

**NOVEMBER 2025 PROFESSIONAL EXAMINATIONS
ADVANCED TAXATION (PAPER 3.3)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

EXAMINER'S GENERAL COMMENTS

The performance of candidates was not too impressive, although the questions were not too complex. The questions followed the usual pattern and one expected candidates to do well taking into consideration the nature of the questions.

Following from the above, we could conclude that, candidates did not appear ready for the examination, given the kind of responses provided to the questions. Again, it appears many candidates are not aware of the change in the syllabus. There has been a lot of adds-on to the syllabus which appears to have been lost on many candidates who appear used to the old structure/syllabus.

STANDARD OF THE PAPER

There was no departure from the previous diet. The paper was a blend of computations and theory. The marks allocated were quite good. No questions were loaded in our estimation. The marks were condign to the requirement of each question.

One could glean from the responses that, some candidates forgot the requirement of the questions. Candidates preparing for the final level should have mastery over the part two taxation as it is the basis for the final level taxation paper.

PERFORMANCE OF CANDIDATES

The performance of candidates on the whole was not too pleasant. The approach towards the examination is not too healthy. It smacks of candidates trying their luck in the examination.

We hold the view that candidates who put in so much effort in the examination should be able to pass the examination. Questions were set within the bundle of syllabus.

NOTABLE STRENGTH AND WEAKNESS

Strengths

Candidates showed strength in the concept of change in underlying ownership. Petroleum taxation is also becoming an area candidates have control over. Fiscal Policy aspect of the syllabus is also another area candidates have control over.

Weaknesses

Value Added Tax continues to worry some candidates. Thin capitalization is also another area tuition providers should continue to place emphasis on to help candidates grasp the concepts. Trust questions continue to torment candidates. This is an emerging trend within the taxation milieu.

Most candidates continue to show weaknesses in the English Language. They find it difficult communicating thoughts on the paper thereby making marking difficult and slow. The hand writing of some candidates leaves much to be desired.

QUESTION ONE

- a) The Income Tax Act 2015, (Act 896) as amended allows businesses to deduct amounts in the determination of chargeable income. The law categorises some amounts as domestic expenditure and others as excluded expenditure.

Required:

Discuss **THREE** excluded expenditures and **THREE** domestic expenditures in the determination of chargeable income. **(6 marks)**

- b) Mr. Kwabena Ogyam, at his death, left his estate in the hands of non-resident trustees in favour of his three children, Gyanwaa, Preko and Agyeman. The following information was made available by the trustees in respect of the estate at the end of December 2024.

	GH¢
Rental income (gross)	8,000,000
Trading income	6,000,000
Interest income	1,400,000
Income from a transport business	1,420,000
Gifts received from friends and family of Mr. Kwabena Ogyam	1,000,000

Additional information:

- i) The interest received (income) is from GCB Bank PLC on the Trustee bank account.
- ii) Interest payment to GT Bank on debt/loan repayment is GH¢400,000
- iii) Each beneficiary is entitled to a 25% share of the net distributable income.
- iv) Fixed annuity to each beneficiary is GH¢600,000 (gross).
- v) Trustees' remuneration per trust deed:
- Fixed remuneration of GH¢150,000.
 - 10% of chargeable income.
- vi) Administrative and other expenses were GH¢800,000
- vii) The trust deed allows the trustees to make discretionary payments to the three children as follows:
- Gyanwaa GH¢250,000
 - Preko GH¢150,000
 - Agyeman GH¢100,000
- viii) Capital allowance agreed with Ghana Revenue Authority was GH¢500,000.

Required:

- i) Compute the income tax payable by the Trustees on the trust income. **(7 marks)**
- ii) Determine the amount due to each beneficiary. **(2 marks)**

- c) Tax assessment serves as a backbone of the revenue administration framework in Ghana. It ensures the government has the necessary resources to fund public projects and national development. The GRA employs various type of assessment to determine tax liabilities.

Required:

Differentiate *adjusted assessment* from *pre-emptive assessment*.

(5 marks)

(Total: 20 marks)

QUESTION TWO

- a) The following relates to the operation of Larri LTD, a company operating in the upstream petroleum sector for the 2024 year of assessment.

	GH¢
Revenue	11,980,831,000
Cost	<u>8,649,221,000</u>
Profit	<u>3,331,610,000</u>

The following additional information forms part of the above:

- i) The revenue above includes financial gain from derivatives of GH¢12,500,000.
- ii) Financial cost of GH¢14,200,000 was added to the cost.
- iii) The cost above includes a depreciation of GH¢22,741,000.
- iv) Research and development of GH¢2,467,800 incurred was added to the cost of operation.
- v) Written down value of Larri's assets as of 31 December 2023 was GH¢8,800,000,000 after granting capital allowance the second time. This has not been adjusted.

