DECEMBER 2022 PROFESSIONAL EXAMINATIONS
ADVANCED TAXATION (PAPER 3.3)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

The examiners' report provides an opportunity for all stakeholders to appreciate the performance of candidates in particular and the conduct of the examination in general. It brings clearly to the fore the strengths and the weaknesses of candidates. The report has also looked at the entire process of the examination from the quality of the papers up to the review of solutions submitted by candidates. Each question has been examined with comments for all stakeholders to take note of.

What has been observed is that candidates have been able to put a stop to a mixed up in the numbering of questions which made marking difficult. This is a big plus.

The performance of candidates in the examination was not the best, but not too bad though. It could have been better if candidates had studied the examiners' report well and applied the recommendation appropriately.
Some candidates refused to give headings to the requirement of the questions they were answering, making it difficult to appreciate what solution they provided. Closely akin to this is the absence of currency signs in their solutions.

STANDARD OF THE PAPER

The paper tested principles and practice. Candidates were required to apply the principle to the questions to provide solutions. The questions required understanding of both domestic and international taxation – transfer pricing and transaction between related parties. The questions in some respect had to do with invoicing with a margin or make up. Foreign exchange transactions came up for attention as well.

The paper appeared loaded but it must be stressed that a candidate who prepared very well would have found the paper manageable within the 3 hours. What was very interesting was that, the questions were not recall questions. Candidates who studied by fits and starts would have found the questions difficult to tackle.

The spread of the question was also appropriate and aligned with the syllabus. The paper came across as a paper that an average candidate could pass with some maximum ease if the person was studious. The clarity of the questions was exceptional. Candidates were left in no doubt as to what they were required to do.

PERFORMANCE OF CANDIDATES

The performance of candidates did not come as a surprise because it appears the performance is on a downward decline. The paper required understanding the principle in order to solve the questions. Candidates were not prepared for that pattern of questions.
The questions followed the regular pattern except that each transaction required understanding the principle of taxation before a solution could be offered. Many

candidates did not appear to have read the principles of taxation very well, consequently performed poorly.

Interestingly, some candidates did not write anything in the answer booklets. The booklets only carried their index numbers. Clearly candidates did not read and only came relying on “dangerous faith and destiny to pass”. For candidates who attempted, some scored zero in the award of marks in some of the questions. This stems from selective reading by some of the candidates and when the areas do not come, it becomes a disaster.

It must be stressed that some of the candidates performed so well. They bagged appreciable marks. They read the questions very well, and provided the appropriate responses and made significant marks.

Candidates must note that the only thing that can guarantee success is to read widely and also to solve past questions to enhance and build confidence level to make the passing easier.

NOTABLE STRENTHS AND WEAKNESSES OF CANDIDATES

Notable strength

Candidates demonstrated strength in the understanding of theories. Many candidates had some appreciable idea how the capital allowance is computed in the oil and gas space and as a result performed very well in the petroleum question. This was quite strange and also indicated that most candidates had read widely.

A large number of candidates had command over the temporary concession and consequently did so well.

Notable weaknesses

- Candidates had difficulty in how to determine revenue and or cost when mark up and margins are given.
- Some candidates seem not to understand that the concept of deductibility depends upon understanding what constitutes domestic and excluded expenditure.
- Additionally, there was paucity in how exemption can be granted on account of dividend payment and receipt by a resident entity with another resident entity.
- What also became a challenge was the circumstances under which a resident entity can be considered as an exempt person.
- It also became clear that candidates were learning in isolation instead of in association. Many could not link concepts which are common and have symbiotic relationship.
- Additionally, computation of assessable income without clear headings and years of assessment create a lot of problems and don’t lend themselves for easy comprehension. Candidates who do that, therefore, leave the examiners confused regarding what they are computing.
- It was also noticed that the amounts did not have the currency sign in the solutions presented.

QUESTION ONE

Gomoa Ltd is a resident of United States of America. Gomoa Ltd established two companies, Komenda Ltd and Abirem Ltd resident in South Africa and Ghana respectively. The Ghana Revenue Authority (GRA) requested for information from other companies which deal with Abirem Ltd and same was furnished to enable the GRA make a determination on Abirem Ltd.

