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

EXAMINER'S GENERAL COMMENTS

The questions adequately tested candidates' understanding of the fundamental principles of taxation and were clear, straightforward, and well distributed across the syllabus. However, most candidates failed to capitalise on the relatively accessible nature of the paper to attain the pass mark.

A lack of adequate preparation was evident across the paper, particularly in areas requiring knowledge and application of tax legislation. Students and tuition providers are therefore encouraged to place greater emphasis on the study of relevant tax laws to minimise the loss of valuable marks in future examinations.

STANDARD OF THE PAPER

The standard of the paper was consistent with previous examinations and appropriate for the level of the course. It primarily assessed candidates' understanding of the fundamental principles of taxation and their ability to apply these principles to practical tax issues.

Overall, the questions were clear, simple, and straightforward, with appropriate coverage of the syllabus and fair allocation of marks.

The paper was neither overloaded nor ambiguous, and the workload was commensurate with the time allocated. It was also virtually free from typographical errors. Overall, candidates who prepared adequately and had a sound understanding of the syllabus should have been able to complete the paper successfully and achieve a satisfactory performance.

PERFORMANCE OF CANDIDATES

The overall performance across the centres was below average, with only about 35% of candidates passing the paper, a sharp decline from the 53% recorded in the March 2026 examination. The examiner's expectations were therefore not met, largely due to inadequate preparation.

The outcome could have been significantly better with broader and more focused preparation. Candidates should avoid concentrating on familiar topics while neglecting unfamiliar areas of the syllabus. They must also strengthen their ability to apply relevant tax laws and regulations when answering application-based questions. Importantly, candidates should note that tax amendments may be examined six months after their effective date, where they fall within the syllabus. Comprehensive preparation remains the key to improving performance.

NOTABLE STRENGTHS & WEAKNESS OF CANDIDATES

Candidates demonstrated some commendable strengths, particularly in Question One and Sub-question 5(b). However, significant weaknesses were evident in Questions Two and Four, while candidates also failed to secure the expected marks in Question Three. This underperformance can largely be attributed to inadequate preparation across the centres. Overall, the performance fell short of expectations, particularly as most of the questions were clear, straightforward, and within the candidates' expected level of competence.

QUESTION ONE

a) The Ghana Revenue Authority (GRA) is the central body responsible for the administration and collection of taxes and customs duties in Ghana. The Ghana Revenue Authority was established under the Ghana Revenue Authority Act, 2009 (Act 791), which outlines the structure, responsibilities and powers of the Authority and its Board. At the heart of the GRA's leadership and strategic direction is its Board, entrusted with vital governance responsibilities.

Required:

i) Enumerate **FOUR** functions of the Board of GRA. **(4 marks)**

ii) Outline **TWO** functions performed by the Commissioner-General of GRA. **(2 marks)**

iii) Describe **FOUR** circumstances under which the President may suspend the Commissioner-General of GRA. **(4 marks)**

b) The Commissioner-General may, in the circumstances specified in section 28 (3) of the Revenue Administration Act, 2016 (Act 915), make a pre-emptive assessment of tax payable or to become payable by a person under a tax law, whether or not the person is required to file a tax return.

Required:

Explain **FIVE** circumstances under which the Commissioner-General would make a pre-emptive assessment. **(5 marks)**

c) Where the Commissioner-General makes a tax assessment under a tax law, the Commissioner-General shall serve a written notice of the assessment on the taxpayer.

Required:

State **FIVE** elements contained in the Commissioner-General's notice of tax assessment. **(5 marks)**

(Total: 20 marks)

QUESTION TWO

a) Amoaben LTD, an importer of industrial machinery, imports a new crane from Germany. The Free on Board (FOB) cost is €120,000. Insurance and freight to Tema Port cost €10,000 and €5,000 respectively. The exchange rate is €1 = GH¢13.50.

Import duties:

- Customs duty rate: 10% of Cost, Insurance and Freight (CIF)
- Import VAT: 15%
- NHIL: 2.5%
- GETFund Levy: 2.5%
- ECOWAS Levy: 0.5%

Required:

i) Calculate the customs duty payable. **(3 marks)**
ii) Calculate the total import taxes payable. **(7 marks)**
iii) Explain what a customs declaration is, and its role in this scenario. **(2 marks)**

b) Despite the turnover rules stated under section 6 of the Value Added Tax Act, 2025 (Act 1151), there are certain exceptions to the turnover rules under section 7 of the same Act.

