## MARCH 2025 PROFESSIONAL EXAMINATIONS
## ADVANCED TAXATION (PAPER 3.3)
## CHIEF EXAMINER'S REPORT

### EXAMINER'S GENERAL COMMENTS

The paper followed the usual standard and pattern which candidates were familiar.
The diet witnessed the re-entry of insurance taxation which for a long time was not examined. The approach to insurance taxation is a bit different from the taxation of other business income. The smart candidates made some entries and garnered marks. Others left the question unanswered.

### PERFORMANCE OF THE CANDIDATES

The performance of candidates was generally ordinary. The following comments from candidates are worth noting as part of the performance. Some candidates claimed that fiscal policy are the same as monetary policy. That is academic dishonesty. While fiscal policy is used by Minister for Finance, monetary policy is used by Bank of Ghana to regulate monetary supply in the country.

Some candidates mentioned that, practice notes are issued by Institute of Chartered Accountants, Ghana when they meet the requirement to practice. This is not true and tells a story of candidates who are not prepared for the examination.

### NOTABLE STRENGTHS AND WEAKNESSES

**Strengths**
Many candidates had control over the computation of the limit on the financial cost and gains from derivative. The fiscal question was well treated by candidates.

**Weaknesses**

- The Insurance question was very strange to many candidates and therefore affected their performance.

- Candidates did appear to have control of change in underlying ownership. It was a surmountable area in the past. Examiners should continue to bring up different scenario questions in this area which has become trendy.

- Poor construction of English language continues to manifest as a plague in the performance of candidates.

- Computation of self-assessment was a challenge.

- Candidates continue to solve question without providing headings thereby losing marks.

- Candidates in an attempt to replace million with zeroes used three zeros as substitute for million cedis instead of six zeros. This is a very serious mistake.

## QUESTION ONE

a) Afraa LTD made a net profit before tax of GH¢1,100,000 for the year 2024.

The following were effected before arriving at the net profit before tax:

- Depreciation: GH¢105,000.
- Income tax paid (meant for last quarter of 2023): GH¢22,500.
- Financial cost (from financial derivatives): GH¢350,000
- Financial gain (from financial derivatives): GH¢105,000

**Additional Information:**

Capital allowance of GH¢180,000 and Donations to Osu Children's home of GH¢30,000 which were agreed on with Ghana Revenue Authority are yet to be recognised in the financial statements.

**Required:**

Compute the allowable financial cost and the company tax payable for 2024. Explain any other tax implications. **(6 marks)**

b) Premier Insurance Company LTD located at Koforidua submitted the following accounts for the year ended 31 December 2024.

| | **Note** | **GH¢** |
|---|---|---|
| Gross premiums received | | 3,380,000 |
| Premiums returned to insurers | | 118,500 |
| Reinsurance premiums paid | | 126,000 |
| Claims settled | | 1,185,000 |
| Reinsurance claims recovered | | 24,000 |
| Commissions to agents | **1** | 271,200 |
| General administrative expenses | **2** | 881,900 |
| Interest on Bank Deposits (Net) | | 418,000 |
| Gross income from insurance consultancy services rendered | | 350,000 |
| Dividends received (Net) | | 341,000 |
| Reserves for unexpired risk at 31/12/2023 | | 910,000 |

**Notes:**

1. **Commissions to agents**

| | | |
|---|---|---|
| Casual commission agents | | 250,000 |
| Unnamed commission agents | | 21,200 |

2. **General administrative expenses**

| | | |
|---|---|---|
| Water and electricity | | 69,200 |
| Office wages and salaries | | 414,560 |
| Repairs to premises | (Note i) | 91,920 |
| Motor expenses | (Note ii) | 57,040 |
| Depreciation | | 56,800 |
| Loss on sale of equipment | | 20,640 |

| | |
|---|---|
| Professional charges (Note iii) | 66,000 |
| Sundry expenses (Note iv) | 103,840 |
| Entertainment | 1,900 |

i) **Repairs to premises**

| | |
|---|---|
| Construction of main gate and Landscaping | 86,360 |
| Minor office decoration | 3,600 |
| Re-plastering of damaged walls | 1,960 |

ii) **Motor expenses**

| | |
|---|---|
| Travelling expenses | 7,200 |
| Purchase of new vehicle engine | 35,000 |
| Fuel and lubricants | 14,840 |