The details relating to 2021 year of assessment are as follows.

	Komenda Ltd (Resident in South Africa)	**Abirem Ltd (resident in Ghana)**
	GH¢	**GH¢**
Sales	200,000,000	200,300,000
Cost of Sales	(110,000,112)	(120,001,200)
Gross Profit	89,999,888	80,298,800
Less Operating Exp.	76,000,000	89,700,000
Net Profit / Loss	**13,999,888**	**(9,401,200)**

Additional information:

i) Gomoa Ltd invoiced goods to Abirem Ltd at price of GH¢1,900,000 which is 10% more than the market price.

ii) Dividend of GH¢700,000 paid by Abirem Ltd to the Gomoa Ltd, has been incorporated in the cost of Abirem Ltd.

iii) Management and Technical Services in the sum of GH¢1,290,000 paid to the group by Abirem Ltd at gross has been added to operating expenses

iv) Goods invoiced to Komenda Ltd by Gomoa Ltd amounted to GH¢1,000,000. This was 15% below the arm’s length price.

v) Dividend of GH¢200,000 received by Abirem Ltd from a resident company has been included in the revenue of Abirem Ltd. Abirem Ltd holds 25% voting power of the resident company.

vi) Komenda Ltd made a profit of GH¢200,000 from the engagement of business activities in the United States of America.

vii) The Managing Director of Abirem Ltd took some of the goods for his personal use. The cost price was GH¢200,000 with a margin of 20%. The cost price of such goods were incorporated in the cost price of the goods above

viii) The Managing Director of Abirem Ltd took goods worth GH¢130,000 at cost for home consumption. This amount was not added to the cost of the goods above. The goods were sold at a mark-up of 10%.

ix) Abirem Ltd paid tax at a rate of 27% which amounted to GH¢20,000 in South Africa. This was in respect of goods sold. The net sales have been added to revenue of Abirem Ltd.

x) Abirem Ltd receive a loan from Komenda Ltd to support its operations in Ghana. The details of the loan are as follows:

- Loan amount: GH¢10 million at the beginning of the year.
- Interest on loan payable for the year was GH¢1,000,000.
- Foreign exchange loss on the loan amount settled was GH¢200,000.

xi) Equity at the beginning of the year stood at GH¢2,000,000 and closed the year with GH¢2,800,000.

xii) Transfer of GH¢400,000 from retained earnings to share capital.

Additional Information:

- Financial gain from derivative was GH¢2.5 million while that of financial cost from derivative was GH¢6 million. The excess has been added to the cost of operation.
- Capital allowance agreed with the GRA stood at GH¢1,000,000.

Required:
Calculate the tax payable by Abirem Ltd.

(Total: 20 marks)

QUESTION TWO

a) Papana Ltd is a resident company in Ghana and continues to have huge cash flow challenges after a major customer stopped business dealings with it. Dawadawa Ltd also a resident company decided to negotiate with Papana Ltd and acquired 52% of the underlying ownership.

Following from this arrangement, a loan facility was secured amounting to GH¢100 million by Papana Ltd from Dawadawa Ltd. The interest rate agreed was 4% more than the average of 25% being charged. The interest paid in 2021 was GH¢2 million.

Dawadawa Ltd is exempt from tax on all its income.

The following is the capital structure of Papana Ltd for 2021 year of assessment:

Details	**January 1, 2021**	**December 31, 2021**
	GH¢	**GH¢**
Share Capital	1,000,000	1,200,000
Retained Earnings	200,000	250,000
Revaluation Reserves of assets	100,000	100,000

Required:

i) Compute the tax implication of the above arrangement. **(8 marks)**

ii) What constitutes an exempt person? **(4 marks)**

b) Tax planning opportunities are available to all persons. All business units may not have the same tax planning opportunities, hence the need to carefully select a business unit that may provide the intended benefits to the owner or owners.

Required:
Discuss **FOUR (4)** tax planning opportunities available to sole proprietorship which may not be available to limited liability companies. **(8 marks)**

(Total: 20 marks)

QUESTION THREE

a) Conti Ltd has been in the buying and selling of baskets business for some time now. Conti Ltd's basis period is January to December each year. The Chargeable income of Conti Ltd for 2021 year of assessment is GH¢ 7,000,000.

