

**MARCH 2026 PROFESSIONAL EXAMINATIONS
PRINCIPLES OF TAXATION (PAPER 2.6)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

EXAMINER'S GENERAL COMMENTS

Candidates demonstrated a reasonable level of preparedness, particularly in questions requiring general application. However, they experienced notable difficulties in responding to questions that were strictly grounded in tax law. Students and tuition providers are therefore encouraged to place greater emphasis on the study of tax laws relevant to the topics outlined in the syllabus in order to minimise the loss of valuable marks in future examinations.

STANDARD OF THE PAPER

The paper was of an appropriate standard for the level. It primarily tested candidates on the basic principles of taxation, aiming to assess their preparedness. The workload required by the questions was consistent with the time and marks available. Overall, an average, adequately prepared candidate would be expected to pass the paper.

PERFORMANCE OF CANDIDATES

With the exception of Question Four, the overall performance of candidates across the centres was highly commendable, as reflected in the pass rate. Approximately 53 percent of candidates passed the paper. The performance could have been better had candidates demonstrated greater proficiency in questions that tested specific tax legislation. Given that taxation is fundamentally a creature of legislation, candidates are unlikely to perform satisfactorily in questions requiring the application of relevant tax laws and regulations without a sound and comprehensive understanding of these provisions.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

Candidates demonstrated considerable strengths, particularly in Questions One, Five and Three, in descending order of performance, across all centres. Candidates performed relatively well on questions that did not require the application of relevant tax laws.

However, it was observed that candidates experienced difficulties where questions tested their knowledge and application of tax laws. This largely accounted for the rather disappointing performance in Question Four in particular, where less than two percent of candidates obtained a pass mark. Candidates appeared not to be sufficiently conversant with areas such as the treatment of repairs and improvements, foreign exchange losses, tax reliefs and capital allowances.

Furthermore, candidates lost marks in Question Two in relation to the computation of eligible duty drawbacks, the manner in which the bonded warehousing regime can assist in managing excise liability, activities that do not qualify as the supply of goods or services under the VAT law, and common ethical dilemmas.

QUESTION ONE

- a) A budget deficit occurs when a government's expenditures exceed its revenues in a given fiscal period, often requiring deficit financing to bridge the gap. Deficit financing refers to the methods governments employ, such as borrowing, printing money or drawing down reserves to fund expenditures that surpass income.

Required:

Explain **FOUR** causes of budget deficit.

(4 marks)

- b) A taxpayer is an individual or organisation legally obliged to pay taxes to a government authority. In fulfilling their obligations, taxpayers are also entitled to certain rights.

Required:

Explain **THREE** *rights* and **THREE** *obligations* of taxpayers.

(6 marks)

- c) A Taxpayer Identification Number (TIN) is a unique identifier assigned to individuals and entities for tax purposes. These numbers are used by tax authorities to track tax obligations and payments, as well as to process tax returns and other documents related to taxation.

Required:

Identify **SEVEN** activities that require TIN to engage in.

(7 marks)

- d) A Tax Clearance Certificate is an official document issued by a tax authority confirming that an individual or entity has fulfilled their tax obligations up to a specific date. It serves as a vital instrument to demonstrate good financial standing and compliance with tax laws, both for individuals and for organisations.

The Commissioner-General may, where the Commissioner-General considers appropriate, by notice in writing, cancel a Tax Clearance Certificate issued.

Required:

State **THREE** circumstances under which the Commissioner-General may cancel a Tax Clearance Certificate.

(3 marks)

(Total: 20 marks)

QUESTION TWO

- a) Agbavitor Beverages LTD manufactures carbonated drinks and is subject to excise duty in Ghana.

The following information relates to the month of May 2025:

- Total production: 50,000 litres
- Ex-factory price: GH¢12 per litre
- Excise duty rate: 17.5% of ex-factory price
- 5,000 litres are exported (eligible for duty drawback)
- The company paid excise duty on all production upfront.

Required:

- i) Compute the total excise duty payable for May 2025. **(5 marks)**
ii) Compute the eligible duty drawback on exports. **(3 marks)**
iii) Explain how the bonded warehousing regime can help manage excise liability. **(2 marks)**

- b) A taxable supply refers to the supply of goods or services rendered by a taxable person for consideration, excluding exempt supplies, during, or as part of, the taxable activities undertaken by that person.

Required:

Identify **THREE** types of activities that do not qualify as supply of goods or services. **(3 marks)**

- c) One notable initiative introduced by the Ghana Revenue Authority is the Withholding Value Added Tax (VAT) Scheme, designed to strengthen tax compliance mechanisms.

