

**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**MAY 2010 EXAMINATIONS
(PROFESSIONAL)**

PART 4

**ADVANCED TAXATION & FISCAL POLICY
(Paper 4.4)**

Attempt ALL Questions

TIME ALLOWED:

| | | |
|--------------------|---|------------|
| Reading & Planning | - | 15 Minutes |
| Working | - | 3 Hours |

QUESTION 1

- a) Ghana has double taxation arrangements with a number of countries and is currently negotiating with other countries for more treaties.

Required:

Briefly state the essence of these arrangements or treaties.

(8 marks)

- b) Joe Mankata has been the director of Programmes of Teach Yourself Institute for the past five years. He is on a consolidated salary of GH¢30,000 per annum. He contributes 5% of his salary to the Social Security Scheme.

Joe has investments in South Africa from where he receives periodic interest payments. In the year ended 31st December, 2009, he became entitled to an amount of GH¢800 less tax of GH¢100 which was remitted to him in Ghana.

Tax Rate

| | | |
|--------------------|---|-------|
| First GH¢240 | - | Free |
| Next GH¢240 | - | 5% |
| Next GH¢1,200 | - | 10% |
| Next GH¢7,920 | - | 17.5% |
| Exceeding GH¢9,600 | - | 25% |

Required:

Determine his net tax payable in Ghana.

(12 marks)

(Total: 20 marks)

QUESTION 2

Progress Limited holds a dealership in High Brand Motor Vehicles from which it receives business income. The company receives other incomes including rental income from the construction and sale of residential premises. The company commenced real estate business about two (2) years ago in addition to its main business.

Required:

In accordance with the Internal revenue Act, 2000 (Act 592), explain how the rent income received by Progress Limited would be treated for tax purposes.

20 marks

QUESTION 3

Mr Kofi Nyamekye, the General Manager of Agyengo Ltd has been nominated by the president to be the Municipal Chief Executive of Hasowode Municipal Assembly. He is required to obtain a Tax Clearance Certificate from the Internal Revenue Service as part of the conditions for approval. He subsequently filed his 2009 returns which was outstanding and indicated the following:

- (a) Basic annual salary of GH¢40,000.
- (b) Well-furnished rented flat provided by his employer in respect of which he pays GH¢150 per month as rent.
- (c) Watchman allowance of GH¢1,600 per annum, paid directly to him.
- (d) Risk Allowance is 15% on basic salary.
- (e) Leave Allowance of GH¢10,000 per annum.
- (f) Garden Boy allowance of GH¢200 per quarter paid directly to him.
- (g) Medical allowance of GH¢1,800 per annum.
- (h) Special retirement package of which he contributes 5% of basic salary, which the company pays 10% of his basic salary.
- (i) Two maidservants each on wages of GH¢1,200 per annum. The amount is paid to the maid servants directly by the company.
- (j) Bonus of 20% of annual basic salary.
- (k) Entertainment allowance of GH¢600 per year.
- (l) Duty post allowance of GH¢400 per month.
- (m) He has Life Assurance Policy with Enterprise Insurance Ltd. The details are as follows:

| <u>Policy</u> | <u>Sum Assured (GH¢)</u> | <u>Premium GH¢</u> |
|---------------|--------------------------|--------------------|
| A | 5,000 | 125 |
| B | 4,000 | 320 |
| C | 15,000 | 1,875 |

- (n) He is entitled to company car, driver and fuel for both official and private use.
- (o) Kofi indicated that he has two wives and six children. All the children are in Senior High Schools in Ghana.
- (p) The returns showed that GH¢13,210.50 has been deducted at source and paid to IRS.

(q) He is a contributor to the Social Security Fund.

Required:

- (i) Compute his tax liabilities for 2009 year of assessment.
- (ii) Determine his tax payable to be refunded for 2009.

25 marks

Note: 2009 Tax Rates – Individuals chargeable

| | Income GH¢ | Rate | Tax GH¢ |
|-----------|---------------|-------|------------|
| First | 240 | Free | - |
| Next | 240 | 5% | 12 |
| Next | 1,200 | 10% | 120 |
| Next | 7,920 | 17.5% | 1,386 |
| Exceeding | 9,600 | 25% | |

QUESTION 4

The Managing director of Chuku Chaka Mining Company Limited presented a draft of the company's financial statement for the year ended 31st December, 2008 to you to advise on the amount of royalty payable. Details were as follows:

| | GH¢ | GH¢ |
|---------------------------------|------------|---------------|
| Total value of mineral won | | 18,200 |
| <u>Less</u> | | |
| Production expenses | 2,200 | |
| Transport expenses | 1,400 | |
| Royalties paid | 800 | |
| Income tax paid | 1,200 | |
| Donation to chiefs | 1,000 | |
| Expenses on sale of mineral won | <u>400</u> | |
| Operational cost | | <u>7,000</u> |
| Operating profit | | <u>11,200</u> |

Note: Included in the production cost is depreciation of GH¢400. Capital allowance claimable for 2008 is given as GH¢600.

Required:

Compute the amount of royalty payable and explain any aspects of the computations you deem relevant to the Managing Director.

Rates of Tax

- i. Where the operating ratio is 30% or less the rate of royalty payable is 3%.
- ii. Where the operating ratio is more than 30% but less than 70% the rate of royalty is 3% plus 0.225 of every 1% by which the operating ratio exceeds 30%.
- iii. Where the operating ratio is 70% or more the rate of royalty is 12%.

15 marks

QUESTION 5

- a) Outline the practical tax implications for a Ghanaian entity importing services from abroad under the VAT Act 1998 (Act 546).
(15 marks)
- b) Customs duties are imposed on the Cost, Insurance and Freight (CIF) value of imported goods except those goods that are exempt from tax.

Required:

- (i) Define CIF value *(2 marks)*
- (ii) List the various administrative charges paid by an importer of goods.

(3 marks)

(Total: 20 marks)