Required:

- i) Compute tax payable. (8 marks)
- ii) Comment on the deductibility of financial cost in petroleum operations. (2 marks)

- b) Akrobeto Petroleum PLC, a petroleum company in the upstream sector was incorporated on 1 January 2021. The following costs were incurred up to 31 December 2023.

	GH¢
Exploration costs	21,200,000,000
Development cost	40,000,000,000
Staff cost	800,000
Penalty for breach of regulations	120,000
Administrative expenses	13,000,000
Acquisition of Other Assets	11,000,000
Depreciation	740,000

The company commenced commercial production on 1 January 2024.

Required:

Compute the capital allowance granted for 2024 year of assessment.

(5 marks)

- c) Ghana has various taxes which require applicable taxpayers to file appropriate returns within clearly defined time periods.

Required:

- i) State **TWO** direct tax returns and their respective due dates. (2 marks)
ii) State **THREE** indirect tax returns and their respective due dates. (3 marks)

(Total: 20 marks)

QUESTION THREE

- a) Akora Bepe has many business entities across the world especially in the tax havens but he is based in the United Kingdom. In a recent visit to the Isle of Man, one of the tax havens, he met an old school mate, Efo Salakpi, who is a tax consultant and an expert in strategic tax planning in Ghana. Efo Salakpi encouraged Akora Bepe to take advantage of the stable investment climate in Ghana to set up businesses in Ghana in order to add to his immense wealth.

Efo Salakpi informed Akora Bepe that in Ghana an investor's choice of the form of business organisation, has impact on the tax exposure of the investment. This information was not clear to Akora Bepe and wanted further explanation to enable him decide on the type of business entity to choose.

Required:

As an expert in strategic tax planning, discuss the **THREE** forms of business organisations and the tax exposures associated with each of them to enable Akora Bepe make an informed decision. (15 marks)

- b) Some economic experts in Ghana have argued that economic policy makers can still use public debt as opposed to taxation to stabilize the fragile economy of Ghana. Their stand is based on the premise that it is becoming practically difficult to use taxation as a stabilization tool and a major source of government revenue to cater for development expenditure in view of the ever growing government's recurrent expenditure.

Required:

How can the government of Ghana use public debt to stabilise the economy? (5 marks)

(Total: 20 marks)

QUESTION FOUR

- a) Amayeb Liqueur LTD, a licensed beverage importer in Takoradi, has just received a consignment of "Highlander" brand Scotch Whisky from the United Kingdom.

The consignment consists of two different packaging types:

- 1,000 cases of glass bottles. Each case contains 12 bottles, and each bottle has a volume of 750ml.
- 50 kegs for use in bars and restaurants. Each keg contains 20 litres of the whisky.

The whisky in both the bottles and the kegs has an alcohol by volume (% abv) of 43%.

For the purposes of this question, assume the Customs Tariff schedule for imported whisky specifies a multi-part specific duty rate as follows:

- GH¢10.00 per litre of the liquid, PLUS
- GH¢15.00 per litre of pure alcohol contained within the liquid.

Note: For your calculation, use the following conversion: 1,000 millilitres (ml) = 1 litre (L).

Required:

- Calculate the total specific duty payable by Amayeb Liqueur LTD on this consignment of Scotch Whisky. Show all workings clearly. **(5 marks)**
- Enumerate **THREE** conditions for granting duty drawbacks. **(3 marks)**

- b) Mawufemor LTD began trading late last year. The company's turnover grew steadily, and its effective date of VAT registration is August 1, 2025.

The Accountant is preparing the company's first VAT return and needs to know if the company can reduce its final VAT payment by accounting for the VAT it paid on purchases made before the registration date. The records show the following purchases:

- A purchase of trading stock (printer ink) made in early January 2025. All these items are still in inventory.
- The purchase of an office server (a capital good) in late March 2025. It is currently in use at the company's office.
- A large consignment of trading stock (laptop chargers) acquired in mid-June 2025. These are all on hand.
- A batch of trading stock (keyboards) purchased in early July 2025, which were all sold to a customer before the registration date.