Required:

State **TWO** objectives of the Withholding VAT Scheme. **(2 marks)**

- d) Taxation is a fundamental pillar of any functional society, enabling governments to provide public services, infrastructure and social safety nets. Yet, the calculation, declaration and payment of taxes often present individuals and organisations with complex ethical dilemmas. The line between legal tax planning and unethical tax avoidance is frequently blurred and societal expectations may conflict with the strict letter of the law.

Required:

Identify **FOUR** common ethical dilemmas in tax administration. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

- a) Abena Mansa, a 40-year-old Ghanaian entrepreneur, took up a role as a Strategy Consultant at Adwene LTD in January 2025. She also operates a sole proprietorship business, Mansa Digital Hub, which provides digital marketing services.

Employment Income (Adwene LTD)

Abena's contract with Adwene LTD includes the following:

- Monthly salary: GH¢15,000 from January to December 2025.
- Accommodation: GH¢3,000 per month, paid directly to her bank account by the Company.
- Fuel: She is provided with fuel coupons worth GH¢400 each month.
- Clothing allowance: GH¢4,000, paid in December 2025.
- She makes a 5% voluntary contribution to a registered provident fund.

Business Activities (Mansa Digital Hub)

For the 2025 year of assessment, the business reported a net profit of GH¢100,000.

The following items were included in arriving at this profit:

- Depreciation of GH¢20,000 on a Toyota Camry Saloon Car, purchased for GH¢120,000 and used exclusively for business purposes. Mansa Digital Hub has not yet claimed capital allowance on the vehicle, which is the only asset in the business.
- Foreign exchange loss of GH¢10,000, comprising:
 - ✓ GH¢6,000 on an unpaid invoice denominated in US Dollars for a contract with Gari LTD, a Ghanaian resident company.
 - ✓ GH¢4,000 resulting from the translation of a US Dollar bank account balance held with P&G Bank Ghana LTD, a Ghana-based commercial bank. As at 31 December 2025, these US Dollars had been fully spent from her bank account.
- Provision for doubtful debts is GH¢5,000.

Abena is widowed with two children enrolled in a government-approved school. She also provides care and financial support to her father, who turned 70 years old in 2025.

Required:

- i) Calculate Abena's **Chargeable Income** for the 2025 year of assessment, clearly showing adjustments to her business income. **(7 marks)**
- ii) Calculate Abena's **Personal Income Tax Liability** for the 2025 year of assessment. **(2 marks)**
- iii) Calculate Abena's **Outstanding Tax Liability**, assuming Adwene LTD paid GH¢50,000 in PAYE and Mansa Digital Hub received Withholding Tax Credit Certificates of GH¢6,904. **(1 mark)**

- b) In the year 2024, Kofi Bule, a resident individual in Ghana disposed of two capital assets.

Commercial Property:

On 15 March 2024, he sold a commercial property located in Kumasi for GH¢950,000. He had originally purchased the property on 10 June 2017 for GH¢500,000. However, on 5 August 2021, he carried out structural improvements to the building, converting part of it into rentable office space at a cost of GH¢200,000. Upon selling the property, he incurred GH¢25,000 in legal and agency fees. The Net Book Value of the property at the time of disposal was GH¢400,000.

Shares in Takyi LTD:

On 20 October 2024, Kofi sold 12,000 shares in Takyi LTD for GH¢180,000. He had initially acquired 10,000 shares on 12 May 2019 at a cost of GH¢100,000. On 1 March 2021, he was offered a rights issue of 1 share for every 4 held, which he fully subscribed to at GH¢6 per share. He paid 2% of sale proceeds as brokerage fees at the time of sale.

Required:

- i) Calculate Kofi's *capital gain* realised on each asset. **(6 marks)**
- ii) Determine the total *capital gains tax payable* by Kofi for the 2024 year of assessment, on the basis that Takyi LTD is a/an:
- Listed company on the Ghana Stock Exchange. **(1 mark)**
 - Unlisted private limited liability company. **(1 mark)**
- iii) Explain the circumstances under which an asset is deemed to be "realised" for tax purposes under Ghanaian tax law. In your answer, refer to at least **TWO** different scenarios that may trigger a realisation event. **(2 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) Eastern Ceramics LTD is a ceramic manufacturing company located in Begoro in the Eastern Region. The company manufactures ceramic products for sale in Ghana.

The company submitted its annual tax returns for the year ending 31 December, 2025 to the Koforidua Taxpayer Service Center.

