

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

EXAMINER'S GENERAL COMMENTS

The questions tested candidates' understanding of the basic principles of taxation as required by the syllabus. The questions were generally clear, straight forward and spread across the syllabus. Candidates did not show much level of preparedness and this reflected in the poor answers given. Thus, the level of performance was generally not satisfactory. Candidates did not display adequate knowledge across the spectrum of the syllabus. The weights allocated to the syllabus grid is explicit and it is always a risk not to learn across board. Students and tuition providers are encouraged to go through the fundamentals of the subject and to prepare across board in order for candidates to pass the paper.

STANDARD OF THE PAPER

The paper was up to the standard required of the level except for the fact that a candidate need to do more in order to pass. This is in view of the spread of the questions alongside the marks allocations. The questions were within the syllabus coverage, clear and direct to the point. The mark allocation was fairly allotted to each sub-question. It followed the weightings in the syllabus and proportionate to the amount of work required.

In all, the quality of the paper was good for the level seeking to bring out the best from candidates and to prepare them for the advanced level tax paper as well as what pertains in the practice of taxation in Ghana.

PERFORMANCE OF CANDIDATES

The general performance of the candidates across the centres was far below average. Approximately 21% of candidates passed the paper. A sharp drop in the pass rate compared to the July 2025 (35%), March 2025 (45%) and November 2024 (34%) diets. In effect, this was the worst performance in recent years. Tuition providers and students should respectively teach and learn the various tax rules required under the syllabus coverage in order to ensure an improved performance rating.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

Surprisingly, candidates did not demonstrate enough strength in all questions and across all the centres except for some sub questions in Question one (VAT payable under the flat rate scheme and the output tax under the standard rate scheme). A usual feature in the paper 2.6 examinations results over the years. It was generally observed that candidates were not very familiar with the tax laws and the emerging issues in taxation. It is hoped that they will rise up to the occasion in subsequent diets.

It takes barely three months to prepare after the release of results and therefore preparing for the exams must start early. Taxation is a creature of legislation and therefore answers given by candidates should be grounded in the tax laws and regulations where required. We would continue to advise that, in view of the change in syllabus, students are encouraged to enrol with reliable tuition providing centres and also depend on reliable learning materials to improve the success rate.

QUESTION ONE

- a) Taxation remains one of the most critical instruments for mobilising resources required for economic development. Throughout history and across different economic systems, the fiscal capacity of a government – that is its ability to collect and allocate resources, has been closely tied to its effectiveness in fostering growth, alleviating poverty, and laying the groundwork for sustainable development.

Required:

- i) Enumerate **FIVE** purposes of taxation for Ghana's economy. (5 marks)
ii) Explain the use and application of taxation as a tool of fiscal policy to stabilise the economy. (5 marks)

- b) Understanding the official language and currency used for taxation is essential both for residents and for international entities seeking to do business or comply with Ghanaian tax laws.

Required:

Explain the rules governing the official language and currency used in tax administration in Ghana. (10 marks)

(Total: 20 marks)

QUESTION TWO

- a) Dompe LTD, an excavator rental company, on 15th May 2024 issued an invoice of GH¢2,500,000 for renting out 10 excavators to Pitoo LTD for their road construction contract in the Savannah Region. This amount does not include VAT, COVID-19 Levy, NHIL, and GETFund Levy. Dompe LTD makes a markup profit of 25% on every excavator rented out. Assume this is the only rental activity carried out by Dompe LTD in May 2024, and all their purchases were taxable activities.

Required:

- i) Calculate the VAT payable assuming Dompe LTD is under the VAT Flat Rate Scheme. (2 marks)
ii) Calculate the output VAT under the VAT Standard Rate Scheme. (6 marks)
iii) Calculate the input VAT deduction under the Standard Rate Scheme. (3 marks)
iv) Calculate the VAT payable to GRA under the Standard Rate Scheme. (2 marks)
v) Determine total penalties and interest if Dompe LTD files on 21 July 2024. (2 marks)

- b) Money laundering describes the illicit process of disguising or redirecting public funds acquired through taxation for unlawful, covert, or unethical purposes.

Required:

List **FIVE** ways in which money laundering can occur with respect to taxation. (5 marks)

(Total: 20 marks)

QUESTION THREE

- a) Selorm Apraku has been employed by Tubidi Mines LTD in Bomaa in the Ahafo Region as an underground mine operator since 1 January 2022. Per his contract, he is entitled to an annual gross salary of GH¢80,000, which is subject to annual increments of 10% effective 1 January 2024, as agreed with his employer.