Required:

With reference to the Value Added Tax Act 2013, (Act 870), explain the correct VAT treatment for each of the transactions in (i) to (iv) above in the company's first VAT return. Justify your answer for each item. **(4 marks)**

- c) Amanku, a VAT-registered artist, places his paintings for sale in the Accra Art Gallery, which is also registered for VAT. The gallery acts as Amanku's agent, selling the paintings on his behalf in return for a commission.

The gallery sells one of Amanku's paintings to a customer for GH¢10,000. The gallery then remits the proceeds to Amanku after deducting its agreed commission.

Required:

With reference to the Value Added Tax Act, 2013 (Act 870), explain the VAT implications of this transaction for both Amanku (the artist) and the Accra Art Gallery. **(3 marks)**

- d) Borrowing, both domestic and foreign, holds great social significance for a country like Ghana. When managed effectively, it can be a powerful tool for social development and progress. However, when mismanaged, it can lead to severe social consequences.

Required:

Explain **TWO** positive and **ONE** negative social significance of borrowing. **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) Mrs. Amegashie is a successful businesswoman who is in the highest income tax bracket. She owns a commercial property that generates a net rental income of GH¢80,000 per year. Her son, Doe, is 19 years old, a full-time university student and has no other source of income.

To manage the family's overall tax burden, Mrs. Amegashie transfers the legal title of the commercial property to Doe. They have a verbal agreement that Doe will receive the rental payments into his bank account, but must then transfer 90% of the net rent back to Mrs. Amegashie each month for "family upkeep". For tax purposes, the full GH¢80,000 rental income is declared in Doe's name, resulting in a significantly lower tax liability than if Mrs. Amegashie had declared it.

The Ghana Revenue Authority (GRA) is now reviewing the arrangement.

Required:

Discuss the specific tax issue at hand and describe the actions the Commissioner-General is empowered to take. **(5 marks)**

- b) A resident company is licensed to operate in Ghana. It is 60% owned by a non-resident parent company.

The new Chief Finance Officer (CFO) is reviewing the company's capital structure. The financial position extract shows the following:

- Share Capital: GH¢80,000,000.
- Statutory Reserve Fund: GH¢25,000,000.
- Income Surplus (Retained Earnings): GH¢20,000,000.
- Total Interest-Bearing Debt: GH¢400,000,000.

The CFO is concerned that the company's high leverage might breach Ghana's thin capitalisation rules and has asked for urgent clarification on the matter.

Required:

As the company's tax consultant:

- i) Determine whether the thin capitalisation rules have been breached. **(4 marks)**
ii) What will be the tax implications if the company is a financial institution? **(1 mark)**

- c) Lewin LTD is a company based in the UK with tremendous influence across the Global North and South. By way of launching operations in Ghana to increase its Global South story, it decided to acquire Nzole LTD in Ghana. The acquisition was done piece-meal culminating into total acquisition in 2024.

It took the company about two and half years to acquire 51% of the company's equity despite protestation from many resident companies.

The following observations were made after the acquisition of the company:

- 1) It has a policy to revalue its building every 5 years to reflect the current market value and has built so much retained earnings.
- 2) The company has been paying 30% of its income surplus every year as dividend and about the same percentage transferred to support its share capital.
- 3) The company is into the free zone operation and does exports of processed pepper and cow hides. The company also sells some of the products in the local market. The company has both local and expatriate staff. The company is in its 8th year of operations.

Required:

- i) What are the possible tax implications of each of the observations in (i) to (iii) above?
(8 marks)
- ii) What are the tax obligations of the new company?
(2 marks)

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

a)

Expenditure is a domestic expenditure to the extent that it is incurred

- In maintaining the individual, including the provision of shelter, meals, refreshment, entertainment or other leisure activities.
- By the individual in commuting from home;
- In acquiring clothing for the individual, other than clothing that is not suitable for wearing outside of work; or
- In educating the individual, other than education that is directly relevant to a business conducted by the individual and that does not lead to a degree or diploma.

(3 points @ 1 mark each = 3 marks)

Excluded expenditure means

- Tax payable under this Act.
- Bribes and expenditure incurred in corrupt practices.
- Interest, penalties and fines paid or payable to a government or a political subdivision of a government of any country for breach of any legislation.
- Expenditure to the extent incurred by a person in deriving exempt amounts or final withholding payments.
- Retirement contributions, unless they are included in calculating the income of an employee under section 4(2)6.
- Dividends of a company.