Extracts from the company's financial statements for year 2025 are shown below:

Details	Notes	GH¢	GH¢
Sales			12,794,000
Cost of sales	1		(944,000)
			11,850,000
Other income	2		203,000
			12,053,000
Less expenses			
Miscellaneous expenses		502,000	
Depreciation		232,000	
Fuel and transport expenses		450,000	
Repairs and improvement:	3		
Manufacturing plant		260,000	
Motor vehicles		103,000	
Audit fees		50,000	1,597,000
Profit before tax			10,456,000
Provision for taxation			1,306,500
Profit after tax			9,149,500

You are a Tax Intern at the Koforidua Taxpayer Service Center and the return has been given to you for a desk review along with the following information:

- 1) Cost of sales was overstated by GH¢52,000.
- 2) Other income include interest earned from bonds issued by the Government of Ghana amounting to GH¢102,000.
- 3) Repair and improvement of manufacturing plant was overstated by GH¢25,000.

Details of the fixed assets are given below:

- Written down values:
Manufacturing plant - GH¢1,040,000.
Motor Vehicle - GH¢725,000.
 - Additions to fixed assets in the year:
Manufacturing plant - GH¢512,000.
Saloon car for the official use of the General Manager - GH¢350,000.
- 4) The company paid an amount of GH¢150,000 from its quarterly self-assessment.

Required:

- i) Compute the *Chargeable Income* of Eastern Ceramics LTD for the 2025 year of assessment. **(12 marks)**
 - ii) Compute the *Tax Payable* and *Tax Outstanding* of Eastern Ceramics LTD for the 2025 year of assessment. **(3 marks)**
- b) Explain the *tax treatment* of the following:
- i) Foreign exchange loss
 - ii) Provision for doubtful debts
 - iii) Employer-provided accommodation

(5 marks)

(Total: 20 marks)

QUESTION FIVE

- a) Tumpan Company LTD supplied 32,000 bags of cement to Yahuza Construction Company LTD costing GH¢3,360,000. The withholding tax on the transaction was GH¢100,800. However, Yahuza Construction Company LTD inadvertently withheld an amount of GH¢200,800 as withholding tax when making payment to Tumpan Company LTD and the tax withheld was paid to the Ghana Revenue Authority (GRA). Yahuza Construction Company LTD was issued a withholding tax certificate on the transaction in favour of Tumpan Company LTD amounting to GH¢200,800.

The Managing Directors of the two companies have approached you as a student studying taxation at Institute of Chartered Accountants, Ghana for advice as to which of the companies has the right to apply for the refund of the tax overpaid and how to go about the refund application to be successful.

Required:

- i) Justify which of the two companies should apply for refund and how to successfully get the refund from GRA. **(6 marks)**
 - ii) Explain **TWO** benefits of the withholding tax system to the tax payer. **(2 marks)**
 - iii) List **FOUR** investment incomes that are subject to withholding tax. **(2 marks)**
- b) You are a Manager in charge of Tax Technology and Innovation at Kwabota Ghana LTD, a firm advising large manufacturing companies in Tema and Takoradi. Many of your clients have recently faced challenges integrating e-invoicing solutions into their legacy ERP systems. The Ministry of Finance is also piloting a national e-Tax Portal upgrade, which will link electronic tax accounts directly with banking systems and the GRA.

Required:

- i) Identify **TWO** risks to taxpayers and the GRA if the existing systems are not adequately integrated with new e-invoicing and e-tax account frameworks. **(3 marks)**

ii) State **THREE** ways tax practitioners can assist clients during the transition from existing systems to the new e-invoicing and e-tax frameworks. **(3 marks)**

iii) Suggest **TWO** measures that GRA should adopt to improve taxpayer confidence in its digital systems. **(4 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) **The Causes of budget deficit include amongst others the following:**

