

JULY 2025 PROFESSIONAL EXAMINATIONS
PRINCIPLES OF TAXATION (PAPER 2.6)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

The questions were designed to test candidates' understanding of the basic principles of taxation, and yet most candidates were unable to answer them. Questions now give more attention to candidates' knowledge of the principles and laws of taxation.

Candidates are strongly advised to read and pay more attention to the tax laws and principles. This is because the Principles of Taxation paper is based on a general understanding of how tax laws and principles operate, and more significantly, how the law and principles are to be explained and applied.

STANDARD OF THE PAPER

The standard of the questions was excellent for the level. All the questions reflected the Principles of Taxation syllabus, which the candidates were expected to have a solid understanding of to pass. The marks allocation was fair. The questions adequately covered the entire syllabus, and the expectation was that any average student who took the paper should be able to pass.

PERFORMANCE OF CANDIDATES

Generally, the candidates' performance was *below average*, and the examiner's expectations from the candidates were *largely not* met. Any student who could not pass cannot blame anyone but themselves for a lack of preparation and understanding of the syllabus. Surprisingly, the general performance of the candidates across the centres was just average. Approximately 35% of candidates passed the paper.

The reasons could be as follows:

- Most candidates still do not understand and cannot apply the principles of taxation effectively.
- Those candidates who did well might have achieved good results because the instructions in most of the questions were clear and thus unambiguous.
- Also, candidates' performance in question one and question five was very good. These questions were well answered, with most of the candidates scoring more than half of the marks.
- Candidates who passed did not have many problems stating the principles of taxation. It is expected that this trend will continue.
- Candidates who did not perform well often lack an understanding of partnership taxation and Value Added Tax. These areas of taxation were examined in detail, and it appears that most candidates have limited knowledge on these issues.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

Most of the candidates had an excellent understanding of the syllabus and the subject. This was demonstrated in the answering of the questions. However, the coverage of the syllabus is still low. Candidates have been learning only certain parts of the syllabus. This was evident in some candidates scoring high marks on a particular question, while scoring almost nothing on other questions.

It appears that some candidates did not pay attention to specific topics. Probably, thinking those topics were not so important. Such topics are the Ghana National Pension Scheme, Tax Administration, and Value-Added Taxation. If candidates had given more attention to these topics, the pass rate would have been more than 50%. Candidates are advised to give equal attention to all topics, as subsequent examinations will be based on the entire syllabus, not just part of it.

Lecturers should be aware of the law and the fundamental principles of taxation. It seems some Lecturers do not follow the changes in the law.

QUESTION ONE

- a) Tax Credit Certificate and Tax Clearance Certificate serve different purposes.

Required:

- i) Differentiate between *Tax Clearance Certificate* and *Tax Credit Certificate*. (4 marks)
ii) State **FOUR** purposes of Tax Clearance Certificate. (6 marks)

- b) Tax is a creature of statute and must be interpreted in that light to reflect its nature.

Required:

Explain **FIVE** sources of tax laws in Ghana. (10 marks)

(Total: 20 marks)

QUESTION TWO

- a) According to Section 38 of the Value Added Tax Act, 2013 (Act 870) as amended, the Minister for Finance has the authority, through legislative instruments, to provide tax relief on taxable imports or supplies of goods within the country for individuals specified in the Third Schedule.

Required:

Identify **FOUR** conditions that VAT-registered manufacturing companies must meet in order to receive upfront relief from VAT and levies on imported raw materials. (2 marks)

- b) As a Tax Professional, you have been approached for tax advice by Donkorkrom Fruit Processing Ghana LTD, a company that manufactures various fruit juices for both domestic and international markets. The Finance Director recently discovered that the company might be eligible to apply for a VAT refund from the Ghana Revenue Authority (GRA) and seeks your guidance.

Required:

Advise the company on **SIX** conditions that must be fulfilled for the GRA to refund excess VAT Input Tax, as per the Value Added Tax Act, 2013 (Act 870), as amended. (3 marks)

- c) Bompe Enterprise is a small business aiming to bid for government contracts. Although the business has a small cash flow and turnover that does not meet the compulsory VAT registration threshold, the proprietor believes that VAT registration is crucial for bidding on government contracts.

Required:

Describe the condition under which Bompe Enterprise can apply for VAT registration with the GRA when the business does not meet the threshold requirements specified in Section 6 of the Value Added Tax Act, 2013 (Act 870) as amended. (2 marks)

- d) Pataku LTD, a company that hires out equipment, issued an invoice on April 15, 2024 to Wansani LTD for GH¢1,000,000. This amount excludes VAT, COVID-19 Levy, NHIL, and the GETFund Levy. Pataku LTD typically earns a profit margin of 1/3 on all services rendered. Assume that this is the only taxable supply made by Pataku LTD during the period, and all purchases are taxable.

Required:

- i) Calculate the VAT payable by Pataku LTD to the Ghana Revenue Authority (GRA) if the company is registered under the VAT flat rate scheme. (1 mark)
 - ii) Compute the output VAT to be reported on Pataku LTD's monthly VAT return if the company is registered under the VAT standard rate scheme. (2 marks)
 - iii) Determine the input VAT deduction available to Pataku LTD if registered under the VAT standard rate scheme. (2 marks)
 - iv) Calculate the VAT payable to the GRA under the standard rate scheme. (1.5 marks)
 - v) Determine the total penalties and interest due if Pataku LTD files its VAT return for this transaction on June 16, 2024. (1.5 marks)
- e) Institute of Chartered Accountants, Ghana, (ICAG) as a Professional Accountancy Organisation (PAO), has put in place codes of ethics for its members.

Required:

What are the objectives of these codes of ethics?

(5 marks)

(Total: 20 marks)

QUESTION THREE

- a) Ogyam Sarkwa acquired a land measuring 80 feet by 90 feet at Pantang in 2016 for GH¢25,000. He constructed a wall around the land in 2019 at a cost of GH¢84,000. An amount of GH¢18,000 was incurred to perfect the legal documentation.