iii) **Professional charges**

| | |
|---|---|
| Accounting and audit fees | 23,200 |
| Cost of obtaining new lease to build an office complex | 42,800 |

iv) **Sundry expenses**

| | |
|---|---|
| Penalty for late filling of tax returns | 9,500 |
| Donation to Ghana Education Trust Fund (confirmed by GRA) | 8,000 |
| Postage and courier services | 7,200 |
| Fines for vehicle wrong parking | 1,300 |
| Office cleaning | 29,000 |
| Business Operating Permit paid to Ada District Assembly | 15,000 |
| Printing and stationery | 25,500 |
| Telephone and communication/internet services | 8,340 |

**Other information:**

- Reserves for unexpired risk is calculated at 45% of net insurance premium.
- Capital allowance for the year has been agreed at GH¢65,400 after consideration of all available information in the tax returns.

**Required:**

Determine the chargeable income of Premier Insurance Company LTD. **(9 marks)**

c) Practice notes are issued by the Commissioner-General of the Ghana Revenue Authority (GRA), by publishing a notice in the Gazette or on their website or in at least two daily newspapers of national circulation.

**Required:**

As a tax finalist working with Kato Chartered Accountants, explain to your study partner **FOUR** purposes of issuing practice notes. **(5 marks)**

**(Total: 20 marks)**

**QUESTION TWO**

a) The following relates to the Kanto Mining Company (KMC) for the 2023 year of assessment.

| | GH¢' million |
|---|---|
| Operating Margin | 1,700 |
| Tax paid against 2023 year of assessment | 100 |
| Royalty paid | 1.64 |

The following forms part of the tax returns of the company:

i) The gross production was 2 million ounces of gold.

ii) Revenue from the sale of the gold was GH¢6.8 billion.

iii) Financial cost incurred from derivative which was included in the determination of the margin above was GH¢12 million.

iv) The company made income from tailings amounting to GH¢14 million. The tailings value was not used in the determination of the margin above.

v) The company received a machinery worth GH¢250 million in return for gold sold to affiliate, the market value of the machinery was GH¢270 million. This was not used in the computation of the margin above.

vi) Research and development expenditure of GH¢0.7 million was used in arriving at the margin above.

vii) Revenue received from the sale of fertilizer was GH¢45 million. This was a one-off transaction with an associated cost of GH¢23 million. These details have been included by the accountant in arriving at the margin above as part of gross revenue and production cost respectively.

viii) Loan of GH¢120 million was received with interest of GH¢30 million each year to be liquidated in the next 4 years from an uncontrolled company. Part of the gold was used to pay for the interest repayment through a hedged programme. The quantity of gold was valued at GH¢38 million at the time of exchange and has not been accounted for in the books of account.

ix) Shaft sinking and overburdening stripping cost incurred in the development of another field was GH¢67 million and added to production cost.

x) Contribution towards community development programme of GH¢46.5 million was added to cost of production. The company provided proof with pictures of the donation with paper headlines on the ceremony.

xi) Dividend received from three sources: a mining company at Obuasi, a petroleum upstream company in Takoradi and ceramics company at Datok (Upper East) all in Ghana amounting to GH¢20,000, GH¢30,000 and GH¢40,000 respectively. The total amount has been captured as part of revenue in note (ii) above.

xii) Written Down Value carried forward of mining assets was GH¢140 million agreed with the Ghana Revenue Authority. They have granted capital allowance three times.

**Required:**
Compute the tax payable. **(12 marks)**

b) Maanikuur Company LTD, a self-assessed taxpayer of the Ghana Revenue Authority (GRA), estimated its chargeable income for the assessment year, 2023 to be GH¢30 million.

The company commissioned a new Plant in April 2023 and realised that its production capacity has improved hence revised its estimated chargeable income to GH¢50 million in May 2023 and notified the GRA accordingly. Withholding taxes of GH¢150,000 was paid in May 2023.

In November 2023, the Directors were advised by the company's External Auditors to adjust their chargeable income to avoid an imposition of a penalty by GRA. This was adhered to and subsequently the estimate was further revised to GH¢75 million and notified GRA. Withholding taxes of GH¢260,000 was paid in November 2023.

The company submitted its 2023 annual tax returns on the due date of 30 April 2024 and posted actual chargeable income of GH¢93.750 million.