- **During a Period of Depression:** Budget deficit assume greater importance when there is the need to recover after a major depression or to reduce the severity of the business cycle. This happens when there is the realisation that private sector activities as well as traditional monetary policies prove inadequate in restoring economic stability. When economic activities are declining or stagnant budget deficit may replace deficiency in aggregate demand by injecting funds and providing the necessary stimulant for reducing under-utilisation of resources and increase the deployment of labour and capital through additional spending to finance the budget deficit.
- **During Wars:** Governments try to raise additional resources to finance tribal conflicts during tribal wars. This may however have negative effects on inflation etc.
- **During a Process of Economic Development:** Usually in developing countries budget deficit is applied to cater for the meagre voluntary investment in order to progress rapid development to do away with the vicious circle of poverty (low savings, low investment, low income, etc.).
- **Ineffective Financial Management:** Since budgetary projects in developing countries are not reliable, management also tend to be ineffective and this leads to demand for loans, grants and aid to finance ineffective programmes.
- **Weak Expenditure Control and Monitoring:** The annual accounts are usually in arrears in such a way that year by year comparison is difficult. Besides the unpredictable economic and social environment, government may incur expenditure outside the budget which necessitates the inflow of budget expenditure in excess of expected revenue.
- **Low Revenue Mobilization:** The revenue or tax net does not encapsulate all taxable enterprises and individuals. Revenue from taxes therefore tends to be less than what is needed for payments of goods and services and other government current financial obligations.
- **Unexpected Crises:** Emergency spending on events like pandemics, natural disasters or wars, which can sharply increase expenditures.
- **Political Pressure:** Politicians make electioneering promises which have not been budgeted for. When political pressure becomes unbearable, there are attempts to implement policies (not budgeted for) in order to earn political integrity. These create extra burden needing extra funds to finance outside the budget.

(4 relevant points @ 1 marks each = 4 marks)

b)

Taxpayer rights

- **Right to Privacy:** Taxpayers have the right to expect that their financial and personal information will remain confidential and only be used for legitimate tax purposes. This builds trust in the tax system.
- **Right to Information:** Taxpayers have the right to be informed about their responsibilities, tax laws, and any changes affecting their obligations. Clear information helps ensure compliance and reduces errors.
- **Right to Appeal:** If a taxpayer disagrees with a tax assessment or decision, they have the right to appeal or seek a review. This ensures fairness and accountability within the taxation process.
- **Fairness:** Right to pay no more than the correct amount of tax.
- **Refunds:** Right to claim refunds for overpaid taxes.
- **Proper Identification:** Right to verify the identity of tax officials.

(Any 3 valid points for 3 marks)

Taxpayer obligations

- **Obligation to File Returns Accurately:** It is the taxpayer's duty to file tax returns honestly and on time, declaring all income and claiming only legitimate deductions. Accuracy ensures correct assessment and strengthens the integrity of the system.
- **Obligation to Pay Taxes Promptly:** Taxpayers are required to pay all taxes due by the prescribed deadlines. Timely payments help the government function smoothly and fund public services.
- **Obligation to keep records.** It is the taxpayer's duty to maintain accurate records of all business transactions, including receipts, payments, assets and liabilities for at least six years.
- **Notification:** Informing the tax authority of any material changes in business.

(Any 3 valid points for 3 marks)

(6 marks in all)

c) Activities that require TIN

A person shall not be permitted to do any of the following unless that person quotes the Taxpayer Identification Number issued in respect of that person under the System.

- To clear any goods from any port or factory,
- To register any title to land, interest in land or any document affecting land,
- To obtain any Tax Clearance Certificate from the Ghana Revenue Authority,
- To obtain a certificate to commence business or a business permit issued by the Registrar-General or a Local Authority,
- To register a co-operative,
- To receive payment from the Controller and Accountant- General or a Local Government Authority in respect of a contract for the supply of any goods or provision of any services,

- To receive a payment subject to withholding under the Income Tax Act, 2015, (Act 896)
- or
- To conduct any official business with the institutions and persons indicated below:
 - ✓ the Ghana Revenue Authority;
 - ✓ the Controller and Accountant General's Department;
 - ✓ the Registrar General's Department;
 - ✓ the Registrar of Co-operatives;
 - ✓ the Land Title Registry;
 - ✓ the Immigration Service
 - ✓ the Passport Office
 - ✓ the Driver and Vehicle Licensing Authority
 - ✓ the Courts;
 - ✓ Ministries, Departments and Agencies;
 - ✓ Metropolitan, Municipal and District Assemblies;

(7 relevant points @ 1 mark = 7 marks)

- d) The Commissioner-General may, where the Commissioner-General considers appropriate, by notice in writing, cancel a Tax Clearance Certificate issued to a person if:
- The person identified in the Taxpayer Identification Number Certificate or Tax Clearance Certificate is fictitious;
 - The person identified in the Tax Clearance Certificate does not accurately reflect the true identity of the person to whom the certificate was issued; or
 - The person to whom the Taxpayer Identification Number Certificate or Tax Clearance Certificate was issued has another Taxpayer Identification Number Certificate or Tax Clearance Certificate.

