudulent act or means of deliberately dodging or minimizing payment tax on ones income

It is a crime against the state and therefore any person who aids or abets is also guilty and punishable under the tax laws.

(c)

Input tax credit may be allowed where the Commissioner – General is satisfied that: -

i. The taxable person took all possible steps to acquire the tax invoice;
ii. The failure to acquire the tax invoice was not the fault of the taxable person;
iii. The amount of input VAT claimed by the taxable person is verifiable.

(d)

The conditions that must be met before an individual would be allowed to operate a private bonded warehouse are:

i. Safe, secured, waterproof and rat proof;
ii. Suitable with regard to the position among other buildings;
iii. Fitted with adequate lights and suitable ventilators;
iv. Fitted with doors capable of being locked with revenue locks;
v. Fitted with windows that are barred and fitted with shutters which can be securely fastened from inside;
vi. Provided with office accommodation for the customs officers;
vii. Take an insurance to secure revenue in the goods;
viii. Obtain a license from the Ghana Revenue Authority, customs division;
ix. Payment of bond as agreed by the commissioner.

SOLUTION 2

Currently, the two systems in operation are:

1. Provisional Assessments and
2. Self Assessments

<u>Provisional Assessments:</u>

This type of assessment is raised by the Commissioner – General as soon as may be after the commencement of each basis period of a person who pays tax by instalments. It is computed according to the best judgment of the Commissioner – General.

The provisional assessment would provide the following details:

a. The estimated chargeable income;
b. The estimated tax to be paid;
c. The amount and timing of tax instalments to be paid and
d. The time, place and manner of objecting to the assessment

Taxpayer is to pay 30% deposit of the provisional assessment on objection.

Self Assessment:

As the name suggests, the taxpayer makes his own estimate of chargeable income and tax payable thereon for a year of assessment. This is only done under the authority of the Commissioner – General in a notice published in the Gazette or in the print media. This assessment is done on or before the commencement of the basis period.

The taxpayer has the right to revise his own estimates giving reasons for such a revision. The self – assessment or the revised self – assessment shall b e deemed to be as assessment by the commissioner.

Comparisons:

In the main, both are provisional assessments except that the Commissioner – General prepares one while the taxpayer prepares his own self – assessment. In the case of the provisional assessment raised by the Commissioner – General, the taxpayer may object within 9 months in writing stating the grounds of his objection and also provide an estimate of his chargeable income. In the case of a self-assessment the taxpayer cannot raise an objection against his own assessment but he is permitted to revise his estimates providing reasons for his revision.

Again, in the case of self – assessment, where the estimate or revised estimate of chargeable income for a year of assessment is less than 90% of the taxpayer's actual chargeable income assessed for the year, the taxpayer shall be liable to a penalty equal to 30% of the difference between the tax calculated in respect of that person's estimate or revised estimate of chargeable income and the tax calculated in respect of 90% of that person's actual chargeable income for the year. This does not apply to provisional assessments raised by the Commissioner – General.

Self – assessment demands proper record keeping enabling the taxpayer to prepare accurate estimates. Failure to prepare accurate estimates will results in penalties being imposed.

SOLUTION 3

Progressive Insurance Co. Ltd.
Year of Assessment 2010 (1/10/09 – 30/9/10)

	GHS	GHS
Gross Premiums Received		380,000
Less: Premiums Returned	18,500	
Reinsurance	26,000	44,500
Net Premium Income		335,500
Deduct:		
Reserve for unexpired risk (40% * 335,500)	134,200	
Reserve for the year	210,000	75,800
		411,300

<u>Deduct:</u>		
Claims Paid	185,000	
<u>Less</u>: Reinsurance Recoveries	<u>124,000</u>	<u>61,000</u>
		350,300
<u>Deduct:</u>		
Commissions to Agents	1,200	
General Admn. Expenses	<u>82,000</u>	<u>83,200</u>
		267,100
Add: Interest on Treasury Bills		<u>18,000</u>
		285,100
Less: Capital Allowance		<u>29,100</u>
Chargeable Income		256,000

SOLUTION 4

(a) Benefits – Received Principle

This principle asserts that individuals and businesses should purchase the goods and services of government in the same way other commodities are bought. Those who benefit from government – supplied goods and services should pay the taxes necessary for financing them. A few public goods are financed on this basis. In this case one should not expect the state to subsidize certain goods. The current petroleum pricing policy is an approximation of this principle. Another example is the payment of toll on the use of certain roads by drivers who use those roads.

Practicalities:

1. It will be extremely difficult for the government to determine the benefits individuals and businesses receive from such services as national security, education, police and fire protection
2. Even in tangible case of road finance it will still be difficult to measure benefits. Car owners and non – car owners benefit in different degrees from good roads.
3. Government policy of redistributing income would be defeated where public goods are financed on this principle. It would be absurd to as poor families to pay taxes needed to finance their children education.

Ability – to – pay Principle

This principle rest on the idea that the tax burden should be geared directly to a taxpayer's income and wealth. In Ghana the ability to pay principle means that individuals with high income should be made to pay more taxes both absolutely and relatively than those with low incomes.

The proponent of this principle argues that each additional cedi of income received by an individual will yield smaller and smaller increments of satisfaction or marginal utility. Because consumers are rational beings, the first cedi income received in any period of time will be spent on essential goods, which yield the greatest marginal utility. Successive Ghana cedis of income will go for less essential goods and finally for luxurious goods and services. (This means that a cedi taken from the rich person who has many Ghana cedis). Therefore to balance the sacrifices which taxes impose on income receiver, taxes should be apportioned according to the amount of income a taxpayer receives.

Practicalities:

1. The question of how much more ability to pay does the poor person has compared to the rich person is not easy to determine.

2. There is no scientific way of measuring someone's ability to pay taxes. In practice the answer hinges on guesswork, the tax view of the government in power, expediency and how urgently the government needs revenue.

(b)

In Keynesian Macroeconomics, government intervention in the management of an economy is allowed through the use of taxation as a fiscal policy tool.

In times of unemployment, taxes can be reduced, especially corporate taxes so that companies and other business units can have higher retained earnings which could then be used to expand their businesses, hence requiring more hands this would lead to employment being created to lessen the unemployment situation.

There could also be tax incentives for businesses that recruit fresh graduates to entice business to employ the unemployed as was done in 2007 in Ghana law still exists.

SOLUTION 5

Mr. Bunkuta
Y/Asst. 2010(1/1/10 - 31/10/2010

	GHS	GHS	GHS
Employments:			
Salary		14,000	
Inconvenience Allowance		3,500	
Risk Allowance		9,000	
Entertainment Allowance		5,400	
Total Cash Emoluments		31,900	
Add:			
Rent Element (10%)	3,190		
Care Element (10%)	3,190	6,380	
Assessable Income		38,280	38,280
Business Income			
Net Profit as per accounts		(800)	
Add Back:			
IRS Quarterly Stickers	1,250		
Tips	2,150		
Fines	900		
Depreciation	1,950	6,250	
		5,450	
Less: Capital Allowance		2,850	
			2,600
Total Assessable Income			40,880
B/F Total Assessable Income			40,880
Less Reliefs:			
S.S. Social Security	770		
Life Policy	3,000		
Marriage Relief	35		3,805
Chargeable Income			37,075

Tax Computation:

240 …	…	…	NIL
240 at 5	…	…	12.00
1,200 at 10	…	…	120.00
7,920 at 17.5	…	…	1,386.00
27,475 at 25	…	…	6,869.00
37,075	…	…	8,387.00
Less: Tax on stickers			1,250.00
Net tax Due			7,137.00