The company tax rate is 25% and the Bank of Ghana statutory rate is 20%.

**Required:**

i) Compute the instalment payments for the four quarters in the 2023 year of assessment. **(6 marks)**

ii) Compute penalty payable by Maanikuur Company LTD, if any for 2023. (**2 marks)**

**(Total: 20 marks)**

## QUESTION THREE

a) It has been said that there is a thin line between tax planning and tax avoidance. The line is a little thinner when one compares tax planning to aggressive tax avoidance.

**Required:**
Explain the areas of divergence between tax planning and aggressive tax avoidance. Do you however think the two may be similar in any way? **(10 marks)**

b) A conflict of interest occurs when an individual's personal interests - family, friendships, financial or social factors such as serving two or more competing clients could compromise his or her judgement, decisions or actions in the performance of his/her duties.

You are a tax expert at Pompor & Associates, a firm of Chartered Accountants and Tax Practitioners. Your third assignment is to carry out a tax health check into the affairs of one of the clients of your firm where your interest is likely to conflict.

**Required:**
Explain how you are likely to manage the actual or potential conflict of interest situation. **(5 marks)**

c) The Bank of Ghana's summary of Economic and Financial data has over the years shown the escalating nature of Ghana's public debt. Successive governments keep blaming themselves that despite the huge debts contracted over the years there is little development across the country. Published statistics also show that the total foreign debts mostly contracted outstrip the total domestic debt.

You are the head of the Policy Unit of the Ministry of Finance who work closely with the Chief Director of the Ministry.

**Required:**
Draft a report for the perusal of the Chief Director for onward submission to the Minister to be tabled for cabinet discussion on **FOUR** benefits of foreign debt over domestic debt. **(5 marks)**

**(Total: 20 marks)**

## QUESTION FOUR

a) Batakari LTD was incorporated on 1 January 2024, and has since accumulated a lot of input VAT credit it could not deduct because the company was not registered for VAT. The company had not yet registered for VAT because it was yet to start generating revenue, and did not expect any revenue in the 2024 financial year.

The company therefore applied for voluntary VAT registration under the Value Added Tax Act, 2013 (Act 870 as amended) on 1 March 2024. However, the Finance Manager of the company upon registering for VAT, and noticing the need to still file monthly VAT returns, intends to apply for cancellation of the company's VAT registration on 31 March 2025.

**Required:**
Batakari LTD needs your assistance on how to go about the VAT cancellation process.
**(4 marks)**

b) As a tax expert, you have been approached by the Junior Accountants you work with in the Finance Department of Mando Advisors. They have been debating all morning on the exempt supplies and zero-rated supplies. According to the Junior Accountants, "*exempt supplies and zero- rated supplies are similar, and there is no material difference, if any, between the two, since in both cases, there is no output tax charged*".

**Required:**
As an expert, explain to the Junior Accountants the difference between ***exempt supplies*** and ***zero-rated supplies***. Your answer should focus on tax accounting and compliance obligations regarding exempt and zero-rated supplies. **(4 marks)**

c) Dekyiwaa LTD has been registered as a VAT Withholding Agent. The company has received three (3) invoices, and needs your assistance on the amount of withholding VAT to be withheld and remitted to the GRA. Assume the taxes charged on these invoices are in full compliance with the provisions of the Value Added Tax Act, 2013 (Act 870 as amended).

**Invoice 1** (for the supply of stationery for the business)

| | **GH¢** |
|---|---|
| Invoice amount | 15,000 |
| VAT @ 3% | 450 |
| COVID Levy @ 1% | 150 |
| **Tax-inclusive value** | **15,600** |

**Invoice 2** (for the supply of immovable property from an estate developer)

| | **GH¢** |
|---|---|
| Invoice amount | 570,000 |
| VAT @ 5% | 28,500 |
| COVID Levy @ 1% | 5,700 |
| **Tax-inclusive value** | **604,200** |

**Invoice 3** (for the supply of internet broadband services from an internet service provider)

| | **GH¢** |
|---|---|
| Invoice amount | 500,000 |
| NHIL @ 2.5% | 12,500 |
| GETFL @ 2.5% | 12,500 |
| COVID Levy @ 1% | 5,000 |
| CST @ 5% | 25,000 |
| | 555,000 |
| VAT @ 15% | 83,250 |
| **Tax-inclusive value** | **638,250** |

**Required:**
For each of the three (3) invoices above, calculate and justify the amount of Withholding VAT that Dekyiwaa LTD should withhold and remit to the Ghana Revenue Authority in line with the provisions of the Value Added Tax Act, 2013 (Act 870 as amended).
**(7 marks)**

d) Fiscal policy measures are tools for economic management. These are meant to stabilise the economy and minimise distortions. One of such measures is contractionary fiscal policy.