(3 relevant points @ 1 mark each = 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

Question One consisted of four parts and was the best-attempted question overall. In the first part, candidates were required to explain four causes of budget deficits. The second part asked for three rights and three obligations of taxpayers. Both parts were straightforward and well answered. The third part required candidates to identify seven activities that necessitate a Tax Identification Number (TIN), carrying seven marks. This was also very clear, and candidates performed well. The final part asked candidates to state three circumstances under which the Commissioner-General may cancel a tax clearance certificate. This part was less familiar to candidates and was the only section that posed some difficulty. Overall, Question One significantly contributed to the success of the candidates.

QUESTION TWO

a)

i)

Total Excise Duty Payable:

Total production:	50,000 litres
Ex-factory price:	GH¢12 per litre
Total Ex-Factory Value:	50,000 litres * GH¢12 = GH¢600,000
Duty Payable	17.5% * 600,000 = GH¢105,000

(5 marks)

ii) **Duty Drawback on Exports:**

Quantity Due:	5,000 litres / 50,000 litres = 10%
Eligible Duty Drawback:	10% * 105,000 = GH¢10,500

(3 marks)

iii) The bonded warehousing regime allows a manufacturer or importer to store excisable goods in a designated bonded warehouse without paying excise duty upfront. Payment of excise duty is deferred until the goods are released for domestic consumption. This provides significant cash flow benefits by spreading out tax payments. It also encourages exports, as goods that are eventually exported can be removed from the warehouse duty-free, avoiding unnecessary upfront tax payments on goods not consumed locally.

(2 marks)

b) **Activities that do not constitute supply of goods or services**

- Supply of goods does not include the supply of money.
- The transfer of goods to a person acting in a representative capacity to the transferor is not a supply of goods.
- A supply of services by an employee to an employer by reason of the employment of that employee is not a supply of services for Value Added Tax purposes.

(3 relevant points for 3 marks)

c) **The objectives of the Withholding VAT Scheme**

- Reduces the number of nil and non-filers. With this level of surveillance and monitoring, nil and non-filers will stop the deception.
- Reduces future uncollectible debts by collecting the tax upfront from some of the major consumers.
- Increases voluntary registration. Taxpayers, knowing they are being monitored, would voluntarily comply with the obligation under the law.
- Improves revenue flows to the government. Government can raise revenue through this medium that promotes compliance
- Enhances compliance, generally. This scheme has brought in its wake general compliance among taxpayers.

- Promotes fair application of the tax laws.

(2 relevant points for 2 marks)

d) **Common Ethical Dilemmas in Tax Situations**

Exploiting Loopholes Versus Spirit of the Law

Many tax laws contain ambiguities or unintended opportunities for reducing tax liability. An ethical dilemma arises when taxpayers or their advisors identify legal ways to reduce taxes that contravene the spirit or intent of the law. For instance, should a taxpayer use aggressive tax planning strategies that deprive the government of revenue, even if such methods are technically legal?

Underreporting Income or Overstating Deductions

A classic ethical conflict occurs when individuals face the temptation to underreport income or exaggerate deductions. While the law is clear, the ethical dilemma revolves around personal integrity and honesty versus the perceived benefit of paying less tax.

Aggressive Tax Planning by Advisors

Tax professionals may advise clients on aggressive tax strategies that comply with the law but push ethical boundaries. The dilemma is whether their primary duty is to their client, to the public interest, or to the tax system.

Tax Incentives and Fairness

Governments frequently use tax incentives to encourage certain behaviours or investments. An ethical dilemma can emerge when such incentives overwhelmingly benefit the wealthy or certain industries, raising questions of equity and justice.

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

(Total: 20 marks)

CHIEF EXAMINER'S COMMENT

Candidates were required to compute the total excise duty payable for 5 marks. This was generally well done. However, the computation of the eligible duty drawback on exports for 3 marks showed only average performance, as many candidates were unfamiliar with the term "duty drawback," which affected their ability to perform the computation.

Candidates were to also explain how the bonded warehousing regime can help manage excise liability for two marks. This was poorly executed. In the part c, candidates were to state two objectives of the Withholding VAT Scheme for two marks. A familiar question which was were answered. Candidates were also to identify four common ethical dilemmas in tax administration for five marks. Most candidates did not understand the import of the question. On the whole more than half of the candidates scored below 10 marks out of the 20 marks.