Required:

Explain the exceptions to the turnover rules under section 7 of the Value Added Tax Act 2025 (Act 1151). **(3 marks)**

c) Non-compliance with tax payment obligations is a matter of significant concern not only to governments but also to individual taxpayers. Taxes serve as the backbone of public finance, funding essential services such as healthcare, education, infrastructure and social security. When individuals, businesses or other entities fail to meet their tax payment obligations either inadvertently or intentionally, the implications can be far-reaching.

Required:

Explain **TWO** financial implications for not complying with tax payment as a taxpayer. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

a) Adjoa Kyerewaa is a 32-year-old woman who was recently promoted to the position of Senior Human Resource Manager at Atsupi Industries LTD. Her contract states that the effective start date is 1 January 2024, with the following compensation package:

- Basic Salary: GH¢25,000 per month during the probationary period. This amount is expected to increase by 15% after the probation period. She successfully completed her 6-month probationary period with no issues.
- Clothing Allowance: 10% of her annual basic salary, payable in the 12th month.
- She is also provided with a company car with fuel.
- Children's School Fees Support: Atsupi Industries LTD covers 50% of the school fees for her daughter. For the year 2024, the total school fees invoice from Akorabo International School amounted to GH¢20,000. She was duly reimbursed in December 2024.

In addition to contributing to the mandatory pension, Adjoa Kyerewaa contributes 5% of her salary to a provident fund managed by Kasa Trust Co. LTD, a registered fund manager in Ghana.

Until January 2024, her salary from Atsupi Industries LTD was her only source of income. However, leveraging her experience in the human resources field, she registered a consultancy business – KyerewaA Consult – operating as a sole proprietorship. For the year 2024, the business made a profit of GH¢120,000.

In arriving at this profit, the following expenses were considered:

- School Fees: The remaining 50% of her daughter's school fees paid to Akorabo International School.
- Depreciation: Estimated at 20% on the cost of a Kantanka saloon car, which she purchased and branded exclusively for business use. The vehicle was acquired at a cost of GH¢150,000 and put into use in January 2024. She has not yet accounted for capital allowance on this car in her books. This is the only asset in the books of the business.

Adjoa Kyerewaa is currently divorced and has one child, who attends a government-approved school in Ghana. She also provides care and financial support to her elderly mother, who turned 68 years old in October 2024.

Required:

Ignoring the impact of VAT and its incidental levies:

i) Calculate Adjoa Kyerewaa's ***Chargeable Income*** for the 2024 year of assessment. **(7 marks)**

ii) Calculate Adjoa Kyerewaa's ***Personal Income Tax Liability*** for the 2024 year of assessment. **(2 marks)**

iii) Calculate Adjoa Kyerewaa's ***Outstanding Tax Liability***, assuming her employer paid only GH¢60,000 in PAYE on her behalf and her consultancy business - KyerewaA Consult received withholding tax credit certificates amounting to GH¢17,780.25 during the year. **(1 mark)**

b) Shankoma is a pupil teacher residing in Akwadum, a suburb of Koforidua in the Eastern Region. She undertook the following share transactions during the 2024 year of assessment:

Bidie LTD share transactions:

Date	**Transaction**
03/03/2024	Acquired 1,500 shares at GH¢3.50 per share
05/06/2024	Acquired 750 shares at GH¢4.00 per share
07/07/2024	Sold 1,800 shares at GH¢6.00 per share, incurring a 1.5% commission on the sale value

ASE LTD share transactions:

Date	**Transaction**
15/07/2024	Acquired 3,500 shares at GH¢4.00 per share
20/08/2024	Exercised a 1-for-5 rights issue at GH¢3.00 per share
09/11/2024	Sold 2,500 shares at GH¢5.00 per share, paying a 2% commission on the sale proceeds

Note:
Bidie LTD is a well-known building hardware company with branches in major cities across Ghana. ASE LTD, on the other hand, is an IT consulting firm founded in 2018 by three young men - Antwi, Sefah and Eduaful (ASE). The company quickly fulfilled the requirements and has been listed on the Ghana Stock Exchange (GSE) since January 2023.