**Required:**
Explain how the Government of Ghana could use contractionary fiscal policy to fight inflation. **(5 marks)**

**(Total: 20 marks)**

## QUESTION FIVE

a) The global mobile technology industry is rapidly growing and Amega Cell LTD (AMC), has established itself as a leading Multinational Entity (MNE) in this industry. The AMC group is made up of entities involved in the manufacture, distribution and sale of media and communications processors (MCPs) that deliver advanced technologies and unmatched performance to desktop, mobile and professional systems.

Sarpeiman Technologies LTD (STL), in country A is responsible for conducting research and development, creating new MCPs for use in the telecommunication and mobile technology industry, as well as improvements in the design of MCPs. STL employs a number of highly skilled technical staff, including qualified software and electronic engineers. All of the AMC group's intellectual property is legally owned by STL.

Resident in Country B is STL-Sub1, a wholly owned subsidiary of STL. STL-Sub1 is the entity in charge of manufacturing all of AMC's products, making use of the know-how and intellectual property of STL. STL-Sub1 makes royalty payments to STL for the use of know-how in the manufacturing process for the MCPs. STL-Sub1 sells finished products to STL-Sub2 and STL-Sub3.

Resident in Country C is STL-Sub2, an entity which purchases finished goods from STL-Sub1 which it then distributes to end customers in the Country C. STL-Sub2 makes royalty payments to STL for use of the intellectual property attached to the products it sells to end customers.

Resident in Country D is STL-Sub3, an entity which purchases finished goods from STL-Sub1, which it then distributes to end customers in Country D. STL-Sub3 makes royalty payments to STL for use of the intellectual property attached to the products it sells to end customers.

Each distributor entity within the group has an office, and employs highly-skilled staff involved in activities including administration, procurement, marketing and sales. Marketing and sales staff employed in this industry need to possess strong technical knowledge and communicate this to potential customers.

**Required:**
From a transfer pricing perspective, prepare a functional analysis of the parent company, indicating the entity characterisation for each group entity. **(10 marks)**

b) Chariston LTD, a US based company intends investing in Ghana for the first time. In the evaluation of the acquisition proposal, the following options are offered:

i) To acquire 50%
ii) To acquire 51%

The Ghanaian company identified as the target is into ceramic manufacturing and is located at Adukrom, a district capital in the Eastern Region of Ghana.

**Required:**
With practical illustrations, explain what Chariston LTD stands to benefit from both acquisition and also the implication for holding either option. **(10 marks)**

**(Total: 20 marks)**

**SUGGESTED SOLUTION**

**QUESTION ONE**

a)

| | | GH¢ | GH¢ |
|---|---|---|---|
| Net profit before tax | | | 1,100,000 |
| Add back: | | | |
| Deprecation | | 105,000 | |
| Income tax | | 22,500 | |
| | | | 127,500 |
| | | | 1,227,500 |
| Less: | Donations | 30,000 | |
| Capital Allowance | | 180,000 | |
| | | | (210,000) |
| | | | 1,017,500 |
| Add Financial cost | | | 350,000 |
| Less Financial gain | ` | | (105,000) |
| CI without financial cost & financial gain | | | 1,262,500 |
| Allowable financial cost | | | |
| Financial gain | | | 105,000 |
| + 50% x 1,262,500 | | | 631,250 |
| | | | 736,250 |
| Computation of tax payable | | | |
| Changeable income | | | 1,262,500 |
| Less allowable financial cost | | | (350,000) |
| Add financial gain | | | 105,000 |
| | | | 1,017,500 |
| Tax payable 25% GH¢1,075,000 | | | GH¢ 254,375 |

***(6 marks)***

b)