(3 points @ 1 mark each = 3 marks)

b)

i) Computation of tax payable

Kwabena Ogyam

Computation of Tax Payable

Year of Assessment 2024

Basis Period: January 1 to December 31 2024

	GH¢	GH¢
Income:		
Rental Income	8,000,000	
Trading Income	6,000,000	
Interest	1,400,000	
Transport Income	1,420,000	
Gifts	<u>1,000,000</u>	17,820,000
Add withholding tax $8/92 \times 1,400,000$		121,739.13
		17,941,739.13
Expenses:		
Interest payment	400,000	

Administration and other expenses	800,000	
Fixed annuity (600,000 x 3)	1,800,000	
Capital allowance	500,000	
Discretionary payments	500,000	
Remuneration: Fixed	150,000	
		(3,650,000)
Chargeable Income		13,791,739.13
Remuneration to Trustees (10%*13,791,739.13)		(1,379,173.91)
Chargeable income		12,412,565.22
Tax at 25%		3,103,141.30
Withholding Tax		121,739.13
Tax Payable		2,981,402.17
Amount available for distribution (12,412,565.22-3,103,141.30)		9,309,423.91
Gyanwaa 25%	2,327,355.98	
Preko 25%	2,327,355.98	
Agyeman 25%	2,327,355.98	

(7 marks evenly spread using ticks)

ii)

Amount due each beneficiary	Gyanwaa GH¢	Preko GH¢	Agyeman GH¢
Fixed Annuity	600,000.00	600,000.00	600,000.00
Discretionary payment	250,000.00	150,000.00	100,000.00
Net distribution	2,327,355.98	2,327,355.98	2,327,355.98

(2 marks)

c) Differences between adjusted assessment and pre-emptive assessment

Pre-emptive Assessment

This is an assessment that is raised prematurely. It is activated when CG strongly suspects tax revenue is at risk.

Circumstances that could trigger this assessment include the following:

- When a taxpayer becomes bankrupt.
- When a taxpayer is wound up.
- When a taxpayer goes into liquidation.
- When taxpayer has committed offence.
- When a taxpayer is about to leave the country indefinitely.
- When the taxpayer is about cease activity or business.

Adjusted Assessment

An assessment that is raised to correct or amend an earlier issued assessment to reflect the correct amount of tax except an assessment issued based on a court

decision. The CG shall use his best judgement and information reasonably available to make an adjustment. With issue of the adjusted assessment the earlier assessment cease to exist.

This assessment can be made by CG at any time especially in the following situations:

- Where the CG discovers a case of fraud or
- Willful default or
- Serious omission by or on behalf of a taxpayer

The power of the CG to make an original assessment expires 6 years from the date on which the CG was first entitled to make the assessment.

The power of the CG to make an adjusted assessment expires 6 years from

- the due date for filing the tax return that gives rise to the assessment or if later the date the tax return is filed where a self-assessment is adjusted
- the date on which the CG serves the notice of assessment on the taxpayer where any other original assessment is adjusted or
- The date in respect of the return or notice of assessment to which the adjusted assessment relates.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 1(a) required understanding of domestic and excluded expenditure. It is a gateway to understanding examination of accounts of business entities. Many candidates had mastery over it but others struggled to explain this important concept of taxation.

Question 1 (b) was a question on taxation of Trust as entity. It was pretty much straight forward. Many candidates did so well in this question. Many candidates did not know that gifts are taxable in our setting. While others added the gifts for tax purposes, others left it out as though it was non-taxable.

Question 1(c) was on adjusted assessment and pre-emptive assessment. While candidates explained adjustment assessment well, many had challenges with pre-emptive assessment. Preemptive assessment is issued by the Commissioner-General when revenue is said to be at risk, especially when the Commissioner-General gets information that the taxpayer is likely to leave the tax jurisdiction for good or may cease business operation or may become bankrupt.

QUESTION TWO

a)

i) **Larri LTD**

Computation of chargeable income

Year of assessment 2024

Basis period: January to December 2024

	GH¢	GH¢
Net Profit		3,331,610,000
Add back:		
Financial costs	14,200,000	
Depreciation	22,741,000	
Research and Development	<u>2,467,800</u>	
		<u>39,408,800</u>
		3,371,018,800
Less:		
Financial gains	12,500,000	
Capital allowance 8,800,000,000/3	2,933,333,333	
		<u>2,945,833,333</u>
Chargeable income		<u>425,185,467</u>
Tax payable = 425,185,467 @ 35% =		148,814,913.50

(8 marks evenly spread using ticks)

ii) Deductibility of financial cost in petroleum operations.