The chargeable income was arrived at after taking into account the following:

1) An amount of GH¢200,000 was spent on staff lunch with evidence on how much each benefited. The staff were not affected by this payment according to the management of the Company.
2) Financial cost from derivative was GH¢20,000,000.
3) Financial gain from swaps arrangement was GH¢1,000,000.
4) Goods amounting to GH¢12,000,000 were invoiced to another company in controlled relationship. Such goods in the hands of uncontrolled persons should have been GH¢13,130,000

From the scrutiny of the accounts of the company, the following additional information emerged:

- Interest on loan amounting to GH¢3,200,000 was added to the financial cost above. 80% of the interest relates to capital work in progress and the rest to support working capital. The capital work in progress will come on stream in the next 5 years.
- An amount of GH¢500,000 was received as net dividend from Ann Ltd, a resident entity, where Conti Ltd holds 24% voting power. This was added to the revenue.

Required:

i) Compute the tax payable. **(5 marks)**

ii) What are the tax implication of the lunch for staff, interest paid and the dividend received? **(3 marks)**

iii) What are the potential tax planning measures you have identified that Conti Ltd must work on to reduce its tax liability in relation to the dividend? **(2 marks)**

iv) What is the tax implication of financial cost from derivative and what is its impact on the company? **(2 marks)**

b) Adom Ltd intends to commence business in the following areas:

- Farming
- Agro-processing

The management of Adom ltd has indicated that it wants to conduct the business in the most ethical manner possible but at the same time make the maximum possible profit with minimum tax liability.

Required:

Discuss the tax implications in these sectors of the economy. **(4 marks)**

c) Expenditures which are considered domestic in character may be converted or treated as allowable deduction under certain conditions in line with section 130 of the Income Tax Act, 2015 (Act 896).

Required:
What constitutes domestic expenditure and how does such expenditure become allowable for tax purpose? **(4 marks)**

(Total: 20 marks)

QUESTION FOUR

STE was incorporated in 2020 and commenced business operations on 1 January 2021, specialising in the manufacturing and distribution of solar panels, solar lights and solar powered related products. STE's head office and business premises are situated in Tema.

On 30 June 2020, STE successfully applied for a two-year loan of GH¢750,000 with an interest rate of 15% p.a. from a leading local financial institution. The loan was applied as follows:

	GH¢
Showroom construction at Tema, a designated growth point	100,000
Procurement of the plant and machinery	250,000
Procurement of raw materials	300,000
Procurement of commercial vehicles	70,000
Total amount applied during the year ended 31 December 2020	720,000
Amount applied towards 2021 consultancy fee	30,000
Total	**750,000**

STE's fixed asset register as at 31 December 2021 is as follows:

	Cost	**Depreciation**	**Net book value**
	GH¢	**GH¢**	**GH¢**
Head office building	150,000	3,750	146,250
Factory building	120,000	6,000	114,000
Furniture and fittings	65,000	6,500	58,500
Office Computers	80,000	16,000	64,000
Total	**415,000**	**32,250**	**382,750**

The fixed assets procured using the loan were not included in the fixed asset register and neither was the expenditure on raw material procurement recorded in STE's books. These assets were first brought into use on 1 January 2021.

STE's statement of comprehensive income for the year ended 31 December 2021 is as follows:

	Notes	**GH¢**	**GH¢**
Turnover			4,834,500
Cost of sales (excluding the initial raw materials)			(796,338)
Gross profit			4,038,162
***Add* other operating income:**			
Bank interest		15,000	
Sales commission		40,000	
VAT refund		11,000	66,000
			4,104,162

***Less* operating expenses:**			
Staff welfare	1	661,200	
Repairs and maintenance		45,000	
Insurance		22,000	
Depreciation		32,250	
Advertising and marketing	2	203,800	
Printing and stationery		7,120	
Utility costs	3	32 700	
Motor vehicle expenses	4	78,600	
Industrial research and development	5	33,300	
Operating licence	6	25,000	
Interest	7	183,750	
General expense	8	57,900	(1,382,620)
Net profit before tax			**2,721,542**
Corporate tax paid	9		(244,625)
Net profit after tax			**2,476,917**