Premier Insurance Company LTD
Computation of chargeable income
Y/A 2023

| | | GH¢ | GH¢ |
|---|---|---|---|
| Basis | Period Jan – Dec 2023 | | |
| Gross | Premium Received | | 3,380,000 |
| less: | Premium returned | 118500 | |
| | Re-insurance | 126,000 | 244,500 |
| | | | 3,135,500 |
| Reserves for unexpired risk: | | | |
| | Balance b/d | 910,000 | |
| | Balance c/d 45% x 3135500 | (1,410975) | (500,975) |
| | | | 2,634,525 |
| Less: | | | |
| Claims paid | | 1,185,000 | |
| Less recoveries | | 24,000 | 1,161,000 |
| | | | 1,473,525 |

| | | |
|---|---|---|
| Less:Administrative Exp | | |
| Water and Electricity | 69,200 | |
| Office Wages and Salaries | 414,560 | |
| Repairs –Minor Office Deco | 3,600 | |
| Replastering | 1,960 | |
| Motor Exp-Traveling | 7,200 | |
| Fuel and Lubricant | 14,840 | |
| Professional Charges-Accounting and aud | 23,200 | |
| Sundry Exp | | |
| Donation | 8,000 | |
| Postage | 7,200 | |
| Office Cleaning | 29,000 | |
| Business Permit | 15,000 | |
| Printing and Stationery | 25,500 | |
| Telephone | 8,340 | |
| Commission to Agents | 250,000 | |
| Unnamed Agent | 21,200 | |
| Capital Allowance | 65,400 | 964,200 |
| | | 509,325 |
| Other Income | | |
| Consultancy service | | 350,000 |
| Investment Income-Bank Deposit | | 454,347.83 |

***(9 marks)***

c) **Purposes of Practice Notes**

The purpose of a Practice Note is to give clarity and provide guidance to officers of the Ghana Revenue Authority, Tax Practitioners, Consultants, Taxpayers and the General Public on the provisions under the tax laws.

They are also issued to:

i) Ensure uniformity or consistency in the administration of the tax laws;
ii) Provide guidance to officers and persons affected by the Act;
iii) Enable taxpayers to know the tax consequences of their (business) transactions; and
iv) Announce procedures to guide individuals in dealing with the tax laws. E.g. conditions for the qualifying for an exemption from WHT.

***(4 points @ 1.25 marks each = 5 marks)***

***(Total: 20 marks)***

**EXAMINER'S COMMENTS**

This question was on the determination of financial cost from derivative. Most candidates performed so well in this question. The B part of the question was on insurance. There was a hiatus on insurance taxation for a long time. It therefore came as a surprise to many candidates. The C part of the question was on practice notes. This was a familiar question for candidates who wrote part 2 taxation. For the candidates who took exemption, it was a challenge.

## QUESTION TWO

a) **Kanto Mining Company (KMC)**

**Computation of tax payable**

**Year of assessment 2023**

**January 1-December 31, 2023**

| | **GH¢' million** | **GH¢' million** |
|---|---|---|
| Operating Margin | | 1,700 |
| Add back: | | |
| Financial Cost | 12 | |
| Tailings | 14 | |
| Machinery | 250 | |
| Transfer Pricing | 20 | |
| Gold for Interest | 30 | |
| Research and Dev | 0.7 | |
| Shaft Sinking | 67 | |
| Cost of fertilizer | 23 | |
| | | 416.7 |
| **Adjusted profit** | | **2,116.7** |
| Deduct the following: | | |
| Fertilizer sale | 45 | |
| Capital Allowance | 70 | |
| Royalty | 351.8145 | |
| Dividend-Mining | 20 | |
| -Petroleum | 30 | |
| -Ceramics | 40 | |
| | | (466.90) |
| **Chargeable income** | | **1,649.80** |
| Tax charged @ 35% | | 577.43 |
| Tax paid | | (100.00) |
| Tax Payable | | 477.43 |
| Add Royalty Payable | | 351.8145 |
| Total Tax Payable | | **829.24** |
| **Other income-fertilizer** | | |
| Fertilizer income | | 45 |
| Cost | | (23) |
| Chargeable income | | 22 |
| **Tax charged @ 25%** | | **5.5** |

**Workings**

1) **Computation of royalty payable**

| | GH¢ |
|---|---|
| Gross revenue | 6,800,000,000 |
| Tailings | 14,000,000 |
| Machinery | 270,000,000 |
| Fertilizer | (45,000,000) |
| Gold-Loan | 30,000,000 |
| Dividend (20,000+30,000+40,000) | 90,000 |
| **Total** | **7,069,090,000** |
| Royalty @ 5% | 353,454,500 |
| Royalty Paid | (1,640,000) |
| Royalty payable | **351,814,500** |