Required:

i) Calculate Shankoma's ***capital gain****s* on disposal of:

- Bidie LTD shares. **(3 marks)**
- ASE LTD shares. **(3 marks)**

ii) Calculate Shankoma's ***capital gains tax liability*** for the 2024 year of assessment. **(2 marks)**

iii) In line with Income Tax Act, 2015 (Act 896), explain the differences in the treatment and reporting requirement of "Capital Gains" realised by individuals and companies. **(2 marks)**

(Total: 20 marks)

QUESTION FOUR

a) Pobiman Properties LTD which owns a guest house in Somanya in the Eastern Region of Ghana sold the assets to Tettey Inn Resorts.

The details of the proposed transaction are given below:

1) Consideration received for the assets: GH¢52,447,000.

2) Details of the assets:

Asset	Cost (GH¢)	WDV (GH¢)	Revaluation (GH¢)
Computers & Accessories	250,000	109,000	520,000
Vehicles	2,530,000	1,020,000	5,190,000
Furniture, Fittings & Equipment	8,200,000	5,107,000	15,100,000
Buildings	27,300,150	13,295,300	38,490,000
Total	**38,280,150**	**19,531,300**	**59,300,000**

3) Other expenses related to the transaction include:

- Legal fees: GH¢325,000.00
- Valuation fee: GH¢320,000.00
- Transaction Advisors fee: GH¢105,000.00

4) The transaction was concluded as at 31 December, 2024.

The two companies have approached you, a student pursuing taxation at ICAG for advice on the transaction.

Required:

i) Advise Pobiman Properties LTD on how it can reduce its tax liabilities relating to the transaction. **(3 marks)**

ii) What are the tax implication of acquiring the guest house within a period of three years? **(7 marks)**

iii) Compute any gains/losses from the transaction to Pobiman Properties LTD. **(5 marks)**

b) Determining the statutory obligations, benefits and liabilities owed to a worker depends entirely on the framework of their initial agreement. Both a **contract of service** and a **contract for service** serve as standard legal mechanisms used across industries to secure human talent. However, the specific operational rights and responsibilities tied to each arrangement vary drastically under employment law.

Required:

Explain the concepts of ***contract of service*** and ***contract for service*** and state **TWO** differences between them. **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Akweley Distributions LTD made payments to Tanko Properties LTD in relation to the under listed expenses:

1) Rent charges for warehouse: GH¢120,500.

2) Rent for junior staff quarters: GH¢25,000.

3) Demolition of old Managing Director's residence: GH¢45,000.

4) Disinfection of warehouse:

Item	**Amount GH¢**
Service fee	15,000
Cost of disinfectants	36,000
Total	**41,000**

5) Security services: GH¢13,000.

Required:

i) Compute the amount withheld from each of the above expenses by Akweley Distributions LTD before making payment to Tanko Properties LTD. **(6 marks)**

ii) Explain **TWO** circumstances under which Tanko Properties LTD will not incur withholding tax on transactions with Akweley Distributions LTD. **(4 marks)**

b) Implementing data-driven technologies has become a cornerstone for revenue bodies seeking to close the tax gap and streamline compliance across diverse economic segments. Strategic interventions, ranging from cloud-hosted transaction reporting and automated payroll monitoring to advanced algorithmic risk-profiling, allow authorities like the Ghana Revenue Authority (GRA) to optimise resource allocation. However, successfully transitioning from manual oversight to a digitised enforcement framework requires balancing technological capabilities against systemic, operational barriers.

Required:

i) State **TWO** benefits and **TWO** challenges of implementing real-time VAT reporting using cloud-based e-invoicing solutions. **(4 marks)**

ii) Explain how automation of payroll tax compliance can help reduce PAYE underreporting in the informal sector. **(3 marks)**

iii) Suggest **THREE** ways machine learning and predictive analytics can support the GRA to select sectors or taxpayers for audit. **(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) **Functions of the Board of Ghana Revenue Authority**

The Board is to ensure the proper and effective performance of the functions of the Ghana Revenue Authority through the:

- Supervision and monitoring of the Authority in the performance of its functions;
- Formulation of administrative policy for the smooth and efficient management of the Authority;
- Determination of a scheme of service for the staff of the Authority;
- Performance of any function incidental to the objectives of the Authority,
- Recommendations to the Minister of Finance on tax policy, tax reform, tax legislation, tax treaties, tax exemption and tax concessions.