Notes

1) **Staff welfare:**

	GH¢
Salaries and wages	480,000
Consultancy fee	30,000
Staff training	12,000
SSF and pension contributions (80 employees)	112,850
Penalty for late PAYE	5,000
Staff end of year party	7,350
Initial payroll software licence	14,000
	661,200

The consultancy fee was paid to a USA company, Solar Works, which seconded an expatriate who was engaged from 2 January 2021 to 31 May 2021 on the basis of a temporary work permit. The expatriate was also tasked with test running the plant and machinery. The consultancy fee was funded from the loan balance.

2) **Advertising and marketing:**

	GH¢
Advertising and promotion of solar products in foreign markets	85,000
Local market research, advertising and trade fares	79,000
Space rental at the Ghana Trade Fair Exhibition showground	26,000
Solar magazine launch	10,000
Marketing director's family and friends entertainment	3,800
	203,800

3) **Utility costs:**

	GH¢
Electricity and water charges	7,460
Water supply	11,600
Installation of the solar panels for the Tema show room	13,640
	32,700

4) **Motor vehicle expenses:**

	GH¢
Fuel and vehicle servicing	33,000
Insurance and licences	15,600
Vehicle tracking equipment	30,000
	78,600

5) The total amount was contributed to Energy Commission of Ghana towards the research on solar powered cookers, heaters and refrigerators. STE intends to broaden its product range by including these solar items in the near future.

6) The total amount was paid to the Tema Metropolitan Assembly as the initial operating licence for the factory.

7) **Interest:**

	GH¢
2% loan establishment fee	15,000
2020 interest paid	56,250
2021 interest paid	112,500
	183,750

8) **General expense:**

	GH¢
Legal fees for the Ghana Trade fair show ground lease agreement	6,000
Architect's fees for the factory building plan	10,000
Staff teas and refreshments	28,600
Office cleaning	10,300
Donation to a political party	3,000
	57,900

9) The amount refers to the provisional tax paid during the course of the year. The accountant had projected the taxable income for the year ended 31 December 2021 as GH¢950,000.

Required:

a) Calculate the maximum capital allowances claimable by STE Ltd for the year ended 31 December 2021. **(12 marks)**

b) Calculate the chargeable income and the tax payable by STE Ltd for the year ended 31 December 2021. **(8 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Lakeside Exploration Ghana Ltd and Gasoil Energy Extraction Ltd are joint venture partners who have 50% and 35% interest respectively in the Volta Offshore Field Ghana Ltd. The agreement between the joint venture partners and the Government of Ghana provides for Royalty of 5%, Initial Carried Interest of 10%, Additional Participating Interest of 5%, and corporate tax rate of 35%.

Production commenced in the Volta Offshore Field Ghana Ltd in 2021. Information available on the Volta Offshore Field Ghana Ltd is as follows:

Exploration Costs	GH¢500,000,000
Development Cost	GH¢4,000,000,000
Average production cost per barrel	GH¢10
Average Price of crude oil per barrel	GH¢50
Actual oil Production in 2021	100,000,000 barrels

Required:
Calculate the following:

i) Capital allowance entitlement of Lakeside Exploration Ghana Ltd and Gasoil Energy Extraction Ltd. **(6 marks)**

ii) Distribution of crude oil. **(4 marks)**

b) The Ghana Revenue Authority insists on the payment of 30% before an objection is determined by the Commissioner-General.

Required:
What is the position of the tax law on this assertion? **(10 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

Abirem Ltd
Computation of tax payable
Year of Assessment 2021
Basis Period 1/1/21-31/12/21

		GH¢
Net Profit		**(9,401,200)**
Less Dividend	200,000	200,000
		(9,601,200)
Add the following:		
Overstated Cost (1,900,000 – (100/110 x 1,900,000))	172,727	
Dividend	700,000	
Sales understated (15/85 x 1,000,000)	176,471	
Drawings (100/80 x 200,000)	250,000	
Drawings (10/100 x 130,000)	13,000	
Sales (tax component)	20,000	
Interest on loan (W1)	400,000	
Foreign Exchange loss (W1)	80,000	
Excess foreign exchange loss	2,500,000	4,312,198
		(5,289,002)
Capital Allowance		(1,000,000)
Tax loss		**(6,289,002)**