**bu**

**Computation of Excess Financial Cost/Gains**

| | GH¢ |
|---|---|
| Financial Cost | 12,000,000 |
| Financial Gain | (8,000,000) |
| Financial Cost carried Forward | 4,000,000 |

***(12 marks)***

b)

i) Amount of each installment payment is calculated as follows

$$\frac{A - B}{C}$$

A = current estimated tax payable

B = prior tax paid during the year + withholding tax withheld and paid

C = number of installments remaining

**1st Installment**

A = 25% GH¢30,000,000 = GH¢7,500,000

B = 0

C = 4

$= \frac{7,500,000 - 0}{4} = GH¢1,875,000$

**2nd Instalment**

A = 25% x GH¢50,000,000 – GH¢12,500,000

B = 1,875,000 +150,000 = GH¢2,025,000

C = 3

$= \frac{12,500,000 - 2,025,000}{3} = GH¢3,491,666.67$

**3rd Instalment**

A = 25% x GH¢50,000,000 – GH¢13,500,000

B = 1,875,000 +150,000 +3,491,666.67 + 5,516,666.67
C = 2

$$= \frac{12,500,000 - 5,516,666.67}{2} = \text{GH¢}2,327,777.78$$

**4th Instalment**

A = 25% x GH¢75,000,000 – GH¢18,750,000
B = 1,875,000 +150,000 +3,491,666.67 + 2,327,777.78 + 260,000 = GH¢8,104,444,45
C = 1

$$= \frac{18,750,000 - 8,104,444.45}{1} = \text{GH¢}10,645,555.55$$

***(6 marks)***

*ii)* Penalty =

| | |
|---|---|
| Estimated Tax payable | xxx |
| Less 90% of Actual payable | xxx |
| Difference in Tax | xxx |

Computation of margin of error

$$= \frac{\text{Estimated Amount}}{\text{Actual Amount}} \times 100$$

$$= \frac{75,000,000}{93,750,000} \times 100 = 80\%$$

This is below 90%. The margin of error is 100 -80 = 20%. The company is liable to pay penalty.

90% of Actual: 90% x 93,750,000 x 25% = 21,093,750
Less Actual Tax paid
Difference (to attract interest)
Interest will be imposed on the difference and not penalty. The law has changed. The requirement was therefore not necessary

***(2 marks)***

***(Total: 20 marks)***

**EXAMINER'S COMMENTS**

This question was on mining. It came across as a standard question that required candidates to cajole their brains. Candidates needed to understand taxation of derivative to comply fully with the requirement.

The B part of the question had to do with computation of instalment payment by self – assessment taxpayer. Most candidates did so well. Others as usual, had some challenges.

**QUESTION THREE**

a) The following are the areas of diverse between tax planning and aggressive tax avoidance

| | Tax Planning | Aggressive Tax Avoidance |
|---|---|---|
| 1. | It is used to describe tax reductions achieved through provisions in the tax laws and regulations and permissible arrangements of personal or business affairs. | It is used to describe tax reductions achieved through artificial but not illegal arrangements of personal or business affairs. |
| 2. | The Commissioner-General interprets aggressive tax avoidance as an attempt to reduce taxes using approved methodology. | The Commissioner-General interprets aggressive tax avoidance as an attempt to reduce taxes using unapproved methodology. |
| 3. | It does not work against the tax administration in a negative way. | It works against the tax administration in a negative way. |
| 4. | There are no counter measures in the law against tax planning. | There are anti-avoidance provisions in the tax laws against aggressive tax avoidance. |
| 5. | Not necessarily had to be carried out between related parties or persons with whom there is a connection or group members. | Normally, carried out between related parties or persons with whom there is a connection or the group with different tax liability situations |

The following are the areas of similarity between tax planning and aggressive tax avoidance

| | Tax Planning | Aggressive Tax Avoidance |
|---|---|---|
| 1. | Aims at minimizing a person's tax liability | Aims at minimizing a person's tax liability |
| 2. | May generate cashflow for the business | May generate cashflow for the business |
| 3. | It is not illegal | It is not illegal |
| 4. | It is not a crime against the state and therefore not punishable under the law. | It is not a crime against the state and therefore not punishable under the law. |
| 5 | Requires a comprehensive knowledge of the tax laws | Requires a comprehensive knowledge of the tax laws |