(4 relevant points for 4 marks)

ii) **Functions of the Commissioner-General of the Ghana Revenue Authority**

- The Commissioner-General is responsible for the day-to-day administration of the affairs of the Authority and is answerable to the Board for the performance of the functions of that office.
- The Commissioner-General shall perform any other function determined by the Board.
- The Commissioner-General may delegate a function to an officer of the Authority but is not relieved from ultimate responsibility for the performance of the delegated function.
- The Commissioner-General is responsible for the direction and supervision of the employees of the Authority.
- The Commissioner-General shall in consultation with the Board appoint one of the Commissioners to act for the Commissioner-General in the absence of the Commissioner-General.

(2 relevant points for 2 marks)

iii) **Suspension of the Commissioner-General of the Ghana Revenue Authority**

The Commissioner-General may be removed or suspended by the President on the following grounds:

- Stated misbehavior
- Inability to observe the conditions of service stated in the contract of employment
- If declared bankrupt or insolvent
- If convicted of serious offence. Serious offence means an offence for which the maximum penalty is death or imprisonment for a period not less than one year.

(4 relevant points for 4 marks)

b) **Circumstances for pre-emptive assessment**

The Commissioner-General may make a pre-emptive assessment of tax payable or to become payable by a person under the following circumstances:

- The person becomes bankrupt,
- The person's business is wound-up
- The person's business goes into liquidation
- The Commissioner-General believes on reasonable grounds that the person is about to leave the country indefinitely.
- The Commissioner-General believes on reasonable grounds that the person is about to cease activity or business in the country.
- The Commissioner-General believes on reasonable grounds that the person has committed an offence under a tax law.
- The Commissioner-General considers it appropriate, including where the person fails to maintain adequate documentation.

(5 relevant points for 5 marks)

c) **Elements contained in the Commissioner-General's notice of assessment**

Where the Commissioner-General makes an assessment, the Commissioner-General is required to serve a written notice of the assessment on the taxpayer. In addition to any requirement of the tax law in question, the notice of assessment should contain:

- The name of the taxpayer
- The Taxpayer Identification Number of the taxpayer
- The assessment by the Commissioner-General of the tax payable by the taxpayer for the period, event or matter to which the assessment relates
- The amount of tax remaining to be paid after any relevant credits, reductions or pre-payments
- The manner in which the assessment is calculated
- The reason why the Commissioner-General has made the assessment
- The date by which the tax is to be paid; and
- The time, place and manner of objecting to the assessment

(5 relevant points for 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

The functions of the Board and the Commissioner-General were satisfactorily attempted. However, candidates did not demonstrate much knowledge of the circumstances under which the President may suspend the Commissioner-General of the GRA. The GRA Act 2009, Act 791 is relevant in going through the section A of the Principles of Tax syllabus.

Majority of the candidates demonstrated some knowledge of the circumstances under which the Commissioner-General may make a pre-emptive assessment, as well as the elements required to be contained in the Commissioner-General's notice of tax assessment. However, most candidates were unable to identify and/or adequately explain all five required points.

QUESTION TWO

a)

i) **Customs duty payable**

CIF Value	**GH¢**
FOB (€120,000 * 13.5)	1,620,000
Freight (€5,000 * 13.5)	67,500
Insurance (€10,000 * 13.5)	135,000
Total CIF	1,822,500
10% of CIF	**182,250**

(3 marks)

ii) **Total import taxes payable**

	GH¢
CIF Value	1,822,500
Customs Duty (A)	182,250
Tax Base	2,004,750
NHIL (2.5%*2,004,750)	50,119
GETFL (2.5%*2,004,750)	50,119
VAT (15%*2,004,750)	300,713
Ecowas Levy (0.5%*1,822,500)	9,113
Customs duty payable	182,250
Total Import Taxes	**592,314**

(7 marks)

iii) **Customs Declaration:**

It is an official document or statement submitted to the Customs Division of the Ghana Revenue Authority. It provides detailed information about imported goods, including their nature, quantity, value and country of origin. The customs declaration enables Customs officials to assess the correct duties and taxes, enforce import regulations, and ensure compliance with national and international trade laws.