(Marks are evenly spread = 18 marks)

Management and Technical Service Fee
Withholding tax @ 20%x1,290,000 = **GH¢**258,000 **(2 marks)**

Workings:
W1
Loan amount = 10 million
Interest on loan = 1 million
Foreign exchange loss =200,000
Equity = 2,000,000
Debt: Equity Ratio = 3: 1
Allowable debt = 3 times Equity (3* 2,000,000 = 6,000,000)
Allowable Interest = 6,000,000 * 1,000,000/10,000,000 = 600,000
Interest not allowable = 1,000,000 - 600,000 = 400,000

Foreign exchange loss allowable = 6,000,000 * 200,000/10,000,000 = 120,000
Foreign Loss not allowable (200,000-120,000 = 80,000)

(Total: 20 marks)

EXAMINERS' COMMENTS

This question tested candidates' ability to re-examine accounts and determine proper tax computation. There were transfer pricing abuses. Goods were invoiced 10% above market. This needed to be deflated to correct the situation.

Dividend treated as part of the cost was wrong. Dividend is treated as a final withholding tax or exempt under some condition. The dividend of GH¢200,000 was exempt from tax under section 59(3) of Act 896.

It was also observed that candidates had challenges with mark up and margin computation when goods are taken for own use or given as gifts. Profits from such arrangements are taxable.

The tax paid in South Africa could not be utilised because the overall outcome was a tax loss.

The transfer of GH¢400,000 to retained earnings would trigger deemed dividend withholding tax @ 8% and also 0.5% stamp duty payment on the amount.

The interest and foreign exchange loss were subject to thin capitalisation rules as shown in the computations above.

Management and technical service fee is subject to 20% withholding tax.

Most candidates refused to provide headings for the solution which was the demand of the question. The currency sign was not used by many candidates in their solutions.

QUESTION TWO

a)

i) Equity Computation**:**

	GH¢
Share capital	1,000,000
Retained earnings	200,000
Equity	**1,200,000**
Debt	100,000,000
Interest	2,000,000

Safe Harbour: Debt : Equity
3 : 1

Acceptable level of debt = 3 times equity (3* 1,200,000 = 3,600,000)

Acceptable level of interest = 25%
Interest charged @ 4%+ 25% = 29%
If 29% = 2,000,000
Therefore 25% =?
29 * 2,000,000
25 = ?

$$\frac{25 * 2,000,000}{29} = \text{GH¢}1,724,137.93$$

If loan of 100,000,000 = interest of 2,000,000 reduced to average interest of 1,724,137.93

Therefore: level of debt of 3 times equity (3,600,000) = $\frac{1,724,137.93 * 3,600,000}{100,000,000}$

= GH¢62,068.96

	GH¢
Total Interest	2,000,000.00
Less interest Allowable	62,068.96
Interest Disallowed	**1,937,931.04**

(Marks are evenly distributed = 8 marks)

ii) An exempt person is a related party that has 50% or more underlying ownership in another entity. It could be resident or non-resident.

In the case of resident, having, additionally the income both interest and or foreign exchange gain should be exempt from tax.

In the case of non-resident, meeting the 50% or more rule as stated above.

(4 marks)

b) Tax planning opportunities which may not be available to sole proprietorship which may not be available to a limited liability company are as follows:

- **Personal reliefs:**
  - ✓ Marriage/Responsibility: 1200
  - ✓ Children education: 600 per a child but limited to 3 children
  - ✓ Old age: 1500
  - ✓ Old Age Dependent relation: 1000 per relation limited to 2
  - ✓ Disability Relief: 25% of assessable income from business or employment
  - ✓ Training Cost 2,000
- Mortgage Interest paid per month is exempt from tax to the extent that it is limited to one in the life time of the owner.
- Withdrawal from tier 3 contribution to support capital being eroded by Covid-19 is exempt from tax
- Withdrawal after 5 years from tier 3 contribution shall be exempt from tax
- Contribution up to 35% of the declared income is exempt from tax
- Change the character of income. Buy treasury bills to exempt interest from tax as against ploughing back income.