***(10 marks)***

b) There are many circumstances in which a member or tax practitioner may be presented with actual, perceived or potential conflict of interest in carrying out his or her professional assignments. It is not possible to envisage every possible situation but points to consider are:

1) Conflicts of interest are not always easy to recognize or anticipate. However, a member should always be aware of the possibility that a c conflict may arise and of the fact that this may impair the ability to give independent advice to a client.
2) A member must seek not only to avoid conflicts of interest but also to manage situations where there may be a perceived conflict of interest. A member must consider their position

and their actions in the light of both their own views about whether a conflict exists and how the situation will be perceived by the client and third parties.

3) A member should acknowledge the existence of a conflict or potential conflict as soon as they become aware of it and should immediately seek a solution to resolve it.
4) Where appropriate, a member should inform the client of the existence of the conflict. In some circumstances, a member should consider advising the client to obtain independent advice on whether it is in the client's interests for a member to continue to act.
5) Where a conflict of interest cannot be managed satisfactorily in another way, a member should decline to act for one or more clients.
6) How the conflict is handled should be noted on file and where possible, confirmed in writing to the client, including any agreement where a member continues to act. These arrangements should be regularly reviewed by a member.

***(Any five relevant points for 5 marks)***

c) **MEMO**

To: Chief Director, Ministry of Finance
From: Head of Policy Unit
Date: 5th March, 2025
Subject: **BENEFITS OF FOREIGN DEBTS OVER DOMESTIC DEBTS**

**Introduction**

In response to your request on the above subject, I present my report to you on the benefits of external borrowing over domestic borrowing.

The benefits of external borrowing over domestic borrowing are as follows:

i) Government can carry out its projects successfully as loans from foreign sources can be acquired in large chunk.
ii) Government can use loans from foreign sources to support local firms that otherwise will not be able to acquire in view of collateral and/or credit rating.
iii) The cost of doing business will not be high. The private sector can borrow within to expand their businesses as they have less competition from government.
iv) There are times that external borrowers serve as useful advisors on the plausible use of borrowed funds.
v) It serves as additional sources of cash inflows to support government overall development agenda.

**Conclusion**

I hope this will meet your request.

Humbly Submitted
Signed

***(5 marks)***

***(Total: 20 marks)***

**EXAMINER'S COMMENTS**

This question was a familiar question on tax planning. This was the question that did the trick for candidates.
The second part of the question had to do with ethical issues. This was well answered by candidates.
The third requirement was on the benefit of foreign debt over domestic debt. This was also well answered.

**QUESTION FOUR**

a)

Under Section 19(8) of the Value Added Tax Act, 2013 (Act 870), a person registered for VAT voluntarily may apply for cancellation of the registration only after the expiration of **two (2)** years after the date the registration took effect.

Since Batakari LTD applied for voluntary VAT registration on 1 March 2024, it cannot cancel its registration on 31 March 2024, since this is only 13 months after voluntary VAT registration.

***(4 marks)***

b) The statement is false.

Below are some differences between exempt supplies and zero rated supplies focusing on tax accounting and compliance obligations/requirements only.

1) **VAT registration:** A business dealing wholly in exempt supplies is not required/mandated to register for VAT. For a zero rated supplier, even if their supplies are wholly zero-rated, there is still the requirement for the business to register for VAT.
2) **Input VAT deduction:** Regarding input VAT deduction, a business dealing wholly in exempt supplies cannot deduct any input VAT. A zero rated supplier on the other hand is eligible for input VAT deduction.
3) **Tax return filing:** A business dealing wholly in exempt supplies is not required/mandated to file any VAT returns. On the other hand, a zero rated supplier, even if their supplies are wholly zero-rated, will still be required to file their VAT returns monthly.
4) **VAT invoice issuance:** Regarding the issuance of VAT invoices, a business dealing wholly in exempt supplies is not required to issue VAT invoices for supplies made. A zero rated supplier on the other hand is mandated to issue VAT invoices for all taxable supplies made.