In addition, he receives the following benefits:

- Clothing allowance to replace his safety clothing - 5% of his gross salary.
- Risk allowance - 10% of his gross salary.
- Company car with fuel.
- On-site accommodation – Tubidi Mines LTD incurs a monthly cost of GH¢2,000 for this benefit.

In addition to contributing to the statutory Social Security & National Insurance Trust (SSNIT), Selorm contributes 7.5% of his salary to a provident fund managed by Kanfra Trust Co. LTD, a registered fund manager in Ghana.

Selorm's only source of income has been from his employment with Tubidi Mines. However, in January 2024, he began operating a transport business in Goaso as a sole trader, managing a fleet of three (3) 15-seater mini-buses. One of the mini-buses was leased to Kuturuku LTD, generating a net monthly income of GH¢3,000. The other two mini-buses each earned a monthly income of GH¢2,500. The monthly incomes stated are net of all expenses, including depreciation, which is estimated at GH¢10,000 per vehicle annually. Each mini-bus was purchased at a cost of GH¢105,000 and had been on the road throughout the year.

Selorm is a tax resident and was employed throughout the 2024 calendar year. He is currently divorced and has three children, aged 10, 12 and 18, in his care. All three are attending government-approved schools in Ghana.

Required:

Ignoring the impact of VAT and its incidental levies:

- Calculate Selorm's *chargeable income* for the 2024 year of assessment. **(8 marks)**
- Calculate Selorm's *personal income tax liability* for the 2024 year of assessment. **(2 marks)**

- b) Under Ghanaian tax law, "realisation" of some capital assets triggers capital gains.

Required:

Explain the term *realisation* under Ghana tax laws, referring to two different scenarios that may trigger a realisation event. **(2 marks)**

- c) Afrakoma disposed of certain capital assets to finance her relocation costs to a foreign destination. The details of the assets sold are as follows:

Commercial Property

On 1 March 2024, Afrakoma sold a commercial property located in Mampong for GH¢1,000,000. She had originally acquired the property on 9 June 2017 for GH¢450,000. In 2021, she carried out structural extensions to the building, converting part of it into rentable office space at an additional cost of GH¢150,000. Upon selling the property, she incurred legal and agency fees amounting to 2% of sale value. The net book value of the property at the time of disposal was GH¢500,000.

Shares transactions

Afrakoma held investments in the shares of two companies: Bonsa LTD, a Ghanaian entity listed on the Ghana Stock Exchange since 2019, and Atropo Breweries LTD. On 20 May 2024, she disposed of 2,000 shares of Bonsa LTD at a unit price of GH¢8 and 1,500 shares of Atropo Breweries LTD at a unit price of GH¢7. A commission of 1.5% was incurred on each of these disposals

The information below relates to the acquisition of shares:

Bonsa – share acquisition history

Date	Transaction
03/01/2021	Acquired 1,800 shares at GH¢5.50 per share
01/01/2024	Exercised a 1-for-4 bonus issue

Atropo Breweries LTD – share acquisition history

Date	Transaction
31/07/2022	Acquired 2,500 shares at GH¢4 per share
01/01/2024	Exercised a 1-for-5 rights issue at GH¢2.50 per share

Required:

Using the above information,

- Calculate Afrakoma's capital gain realised on each asset. **(6 marks)**
- Determine the total capital gains tax payable by Afrakoma for the 2024 year of assessment. **(2 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) Nnowa LTD is a company located at Mpraeso in the Eastern Region that produces honey in large quantities for export to some European countries. Below is an extract of the Comprehensive Income Statement of Nnowa LTD for the year ended 31 December 2024.

	Notes	GH¢
Revenue	1	25,000,000
Cost of sales	2	<u>22,300,000</u>
Gross profit		2,700,000
General and administrative expenses	3	<u>(1,900,000)</u>
Operating profit		800,000
Finance cost	4	<u>(1,500,000)</u>
Loss before tax		<u>(700,000)</u>

Additional notes:

- 1) Revenue includes an amount of GH¢1,200,000 from swaps deals.
- 2) Cost of goods sold includes an amount GH¢300,000 paid to facilitate customs procedures without receipts.
- 3) General and administrative expenses included the following:
 - Donation towards farmers' day with a receipt from the Ministry of Food and Agriculture of GH¢500,000.
 - Cost of birthday celebration of the Managing Director at Aburi Gardens amounting to GH¢350,000.
 - Sponsorship of needy and brilliant girl students of the Mpraeso Senior High School to the university amounting to GH¢250,000 without approval from the relevant government department.
 - An amount of GH¢450,000 being the cost of a new billboard approved by GRA for capital allowance to be granted on same.
 - Depreciation of GH¢25,000.
- 4) Finance cost includes an amount of GH¢1,300,000 relating to swaps deals.
- 5) Capital allowance computed on depreciable assets amounted to GH¢102,000.