(2 marks)

b) **Exceptions to turnover rules under section 7 of the value Added Tax Act 2025 (Act 1151) are as follows:**

- A promoter of public entertainment shall not, less than forty-eight hours before the commencement of the public entertainment, apply for registration.
- An auctioneer- that carries on a taxable activity shall, within thirty days after the date on which the person becomes an auctioneer, apply for registration.

(2 points for 3 marks)

c) **Financial Implications**

Penalties and interest

One of the most immediate financial consequences of tax non-compliance is the imposition of penalties and interest charges. Tax authorities typically assess penalties for late payments, underreporting or failure to file returns. These penalties can be fixed amounts or percentages of the unpaid tax and often escalate the longer the non-compliance continues.

Late Payment Penalties: Taxpayers who do not pay taxes by the due date are charged penalties that increase over time. The amount may depend on the type of tax and the jurisdiction.

Interest Charges: In addition to penalties, interest accrues on unpaid taxes, compounding the taxpayer's liability. Interest rates vary but are generally set to discourage delaying payment.

Loss of refunds and credits

Taxpayers who fail to file returns or pay taxes on time may forfeit the ability to claim refunds or credits owed to them. In some cases, statutory deadlines limit the time a taxpayer has to claim these benefits, and missing the deadline leads to permanent forfeiture.

Increased Tax Liability

Non-compliance can lead to reassessment by tax authorities, often resulting in increased tax liabilities. Audits may uncover errors or omissions, and adjustments can include previously unreported income, disallowed deductions, or late filing penalties. The resulting liability can significantly exceed the original unpaid tax.

(2 relevant points @ 2.5 marks each = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

This was the second-worst attempted question, much to the chagrin of the examiner, given that the question was relatively straightforward. Although most candidates made a reasonable attempt at computing the customs duty payable, their performance in calculating the total import taxes payable was disappointing. Many candidates were unable to correctly compute the import VAT, NHIL, GETFund Levy, and ECOWAS Levy. Furthermore, candidates failed to recognise that the customs duty payable, which had already been computed in part (i), was required to be included in the calculation of the total import taxes payable. Consequently, candidates lost marks that could have been easily earned.

Less than 30% of the candidates were able to obtain the three marks allocated for the exceptions to the turnover rules under Section 7 of the VAT Act, 2025 (Act 1151), and the five marks allocated for the financial implications of failing to comply with tax payment obligations. Apart from penalties and interest, most candidates were unable to identify any other financial implications arising from non-compliance with tax payment obligations.

QUESTION THREE

a)

i) **Adjoa Kyerewaa**
Chargeable income for the 2024 year of assessment
01/01/2024 – 31/12/2024

	GH¢	GH¢
Basic Salary((GH¢ 25,000 x 6) + (GH¢ 25,000 x 1.15 x 6)		322,500.00
Clothing Allowance (10% x GH¢ 322,500)		32,250.00
Children School Fee support (50% x GH¢ 20,000)		10,000.00
Total Cash Emolument (TCE)		**364,750.00**
Add: **Benefit-in-Kind:**		
Vehicle with fuel (10% of TCE - GH¢ 364,750, capped at GH¢ 15,000 (GH¢ 1,250 per month)		15,000.00
Income from Employment		**379,750.00**
Add: Income from Business (W1)		137,500.00
Total Income		**517,250.00**
Less: **Reliefs/Deductions:**		
Chelsea's SSNIT Contribution (5.5% x GH¢ 322,500)	17,737.50	
Peter's Provident Fund Contribution (5% x GH¢ 322,500)	16,125.00	
Child Education (1 child x GH¢ 600)	600.00	
Old Age Dependent Relative Relief (1 x GH¢ 1,000)	1,000.00	
		35,462.50
Chargeable Income		**481,787.50**