General Rule

Under section 13 of the **Petroleum Income Tax Law (PNDCL 188)** and corresponding sections of the **Income Tax Act, 2015 (Act 896)**, Financial costs (e.g. interest on loans, finance charges) are **deductible** only if they are:

- **Wholly, exclusively, and necessarily incurred** in the production of petroleum income;
- **Directly related to petroleum operations;** and
- **Not of a capital nature.**

Limitations / Restrictions

- Interest on **non-petroleum loans** or loans not used for petroleum operations is **not deductible**.
- Financial costs are **not deductible** if they relate to financing of capital expenditure before commencement of production (these are capitalized).
- Thin capitalization rules under Act 896 may apply if the entity is debt-financed by related non-residents.

Thus, in this case, **the financial cost of GH¢14,200,000** would be **allowable** for deduction **if** it satisfies the above conditions.

(2 marks)

b)

Capital allowance

Exploration costs	21,200,000,000
Development costs	40,000,000,000
Staff costs	800,000
Administration expenses	13,000,000
Acquisition of assets	<u>11,000,000</u>
	<u>61,224,800,000</u>

Capital allowance $20\% \times 61,224,800,000 =$ GH¢12,244,960

(5 marks)

c)

i) Direct tax returns and their respective due dates

- Employee Monthly PAYE return: 15th day of the following month
- Company Income Tax return: 4th month after end of basis period
- Property Tax Return: 4th month after end of basis period
- Rent Tax: 4th month after end of basis period
- Self-employed person: 4th month after end of Basis period

(2 points @ 1 mark each = 2 marks)

ii) Indirect tax returns and their respective due dates

- VAT returns: last working day of the following month
- Excise duty returns: within 21 days of the close of each month
- CST returns: last working day of the following month
- NHIL returns: last working day of the following month

(3 points @ 1 mark each = 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The (a) part of the question was relatively straight forward. What eluded most candidates was the treatment of financial cost from derivative. Financial cost from derivative should not be deducted from income but matched against financial gain from derivative. Any excess financial cost from derivative should be carried forward for the next 5 years.

The (b) part of the question had to do with the computation of pre-production cost for capital allowance purposes. All costs prior to production should be capitalized and capital allowance granted.

Part (c) of the question required tax returns and their due dates. Obviously, this area eluded candidates as it was too basic. Many candidates could not wrap their heads around the question.

QUESTION THREE

a) Tax Implications of Establishing Various Business Units

Sole Proprietorship

- A sole proprietorship is not distinct from its individual owner for purposes of income tax.
- Income earned by the sole proprietorship is taxed in the hands of individual.
- If the owner is resident for tax, the income will be taxed on the graduated scale up to a maximum of 35%. If the owner is non-resident for tax purposes, the income will be taxed at a rate of 25%.
- Interest earned from a resident financial institution is taxed at 1%.
- Sole proprietors are entitled to tax reliefs.
- Donations or contributions to worthwhile causes are tax deductible.
- Mortgage interest on residential property is also tax deductible. This is given once in one's lifetime.

Tax Exposure

If a sole proprietorship is owned by a resident individual, the income will be taxed on the graduated scale up to a maximum of 35%. A non-resident individual- is taxed at a flat rate of 25%. Resident sole proprietors are entitled to tax reliefs thereby reducing their chargeable income for tax purposes.

Partnership

- A partnership is not liable to pay tax on its income and not entitled to any tax credit with respect to that income but is liable to tax with respect to final withholding payments
- The income or loss of the partnership are allocated to the partners in line with their profit and loss sharing ratio as stated in the partnership agreement. Section 52(2) of Act 896.
- Arrangements between a partnership and its partners are recognized for tax purposes and considered in determining the share of and individual partner unless stated otherwise in the Act. Section 52(6) of Act 896. partners as income or loss in their profit sharing ratio. Section 54(1) of Act 896.
- Taxes paid under the Act and foreign income taxes paid or treated as paid by a partnership is allocated to the partners, in their profit and loss sharing ratio and treated as paid by the partners. Section 54(6) of Act 896.
- Since the profits are allocated to the partners in their profit or loss sharing ratio, the income of the individual partners will be taxed on graduated scale which starts from 0 to 35% if the partners are resident for tax purposes. However, if a partner is non-resident for tax purposes, the income will be taxed at a flat rate of 25% as provided for in the first schedule to Act 896.
- Given the fact that section 133 of Act 896 defines partnership to mean an association of two or more individuals or corporations carrying on business jointly for the purpose of making profit, irrespective of whether the association is recorded in writing, it is possible that the partners could be entities.

- If partners are entities, the profit allocated to the partners will be taxed at the corporate tax rate which is generally 25% as provided for in the first schedule of Act 896 as amended.