Required:

- i) Compute the **chargeable income** and **tax payable** by Nnowa LTD for the 2024 year of assessment. **(12 marks)**
 - ii) State **THREE** deductions that will not be allowed against income in the determination of the chargeable income of Nnowa LTD as provided for under section 130 (domestic and excluded expenditure) of the Income Tax Act, 2015 (Act 896). **(3 marks)**
- b) In Ghana, personal tax reliefs help reduce how much tax individuals pay by taking into account their personal and family responsibilities. These reliefs aim to make the tax system fairer and support those with additional financial needs.

Required:

List **TWO** personal reliefs available to individuals in Ghana and state their respective annual relief amounts. **(2 marks)**

c) Briefly explain the tax treatment of the following:

i) Overtime payments.

ii) Bonus payment.

(3 marks)

(Total: 20 marks)

QUESTION FIVE

- a) Kpetoi Rural Bank LTD has entered into a contract with Hassan Talaat Holding, a company incorporated in the Arab Republic of Egypt for the supply and installation of modern automatic teller machines for all branches of the bank in the Volta Region.

Required:

State the responsibilities of Kpetoi Rural Bank LTD with respect to the contract it has entered with a non-resident person (Hassan Talaat Holding). **(5 marks)**

- b) The Finance Director of Dromo LTD is worried about the impact of withholding tax on the cash flow of the company and wish something can be done about it. The Finance Director of Dromo LTD has heard that you are studying taxation as part your course at the Institute of Chartered Accountants, Ghana and has approached you for guidance.

Required:

State and explain **FIVE** conditions Dromo LTD must meet to be exempted from withholding tax. **(5 marks)**

- c) You work as an intern in the Tax Policy Unit at the Ministry of Finance. The Minister has requested a technical paper discussing how Ghana can leverage technology to expand its tax base, particularly among the digital and informal economy players.

Required:

- i) Suggest **TWO** ways mobile money data and digital payment platforms can be harnessed to improve taxpayer identification and broaden the tax net. **(4 marks)**
- ii) Explain blockchain technology and indicate how it could potentially support Ghana's VAT administration. **(3 marks)**
- iii) Identify **THREE** reasons taxpayers and civil society may resist data collection for tax purposes and propose strategies to manage these concerns. **(3 marks)**

(Total: 20 marks)

Applicable Tax Rates

	Chargeable Income GH¢	Rate %	Tax Payable GH¢	Cumulative Income GH¢	Cumulative Tax GH¢
First	5,880	0	-	5,880	-
Next	1,320	5	66	7,200	66
Next	1,560	10	156	8,760	222
Next	38,000	17.5	6,650	46,760	6,872
Next	192,000	25	48,000	238,760	54,872
Next	366,240	30	109,872	605,000	164,744
Exceeding	605,000	35			

SUGGESTED SOLUTION

QUESTION ONE

a)

i) The following are the main purposes or objectives of taxation in a developing economy

- **Mobilisation of Resources**

The first and the foremost objective of taxation in a developing economy should be to maximise the level of aggregate saving by applying a cut to the actual and potential consumption of the public at large. It then becomes necessary to collect more revenues mainly in the form of taxes, a major part of which will have to come from the rich, who constitute a small section of the society, mainly in the form of direct taxes

- **Taxation as an Instrument of Economic Stability**

The under-developed countries are very susceptible to three sources of instability which results from the nature of their economy and the logic of accelerated economic development.

Instability caused by world market developments; instability due to cyclical deficiency of effective demand in the short run, and instability caused by inflationary pressures

- **The Re-allocative Role of Taxation**

The tax system in order to ensure effective allocation of resources should interfere as little as possible with the consumers' choices for consumption goods and the producers' choices regarding the use of factors of production. The owners of factors of production should be enabled to seek their most remunerative employment and the price mechanism should be allowed to operate freely so that there is optimum output of goods. Under this condition, it is essential that the tax system should be economically neutral and framed in such a way as to ensure the optimal allocation and utilisation of the productive resources of the economy.

- **The Re-distributive Objective of Taxation.**

The under-developed countries are characterised by the existence of extreme inequalities in the distribution of income and wealth and a large proportion of saving of the upper income groups is misdirected. Besides, in some of the under-developed countries, the consumption propensities of the upper income groups are higher than those of the upper income groups of the developed countries. Thus, there exists a large volume of avoidable inequality in the economy of the under-developed countries. Therefore, a good redistribution objective of the tax system in a developing country should be an instrument for the reduction of economic inequalities by redistributing the income through bridging the gap between the rich and the poor. The very purpose of taxation is not merely to raise revenues for the state but the revenues should be raised in such a manner as to ensure that the burden of tax should fall on the rich in the form of wealth-tax,

income-tax, etc. and the proceeds, if possible, should be spent for the benefit of the poor.