The above are not available to the Limited Liability Company and also end up reducing the exposure of the sole proprietorship. It must be noted that the benefited is derived upon proof of applicability.

(Any 4 points @ 2 marks each = 8 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The a) part of the question required understanding of the rules of thin capitalisation. The only particular issue that required attention was the interest rate above 4%.

This meant that the interest was padded which required that it should be pruned to the average interest.

Many candidates used the equity at close of the year instead of equity at the start of the year.

Additionally, in the computation of equity, it is only share capital and retained earnings. Unfortunately, some candidates got the computation wrong.

For b),It required tax planning issues relating to individuals. Some candidates related to companies. The question was clear, tax planning opportunities available to sole proprietorship and not available to companies.

Remember that, the owner (proprietorship) and the business are taxed as one.

QUESTION THREE

a)

i) Conti ltd

Computation of tax payable

Year of assessment 2021

Basis Period 1/1/2021-31/12/21

	GH¢	GH¢	GH¢
Chargeable Income			7,000,000
Add back:			
Lunch	200,000	200,000	
Financial Cost	20,000,000		
Less Interest	3,200,000	16,800,000	
Interest: WIP (80% x 3,200,000)		2,560,000	
Goods under invoiced (13,130,000 – 12,000,000)		1,130,000	20,690,000
			27,690,000
Deduct the following:			
Financial gain		1,000,000	
Interest on loan (20% x 3,200,000)		640,000	
Dividend		500,000	2,140,000
Chargeable income			**25,550,000**
Computation of Tax Payable			
Chargeable income			25,550,000
Add Financial gain			1,000,000
			26,550,000
Deduct Financial Cost Limit			13,775,000
Chargeable Income			12,775,000
Tax Charged @25%			**3,193,750**
Computation of Limit on Financial Cost			
Financial gain			1,000,000
Add 50% Chargeable income from operation	50% * 25,775,000		12,775,000
Limit on Financial Cost (w1)			13,775,000

(Marks are evenly spread = 5 marks)

ii) **Tax implication**

Lunch for staff if it cannot be quantified and allocated, should be allowed. If it can be, it should be taxed in the hands of the employees else, disallowed. **(1 mark)**

Interest paid should not be added to financial cost. Interest that relates to capital work in progress should be capitalized. **(1 mark)**

Dividend received where Conti ltd holds 24% is taxable at the rate of 8%. **(1 mark)**

iii) **Under section 59 of Act 896,** a resident entity that obtains 25% of the voting power of another resident entity shall be exempt from tax on dividend payment except where the entity paying the dividend is into petroleum operations or mining and mineral operations. Hence Conti Ltd should increase its holding to 25% for the dividend to be exempt from tax, provided Ann Ltd is not into mining and mineral operations or petroleum operations. **(2 marks)**

iv) **Financial cost** is the loss from holding a financial instrument. This does not include interest bank charges and similar charges. The impact stems from the fact that it erodes the gains of shareholders and the financial cost not deducted increases the exposure of the entity.
The treatment of **financial cost** is its allowability is not more than the summation of the financial gain from derivative and the 50% chargeable income from derivative. The excess above the summation is carried forward for the next 5 years. In the case of petroleum and mining and mineral operation, the financial cost shall be matched against financial gain. **(2 marks)**

b) Tax implication for engaging in farming and or agro-processing:

Details	Farming	Agro-Processing	Tax Implication
Nature	Tree Crops	The conversion of agric-products into semi or finished goods	Temporary concession, tax at 1% in the case of tree crops 10 years starting from harvest. In the case of Agro-Processing 5 years starting from operation
	Cattle business		10 years temporary concession where tax is paid at the rate of 1% starting from operations
	Livestock other than cattle and cash crops		5 years temporary concession where tax is paid at the rate of 1% starting from operations
	Farming	Agro-Processing	Location Incentive as follows: Accra/Tema -20%