On 15 October, 2023 he was approached by MTN to sell a portion of the land for them to mount a telephone mast. Ogyam Sarkwa engaged an agent who was able to conclude the deal and an amount of GH¢800,000 was paid by MTN through his agent for the use of a portion of the land. The agent deducted his agreed commission of 2% and transferred the balance to Ogyam Sarkwa's bank account with Stanbic Bank PLC.

As at the time of realising the portion of the land to MTN the following market values were provided:

Realised part of land	GH¢560,000.
Remaining part of the property	GH¢1,110,000.

Required:

- i) Determine the tax payable by Ogyam Sarkwa. (8 marks)
 - ii) Describe **TWO** situations in which a person may realize a liability. (2 marks)
- b) All audit firms in Ghana by law are required to register as partnerships. Partnerships and partners have tax obligations

Required:

Detail the tax treatment of partnership and partners in Ghana.

(8 marks)

- c) Describe the tax treatment of loans given by employers to employees in the context of the Income Tax Act, 2015 (Act 896) as amended. (2 marks)

(Total: 20 marks)

QUESTION FOUR

- a) Atule Company LTD had difficulties in recovering a number of loans amounting to GH¢320,000 standing in their books for the past ten years.

The company is considering writing such loans off as bad debts. The Board Chairman of the company has heard that you are a student of Institute of Chartered Accountants, Ghana and that you study taxation as part of your programme.

The Board Chairman has approached you for advice on the conditions that the Company must fulfill as required under the tax laws to write off the debts as bad debt.

Required:

State **FIVE** conditions that Atule Company LTD must fulfil before going ahead to write off GH¢320,000 as bad debts. **(5 marks)**

- b) Egyaa LTD made a net profit before tax of GH¢1,100,000 for the year 2023.

The following expenses were deducted before arriving at the net profit before tax:

Depreciation: GH¢105,000.

Income tax paid (meant for last quarter of 2022): GH¢22,500.

Financial cost (from financial derivatives): GH¢350,000.

Financial gain from financial derivatives of GH¢105,000 was added in arriving at the net profit before tax.

Additional Information

Capital allowance of GH¢180,000 and Donations to Osu Children's home of GH¢30,000 which were being discussed with GRA, have now been allowed by GRA but are yet to be treated.

Required:

- i) What are the tax rules on financial cost and financial gains? **(3 marks)**
- ii) Compute the allowable financial cost and the company tax payable for 2023. Explain any other tax implications. **(7 marks)**
- c) Differentiate between a *full pension* and a *reduced pension*. **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) The implementation of digital tax stamps in Ghana is a technological measure aimed at combating tax evasion, particularly in the manufacturing and retail sectors.

Required:

- i) Describe the purpose and function of digital tax stamps in the context of taxation. **(3 marks)**
- ii) Discuss **TWO** challenges that businesses might encounter when adopting digital tax stamps. **(2 marks)**
- b) GRA has introduced mobile applications to facilitate tax payment and filing, especially for small and medium-sized enterprises (SMEs).

Required:

- i) Assess the impact of mobile applications on tax compliance among SMEs in Ghana. **(3 marks)**
- ii) Identify **TWO** features that should be included in these mobile applications to make them more user-friendly for SMEs. **(2 marks)**
- c) Withholding Tax is a tax deducted at source by an authorised withholding agent and accounted for later based on the type of withholding tax. For many companies, withholding tax is a direct hit on their cash flow and would like to be exempted from the tax.

Required:

- State **TEN** qualifying conditions for exemption from withholding tax. **(5 marks)**
- d) State **FIVE** importance of the VAT withholding tax to the GRA. **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

a)

i) **Differences between a Tax Clearance Certificate and a Tax Credit Certificate.**

A **tax clearance certificate** is a certificate issued by the Commissioner-General to a person stating that no tax is due under the Income Tax Act by that person in respect of the periods stated in the certificate or that person has made arrangements satisfactory to the Commissioner-General for the payment of the tax due.

A **tax credit certificate** is an official document issued by the Ghana Revenue Authority (GRA) to a taxpayer, typically a business or employer, confirming that a certain amount of tax has been paid or withheld at source on behalf of another party. This certificate serves as proof that the relevant tax has already been remitted to the government, and it provides the beneficiary with the entitlement to offset this credited amount against their tax liability.

(4 marks)

ii) **Purposes of the Tax Clearance Certificate.**

The Tax Clearance Certificate may be required in the instances below:

- To import and clear goods in commercial quantities from a port or a factory in Ghana under the Customs Act, 2015 (Act 891).
- To apply for a license to operate as a customs clearing and forwarding agent, under the Excise Act, 2014 (Act 878).
- To register a title to land and perform other transactions at the Lands Commission.
- To bid for contracts awarded by ministries, parastatals, departments and agencies within the government or for any government tenders.
- To enable members of professional bodies to renew their licenses.
- To act as an authorised supplier to the government, some businesses (private or government) may require a TCC to make their authorised supplier list.
- When applying for a visa, some embassies in Ghana require you to produce a TCC before a visa is issued to you to validate the income you declared in your visa application.
- To renew a residence or work permit, an expatriate must present a TCC to support their application.
- To contest a national election in Ghana.

(4 relevant points @ 1.5 marks each = 6 marks)

b) **Sources of tax laws in Ghana.**

The Constitution of Ghana

At the apex of Ghana's legal hierarchy sits the Constitution, which is the supreme law of the land. The 1992 Constitution of Ghana provides the fundamental legal basis for taxation and delineates the powers and processes for raising revenue.

- Article 174: This article stipulates that no taxation shall be imposed except by or under the authority of an Act of Parliament. It ensures that the imposition, alteration or remission of taxes is subject to parliamentary scrutiny and approval.
- Article 175: This article confers on Parliament the power to make laws for the imposition of taxation and other forms of revenue generation for the country.
- Article 268: Taxes and Royalties on Natural Resources. This article addresses taxes and royalties related to the exploitation of natural resources, providing for the collection and allocation of these funds.