- **Growth Objective of Taxation**

The Government, in any economy, attempts to use taxation to achieve many goals, and mobilisation of resources for the government in a less-developed country is one of them. To see that taxes are paid and collected, a tax system has to have a proper administrative set up. In addition, the taxes should be equitable. From the point of view of the growth of the economy, its industries, trade, agriculture, consumption, etc., the tax policy has to be such that it does not upset the pattern of production, trade, consumption, savings, and investment in the economy.

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

ii) **Taxation as an Instrument of Economic Stability**

- Under-developed countries are more vulnerable to the effects of international cyclical fluctuations due to an unbalanced nature of their economic structure and heavy reliance on the export of primary products, as a source of their national income. This means any fluctuations in the international demand for their products, therefore, will tend to exercise a predominant effect on their national income through the medium of the foreign trade multiplier. Equally, as the under-developed countries export primarily raw materials, they import the finished manufactured goods from the developed countries and in the event of an international recession, the under-developed countries exporting primary products find that the resources in agriculture and some other primary industries are immobile in the short run and often continue to produce the same type and even quantities of output as before. But as the demand for these products are inelastic, it leads to a fall in the prices of these products in the international market leading to reduced export earnings which may affect the process of economic development in these countries adversely, as their own consumption requirements is very small due to their subsistence living.
- Specific fiscal instruments like export taxes are more useful as stabilisation measures than aggregative fiscal instruments such as a general sales-tax and income-taxation. These specific tax measures are more flexible in adjustment than income-tax and can also single out the export sector of the economy and counteract the destabilising influences that arise from it. Besides, they are relatively simple to administer and difficult to evade. But the contribution of export taxes to internal economic stability, and thus, economic development can be of great significance only if the under-developed countries are able to resist a high propensity to import consumer goods, especially luxuries and have the necessary skill not only in the manipulation of export and import taxes but also in timing the changes and channelling the proceeds for promoting their economic development.
- The stabilisation objectives of taxation should also aim at maximising the level of aggregate saving by applying a cut to the actual and potential consumption of the public at large. This stabilisation objective should aim at curbing the conspicuous consumption of the rich and force them to save for capital formation, which if

maximised, should break economic stagnation and lead the country on the path of rapid economic growth.

- Another objective of the stabilisation policy of taxation should aim at protecting the economy of an under-developed country from the evils of inflation and depression as the under-developed countries have unusual susceptibility to inflationary pressures. Stagnation is regarded as too heavy and unacceptable a price to pay for achieving stability in prices. At the same time, large scale inflation as a means of promoting the economic development of the under-developed countries is beset with so many evils. Thus, the taxation policy for a developing economy should aim at curbing inflationary pressures inherent in a developing economy as in such an economy, there is always an imbalance between the demand for and supply of real resources.
- Equally, during depression, taxation along with other fiscal policy must operate in coordination with each other to offset it. Thus, taxation policy along with other fiscal policy measures are ideally suited to check inflation and depression in a developing economy. Taxation will be reduced in deflationary situation while during inflationary situation, taxation will be increased. If inflation is not controlled in time, it can undermine the very process of economic growth and development. As such, a suitable taxation policy for an under-developed country should be designed as to curb the demon of inflationary and deflationary situations which can prove ruinous to an underdeveloped economy.

(5 marks)

b)

i)

Official language

English is the official language of Ghana and the GRA may refuse to recognise a communication or document that is not in the official language.

Where a communication or document that is not in the official language is relevant in applying a tax law to a taxpayer, the Commissioner- General may, require the taxpayer to provide a translation of the communication or document into the official language. A request shall be in writing and served on the taxpayer. For this purpose, a taxpayer shall use a translator approved by the Commissioner-General and shall bear the cost of the translation. Where a taxpayer fails to comply, the Commissioner- General may have the communication or document translated at the cost of the taxpayer.

Official currency

The Cedi is the official currency for purposes of the tax laws and, subject to any provision in a tax law to the contrary, every amount taken into account under a tax law is to be denominated in or converted into Cedis.

The conversion of a foreign currency amount into Cedis shall be at the Bank of Ghana inter-bank exchange rate applying on the date the amount is to be taken into account under the tax law in question.

The Commissioner-General may, on a written application, require a person to take a foreign currency amount into account for the purpose of keeping of records and submission of accounts or any other tax transaction under a tax law. Such a requirement of the Commissioner-General may:

- Be by way of practice note;
- Apply to one or more tax laws and for one or more periods; and
- Be subject to conditions that the Commissioner-General determines.