***(4 marks)***

c)

**Invoice 1**

Invoice 1 is from a supplier under the 3% VAT Flat Rate Scheme. This transaction is therefore out of scope of Withholding VAT.
No withholding VAT should be withheld on Invoice 1. ***(2 marks)***

**Invoice 2**

Invoice 2 is from a supplier under the 5% VAT Flat Rate Scheme. This transaction is also out of scope of Withholding VAT.
No withholding VAT should be withheld on Invoice 2. ***(2 marks)***

**Invoice 3**
Invoice 3 is from a supplier under the Standard Rated VAT Scheme. This transaction is within the scope of Withholding VAT.
The amount of withholding VAT of 7% is computed as follows:
7% x GH¢ 555,000 = GH¢38,850
The withholding VAT to be withheld on Invoice 3 is GH¢38,850.

***(3 marks)***

d) **How government of Ghana could use contractionary fiscal policy to fight inflation**

Contractionary fiscal policy is a form of fiscal policy that involves increasing taxes, decreasing government expenditure or both in order to fight inflationary pressures.
Due to an increase in taxes, households have less disposable income to spend. Lower disposable income may result in decreases in consumption.

Contractionary fiscal policy decreases the level of aggregate demand by decreasing consumption, investments and government spending, either through cuts in government spending or increases in taxes. ***(5 marks)***

***(Total: 20 marks)***

**EXAMINER'S COMMENTS**

This question was on VAT. A lot of candidates got above the pass mark. However, in future, candidates should get familiar with the threshold for registration of businesses.

**QUESTION FIVE**

a)

**Sarpeiman Technologies Ltd (STL) - Country A**

**Functions Performed**

- New product development
- Research and development
- Intellectual property hub

**Assets Used**

- Intellectual property
- Property, plant and equipment – Research and Development facility
- Offices
- Warehouses
- Staff

**Risks Assumed**

- Research and Development risk
- Market risk
- Inventory risk
- Capital investment risk
- Intellectual property risk

**Entity Characterisation:** Intellectual property owner/hub with research and development and new product development functions.

**STL-Sub1 - Country B**

**Functions Performed**

- Manufacturing
- Distribution

**Assets Used**

- Property, plant and equipment
- Warehouses
- Offices
- Staff

**Risks Assumed**

- Market risk
- Manufacturing risk
- Inventory risk
- Capital investment risk
- Potential warranty risk
- Potential obsolescence risk

**Entity Characterisation:** Fully-fledged manufacturer and distributor (to associated entities)

**STL-Sub2 - Country C**

**Functions Performed**
- Procurement
- Demand planning
- Administration
- Marketing and sales

**Assets Used**
- Staff
- Offices
- Warehouses

**Risks Assumed**
- Market risk
- Potential warranty risk
- Potential obsolescence risk

**Entity Characterisation:** Fully-fledged distributor with sales and marketing function.

**STL-Sub3 - Country D**

**Functions Performed**
- Procurement
- Demand planning
- Administration
- Marketing and sales

**Assets Used**
- Staff
- Offices
- Warehouses

**Risks Assumed**
- Market risk
- Financing risk
- Credit risk

**Entity Characterisation:** Fully-fledged distributor with sales and marketing function.

***(10 marks)***

b)

The acquisition of 50% in the manufacturing company in Ghana, makes Chariston LTD shareholder in the Ghanaian company. This arrangement does not constitute realisation where the gain will be taken as the shareholders will still hold 50% ownership.

The 50% ownership shall see the realisation of assets and liabilities.

The 51% acquisition constitutes change in ownership and the law provides that when there is a change in ownership by more than 50%, within any three years, the assets and liabilities are deemed realised.

The period before the change and the period after the change is deemed realised.

Chariston LTD shall not take advantage of the following:

1. The financial cost from derivative
2. Loss from the operation
3. Bad debts
4. Carry back of loss on long term project

Benefits to Chariston LTD

Chariston LTD shall enjoy locational incentive

- The location of the company at Adukrom shall put the tax rate at 12.5% and Chariston LTD can carry over the loss for 5 years
- The burden of paying tax on the gains is not on Chariston LTD

***(10 marks)***

***(Total: 20 marks)***

**CONCLUSION**

It is hoped that the candidates will pay attention to the examiners' report so as to avoid making similar mistakes their predecessors made.

The reading of the Tax Acts and Regulations continue to be of serious concern. Most candidates give wrong context to the tax provisions.

Candidates in their interest should learn to provide headings to calculation questions rather than throwing numbers without providing the basis for the computations.