Acts of Parliament

The most direct and significant source of tax laws in Ghana is the body of statutes enacted by the Parliament of Ghana. These acts provide detailed rules and procedures relating to various forms of taxation, their administration and enforcement.

Major Taxation Statutes

- **Income Tax Act, 2015 (Act 896):** This Act governs the taxation of income, including personal, corporate and partnership incomes. It also details tax exemptions, allowable deductions and the tax treatment of various forms of income.
- **The Revenue Administration Act, 2016 (Act 915):** The Revenue Administration Act consolidates provisions relating to tax administration, powers and duties of the GRA, taxpayer rights, dispute resolution, and enforcement.
- **Value Added Tax Act, 2013 (Act 870):** The VAT Act provides the legal framework for the imposition, collection and administration of value added tax on goods and services supplied in Ghana.
- **Customs Act, 2015 (Act 891):** This Act regulates the imposition and collection of duties and taxes on imports and exports, as well as the procedures for customs clearance and related matters.
- **Excise Duty Act, 2014 (Act 878):** The Excise Duty Act sets out the legal basis for excise taxes levied on specific goods such as alcoholic beverages, tobacco products and petroleum.
- **National Health Insurance Levy Act, 2003 (Act 650):** This Act imposes a levy to fund the National Health Insurance Scheme, representing a dedicated form of taxation for a specific social purpose.
- **Communication Service Tax Act, 2008 (Act 754):** This statute governs the taxation of communication services in Ghana.

Judicial Decisions (Case Law)

The courts of Ghana, particularly the Supreme Court, the Court of Appeal and the High Courts, play a critical role in interpreting tax laws. Their judgments establish legal precedents, clarify ambiguities in statutes, and resolve disputes between taxpayers and the Ghana Revenue Authority (GRA) or other governmental entities.

- **Interpretation of Statutes:** Courts may interpret the meaning of terms, resolve contradictions or elucidate legislative intent.
- **Resolution of Disputes:** Courts adjudicate cases involving tax assessments, appeals, exemptions and penalties.
- **Binding Precedent:** Decisions of higher courts are binding on lower courts and tax authorities, shaping the future application of tax laws.

Subsidiary Legislation and Regulations

Subsidiary legislation refers to rules, orders and regulations made under the authority of an Act of Parliament. These instruments are crucial for the effective administration of tax laws, enabling flexibility and responsiveness to emerging issues. Tax statutes often empower the Minister for Finance or relevant bodies to issue regulations specifying detailed administrative and procedural matters. Such regulations may relate to filing requirements, assessment processes, tax payment mechanisms, penalties for non-compliance and dispute resolution.

International Treaties and Agreements

Ghana is a party to numerous international agreements that influence its tax regime, including double taxation agreements (DTAs), investment treaties, and conventions aimed at preventing tax evasion and promoting international cooperation.

- **Double Taxation Agreements (DTAs):** DTAs signed between Ghana and other countries help

prevent the same income from being taxed twice and encourage cross-border investment.

- Multilateral Treaties: Ghana is a member of the Economic Community of West African States (ECOWAS) and other international bodies, whose treaties and protocols may impose tax obligations or grant tax benefits.
- OECD Guidelines: While not binding in all respects, international standards such as the OECD Transfer Pricing Guidelines may inform Ghana's domestic tax policy and administrative practice.

Administrative Practice and Guidelines

The Ghana Revenue Authority (GRA), established by the Ghana Revenue Authority Act, 2009 (Act 791), is responsible for administering and enforcing tax laws. The GRA issues a range of guidelines, practice notes and circulars to assist taxpayers, clarify statutory requirements, and streamline compliance.

- Practice Notes: Advisory publications that guide the application and interpretation of tax provisions.
- Circulars: Official communications on procedural or technical matters, often in response to legislative amendments or emerging tax issues.
- Administrative Rulings: Formal decisions issued by the GRA to resolve specific taxpayer queries or disputes.

While not legally binding in the same way as statutes or judicial decisions, administrative guidance is influential and often essential for practical compliance.

(5 relevant points well explained @ 2 marks each = 10 marks)

(Total: 20 marks)

QUESTION TWO

a) **Conditions that VAT-registered manufacturing companies must meet to receive upfront relief from VAT and levies on imported raw materials.**

- **Importation of raw materials for manufacturing purposes:** The relief applies only to raw materials explicitly imported for use in the manufacturing process, not for resale or other non-manufacturing activities.
- **Application and Approval:** The company must formally apply for the upfront relief, providing necessary documentation such as import invoices, bill of lading and evidence that the materials are intended for manufacturing. The Commissioner-General must be satisfied that the manufacturer has met the conditions above and has listed the manufacturer in a register published by the Commissioner-General with a validity period of twelve months, effective from 1st January of each year.
- **Compliance with Tax and Customs Regulations:** The company must be fully compliant with all tax laws and customs regulations and must not be in arrears with tax payments or have unresolved compliance issues with the Ghana Revenue Authority.
- The manufacturer is a member in good standing of the Association of Ghana Industries.
- The manufacturer has submitted all previous tax returns and paid the tax, penalties and interest from the last tax period, if any.
- Have an input-output ratio of a minimum of 20% except where the import level is GH¢100,000 or more in a year.
- Should belong to one of the following sub-manufacturing categories: textiles; food, drug and tobacco; toiletries and cosmetics; energy; leather, rubber and plastics; building materials; chemicals; wood processing; electrical and electronics.

(4 relevant points @ 0.5 marks each = 2 marks)

b) **Conditions that must be fulfilled for the GRA to refund excess VAT Input Tax, as per the Value Added Tax Act, 2013 (Act 870), as amended**

Under the Value Added Tax Act, 2013 (Act 870), as amended, businesses registered for VAT may, at times, incur input tax that exceeds their output tax liability in a given tax period. The law, therefore, provides for the refund of such excess input tax, but only under certain conditions.