In exercising the discretion to use foreign currency, the Commissioner- General shall take into consideration the volume of foreign currency activities conducted by the person. The Commissioner-General may, by notice in writing and for reasonable cause, revoke a requirement to use a foreign currency for keeping accounts, for tax returns and any in applying other tax laws

(10 marks)

(Total: 20 marks)

CHIEF EXAMINER'S COMMENT

Question one was in two parts subdivided into two and one respectively. The a(i) was for candidates to enumerate five purposes of taxation for Ghana's economy. Though a straightforward question some candidates displayed lack of knowledge. Most of their answers were rather examples on one or two purposes of taxation.

Sub-question a(ii) would have been a bonus question if candidates had learnt the role of taxation well, however candidates' performance was below average.

The (b) part was for 10 marks. Some candidates showed they did not know the rules governing the official language and currency used in tax administration in Ghana even though they indicated the Cedi and English as the official currency and language respectively. It was a below average performance.

QUESTION TWO

a)

i)

VAT Payable (Flat Rate Scheme)	GH¢
Value of invoice	2,500,000
Flat Rate (3%*2,500,000)	75,000
Covid Levy (1%*2,500,000)	<u>25,000</u>
Total	<u>100,000</u>

(2 marks)

ii)

Output VAT (Standard Rate)	GH¢
Value of invoice	2,500,000
NHIL (2.5%*2,500,000)	62,500
GETFL (2.5%*2,500,000)	62,500
Covid Levy (1%*2,500,000)	<u>25,000</u>
VAT Base	<u>2,650,000</u>
Output VAT (15%*2,650,000)	397,500

(6 marks)

iii)

Input VAT:	GH¢
25% Markup to Margin = 20%	
Profit= 20%*2,500,000	500,000
Purchases = Sales - Profit	
Purchases= 2,500,000 - 500,000	<u>2,000,000</u>
Input VAT = 15% * 2,000,000	300,000

(3 marks)

iv)

VAT Payable:	GH¢
Output VAT - Input VAT (397,500 - 300,000)	
VAT Payable	97,500

(2 marks)

v)

Penalties and Interest:	GH¢
500 + 10 per day (500 + 10 (20))	
Penalties and Interest:	700

(2 marks)

- b) There are several ways in which taxpayer money laundering can occur. Some of the most common mechanisms include:
- Fictitious Contracts and Invoicing: Officials or contractors submit fake invoices or contracts for services that were never rendered or for inflated amounts. The surplus funds are then siphoned off to private accounts.
 - Shell Companies and Front Organisations: Government contracts are awarded to shell companies or organisations controlled by individuals seeking to divert public money for personal gain or political influence.
 - Kickbacks and Bribery: Public officials may receive kickbacks from companies in exchange for awarding inflated contracts. The funds may be moved through multiple intermediaries to conceal their origins.
 - Layering through International Transfers: Public funds are transferred to foreign accounts, often in countries with strict banking secrecy laws, to obscure their trail and ownership.
 - Procurement Fraud: Manipulation of government procurement processes through collusion or bid-rigging, resulting in taxpayer funds being redirected to cronies or family members.
 - Grant and Subsidy Misuse: Grants or subsidies intended for public projects or social welfare are diverted for private use or embezzled through fraudulent documentation.

(Any 5 points for 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question was in two parts. On the whole, the computations on VAT was not well done by majority of candidates. Few candidates were able to compute the VAT payable under the flat rate scheme and the output tax under the standard rate scheme. The calculation of the input tax deduction was a waterloo since candidates were not familiar with how to use the mark-up profit to determine the purchases Value, the base on which the levies and the VAT would be computed.

Most candidates also failed to recognize that the day the return was filed is not part of the default days thus had their penalty computation wrong. Tuition providers and students preparing for the paper should pay much attention to VAT since it is a topic they can easily score good marks on.

The ways in which money laundering can occur with respect to taxation was also not well answered by candidates. As a matter of fact, most candidates displayed total lack of knowledge on the subject even though this is clearly stated in the syllabus under the importance of ethics in tax practice. They virtually lost the five marks.