Tax Exposure

The chargeable income of resident partners will be taxed on the graduated scale up to a maximum of 35% and 25% for non-resident partners. If the partnership is established by either resident or non-resident entities, the tax rate on the chargeable income will be 25%.

Resident partners are entitled to tax reliefs thereby reducing their chargeable income for tax purposes.

Company

- A company is taxed separately from its shareholders (Sec 58 (1) of Act 896).
- Income derived or expenditure incurred by managers or shareholders whether jointly or severally on behalf of a company is regarded as income derived or expenditure incurred by the company even if the company lacks legal capacity to derive the income or incur that expenditure. (Sec 58(2) of Act 896).
- All arrangements between a company and a manager or shareholder of a company are recognized for tax purposes unless the arrangement offends anti-avoidance provisions in Act 58(5) of Act 896.
- Generally, the corporate income is taxable at the rate of 25%.
- Generally, dividends paid by a resident company to a shareholder is subject to withholding taxes at the rate of 8%.
- Thus, generally the total tax exposure on an investment in a company is 33%. That is, 25% at the corporate level and 8% at the shareholder level.

Tax Exposure

Income earned by a company is generally taxed at the rate of 25% and dividends attributed to the shareholders is taxed at the rate of 8% and this brings the total tax exposure of the investment to 33%.

(5 marks each for 3 well discussed business forms = 15 marks)

- b) The following are the ways Ghanaian government can strategically utilize public debt to stabilize the economy.
- The government should prioritize maintaining debt levels within sustainable limits, as excessive borrowing can hinder long-term economic growth. This involves adhering to debt limits, both external and domestic, and regularly assessing the country's debt sustainability.
 - Public debt management should be transparent and accountable, with clear reporting on borrowing, spending, and debt servicing.
 - The government should explore various funding sources, including concessional loans, grants, and development bonds, to reduce reliance on a single source and mitigate risks.

- Strengthening the domestic debt market through initiatives like the Benchmark Bond Programme Guidelines can help attract local investors, reduce reliance on foreign borrowing, and create a more stable financial environment.
- Public debt should be channeled towards productive investments that stimulate economic growth, such as infrastructure development, education, healthcare, and agriculture.
- PPPs can leverage private sector expertise and capital for infrastructure projects, reducing the burden on public finances.
- The government should implement fiscal consolidation measures to control spending, improve revenue collection, and enhance the efficiency of public resource management.
- Addressing potential risks from state-owned enterprises (SOEs) and the financial sector is crucial for maintaining financial stability.
- Robust financial regulations and oversight can help prevent excessive risk-taking and protect the financial system from potential crises.
- In cases of unsustainable debt levels, the government may need to explore debt restructuring options, such as debt exchanges or negotiations with creditors, to alleviate the debt burden.

(Any 5 points for 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Sub-question(a) required understanding of business units and their tax exposures. Many candidates were discussing tax planning without relating it to the question specific requirement. Business units are sole proprietorship, partnership, company, Trust among others.

The (b) part of the question required understanding of how to use public debt to stabilize the economy. This was a fiscal policy question and was well handled.

QUESTION FOUR

a)

- i) The total specific duty is the sum of the duty on the total liquid volume and the duty on the total pure alcohol content.

Volume from Bottles:

Total bottles = 1,000 cases × 12 bottles/case = 12,000 bottles

Volume in ml = 12,000 bottles × 750 ml/bottle = 9,000,000 ml

Volume in litres = 9,000,000 ml / 1,000 ml/L = 9,000 litres

Volume from Kegs

Volume in litres = 50 kegs × 20 L/keg = 1,000 litres

Total Liquid Volume: 9,000 litres + 1,000 litres = 10,000 litres

Duty on Volume = Total Liquid Volume × Rate per litre

Duty on Volume = 10,000 litres × GH¢ 10.00/litre = **GH¢ 100,000**

Total Pure Alcohol = Total Liquid Volume × Alcohol by Volume (%)

Total Pure Alcohol = 10,000 litres × 43% = 4,300 litres

Duty on Alcohol Content = Total Pure Alcohol × Rate per litre of alcohol

Duty on Alcohol Content = 4,300 litres × GH¢ 15.00/litre = **GH¢ 64,500**

Total Duty = Duty on Volume + Duty on Alcohol Content

Total Duty = GH¢ 100,000 + GH¢ 64,500 = **GH¢164,500**

(5 marks)

- ii) **Conditions for granting duty drawbacks**

A duty drawback is a refund of import duty paid on goods or materials that are later exported or used in the production of exported goods.