- **The claimant must be a registered taxable person.** Only a person or entity registered under the VAT Act as a “taxable person” is entitled to claim a refund of excess input tax. Any claim for refund by an unregistered or de-registered entity will not be considered. The registration status must be active and up to date at the time of claiming.
- **Existence of excess input tax.** The claimant must demonstrate that input VAT incurred in a particular tax period exceeds the output VAT collected on taxable supplies for the same period. The excess must be verifiable by tax invoices, receipts, and all other supporting documentation as prescribed by law. The GRA will not entertain claims based on estimates or unsupported figures.

- **Proper filing of VAT returns and payment of other tax obligations.** All VAT returns must be filed appropriately, and all other tax obligations must be settled at the time of claiming the refund. The applicant must have submitted all required VAT returns up to the date of the refund application. This includes accurate, truthful and timely submission of VAT returns for each tax period. Additionally, the business must have paid all outstanding taxes (such as withholding tax, corporate income tax or penalties) to the GRA in full.
- **Proper application and documentary evidence**
The refund must be applied for in the prescribed manner, supported by all required documents, and subject to verification or audit by the GRA. Applicants must make their refund claims using the official forms or procedures specified by the GRA. Each claim must be accompanied by complete documentation—including original tax invoices, receipts, proof of payment, and any other records the GRA may require. The GRA reserves the right to review, audit or verify any refund application and may conduct field inspections to confirm the validity of supporting evidence. Claims lacking adequate documentation or failing verification will be rejected.
- The company is eligible for a VAT refund if the excess VAT is related to exports.
- The company's exports must account for more than 25% of the total supplies during the tax period.
- The Commissioner-General may require an audit of the refund claim to ensure its validity.
- The company must have accurately completed and submitted a Refund Claim Form to the Ghana Revenue Authority, along with all supporting documents.

(6 relevant points @ 0.5 marks each = 3 marks)

- c) **Conditions under which Bompe Enterprise can apply for VAT registration with the GRA when the business does not meet the threshold requirements specified in Section 6 of the Value Added Tax Act, 2013 (Act 870) as amended.**

Typically, businesses are required to register for VAT once their taxable supplies exceed a specified threshold within a twelve-month period, as outlined in Section 6 of Act 870. However, instances arise where companies may wish to register for VAT voluntarily, even when they do not meet the compulsory registration threshold.

These are the conditions under which such voluntary registration can occur:

- **Application to the Commissioner-General:** The company must formally apply to the Commissioner-General of the GRA, expressing its interest in voluntary VAT registration.
- **Evidence of a fixed place of business:** The applicant must demonstrate a fixed and identifiable place of business in Ghana, such as a registered office, shop or factory.
- **Record-keeping capacity:** The business should show the ability to maintain proper accounting records, invoices and other documentation required for VAT compliance.
- **Compliance with other tax obligations:** The company should be up to date with other tax registration and filing requirements, such as Corporate Income Tax and Withholding Tax, as may be applicable.

- **Demonstration of business continuity:** The GRA may require evidence that the business is likely to continue making taxable supplies and that the registration is not sought for a transient or one-off activity.
 - **No history of tax evasion:** Businesses with a history of tax evasion or non-compliance may be declined voluntary registration.
 - Is a fit and proper person to be registered.
- (4 relevant points @ 0.5 mark each = 2 marks)

d)

i) **VAT Payable under the VAT Flat Rate Scheme (VFRS)**

Key Rule: Under the VFRS, the applicable VAT rate is 3% of the taxable value (i.e. the invoice amount excluding VAT and related levies). The COVID-19 Health Recovery Levy applies to VAT Flat Rate registered persons.

- Invoice Amount (exclusive of VAT and levies): GH¢1,000,000
- VAT Rate (Flat Rate Scheme): 3%
- COVID Levy: 1%

		GH¢
COVID Levy	1% x 1,000,000	10,000
VAT Payable: 3% x 1,000,000		<u>30,000</u>
		<u>40,000</u>

(1 mark)

ii) **Output VAT to be Reported (Standard Rate Scheme)**

Key Rule: Under the standard VAT regime in Ghana, output VAT is calculated at:

- VAT: 15%
- NHIL: 2.5%
- GETFund Levy: 2.5%
- COVID-19 Health Recovery Levy: 1%

Each levy is computed on the value of the taxable supply

	GH¢	GH¢
Taxable Value		1,000,000
NHIL (2.5%):	25,000	
GETFund Levy (2.5%):	25,000	
COVID-19 Levy (1%):	<u>10,000</u>	<u>60,000</u>
		1,060,000
VAT 15% x 1,060,000		<u>159,000</u>
VAT and Levy Inclusive Value		<u>1,219,000</u>
Output VAT is GH¢159,000		

(2 marks)

iii) **Input VAT Deduction Available (Standard Rate Scheme)**

Key Rule: Input VAT is claimable on taxable purchases that support taxable supplies. Pataku LTD earns a profit margin of 1/3. Therefore, cost of sales = GH¢1,000,000 × (2/3) = GH¢666,666.67

Computation of Input VAT

	GH¢	GH¢
Input Cost		666,666.67
Add Levies: NHIL 2.5%	16,666.67	
GETFund Levy 2.5%	16,666.67	
COVID Levy 1%	<u>6,666.67</u>	<u>40,000.01</u>
Total Input cost plus Levies		706,666.68
VAT 15%		<u>106,000.00</u>
VAT Inclusive Purchases		<u>812,666.68</u>

Note: Only the 15% VAT portion is eligible for input VAT claim. NHIL, GETFund, and COVID-19 Levy are not claimable as input tax, as per the VAT law. Therefore, input VAT deduction available: GH¢106,000.