QUESTION THREE

a)

i) **Selorm Apraku**

Computation of chargeable income for 2024 Y/A

01/01/2024 - 31/12/2024

	<u>GH¢</u>	<u>GH¢</u>
Annual Salary (GHS80,000 x 1.1)		88,000
Clothing Allowance (Exempt) - Refer to Note 1		
Risk Allowance (10% x GHS88,000)		8,800
Total Cash Emolument (TCE)		96,800
Add: Benefit-in-Kind:		
Vehicle with fuel (10% of TCE - GH¢96,800)		9,680
Accommodation benefit (Exempt) - Refer to Note 2		-
Income from Employment		106,480
Add: Income from Business (W1)		31,500
Total Assessable Income		137,980
Less: Reliefs/Deductions:		
Selorm's SSNIT Contribution (5.5% x GH¢88,000)	4,840	
Selorm's Provident Fund Contribution (7.5% x GH¢88,000)	6,600	
Marriage / Responsibility	1,200	
Child Education (3 x GH¢600)	1,800	
		<u>14,440</u>
Chargeable Income		<u>123,540</u>

Note:

1. Clothing allowance: Cash Payment for clothing not suitable for wearing outside of work is not taxable.

2. Accommodation benefit: provision of accommodation by an employer carrying on a timber, mining, building, construction, farming business or petroleum operations to that person at a place or site where the field operation of the business is carried out is exempt from tax.

<u>W1. Business Income:</u>	<u>GH¢</u>
Annual net income from Mini-bus 1 – Lease (GH¢3,000 x 12)	36,000
Annual net income from 2 other Mini-bus (2 x GH¢2,500 x 12)	<u>60,000</u>
Profit from Business (excluding depreciation)	<u>96,000</u>
Add back:	
Depreciation (3 mini-buses x 10,000 each)	30,000
Profit excluding depreciation and before Capital Allowance	126,000
Less: Capital Allowance (30% x GH¢105,000 x 3) – Note 3	<u>(94,500)</u>
Income from Business	<u>31,500</u>

Note 3: No capping of Class 2 Motor Vehicle cost to GH¢75,000 for capital allowance as the minibus is commercial and carried 13+ passengers.

(8 marks evenly spread using ticks)

- ii) As a resident taxpayer, Selorm's chargeable income of **GH¢123,540** will be subject to tax using the graduated scale below:

Band	GH¢	Rate	Tax (GH¢)
First	5,880	0%	-
Next	1,320	5%	66
Next	1,560	10%	156
Next	38,000	17.50%	6,650
Remaining	76,780	25%	19,195
Total	123,540		26,067

Selorm's personal income tax liability is GH¢26,067

(2 marks)

- b) **REALISATION** (Section 38 of the Income Tax Act 2015, Act 896 as amended)

A person who owns an asset realises the asset,

1. If that person **part with the ownership of that asset**, including when that asset is sold, exchanged, transferred, distributed, redeemed, destroyed, lost, expired or surrendered;
2. In the case of an asset of a person who ceases to exist, including by reason of death, immediately before that person ceased to exist;
3. In the case of an asset other than trading stock or a depreciable asset, if the sum of the consideration received by that person from the sale of the asset exceeds the cost of that asset;
4. In the case of an asset that is a debt claim owned by a person other than a financial institution, if that person
 - a. Reasonably believes that the debt claim will not be satisfied;
 - b. Has taken reasonable steps in pursuing the debt claim; and
5. If that person uses trading stock, a depreciable asset, a capital asset of a business or an investment asset in a way that changes original characterisation of that asset; or
6. Where the underlying ownership of an entity changes by more than fifty percent at any time within a period of three years, the assets and liabilities of that entity immediately before the change is deemed to be realised.
7. Where a person resident in the country ceases to be resident, an asset owned by that person immediately before that person became non-resident is considered as realised by that person on the date the person became non-resident and here the market value of the asset at the time of realisation will be deemed to be the consideration.

The above does not apply to the realisation of an asset accruing to or derived by a company arising out of a merger, amalgamation or re-organization of the company where there is continuity of underlying ownership of the asset of at least fifty percent.

(2 valid points for 2 marks)

c)

i) Computation of Capital Gain

A: Commercial Property

	GH¢	GH¢
Consideration Received		1,000,000
Less: Cost		
Cost of Property	450,000	
Structural Extension	150,000	
Legal & Agency Fee	20,000	<u>620,000</u>
Capital Gain		<u>380,000</u>

B: Bonsa Limited (Listed)

Computation total cost of shares before sale

Date	Details	Shares	Price	GH¢
03/01/21	Purchase of shares	1,800	5.50	9,900
01/01/24	Bonus issue (1/4 x 1,800)	<u>450</u>		<u>0</u>
		2,250		9,900
20/05/24	Sale of shares	<u>(2,000)</u>		
	Unsold shares	<u>250</u>		

$$\text{Cost of Shares Sold} = \frac{\text{A} \times \text{C}}{(\text{A} + \text{B})}$$

Where:

A = Consideration Received

B = Market value of the unsold shares

C = Total Cost of Shares before sale

$$\begin{aligned} \text{Cost of Shares Sold} &= \frac{16,000 \times 9,900}{(16,000 + 2,000)} \\ &= \text{GH¢}8,800 \end{aligned}$$