- **Proof of Exportation:**

The goods on which duty was paid must be exported or used in the manufacture of exported goods, and satisfactory evidence of export must be produced to Customs.

- **Time Limit for Claim:**

The exporter must submit the drawback claim within 12 months (or as prescribed) from the date of exportation.

- **Proper Documentation:**

All relevant customs documents — such as import entries, duty payment receipts, export declarations, and invoices — must be provided to support the claim.

- **Goods Not Altered or Consumed Locally:**

The goods must not have been consumed, altered, or sold in the domestic market prior to export.

Minimum Amount:

- amount of duty refundable must meet the minimum threshold set by Customs regulations (if applicable).

(Any 3 points for 3 marks)

- b) The VAT treatment for pre-registration purchases is governed by Section 48(12) of the VAT Act. This section sets out three key conditions: the type of good, the timing of the acquisition, and whether the good was "on hand" at the date of registration.

Printer Ink (Purchased January 2025):

The VAT paid on this item cannot be claimed as a deduction.

These are general goods. The law allows a claim only for goods acquired within four months of the registration date. The purchase in January falls outside this four-month window for the August 1 registration.

Office Server (Purchased March 2025):

The VAT paid on this item can be claimed as a deduction

This is a capital good, for which the law provides a longer time limit of six months. The purchase in March is within this six-month window, and the server was on hand at the date of registration.

Laptop Chargers (Purchased June 2025):

The VAT paid on this item can be claimed as a deduction.

These are general goods acquired in June, which is within the four-month period prior to the August 1 registration. They were also on hand, meeting all the conditions.

Keyboards (Purchased July 2025):

The VAT paid on this item cannot be claimed as a deduction.

Although the purchase was made within the four-month time limit, the law requires that the goods must be "on hand" on the effective date of registration. Since these keyboards were sold before August 1, this crucial condition is not met.

(4 marks)

- c) **VAT implications**

Amanku (the Principal): The supply of the painting to the customer for GH¢10,000 is treated as a supply made directly by him. According to Section 32(1) of the Act, Amanku is therefore responsible for accounting for the VAT on the full GH¢ 10,000 selling price.

Accra Art Gallery (the Agent): The service of acting as an agent is a separate, taxable supply made by the gallery to Amanku. As per Section 32(2), the gallery is responsible for accounting for VAT on the value of its commission.

(3 marks)

d) **Positive Social Significance of borrowing:**

- ***Financing Essential Social Infrastructure:*** Borrowed funds are a primary source for large-scale, long-term investments in social infrastructure. Building new hospitals, clinics, and health posts, as well as procuring modern medical equipment, can expand access to quality healthcare, especially in underserved rural areas. This directly improves public health outcomes, reduces infant and maternal mortality rates, and enhances the overall well-being of the population.
- ***Stimulating Economic Growth and Job Creation:*** Government borrowing can be a tool to stimulate the economy, leading to job creation and improved livelihoods. Projects like roads, railways, and ports are often funded through borrowing. These projects not only create direct employment for thousands of people but also improve connectivity, making it easier for farmers to transport produce to markets and for businesses to operate more efficiently. Borrowing can also create the fiscal space to fund social safety nets and programmes aimed at poverty reduction, such as conditional cash transfers or microfinance initiatives.
- ***Stabilizing the Economy During Crises:*** In times of national or global crisis, such as the COVID-19 pandemic, borrowing allows the government to respond effectively. This borrowing can be used to provide financial relief to citizens who have lost their jobs or income and offer credit lines to businesses to prevent mass closures. This acts as a buffer against severe economic shocks, protecting the social fabric of the country.

Negative Social Significance: The Threat of a Debt Crisis

- ***Redirecting Funds from Social Services to Debt Servicing:*** A high and unsustainable debt burden means that a large portion of the government's revenue must be dedicated to paying interest and principal on loans. In recent years, Ghana has spent a significant percentage of its tax revenue on debt servicing, leaving fewer resources for essential social services. This can lead to cuts in Healthcare and Education
- ***Inflation and the Erosion of Living Standards:*** A high public debt can lead to a depreciation of the local currency (the cedi) and fuel inflation. As the cedi depreciates, the cost of imported goods, including essential items like food and fuel, rises sharply. This disproportionately affects low-income households, increasing poverty and making it difficult for people to meet their basic needs.
- ***Social Distress and Loss of Public Trust:*** A debt crisis can have profound social and psychological impacts. Programmes like Ghana's Domestic Debt Exchange Programme (DDEP) have affected the savings and investments of many citizens, including retirees and pension funds. This can lead to a loss of trust in the government and the financial system, creating widespread social anxiety and economic uncertainty. The crowding out of the private sector and a general economic slowdown resulting from a debt crisis can lead to business closures and

increased unemployment. This creates a cycle of poverty and instability, impacting the social fabric of the nation.