(2 marks)

iv) **VAT Payable to GRA under Standard Rate Scheme**

	GH¢
Output VAT (15%)	159,000
Less: Input VAT Deduction	<u>106,000</u>
Net VAT Payable	<u>53,000</u>

Note: Other levies (NHIL, GETFund, COVID-19) are payable in full and not deductible.

- NHIL: GH¢25,000
 - GETFund Levy: GH¢25,000
 - COVID-19 Levy: GH¢10,000
- Total payable to GRA under the standard scheme

	GH¢
Net VAT	53,000
NHIL	25,000
GETFund Levy	25,000
COVID-19 Levy	<u>10,000</u>
Grand Total	<u>113,000</u>

(1.5 marks)

v) **Penalties and Interest for Late Filing (Filed June 16, 2024)**

Key Rule: VAT returns are due on the last working day of the month following the month of the transaction (e.g., for April, returns are due by May 31, 2024).

Days late: May 31, 2024 - June 16, 2024 = 15 days late (not counting the 16th day because that was the day the returns were made)

Penalties and Interest:

- Late submission of a return — penalty of GH¢500, and for each additional day the return is not submitted — penalty of GH¢10 (Therefore $500 + (10 \times 15 \text{ days}) = \text{GH¢}650$)
- Late payment — interest of 125% of Bank of Ghana monetary policy rate compounded monthly and applied on the tax due, Tax unpaid: GH¢113,000

Note: The actual interest component may vary depending on the official Bank of Ghana lending rate during the period.

(1.5 marks)

e) **The objectives of these codes of ethics**

A code of ethics is a set of principles values, and behavioural expectations that guide members of a profession in their conduct, both in professional and sometimes in personal capacities. For accountants, this means upholding principles such as integrity, objectivity, confidentiality, professional competence, and due care.

The ICAG's codes are usually aligned with international benchmarks, such as those set by the International Federation of Accountants (IFAC) and the International Ethics Standards Board for Accountants (IESBA).

The codes of ethics put in place by ICAG serve several critical purposes, which can be summarised as follows:

- **Promote sound development of the accountancy profession:** This involves establishing and maintaining high standards for education, training and practice within the profession.
- **Ensure high standards of accountancy practice:** The code sets benchmarks for ethical conduct and professional competence, ensuring that accountants provide reliable and trustworthy services.
- **Maintain the integrity of financial management:** By adhering to ethical principles, the code helps to prevent fraud, ensure transparency, and promote accountability in financial matters.
- **Build public trust and confidence:** The code's emphasis on ethical behaviour and professional standards fosters trust in the financial information provided by accountants, which is essential for informed decision-making by stakeholders.
- **Guide ethical decision-making:** The code helps accountants navigate complex situations by providing a framework for ethical reasoning and decision-making.
- **Establish accountability mechanisms:** The code outlines procedures for handling ethical violations and provides a basis for disciplinary actions, ensuring that accountants are held responsible for their actions.

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

(Total: 20 marks)

QUESTION THREE

a)

i) Computation of tax payable by Ogyam Sarkwa

	GH¢	GH¢
Sum Realised		800,000
Less Proportion of Cost Base		
Cost of Land	25,000	
Construction of Wall	84,000	
Legal Documentation	<u>18,000</u>	
Total Cost	<u>127,000</u>	
Proportion of Cost	$\frac{560,000}{560,000 + 1,110,000} \times 127,000$	42,586.83
Commission on sale	$2\% \times 800,000$	<u>16,000.00</u>
		<u>58,586.83</u>
Capital Gains		<u>741,413.17</u>

Capital gains: Capital gains earned by individuals are taxed using the graduated tax rates in the case of residents, or at the flat rate of 25% in the case of non-residents. A resident individual may also elect for such gains to be taxed at the flat rate of 25%.

Tax Payable = $25\% \times 741,413.17$ = **GH¢185,353.29**

(8 marks)

ii) Situations in which a person may realise a liability

A person who owes a liability realises that liability:

- When that person ceases to owe that liability, including where that liability is transferred, satisfied, cancelled, released or expired.
- Immediately before that person ceases to exist, including because of death.
- Where the underlying ownership of the entity changes by more than fifty per cent at any time within three years.
- Where a person resident in Ghana ceases to be resident.

(2 relevant points for 2 marks)

b) Tax treatment of partnerships and partners in Ghana

Partnership refers to an association of two or more individuals or corporations that carry on business jointly to make a profit, regardless of whether the association is formally recorded in writing.

Principles Governing Taxation of Partnerships

- A partnership is not liable to pay income tax and is not entitled to tax credit.
- The partnership is liable to pay final withholding taxes.
- The income or loss of a partnership for a year of assessment is the income or loss of the partnership for that year. The income or loss of a partnership is allocated to the partners.
- Income derived and expenditure incurred by a partner for and on behalf of the partnership are treated as income derived or expenditure incurred by the partnership.
- An asset owned or a liability owed by a partner for and on behalf of the partnership is treated as an asset or a liability of the partnership.
- Where at least two existing partners remain in the partnership after a change, the partnership is treated as the same.

Taxation of partners

- The income of a partner from a partnership shall include the partner's share in the partnership income and exclude the share of the partner's loss in the partnership.
- A disposal of interest of a partner in a partnership shall be treated as a gain and be included in the income of the partner.
- Tax paid by a partnership and foreign income tax paid or treated as paid by the partnership with respect to the partnership income is allocated to the partners, proportionately to each partner's share, and treated as paid by them. The allocation occurs at the time partnership income is treated as derived by the partners.
- The partner's share is equal to the partner's percentage interest in any income of the partnership as set out in the partnership arrangement.

(8 marks)

c) **The tax treatment of loans given by employers to employees in the context of the Income Tax Act, 2015 (Act 896) as amended.**

An employer is not responsible for providing loans to its employees. However, as an incentive to the employees, an employer may undertake the function of providing short-term loans to its employees, which may be more beneficial than what a free market may offer.