Computation of Capital Gain	GH¢	GH¢
Consideration Received		16,000
Less: Cost		
Cost of shares sold	8,800	
Commission on sale	<u>240</u>	<u>9,040</u>
Capital Gain		<u>6,960</u>

C: Atropo Breweries Limited Shares

Computation total cost of shares before sale

Date	Details	Shares	Price	GH¢
31/07/08	Purchase of shares	2,500	4.00	10,000
01/10/08	Right issue (1/5 x 2,500)	<u>500</u>	2.50	<u>1,250</u>
		3,000		11,250
20/05/24	Sale of shares	<u>(1,500)</u>		
	Unsold shares	<u>1,500</u>		

$$\text{Cost of Shares Sold} = \frac{10,500}{(10,500 + 10,500)} \times 11,250$$

$$= \text{GH¢}5,625$$

Computation of Capital Gain	GH¢	GH¢
Consideration Received		10,500.00
Less: Cost		
Cost of shares sold	5,625.00	
Commission on sale	<u>157.50</u>	<u>5,782.50</u>
Capital Gain		<u>4,717.50</u>

(6 marks evenly spread using ticks)

COMPUTATION OF CAPITAL GAIN TAX PAYABLE

Asset	Gain GH¢	Tax Rate	Tax Payable GH¢
Commercial Property	380,000.00	25%	95,000.00
Bonsa Ltd Shares	6,960.00	Exempt	-
Atropo Breweries Ltd Shares	4,717.50	25%	<u>1,179.38</u>
Total			<u>96,179.38</u>

(2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question was in three parts. The first part was on the computation of tax liability of an employee who also started a transport business for 10 marks. Though it tested candidates on the taxation principles of computing employment and business income, candidates had to be on top of the principles to be able to maximize the marks. Most candidates did not know that the accommodation benefit was exempt since he was working with a Mining company and was accommodated at the mines site. The clothing allowance was also not added to the cash emolument since it was to replace his safety clothing (uniform – not suitable for wearing outside his work).

The second part was on capital gain and tested a lot of principles on the subject which candidates did not come to terms with. For instance, the effect of bonus and right issue on the cost of investment in the shares was not well done. The computation of the cost of shares where there is a piecemeal realization eluded almost all candidates. On the whole, it was a below average performance.

QUESTION FOUR

a)

i) **Nnowa LTD**

Determination of Chargeable Income and Tax Payable for the 2024 Year of Assessment:

	GH¢	GH¢
Loss before Tax		(700,000)
Add Back:		
Depreciation	25,000	
Facilitation of Customs Procedures	300,000	
Cost of New Billboard	450,000	
Cost of Birthday Celebration of Managing Director	350,000	
Sponsorship of Needy and Brilliant Girl Students	<u>250,000</u>	<u>1,375,000</u>
Adjusted Profit		675,000
Less: Capital Allowance		<u>(102,000)</u>
Chargeable Income		<u>573,000</u>
 Corporate Income Tax Payable at 8% (Export of Non-Traditional Goods)		 45,840.00

WK1. Determination of Allowable Finance Cost:

	GH¢	GH¢
Loss before Tax		(700,000)
Add Back:		
Depreciation	25,000	
Facilitation of Customs Procedures	300,000	
Cost of New Billboard	450,000	
Cost of Birthday Celebration of Managing Director	350,000	
Sponsorship of Needy and Brilliant Girl Students	<u>250,000</u>	<u>1,375,000</u>
Adjusted Profit		675,000
Less: Capital Allowance		<u>(102,000)</u>
Chargeable Income		573,000
Add: Finance Cost		<u>1,300,000</u>
		1,873,000
Less: Financial Gain		<u>1,200,000</u>
Chargeable Income after adjusting for Financial Gain and Finance Cost		<u>673,000</u>

Allowable Finance Cost = Financial Gain + 50% of the Adjusted Chargeable Income
 $= 1,200,000 + (50\% \times 673,000) = 1,200,000.00 + 336,500.$

Allowable Finance Cost = GH¢1,536,500.00 is lower than the finance cost of GH¢1,300,000.00 charged against profit.

Therefore, the whole Finance Cost of GH¢1,300,000.00 is an allowable deduction. There will be no finance cost restriction.