(Any 2 positives and 1 negative well explained for 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Sub-question (a) was on excise taxation. Candidates' performance was average.

The (b) and (c) parts were on VAT. The areas were pretty much a familiar territory. Most candidates did well in it.

Part (d) was on domestic and foreign borrowing. Another familiar area and popular with candidates.

QUESTION FIVE

- a) The specific tax issue is income splitting, which is an anti-avoidance concern governed by Section 32 of the Income Tax Act, 2015. The arrangement appears designed to artificially shift income from a person in a high tax bracket to an associated person in a low tax bracket to reduce the total tax paid.

Tax implication

Mrs Amegashie Before the transfer

Pays taxes on her business income using the individual tax rates

Pays tax on the rental income at the rate of 15%

Mrs Amegashie After the transfer

Pays taxes on her business income using the individual tax rates

Pays taxes on the gains on the realisation of the Rental property at

Rate of 25%

Son Doe

Pays tax at the rate of 15% on the Rental Income

(5 marks)

b)

i) Analysis of the Company's Capital Structure

First, we calculate the company's debt-to-equity ratio based on the specific definition of equity for this rule.

Equity = Stated Capital + Income Surplus = GH¢80,000,000 + GH¢20,000,000 = **GH¢100,000,000**

Total Debt = GH¢ 400,000,000

Debt-to-Equity Ratio = GH¢ 400,000,000 / GH¢ 100,000,000 = **4:1**

This 4:1 ratio exceeds the standard 3:1 limit mentioned in the Act. In effect, thin capitalization rule has been breached.

(4 marks)

ii) Tax implication if the company is a financial institution

Section 33(1) of the Income Tax Act, 2015 explicitly states that the thin capitalization rule applies to: "...a resident entity **which is not a financial institution...**

Therefore the company is not in breach of the thin capitalization rule if it is a financial institution.

(1 mark)

c)

i) The acquisition of more than 50% within 2 and half years means change in underlying ownership. The assets and liabilities are treated as realised and therefore the new owners will not benefit from the following:

- Financial cost from derivative
- Losses carry forward
- Bad debts
- Carry back of losses

The period before the change and the period after the change are treated as separate years.

- 1) The policy of revaluation of its building may have accounting implication but will not cut ice with the tax authority. The revaluation will not attract capital allowance.
- 2) The 30% dividend payment means that the Ghana Revenue Authority will get 8% dividend withholding tax. The transfer to support stated capital is treated as deemed dividend which will attract two tax implications: 8% deemed dividend withholding tax and stamp duty at 1% on the amount transferred.
- 3) The free zone status of the entity means that the first 10 years of its operation, its profit will not be taxed. The company is in its 8th year; and will start paying taxes after two years. Its imports on the raw materials are exempt from tax including VAT, NHIL, GETFund and Covid-19 Health Recovery levy. Its sale to the local market will attract the import duty, the VAT and the levies on the raw materials used for the local production.

(8 marks)

ii) **Tax obligations**

- To re-register as a new taxpayer following the change in ownership.
- To file tax returns on its operation.
- To pay its taxes on due date.
- Present entity's financial statement as an attachment to the tax returns and disclose income honestly.

(2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The (a) part of the question was on the tax implication of transferring property by a mother to her son. Many candidates got it wrong. The question was quite interesting and simple. It only means that candidates do not read widely.

The (b) part of the question tested candidates understanding of thin capitalization, a very familiar area. Unfortunately, many candidates got it wrong through wrong interpretation of the tax law.

The (c) part of the question tested section 62 of the Income Tax Act 896. A very familiar area and popular with candidates too.

CONCLUSION AND RECOMMENDATIONS

Candidates going for any diet should lay hands on the Examiners' reports to appreciate the requirement of the examinations and the pitfalls to avoid in order to pass their examinations with maximum ease. It is pretty obvious that the mistakes candidates make suggest that they hardly read the examiners' report hence keep making same mistakes in each diet.

English grammar continues to be a problem. Many candidates are unable to write well and failed in communicating well in their answers. Candidates should take delight in reading widely to enrich their English proficiency.