QUESTION THREE

a)

i)

ABENA MANSA

COMPUTATION OF CHARGEABLE INCOME FOR THE 2025 Y/A

01/01/2025 - 31/12/2025

	GH¢	GH¢
Annual Salary (GH¢15,000 x 12)		180,000
Accommodation Allowance (GH¢3,000 x 12)		36,000
Clothing Allowance		<u>4,000</u>
Total Cash Emolument (TCE)		220,000

Add: Benefit-in-Kind:

Fuel coupon (GH¢400 x 12)		<u>4,800</u>
Income from Employment		224,800

Add: Income from Business (W1) 108,500

Total Income **333,300**

Less: Reliefs/Deductions:

Dependent Children	1,200	
Abena's Provident Fund Contribution (5% x GH¢180,000)	9,000	
Child Education (2 children @ GH¢600 each)	1,200	
Old Age Dependent Relative Relief (1 x GH¢1,000)	1,000	
		<u>(12,400)</u>

Chargeable Income **320,900**

W1. Business Income:

	GH¢	GH¢
Profit from Business (Mansa Digital Hub)		100,000

Add back:

Depreciation	20,000	
Foreign Exchange Loss - Gari LTD debt (unrealised - non-deductible)	6,000	
Foreign Exchange Loss - USD Bank Balance (realised - deductible)	-	
Provision for doubtful debt	5,000	31,000
Adjusted Profit excluding depreciation and before Capital Allowance		131,000

Less: Capital Allowance (30% x Capped Cost
of GH¢75,000) - refer to Note 1 (22,500)

Income from Business 108,500

Note 1: Capital Allowance will be granted on the capped cost of GH¢75,000 (Class 2 - Motor Vehicle) and not the full GH¢120,000.

(7 marks)

ii) **Abena's personal income tax liability for the 2025 year of assessment**

Band	GH¢	Rate	Tax (GH¢)
First	5,880.00	0%	-
Next	1,320.00	5%	66.00
Next	1,560.00	10%	156.00
Next	38,000.00	17.5%	6,650.00
Next	192,000.00	25.0%	48,000.00
Remaining	82,140.00	30%	24,642.00
Total	320,900.00		79,514.00

Hence, Abena's personal income tax liability for the 2024 year of assessment is **GH¢79,514**

(2 marks)

iii) **Abena's outstanding tax liability for the 2025 year of assessment**

Outstanding Tax Liability = Total Tax Liability - Tax Paid (On-account payments)

	GH¢	GH¢
Tax liability for the year		79,514.00
Less: Payment on Account:		
- PAYE filings	50,000.00	
- Withholding Tax Credit Certificates	6,904.00	(56,904.00)
		22,610.00

(4 ticks for 1 mark)

b)

i) **Kofi Bule's capital gain realised on each asset**

Capital Gain = Sales Proceeds - Cost

Capital gains on disposal of commercial property

	GH¢	GH¢
Sale proceeds		950,000
Less: Legal and agency fees		25,000
Net sales proceeds		925,000
Less: Costs:		

Original acquisition cost	500,000	
Enhancement cost	200,000	700,000
Net Gain on disposal		225,000

Note: The Net Book Value of GH¢400,000 is irrelevant on assessment of capital gains.

Capital gains on disposal of Takyi LTD shares:

	GH¢	GH¢
Sale Proceeds (12,000 shares @ GH¢15 each)		180,000
Less: Brokerage fee (2% x GH¢180,000)		3,600
Net Sales Proceeds		176,400
Less: Cost of 12,000 shares sold (W1)		110,400
Net Gain on disposal		66,000

W1: Cost of 12,000 shares sold

Transaction	Date	No. of Shares	Share Price (GH¢)	Value (GH¢)
Purchase of Shares	5/12/2019	10000	10	100,000
1-for-4 Right Issue (1/4 x 10000 shares @ GH¢6 each)	3/1/2021	2500	6	15,000
		12500		115,000
Disposal of shares	10/20/2024	12000		110,400
Unsold shares		500		4,600

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

$$\text{Cost of Shares Sold} = \frac{180,000}{180,000+7,500} \times 115,000 = 110,400$$

Where:

A: Consideration received or sum realised (for all 12,000 shares) = GH¢180,000.

B: Market value of unsold shares (500 shares @ GH¢15 each) = GH¢7,500.

C: Cost of Shares before disposal (That is, cost of all 12,500 shares) = GH¢115,000.