(12 marks evenly spread using ticks)

ii) Deductions not allowed against income for chargeable income determination under the Income Tax Act, 2015 (Act 896)

- 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)(a)(vi);
- Dividends of a company; and
- Depreciation of a fixed asset. [Insertion by Act 924]

(3 valid points for 3 marks)

b)

Type of Relief (Amount)	Eligibility / Notes
Dependent Spouse/ Children Relief (GH¢1,200 per annum)	For a resident individual who maintains a spouse or at least two children.
Disability Relief (25% of income)	For individuals with disabilities earning income from employment or business.
Old Age Relief (GH¢1,500 per annum)	For individuals aged 60 years or above.
Professional/Vocational/Technical Educational Relief (GH¢2,000 per annum)	For individuals undertaking professional, technical, or vocational training.
Aged Dependent Relief (GH¢1,000 per annum)	For aged relatives who are 60 years and above. For a maximum of two aged relatives.
Social security <ul style="list-style-type: none"> i. Employee ii. Employer 	2010 to date <ul style="list-style-type: none"> 5.5% of basis Salary 13% of basic Salary

iii. Self employed	18.5% of basic salary
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(2 valid points for 2 marks)

c)

- i) **Overtime payments** are generally subject to income tax. However, there is a concessionary tax treatment:

For qualifying junior employees, overtime pay may be taxed at a reduced rate of 5%, provided it does not exceed 50% of the basic salary.

For other/senior staff, overtime is taxed at the standard graduated income tax rates. (1.5 marks)

- ii) **Bonus payments** are also subject to income tax.

A concessionary rate of 5% applies to bonuses up to 15% of the annual basic salary. Any amount exceeding 15% is taxed at the normal graduated rates.

(1.5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question was in three parts. The first part was on the computation of Chargeable Income and Tax Payable by a company and for candidates to determine three domestic and excluded expenditure. Surprisingly, the performance was below average. Most candidates were not aware that the limit to financial cost was tested. They did not recognize that the swap deals as part of revenue and finance cost represent financial gain and financial cost respectively. Almost all candidates did not know what constitute domestic and excluded expenditure as enshrined in the Income Tax Act of 2015 (Act 896) as amended.

They rather thought that their responses were to be derived from the profit statement (including the notes) in the (ai) part of the question and thus stating the examples from there.

Most candidates were able to state the two personal reliefs available to individuals but could not state the respective annual relief amounts. The explanation on the treatment of overtime payments and bonus was below expectation. Most candidates did not know who a qualifying junior employee is when it comes to overtime payments.

QUESTION FIVE

- a) Kpetoi Rural Bank LTD shall within thirty days of the date of entering the contract, give notice to the Commissioner-General in writing of
- The nature of the contract,
 - The likely duration of the contract,
 - The name and postal address of the non-resident person to whom payments under the contract are to be made, and
 - The total sum estimated to be payable under the contract to the non-resident person.

(4 points @1.25 =5 marks)

b) **Conditions to be met for exemption from withholding taxes**

- Register for all tax types liable
- Key persons such as shareholders, directors, employees etc. must have registered for tax and complying with tax responsibilities
- Keep proper records as required by tax laws
- File all tax returns regularly and up to date
- Pay taxes regularly and up to date
- Provide all necessary information requested by the Commissioner-General and as required by law
- Be audited by the Commissioner-General to verify or confirm compliance status.

(5 points for 5 marks)

c)

i) **Mobile money and digital payments**

- Mobile money data reveals transaction flows, spending, undeclared income. This could be used by GRA to profile taxpayers, investigate transactions, and target specific taxpayers.
- Integration with TIN allows GRA to match reported income against actual flows.
- Helps formalise informal merchants accepting mobile money, to widen the tax net and ultimately increase tax revenue.

(2 valid points for 4 marks)

ii) **Blockchain for VAT**

- Transparent, immutable records prevent invoice fraud.
- Real-time matching of input and output VAT claims.
- Enables traceability in supply chains.

(3 marks)

iii) **Resistance points**

- Privacy fears; fear of over-surveillance.
- Mistrust of government misuse.
- Poor digital literacy.
- Data Security risks

Strategies

- Clear laws.
- Transparency reports.
- Stakeholder consultations.
- Taxpayers should know how the tax revenue is put to use.
- Assurance of privacy and data security.

(3 points each @ 0.5 = 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This was the worst attempted question. It was in three parts. Candidates were to state the responsibilities of Kpetoi Rural Bank LTD with respect to the contract it has entered into with Hassan Talaat Holding, a non-resident person. This was a straightforward question but most candidates displayed complete ignorance of the requirement. It presupposes candidates have not been going through the chief examiner's report as part of their preparations.

In the (b) part, candidates were to explain five conditions Dromo LTD must meet to be exempted from withholding tax. The answers provided were also disappointing. Most candidates were rather writing on the payments to which withholding tax does not apply. Candidates are advised to understand the requirements of the question before attempting to offer solution.

The third part was in three bits. It was on application of information technology in taxation. It was also a below average performance. Tuition providers and candidates should realise that these are part of the emerging issues in taxation practice in Ghana and therefore require a lot of attention.