W1
Business income

	GH¢	GH¢
Profit from KyerewaA Consult (Sole proprietorship)		120,000
Add back:		
School fees (Remaining 50% of GH¢ 20,000) - non-business related	10,000	
Depreciation (20% x GH¢ 150,000)	30,000	40,000
Adjusted Profit excluding depreciation and before Capital Allowance		**160,000**
Less: Capital Allowance (30% x Capped Cost of GH¢ 75,000) - refer to Note 1		(22,500)
Income from Business		**137,500**

Note 1

Capital Allowance will be granted on the capped cost of GH¢75,000 and not the full GH¢150,000 (Class 2 - Motor vehicle)

(7 marks)

ii) **Adjoa Kyerewaa's Personal Income Tax Calculation for 2024 Year of Assessment:**

As a resident taxpayer, Kyerewaa's chargeable income of **GH¢481,787.50** will be subject to tax using the graduated scale below:

Band	**GH¢**	**Rate**	**Tax (GH¢)**
First	5,880.00	0%	-
Next	1,320.00	5%	66
Next	1,560.00	10%	156
Next	38,000.00	17.50%	6,650.00
Next	192,000.00	25.00%	48,000.00
Remaining	243,027.50	30%	72,908.25
Total	**481,787.50**		**127,780.25**

Hence, Kyerewaa's Personal Income Tax liability for the 2024 year of assessment is GH¢127,780.25

(2 marks)

iii) **Adjoa Kyerewaa's outstanding tax liability for 2024 year of assessment**

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

	GH¢	**GH¢**
Tax liability for the year		127,780.25
Less: **Payment on Account:**		
PAYE filings	60,000.00	
Withholding Tax Credit Certificates	17,780.25	77,780.25
		50,000.00

Hence, the outstanding tax to be paid by Kyerewaa for the 2024 year of assessment is GH¢ 50,000

(1 mark)

b)

i) **Shankoma's capital gains on disposal of Bidie LTD shares and ASE LTD shares**

- **Bidie LTD**

	GH¢
Sale Proceeds (1,800 shares @ GH¢6.00 each)	10,800
Less: Commission paid (1.5% x GH¢10,800)	(162)
Net Sales Proceeds	**10,638**
Less: Cost of 1,800 shares sold (W1)	(6,600)
Net Gain on disposal	**4,038**

W1 Cost of 1,800 shares sold (Bidie LTD)

Transaction	**Date**	**No. of Shares**	**Share Price (GH¢)**	**Value (GH¢)**
Purchase of Shares	3/3/2024	1500	3.5	5,250.00
Purchase of Shares	6/5/2024	750	4	3,000.00
		2250		8,250.00
Disposal of shares	7/7/2024	1800		6,600.00
Unsold shares		**450**		

Formula

Cost of shares sold = $\frac{A}{(A+B)}\ X\ C$

Where

A: Consideration Receive or Sum Realised (1,800 shares @ 6.00 each) = GH¢10,800

B: Market Value of Unsold Shares (450 shares @ 6.00 each) = GH¢2,700

C: Cost of Shares before disposal (That is, cost of all 2,250 shares (1)) = GH¢8,250

Hence cost of 1,800 shares sold = $\frac{10,800}{(10,800+2,700)}\ X\ 8,250$

Cost of 1,800 shares sold = **GH¢6,600**

(3 marks)

- **ASE LTD**

	GH¢
Sale Proceeds (2,500 shares @ GHS5.00 each)	12,500.00
Less: Commission paid (2% x GHS12,500)	(250.00)
Net Sales Proceeds	**12,250.00**
Less: Cost of 2,500 shares sold (W2)	(9,583.33)
Net Gain on disposal	**2,666.67**

W2 Cost of 2,500 shares sold (ASE LTD)

Transaction	**Date**	**No. of Shares**	**Share Price (GH¢)**	**Value (GH¢)**
Purchase of Shares	7/15/2024	3500	4	14,000.00
Right Issue (1/5 x 3,500 shares)	8/20/2024	700	3	2,100.00
		4200		16,100.00
Disposal of shares	11/9/2024	2500		9,583.33
Unsold shares		**1700**		