Under the Income Tax Act 2015 (Act 896), loan benefits in respect of employee loans may be taxable if they do not meet the criteria for exempting such benefits from tax.

A benefit consisting of a loan provided for a year of assessment in return for services, by way of employment, is not quantified (is not taxable) under the following conditions:

- The loan is from an employer to an employee,
- The term of the loan does not exceed twelve months, and
- The aggregate amount of the loan and any similar loan outstanding at any time during the previous twelve months does not exceed three months' basic salary

Where **all** the above conditions apply, the quantification of the loan benefit is nil.

A benefit consisting of a loan provided for a year of assessment in return for services, by way of employment, is quantified (is taxable) under the following conditions:

- Where the loan is from an entity to a member or manager of the entity or from an employer to an employee, and
- Where the loan term exceeds twelve months, and
- Where the aggregate amount of the loan and any similar loan outstanding at any time during the previous twelve months exceeds three months' basic salary.

Where **all** the above conditions apply, the taxable loan benefit for the year of assessment is quantified as **a quarter of the difference** between the interest the employee pays (if any) and the interest that would have been paid using the statutory rate applicable at the time the loan was taken. The Statutory rate refers to the Bank of Ghana's rediscount rate or the Monetary Policy Rate.

(2 marks)

(Total: 20 marks)

QUESTION FOUR

a) **Conditions that Atule Company LTD must fulfil before proceeding to write off a debt as bad debts for tax purposes:**

Subject to section 87 of Act 896, a person shall not disclaim entitlement to receive an amount or write off a debt claim as bad debt unless the Commissioner-General is satisfied with that:

- The person has taken reasonable steps in pursuing payment. Reasonable steps described in the Practice Notes include demonstrating the following:
 - a) Complied with the taxpayer's credit policy.
 - b) Issued reminder notices to the debtor regarding the debt.
 - c) Resorted to debt collecting agencies.
 - d) Renegotiated the terms of the debts for the debtor.
 - e) Took steps to resolve disputes with the debtor, including by arbitration.
- The entitlement or debt claim cannot be satisfied.
- The write-off must be approved by the Board of the company.
- Evidence of reminder notices/telephone calls/mail contact attempted.
- Negotiation or arbitration of a disputed debt.
- The debt can be considered bad if the debtor has died, is bankrupt, in liquidation or cannot be traced despite various attempts, and there are no known assets from which the debt can be recovered.
- Legal action - filing of legal suit, obtaining a judgement and steps taken to execute the judgement to no success.

(5 relevant points @ 1 mark each = 5 marks)

b)

i) **Tax rules on financial costs and financial gains**

The amount of financial costs should not exceed the total of:

- Financial gains derived by the person that are to be included in calculating the person's income from the business or investment for the year of assessment; and
- Fifty per cent of the chargeable income of the person for the year from the business or investment, calculated without:
 - ✓ Including a financial gain derived by the person; or
 - ✓ Deducting the financial cost incurred by the person.

Financial costs for which a deduction is denied as a result of the above rules may be carried forward and treated as incurred during any of the following five years of assessment. Carry forwards are used in the order in which they are incurred.

(3 marks)

ii) **Computation of Financial Cost Allowable**

	GH¢	GH¢
Net Profit before tax		1,100,000
Add Back: Depreciation	105,000	
Income Tax	<u>22,500</u>	127,500
Less: Capital Allowance	180,000	
Donations	<u>30,000</u>	(210,000)
		1,017,500
Add back Financial costs		350,000
Less Financial gains		(105,000)
Chargeable Income before financial costs and financial gains		<u>1,262,500</u>

Allowable Financial Costs:

Financial Gain	105,000
Plus 50% of Chargeable Income (50% x 1,262,500)	<u>631,250</u>
	<u>736,250</u>

Therefore, allowable financial cost is **GH¢350,000**

Tax Payable 25% x 1017,500 = **GH¢254,375**

(7 marks)

c) **Differences between a full pension and a reduced pension.**

In Ghana, a full pension is typically granted to individuals who retire at the age of 60 (or 55 under hazardous conditions) and have contributed to the Social Security and National Insurance Trust (SSNIT) for a minimum of 15 years.

A reduced pension, on the other hand, is available to those who retire between the ages of 55 and 59 and have contributed for at least 15 years. The reduced pension is calculated at a lower rate than the full pension, reflecting the more extended period the individual will receive benefits.

Full Pension:

- **Age:** 60 years (or 55 for those under hazardous conditions).
- **Contribution Period:** At least 180 months (15 years).
- **Benefit:** A higher monthly pension amount, reflecting the full contribution period.

Reduced Pension:

- **Age:** 55 years or more, but less than 60 years.
- **Contribution Period:** At least 180 months (15 years).
- **Benefit:** A lower monthly pension amount compared to the full pension, due to the earlier retirement age.

(5 marks)

(Total: 20 marks)

QUESTION FIVE

a)

i) **The purpose and function of digital tax stamps in the context of taxation.**

Digital tax stamps are secure, tamper-proof labels affixed to products to confirm that the requisite taxes have been paid to the government. Unlike traditional paper-based stamps, digital tax stamps incorporate advanced security features, including unique codes, QR codes, or barcodes, that can be authenticated and tracked electronically throughout the product's supply chain.