(12 ticks @ 0.5 = 6 marks)

ii) **Kofi Bule’s capital gains tax payable for the 2024 year of assessment on the basis that:**

- **Takyi LTD is listed on the Ghana Stock Exchange**

Total Capital Gains for the year:	Capital Gains (CG)	CGT Rate (%)	CGT (GH¢)
Gain from sales of commercial property	225,000	15%	33,750
Gain from Takyi LTD shares (exempt) - Refer to Note 1.	66,000	Exempt	-
Total	291,000		33,750

(1 mark)

Note 1: Gains on disposal of shares listed on the Ghana Stock Exchange are exempt from CGT.

- **Takyi LTD is not a listed company**

Total Capital Gains for the year:	Capital Gains (CG)	CGT Rate (%)	CGT (GH¢)
Gain from sales of commercial property	225,000	15%	33,750
Gain from Takyi LTD shares	66,000	15%	9,900
TOTAL	291,000		43,650.00

(1 mark)

iii)

(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 surrender;
- 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

- a. 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.
- b. 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.

(Any 2 relevant points for 2 marks)

(Total: 20 marks)

CHIEF EXAMINER'S COMMENT

The computation of Abena Mansa's chargeable income and tax liability from both employment and business income (total 10 marks) was of average performance. Most candidates were unfamiliar with the treatment of foreign exchange losses and failed to restrict the cost of the saloon car to GH¢75,000, as it was not a commercial vehicle. Although Abena is a widow, she qualified for dependent spouse relief because she has two children who rely on her. As a result, virtually no candidates arrived at the exact figures for the chargeable income and tax liability.

The computation of capital gains and the capital gains tax payable under various scenarios showed slightly above-average performance. Candidates are advised to revise the method for determining the cost of sale in cases involving piecemeal realization of assets, as this concept continues to challenge many.

QUESTION FOUR

a)

i)

EASTERN CERAMICS LIMITED

COMPUTATION OF CHARGEABLE INCOME FOR THE 2025 Y/A

01/01/2025 - 31/12/2025

	GH¢	GH¢
Profit before Tax		10,456,000.00
Less:		
Interest on GOG Bonds		<u>102,000.00</u>
		10,354,000.00
Add back:		
Overstated Cost of sales	52,000.00	
Depreciation	232,000.00	
Overstated repairs & improvement in Manu. Plant	25,000.00	
Disallowable Repairs & Improvement	<u>276,225.00</u>	<u>585,225.00</u>
Adjusted Profit		10,939,225.00
Less Capital Allowance		<u>788,467.50</u>
Assessable Income from the Business		10,150,757.50
Add Interest on GOG Interest on Bonds		<u>102,000.00</u>
Chargeable Income		<u>10,252,757.50</u>

Workings

1) Allowable and Disallowable Repairs and Improvement

	POOL 2 (30%)
	GH¢
Written Down Value at start	1,765,000
Capital Allowance (.3 x 1,765,000)	<u>529,500</u>
Written Down Value at end	1,235,500
Allowable Repairs & Improvement (5% x 1,235,500)	61,775
Total Repairs & Improvement	<u>338,000</u>
Disallowable Repairs & Improvement	<u>276,225</u>

2) COMPUTATION OF CAPITAL ALLOWANCE FOR 2025 Y/A
01/01/2025 - 31/12/2025

	POOL 2 (30%) GH¢
Written Down Value b/f	1,765,000.00
Additions (276,225 +512,000, + 75,000)	<u>863,225.00</u>
	2,628,225.00
 Capital Allowance (30% x 2,628,225)	 <u>(788,467.50)</u>
Written Down Value c/f	<u>1,839,757.50</u>

(24 ticks @ 0.5 = 12 marks)

ii)

EASTERN CERAMICS LIMITED

COMPUTATION OF TAX PAYABLE & TAX OUTSTANDING FOR THE 2025
Y/A 01/01/2025 - 31/12/2025

	GH¢
Chargeable Income	10,252,757.50
Tax thereon @ 25%	2,563,189.38
Less Tax Rebate @ 50%	<u>1,281,594.69</u>
Tax Outstanding	<u>1,281,594.69</u>

6 ticks @ 0.5 = 3 marks)

b)

i) **Foreign exchange loss:** Forex loss is deductible if realised and related to income-generating activities that are revenue in nature and conducted outside Ghana. However, it is not deductible if it is either capital in nature or unrealised (e.g. translation losses or unpaid invoices) and to transactions with resident persons.

ii) **Provision for doubtful debt:** General provision is not deductible for tax purposes. However, specific bad debt written off may be allowable for tax purposes.

iii) **Employer-provided accommodation:** If cash is paid to employee, it is treated as a taxable cash allowance and included in assessable income. However, where the accommodation is made available to the employee for use by the employer, it would be deemed as Benefit-in-Kind. Special conditions are applicable to on-site accommodation provided to employees in industries like mining, farming, upstream petroleum operations, timber, building or construction.