Formula

Cost of shares sold =$\frac{A}{(A+B)}\ X\ C$

Where

A: Consideration Receive or Sum Realised (2,500 shares @ 5.00 each) = GH¢12,500
B: Market Value of Unsold Shares (1,700 shares @ 5.00 each) = GH¢8,500
C: Cost of Shares before disposal (That is, cost of all 2,250 shares (2)) = GH¢16,100

Hence cost of 1,800 shares sold = $\frac{12{,}500}{(12{,}500+8{,}500)}\ X\ 16{,}100$

Cost of Shares 2,500 Sold **= GH¢9,583.33**

(3 marks)

ii) **Shankoma's capital gains tax liability**
Summary of Gains on disposal of the shares

	GH¢
From Bidie LTD shares	4,038.00
From ASE LTD shares	2,729.17
Total Gain	**6,767.17**

Total Capital Gains for the year:	**Capital Gains**	**Rate (%)**	**(GH¢)**
Gain from sales of Agya Blue Shares	4,038.00	25%	1,009.50
Gain from ACE LTD shares (EXEMPT) 1	**2,666.67**	Exempt	-
TOTAL	**6,704.67**		**1,009.50**

Hence, the total Capital Gains Tax liability is GH¢1,009.50.

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

(2 marks)

iii) **Differences in the treatment of capital gains tax realized by individuals and companies**

For individuals:

Capital Gains are taxed at a flat rate of 25% on the net gain. Also, a separate Capital Gains Tax (CGT) return must be filed, and tax paid in the year gain is realised. Individuals have the option of electing for the 25%.

For Companies:

Capital Gains are treated as part of business income, and taxed at the corporate income tax rate (generally 25%). That is, no separate CGT return is required to be filed. No election for reduced rate applies to companies.

(2 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

Less than 40% of the candidates passed this question. Most candidates were unable to correctly compute the basic salary and failed to apply the appropriate restriction to the vehicle with fuel as a benefit in kind. These errors adversely affected the computation of assessable income from employment.

In computing the capital allowance on business income, majority of candidates again failed to apply the required restriction to the vehicle, despite the fact that it was not a commercial vehicle. The cumulative effect of these errors resulted in incorrect computations of the candidates' personal income tax liabilities.

Performance in the computation of the capital gain was also only average, despite a similar question having been examined in previous diets. Candidates are therefore encouraged to pay greater attention to past Chief Examiner's Reports, as these provide useful guidance on recurring areas of weakness and the expectations of the examination.

QUESTION FOUR

a)

i) In order to reduce its tax liabilities, City properties Limited should continue to retain at least fifty per cent of the underlying ownership in the asset.

(3 marks)

ii) Where the underlying ownership of an entity changes by morethan 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.

An entity that changes ownership in the manner referred to above, shall not:

- Deduct financial costs carried that were incurred by the entity before the change;
- Deduct a loss that was incurred by the entity before the change;
- Claim a deduction of bad debts after the change, in a case where the entity has included an amount in calculating income under those provisions before the change; or
- Carry back unrelieved loss incurred before the change
- The period before the change and the period after the change shall be treated as separate years of assessment.

(Any two valid points for 7 marks)

iii)

Pobiman Properties Limited
Computation of Gains/Losses from Sale Hotel Asset
31 December, 2024

	GH¢	GH¢
Consideration Received		52,447,000
Cost of assets and expenses on realisation:		
omputers & Accessories	250,000	
Vehicles	2,530,000	
Furniture, Fittings & Equipment	8,200,000	
Land and Buildings	27,300,150	
Legal fees	325,000	
Valuation fees	320,000	
Transaction Advisors fee	105,000	39,030,150
Capital gain from realisation		**13,416,850**

(5 marks)

b) **Contract of Service**
A contract of service is an agreement between an employer and an employee, under which the employee agrees to work under the direction, supervision, and control of the employer in exchange for a wage or salary. The person is regarded in law as an employee, and the relationship is governed by labour law.

Contract for Service
A contract for service is an agreement between a principal/client and an independent contractor (or self-employed person), under which the contractor agrees to provide specified services or produce a specified result, but retains control over how the work is done. The relationship is essentially a commercial/business relationship between two independent parties, governed largely by the general law of contract rather than labour law.