The implementation of digital tax stamps serves several interrelated purposes, all geared toward strengthening Ghana's tax ecosystem:

- **Curtailling tax evasion.** One of the primary motivations for adopting digital tax stamps is to reduce the incidence of tax evasion in the manufacturing and retail sectors. By requiring manufacturers and importers to affix digital stamps to products before they enter the market, the GRA can verify that the appropriate excise taxes have been paid. This system makes it difficult for unscrupulous actors to bypass taxation undetected.
- **Combating illicit trade and counterfeiting.** The prevalence of counterfeit goods and illicit trade not only results in lost tax revenue but also poses a significant risk to consumers. Digital tax stamps feature sophisticated anti-counterfeit measures that deter the production and distribution of counterfeit products. The ability to authenticate products at any point in the supply chain ensures that only legitimate, tax-compliant goods reach consumers.
- **Enhancing transparency and accountability.** Traditional tax collection methods often suffer from a lack of transparency and difficulties in tracking goods through complex supply chains. Digital tax stamps enable the GRA to monitor the movement of excisable goods from production or importation to the retail shelf. This transparency enhances accountability among manufacturers, distributors, and retailers.
- **Improving revenue generation.** By plugging loopholes that previously allowed businesses to evade excise taxes, digital tax stamps contribute to increased government revenue. This additional income is crucial for funding infrastructure projects, healthcare, education, and other public services, ultimately supporting national development goals.
- **Protecting compliant businesses.** Businesses that comply with tax regulations often face unfair competition from those that evade taxes and can thus undercut prices. Digital tax stamps help create a level playing field by ensuring that all market participants adhere to the same tax obligations, fostering fair competition and supporting the growth of the formal sector.

(3 relevant points for 3 marks)

ii) **Challenges that businesses might encounter when adopting digital tax stamps**

Despite its many benefits, the digital tax stamp system is not without challenges:

- **Cost of implementation:** Initial setup and ongoing supply of secure digital stamps can be costly for both the government and businesses.
- **Technological barriers:** Effective implementation requires robust digital infrastructure and the cooperation of manufacturers, importers, and retailers, some of whom may lack technical capacity.
- **Compliance enforcement:** The system is only as strong as its enforcement mechanisms. Continued vigilance and timely response to violations are essential.
- **Potential for evasion tactics:** As with any system, determined actors may attempt to circumvent controls, requiring constant innovation and system upgrades.

- **Resistance to change:** Some businesses may be resistant to adopting new technology due to a lack of understanding or fear of increased compliance burdens.

(2 relevant points for 2 marks)

b)

i) **Impact of mobile applications on tax compliance among SMEs in Ghana**

- **Increased efficiency and accessibility.** Mobile apps can streamline tax-related tasks such as registration, filing returns and payments, making it easier and faster for SMEs to comply.
- **Reduced compliance costs.** Digital platforms can minimize the time and resources required for tax-related activities, lowering compliance costs for SMEs.
- **Improved transparency and accountability.** Mobile applications can provide clear and accessible information on tax rules, procedures, and payment status, fostering transparency and reducing opportunities for corruption.
- **Enhanced taxpayer education.** Mobile apps can be used to disseminate tax information, updates, and educational materials, improving SMEs' understanding of their tax obligations.
- **Increased tax awareness and voluntary compliance.** By making tax processes more user-friendly and accessible, mobile apps can encourage SMEs to comply with tax regulations voluntarily.
- **Reduced tax gap.** By simplifying compliance and improving transparency, mobile applications can help to narrow the gap between taxes owed and taxes collected.
- **Real-time notifications:** Mobile apps can send reminders and updates to SMEs, helping them stay on top of deadlines and avoid penalties.

(3 relevant points for 3 marks)

ii) **Features that should be included in these mobile applications to make them more user-friendly for SMEs.**

- **Intuitive user interface (UI) and user experience (UX).** Simple Onboarding: The initial setup process should be straightforward, guiding users step-by-step through the account creation and profile setup, with helpful prompts and tooltips.
- **Automated data entry and integration.** Bank Account Integration: Securely connect to business bank accounts for automatic import of income and expense transactions, reducing manual data entry and potential errors.
- **Real-time tax calculation and estimation.** Automatic Tax Calculations: Based on entered or imported data, the app should calculate relevant taxes (income tax, VAT/GST, payroll taxes) in real time, adjusting for local regulations and thresholds. Tax Bracket Guidance: Visually display how income or expenses affect tax brackets, providing transparency and helping with future planning.
- **Compliance and filing support.** Deadline Reminders and Alerts: Automated notifications for upcoming filing dates, payment due dates, and changes in tax regulations help SMEs stay compliant and avoid penalties. Digital Filing: Support for e-filing directly through the app for various tax returns, along with digital signatures where permissible.
- **Security and data privacy.** Multi-Factor Authentication (MFA): Add layers of security to protect sensitive tax and financial data. Encryption: All data, both in transit and at rest, should be encrypted to industry-standard security protocols.
- **Customer support and educational resources.** In-App Help and Chat: Access to FAQs, live chat with support agents, and step-by-step tutorial guides within the app. Tax

Knowledge Base: Comprehensive and regularly updated articles explaining tax terms, common mistakes, tips for deductions, and regulatory changes.

(2 relevant points for 2 marks)

c) **Qualifying conditions for exemption from withholding tax**

Withholding tax (WHT) forms an integral part of Ghana's tax administration system, serving as a mechanism to collect taxes at source on specific payments, including, but not limited to, dividends, interest, royalties, rent, and payments for goods, works, and services. While the general principle is that certain payments are subject to withholding tax, there are qualifying conditions under which individuals or entities may be relieved from this obligation.