(5 marks)

(Total: 20 marks)

CHIEF EXAMINER'S COMMENT

Candidates were to compute the chargeable income of the manufacturing company located outside the regional capital of Ghana for a total of 15 marks. Some candidates did not know that in adjusting the profit of the company they must start with the profit before tax instead of the profit after tax. Virtually all candidates were not familiar with the treatment of repairs and improvement where the written down value of the pool is rather as at the beginning of the year. Some did not know that both manufacturing plant and motor vehicle are all in Class 2 at the capital allowance rate of 30%. Besides the restriction of the cost of the saloon car to GH¢75,000 reared its ugly head again. Some also ignored or wrongly computed the rebate of the manufacturing company located not in the regional capital (50% tax rebate). Candidates continue to not properly provide headings for their computations. In Part (b) of the question, candidates were to explain the treatment of foreign exchange loss, provision for doubtful debts and employer-provided accommodation for 5 marks. They were not explained to expectation.

QUESTION FIVE

a)

i) Tumpan Company LTD, the payee also known as the Withholdee is entitled to apply for tax overpaid since Yahuza Construction Company LTD withheld the taxes and paid on account for Tumpan Company LTD.

In order to get the refund, Tumpan Company LTD must follow the following steps:

- Apply to the Commissioner-General for the refund within three years from the date of the tax overpayment.
- The application must be in writing and explain how the overpayment has been calculated and attach evidence of the transaction (Invoice) and the withholding tax certificate.
- Prepare for audit/verification of the transaction by the Commissioner-General.
- Provide his bank account where any refund to be paid by the Commissioner-General will be paid into.

(6 marks)

ii) **Benefits of the withholding tax system to taxpayers**

- Improved cash flow management: Taxes are paid incrementally throughout the year, preventing a massive, burdensome tax bill at the end of the fiscal year.
- Simplified tax compliance: The automatic deduction at source reduces the complexity of managing tax payments for employees and suppliers.
- Tax credit system: For non-final taxes, the amount withheld is treated as a payment on account, meaning taxpayers receive credit for the tax already deducted when filing their final tax returns.
- Reduced risk of penalties: Because taxes are deducted automatically, taxpayers are less likely to fall into arrears or face penalties associated with late or non-payment.
- Simplified administration: It removes the need for individual taxpayers to calculate, report, and pay taxes directly to the tax authority for every transaction.

(2 relevant points for 2 marks)

iii) **Investment incomes that are subject to withholding tax**

- Dividend
- Interest
- Natural resource payment
- Rent
- Royalty

(2 relevant points for 2 marks)

b)

i) **Risks if legacy systems are not integrated**

- Data mismatches which will lead to under-reporting or double reporting resulting in penalties.
- Taxpayers face compliance failures if uploads fail.
- GRA may get incomplete data, weakening compliance monitoring.
- Cybersecurity gaps may open if outdated systems interact with new portals.

(2 valid points @ 1.5 marks each = 3 marks)

ii) **Practitioner assistance during transition**

- Advisory on ERP upgrades to meet e-invoicing specifications.
- Training client staff.
- Audit readiness checks.
- Data security consultancy.

(3 valid points @ 1 mark each = 3 marks)

iii) **GRA measures**

- Regular system audits for cybersecurity.
- Taxpayer education on data use and protection.
- Provide dedicated technical support for SMEs.

(2 valid points @ 2 marks each = 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

Overall, this question recorded quite a good performance. Most candidates were able to justify and outline the steps that Tumpun Company LTD should follow when applying for a refund of overpaid tax, even though the over-deduction was made by Yahuza Construction Company, the withholding agent.

Candidates also performed well in identifying two benefits of the withholding tax system and four types of investments subject to withholding tax.

An average performance was observed in parts b(i), b(ii) and b(iii), totalling 10 marks, which focused on the influence of information technology on taxation.

CONCLUSION

Overall, the performance was commendable. Both current and prospective candidates are encouraged to prepare adequately in order to sustain this momentum. In particular, since taxation is a creature of legislation, candidates should not overlook the tax laws and regulations relating to the relevant topics in the syllabus.

Students are further advised to enrol with reliable tuition centres as early as practicable to support their preparations and enhance their mastery of the relevant tax laws. They should also ensure comprehensive coverage of the entire syllabus, given that the examination questions are drawn from across all areas of the syllabus.