Key Differences
Control and supervision
Under a contract of service, the employer exercises significant control over how, when, and where the work is done. The employee works under the direct supervision and instruction of the employer, who dictates the methods, working hours, and conditions of work.
Under a contract for service, however, the contractor has autonomy over how the work is performed. The principal is only concerned with the outcome or result of the work, not the method or process used to achieve it.

Legal status and applicable law
A contract of service creates an employer-employee relationship, which is governed by labour legislation such as the Labour Act, 2003 (Act 651). This entitles the worker to statutory benefits such as annual and sick leave, pension contributions, severance pay, and protection against unfair or unlawful dismissal.
In contrast, a contract for service creates a client-contractor relationship, governed largely by the general law of contract rather than employment law. The contractor is not entitled to statutory employment benefits, as the law regards them as self-employed or as running their own independent business.

Mode of remuneration and tax treatment
An employee under a contract of service is typically paid a regular wage or salary (weekly or monthly), which is subject to PAYE tax deducted at source by the employer. The employer also usually contributes to a pension scheme on the employee's behalf.
A contractor under a contract for service, on the other hand, is usually paid an agreed fee for a specific job or project. The contractor is responsible for filing and paying their own taxes typically subject to withholding taxes. The contractor must make their own arrangements for pension contributions.

(Explanation 2 marks and two relevant differences for 3 marks = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

Part (a), which carried 15 marks, was the worst-attempted question. The poor performance appears to have resulted largely from the fact that the area tested was unfamiliar to many candidates and falls under Section (d) of the Principles of Taxation syllabus. This should serve as a wake-up call to both students and tutors preparing students for the examination, highlighting the need for adequate coverage of the entire syllabus.

However, candidates performed well in explaining the concepts of a contract of service and a contract for service, as well as distinguishing between the two. The five marks allocated to this aspect of the question were generally well addressed.

QUESTION FIVE

a)

i) **Computation of taxes withheld**

- Rent warehouse= GH¢120,500.00*15% = GH¢18,075.
- Rent for junior staff quarters = GH¢25,000.00*8%= GH¢2,000.
- Demolition of old Managing Director's residence = GH¢45,000 *5% = GH¢2,250.
- Disinfection Service fee = GH¢15,000*7.5%= GH¢1,125
- Cost of disinfectants = 36,000*3% = GH¢1,080.
- Security services = 13,000*7.5% = GH¢975.

(6 marks)

ii) Circumstances under which Tanko Properties will not incur withholding taxes

- Contract sums for the supplies of goods, works and services not exceeding GH¢2,000.
- When Tanko Properties LTD is granted an exemption from withholding tax.
- Payment for the sale of goods that constitute trading stock for both Akweley Distribution LTD (purchaser) and Tanko Properties LTD (vendor).

(Any 2 relevant points for 4 marks)

b)

i) **Real-time VAT reporting for start-ups**

- **Benefits:** instant compliance, easier refunds, fraud reduction.
- **Risks:** high upfront cost, reliance on stable cloud connectivity, skills gap.

(2 valid points each under benefits and risks = 4 marks)

ii) **Payroll tax automation**

- Reduces manual errors.
- Improves PAYE withholding accuracy.
- Encourages formalization by easing compliance burden.

(2 valid points for 1.5 marks each for 3 marks)

iii) **Predictive analytics for audit**

- Analyzes industry ratios, outliers.
- Helps GRA focus on sectors with mismatch (e.g., cash-based/ informal sectors).
- Improves audit yield.

(2 valid points for 1.5 marks each for 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

Candidates were required to compute the withholding tax to be deducted by Akweley Distributions LTD on six transactions for six marks. Surprisingly, less than 50% scored the full marks. Some candidates were unfamiliar with the applicable rates, particularly the different rates for rent on non-residential and residential properties. Others also failed to apply the 7.5% rate for services provided by resident persons.

It was equally disappointing that most candidates could not explain the two circumstances under which Tanko Properties LTD would not incur withholding tax liability, despite this being a familiar area. Consequently, most candidates lost the four marks allocated to this part.

Performance on the three questions relating to the implementation of data-driven technologies was, however, above average.