The underlisted conditions must be met to qualify for exemption from withholding tax:

- **Registration.** The Taxpayer must have registered for all relevant tax types administered by the Commissioner General, including VAT, unless exempt under the law.
- **Business Records.** The Taxpayer should have kept and maintained adequate and reliable business records in the country.
- **Submission of particulars of contract with a non-resident.** The Taxpayer must have submitted notice of details of the contracts entered into with non-resident persons within 30 days from the date of entering into such agreements by Section 116 (11).
- **Submission of all tax returns by the due date.** The Taxpayer should have submitted all relevant Tax returns administered by the Domestic Tax Revenue Division, such as Annual Corporate Tax Returns, Pay as You Earn, Withholding Tax, Value Added Tax, Communication Service Tax, Excise and other tax types (where applicable).
- **Assessment.** Self-Assessment Estimate: The Taxpayer must have submitted their estimated Chargeable Income and Taxes payable for the current year of assessment. Provisional Assessment: Where this applies, the taxpayer should have been provisionally assessed for the current year.
- **Tax Payments by due dates.** The Taxpayer should have paid all taxes which have fallen due by their due dates (both direct and indirect taxes).
- **Audit.** The Taxpayer should have been audited for a period within the last three (3) years. In addition, repeated infractions of any provisions of the tax laws which previous audits have uncovered disqualify a taxpayer for the grant of exemption or renewal of exemption from withholding tax for at least twelve (12) months.
- **Dishonoured cheques.** Taxpayers whose cheques are not honoured by their bankers are disqualified for the next two (2) years from the grant of exemption or renewal of exemption from withholding taxes.
- **Default in payment terms.** Taxpayers who have defaulted in payment terms arrangement do not qualify for the exemption for at least twelve (12) months.
- **Third party information.** Discovery of third-party information on transactions undertaken by taxpayer which are not included in taxpayer's business records and/ or financial statements disqualifies taxpayer for at least twelve (12) months.
- **Cash-flow challenges.** The Taxpayer should demonstrate that suffering withholding tax would lead to Cash-flow problems, or payment of taxes with part of working capital.
- **Application.** All applications for exemption from withholding tax should be submitted at the taxpayer's tax office stating the following:
 - ✓ Projected Turnover for the current year
 - ✓ Projected Chargeable Income for the year
 - ✓ Projected Tax for the year.

(10 relevant points @ 0.5 mark each = 5 marks)

d) **Importance of the VAT withholding tax to the GRA.**

- **Enhancing revenue mobilization:** One of the most significant benefits of the VAT withholding tax for the GRA lies in its ability to strengthen revenue mobilisation. Ghana, like many developing nations, faces challenges related to tax evasion, underreporting, and delays in tax remittance. The VAT withholding mechanism addresses these challenges in several ways:
 - ✓ **Timely Revenue Collection:** By empowering withholding agents to remit VAT directly to the GRA, the authority receives funds promptly, reducing the lag between the time of transaction and tax remittance. This is crucial for government cash flow and fiscal planning.
 - ✓ **Reducing VAT Evasion:** A common tactic among some businesses is to collect VAT from customers but fail to remit it to the GRA. The withholding system bypasses this risk by ensuring that a significant portion of the VAT is paid directly to the government, minimising the potential for evasion.
 - ✓ **Expanding the Tax Net:** The system brings more transactions under the tax umbrella, particularly those involving large-scale suppliers and contractors who engage with government and major corporations. This expands the taxable base and increases overall revenue.
- **Promoting compliance and accountability:** The VAT withholding tax system is a powerful tool for promoting compliance and accountability among taxpayers. It introduces checks and balances that encourage adherence to tax laws and reporting requirements.
 - ✓ **Enforced Third-Party Monitoring:** Withholding agents act as third-party monitors, ensuring that VAT is calculated and deducted correctly. This dual oversight—by both agents and the GRA—reduces errors and discourages fraudulent practices.
 - ✓ **Improved Record Keeping:** The system requires both suppliers and withholding agents to maintain clear and accurate records of transactions and tax deductions. This promotes transparency and facilitates audits and investigations when necessary.
 - ✓ **Deterrence against Non-Compliance:** With the risk of detection and penalties heightened by the system, businesses are more likely to comply with their VAT obligations.
- **Streamlining tax administration:** From an administrative perspective, the VAT withholding tax greatly improves the efficiency and effectiveness of the GRA.
 - ✓ **Reduced Administrative Burden:** By shifting some collection responsibilities to withholding agents, the GRA can allocate its limited resources toward other critical tasks, such as taxpayer education, compliance monitoring, and enforcement actions.
 - ✓ **Enhanced Data Collection:** The system generates a wealth of transactional data, which can be leveraged to better understand taxpayer behaviour, identify trends, and inform policy decisions.
 - ✓ **Simplified Reconciliation:** Since the GRA receives VAT payments directly from withholding agents, it is easier to match payments with tax returns, identify discrepancies, and resolve disputes quickly.
- **Mitigating revenue leakages:** Revenue leakages—caused by under-reporting, fraud, and inefficiencies—pose significant challenges to tax authorities. The VAT withholding tax serves as a countermeasure by placing controls at key points in the value chain.
 - ✓ **Limiting Opportunities for Fraud:** The direct remittance of VAT by withholding agents reduces opportunities for collusion and fraudulent under-declaration of sales or input

claims.

- ✓ Identifying Non-Compliant Entities: Data generated from the system enables the GRA to flag and investigate suppliers who fail to declare or understate their taxable transactions.
- **Facilitating capacity building and taxpayer education:** The successful implementation of the VAT withholding tax requires ongoing education and capacity building for both withholding agents and suppliers.
 - ✓ Training and Support: The GRA invests in training programs and resources to ensure that withholding agents understand their obligations and can fulfil them accurately and efficiently.
 - ✓ Raising Awareness: Public awareness campaigns highlight the importance and benefits of compliance, fostering a tax culture that supports the VAT withholding initiative.

(5 relevant points for 5 marks)

(Total: 20 marks)

CONCLUSION AND RECOMMENDATIONS

The Chief Examiner would wish to reiterate the following:

- Tuition centres and candidates should bear in mind that the principles of taxation examinations will continue to cover the entire syllabus, and therefore, pay attention to the entire syllabus. There should not be any pick-and-choose attitude towards the syllabus and the examination.
- There is nothing like ‘the examination trend’. Candidates are to be examined on all topics; therefore, the dynamics of the examination may change, but it will still be based on the syllabus.
- Candidates should pay attention to details when reading. It seems candidates do not read the questions carefully.
- Candidates are strongly advised to learn the subject from the syllabus. Candidates should not learn the subject with questions. This attitude will leave out most of the topics unattended. The past questions are only a guide as to how the questions are asked.