			Regional Capitals outside the Northern Savanna Ecological Zone 15% Any other Area Outside the Northern Savanna Ecological Zone 10% Northern Savanna Ecological Zone 5% The above is for 5 years only
	Farming	Agro-Processing	Marginal Tax rates after the Locational Incentive or individual tax Rates in case of enterprises
Tax Loss			Can be carried over for 5 years
In the case of a young entrepreneur of 35 years or younger			Exempt from tax for 5 years and can carry over the loss for 5 years Additionally, they are entitled to locational incentive Accra/Tema-15% Regional capitals outside northern regions 12.5% Any other area-10% Northern Regions-5%

(Any 2 points each @ 1 mark each = 4 marks)

c) Domestic expenditure is any expenditure that is private outgoing and does not relate to the business. Provision of shelter, meals, entertainment and any leisure activity, payments for commuting from one's home and one's place of work, provision of clothing suitable for any occasion among others.

Domestic becomes allowable if:

- It is added to employees' income for tax purposes
- The employee pays an open market value for it
- It is non-discriminatory, and based on the size, frequency and type, it becomes difficult to quantify and allocate.

(4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The a) part of the question was a very popular area of the syllabus. Many candidates did so well. However, there are some concerns:

Interest on loan for working capital purpose is an allowable deduction. That for capital work in progress should be capitalised and capital allowance granted when the asset for which the interest is paid is put to use and capitalisation of the rest stopped.

The allowable financial cost from derivative is the summation of the financial gain from derivative and 50% chargeable income from operation or investment.

On the goods invoiced at GH¢12,000,000 when their market value is GH¢13,130,000 shall be ignored and the market value used.

Again, no heading and no currency sign.

Sub-question b) required some understanding of farming and agro-processing.

Farming has: tree crops, cattle, live stocks other than cattle and cash crops, with temporary concessions of 10 years after harvest, 10 years from business operation and 5 years from business operation respectively whereas the agro-processing has only 5 years as temporary concessions.

Many candidates indicated that during the temporary concession, no tax at all. The law states a payment of tax of 1% during the temporary concessions. Young entrepreneur aged 35 years or younger that engage in same business operation are exempt from tax for the first five years and also enjoy locational incentive after the exemption.

For the c) part, the question of what constituted domestic expenditure was well answered by candidates. Few candidates did not appear to have a clue as to what it means. Interestingly enough, that is the basis for deductibility principle in examination of accounts.

QUESTION FOUR

a) **Computation of Capital Allowance**

Details Y/A 2021 BP 1/1/21-31/12/21	**Pool 1 (40%)**	**Pool 2 (30%)**	**Pool 3 (20%)**	**WIP**	**Class 4 10% SLM**	**Capital Allowance**
	GH¢	**GH¢**	**GH¢**	**GH¢**	**GH¢**	**GH¢**
Cost	80,000		65,000	109,896	270,000	
Addition:	14,000	274,740		13,640	10,000	
		76,927				
Total	94,000	351,667	65,000	123,536	280,000	
Capital Allowance	**37,600**	**105,500**	**13,000**		**28,000**	**184,100**

(marks are evenly spread using ticks = 12 marks)

b)

STE
Computation of Tax Payable
Year of Assessment 2021
Basis Period January 1-December 31, 2021

		GH¢
Net Profit before tax		2,721,542
Add Back:		
Staff Welfare:		
Penalty for late PAYE	5,000	
End of Year Party	7,350	
Initial PayRoll	14,000	
Advertising and Marketing		
Family and Friends Entertainment	3,800	
Interest	71,250	
Utility-Construction (Wip)	13,640	
General Expense:		
Building Plan	10,000	
Donation to Political P	3,000	
Depreciation	32,250	160,290
		2,881,832
Deduct:		
Raw Materials	329,688	
VAT Refund	11,000	
Capital Allowance	184,100	524,788
Chargeable Income		**2,357,044**
Tax Charged @ 25%		**589,261**

Computation of interest to capitalise

Details	**Loan amt applied**	**Interest& Fees to be cap. 15,000 +56,250**	
Construction	100,000	9,895.83	109,895.83
Plant & Machinery	250,000	24,739.58	274,739.58
Raw Materials	300,000	29,687.50	329,687.50
Commercial Vehicle	70,000	6,927.08	76,927.08
Total	720,000	**71,250.00**	791,249.99

(marks are evenly spread using ticks = 8 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The capital allowance computation was a challenge for many candidates. The interest on the loan before commencement of business must be capitalised. Unfortunately, many candidates expensed it. The question to ask is against what income?

No headings in some of the solutions were observed. Candidates must know that the basis of examination of accounts is the reason for the computation.
VAT refund added to income was wrong and therefore needed to be deducted.
Donation to a political party is not an allowable deduction.

It was a familiar area and many candidates did so well. Many candidates, however, performed poorly.

QUESTION FIVE

a)

i) Computation of Capital Allowance

Details	**Total**	**Initial Interest**	**Add. Participating Interest**	**Lakeside Exp.**	**Gas Oil Energy**
	GH¢	**GH¢**	**GH¢**	**GH¢**	**GH¢**
Exploration	500,000,000			294,117,647.06	205,882,352.94
Development	4,000,000,000		222,222,222.22	2,222,222,222.22	1,555,555,555.56
Preproduction Cost	4,500,000,000		222,222,222.22	2,516,339,869.28	1,761,37,908.50
Capital Allowance				**503,267,973.86**	**352,287,581.7**

(marks are evenly spread using ticks = 6 marks)

ii) **Distribution of crude oil**

Details	**Barrels**
Production	100,000,000
	GH¢
Royalty @ 5%	5,000,000
Net Production	95,000,000
Share as follows:	
Initial interest @ 10%	9,500,000
Additional Participating Interest @5%	4,750,000
Others:	
Lakeside Exploration @ 50%	47,500,000
Gas Energy @ 35%	33,250,000
	95,000,000

(marks are evenly spread using ticks = 4 marks)

b) Objection is a protest from a taxpayer (the objector) arising from dissatisfaction with a tax decision by the Commissioner-General. This must be done within 30 days upon receipt of the tax decision.
It must be noted that the Commissioner-General shall not entertain an objection unless the taxpayer settles all tax liability in respect of taxes administers by Customs.
In the case of taxes administered by Commissioner-DTRD, the taxpayer must settle all the taxes not in disputes. Those in dispute, the taxpayer must pay 30% before the objection can be entertained by the Commissioner-General.
The Commissioner-General may waive, vary or suspend the application of the 30%.

(10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The area was not so familiar with candidates. The theory aspect of the question was a familiar area with candidates but not the computation. The smart ones, translated the theory to get the capital allowance correct.

In the case of exploration cost, government is being carried. With development cost, government contributes towards only its portion of the additional participating interest.

On the issue of objection, some candidates stated that 30 days after the objection, the taxpayer could go to court. This is not the correct position of the law.

The processes required dissatisfied taxpayer to object within 30 days upon the receipt of the tax decision. Pay all taxes in respect of customs and pay taxes not in disputes on the domestic front and 30% on all taxes in disputes before the objection can be determined. The Commissioner-General may waive, vary or suspend the 30%. After 60 days, if the objector has not heard from the Commissioner-General, consider that the objection has been ignored.

RECOMMENDATION

- Following from the above, we wish to respectfully request candidates to take their studies seriously if they must pass their examination.
- Additionally, we request Tuition Providers to keep candidates busy with consistent mock examinations and tests to help them in their preparation for the examinations.
- Also, candidates are encouraged to buy the Institute's materials to help broaden their knowledge as they read and solve questions.
- Candidates must as a matter of necessity and urgency take keen interest in reading the examiners' report as a way of avoiding pitfalls others fell into.
- The Institute should continue to organise intervention programmes to shore up the pass rate of candidates before the examinations are administered.

CONCLUSIONS

- The Institute should continue to play its role in helping candidates pass the Institute's examination.
- The Institute should continue to encourage candidates to read the examiners' report in order to appreciate the nuances of the questions.
- Candidates must adhere to the recommendations above and also avoid the many pitfalls as have been highlighted.
- Some candidates continue to exhibit bad hand writing. This makes marking of scripts very difficult. Candidates with such bad hand writing should work on it.
- The Institute of Chartered Accountants should continue to support the Tuition Providers as they provide support to students. The examiners' report should be shared among Tuition Providers.
- Unfamiliar areas which the institute intend to examine should be heralded with exposure in the students' journal so students read ahead and have some understanding before such areas are administered.