

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



**MAY 2012 EXAMINATIONS
(PROFESSIONAL)**

PART 4

ADVANCED TAXATION & FISCAL POLICY

(Paper 4.4)

Attempt ALL Questions

TIME ALLOWED:

Reading & Planning - 15 Minutes

Workings - 3 Hours

QUESTION 1

- (a) “Any supply of goods and services attracts VAT, unless specifically excluded from the tax base by law”.

Explain the types of supply stipulated in the Value Added Tax Act, 1998 (Act 546) indicating the applicable rates, where relevant.

(10 marks)

- (b) Explain the basic rule applied in determining the deductible tax for mixed taxable and exempt supply.

(5 marks)

(Total: 15 marks)

QUESTION 2

- (a) Tax systems are regarded as a primary tool of fiscal policy in Keynesian Macro-economics. Explain the use and application of taxation as a tool of fiscal policy to stabilize an economy.

(10 marks)

- (b) “In the tax planning process, an effort should be made to distinguish between tax evasion and tax avoidance”. Discuss the distinction between tax evasion and tax avoidance in the tax planning process.

(10 marks)

(Total: 20 marks)

QUESTION 3

Kwaku Boafo has been in employment since 1999 on a consolidated salary of GHC3,600 per annum with Daakye Timbers Limited. In the year 2010, his consolidated salary was GHC15,000 from which he contributed 5% to the Social Security and National Insurance Trust. In the same year he remitted an amount of GHC1,800 (in cedi terms of his UK Pounds Sterling) being his net share of partnership profits in UK, into Ghana, after tax of GHC450 had been deducted in the UK.

Kwaku Boafo is married with three children two of whom are in Christ the King Junior High School in Accra and one in Konongo Odumasi Senior High School (Great KOSS).

You are required to:

- (a) Determine the Tax Credit Relief to be granted to Kwaku Boafo, on the basis that a double taxation agreement exists between Ghana and the United Kingdom (UK) and that Kwaku Boafo has provided evidence of payment of foreign tax on the amount remitted. *(14½ marks)*
- (b) What is Kwaku Boafo's net tax liability in Ghana? *(8 marks)*
- (c) Mention **five (5)** countries with which Ghana has a Double Taxation Treaty. *(2½ marks)*

(Total: 25 marks)

| | 2010 TAX RATES | |
|-----------|-----------------------|---------|
| | GHC | RATES % |
| First | 1,008.00 | NIL |
| Next | 240.00 | 5 |
| Next | 720.00 | 10 |
| Next | 14,232.00 | 17.5 |
| Exceeding | 16,200.00 | 25 |

| | 2012 PERSONAL RELIEFS |
|---------------------------|------------------------------|
| Marriage / Responsibility | GHC35.00 |
| Disability Relief | 25% |
| Old Age Relief | GHC35.00 |
| Child Education Relief | GHC30.00 per child |
| Aged Dependent Relative | GHC25.00 |
| Cost of Training Relief | GHC100.00 |

QUESTION 4

Kwadwovi Ameko stayed in the UK for over 25 years where he was a professional boxer. He decided to settle back home in Ghana when he turned 50. He returned to Ghana in November 2008 with his total savings of £5,000. He also brought a slightly used BMW Saloon car valued at GHC25,000 and decided to set up his own business which he began on 1/1/2009.

He changed his £5,000 at the rate of GHC1.7 for £1, raising GHC8,500 which he used as his working capital. He has an estate house at Abeka Lapaz which he purchased in 1983 before leaving for the UK. He used his garage as a factory where he installed machines for purifying water. The machine cost him GHC2,500 which he paid from his money from abroad and deposited the remaining GHC6,000 in his AMALBANK account.

Many “Pure Water” retailers registered with him hence his business was very successful. In January 2010, the domestic Tax Revenue Division of the Ghana Revenue Authority’s office at Abeka Lapaz invited him for discussion on his tax affairs since he had so far not paid any tax on his income.

The following facts emerged during the discussions:

1. He purchased a Delivery Van costing GHC3,000 during the 2009 year of assessment.
2. He had also acquired two new machines costing GHC5,000 during the year under review.
3. He had extended his garage/factory at a cost of GHC2,000.

By the end of the 2009 year of assessment some customers owed him GHC7,500 whereas he owed an amount of GHC1,500 in respect of water and electricity. He caused to be transferred from UK an amount equivalent to GHCS5,000 being winnings on football pools he staked before leaving the UK, which amount was transferred into his bank account with AMAL BANK.

His wife and his children are still living in the UK, making him stay in Ghana alone, since the children are all working in the UK.

His private living expenses for 2009 were as follows:

| | |
|-------------------|--------------|
| | GHC |
| Rent/Rates | 400 |
| Food | 2,400 |
| Medical Bills | NIL |
| Social Activities | 250 |
| Clothing | <u>NIL</u> |
| | <u>3,050</u> |

Required:

Using the Net Worth Method, you are to determine his Chargeable Income for the year 2009. Explain your computations where necessary.

20 marks

QUESTION 5

- (a) A foreign parent company, AMADEUS LIMITED has a loan of GHC4,000,000 to its wholly-owned subsidiary in Ghana, Amazon Ghana Limited. Amadeus Limited's equity in Amazon Ghana Limited is GHC200,000 and interest payable on the debt for the 2009 year of assessment is GHC600,000.

Required:

Determine the interest that should be allowed for tax purposes in 2009 year of assessment for Amazon Ghana Limited. Explain your answer.

(10 marks)

- (b) GYAPS Ghana Branch is a branch company of GYAPS LIMITED in Australia. In the 2010 year of assessment, GYAPS Ghana Branch showed a net profit of GHC3,000,000 whereas its balance sheet showed net assets of GHC10,000,000 at the beginning of the 2010 financial year and GHC12,000,000 as net assets at 31st December, 2010, which is its financial year end.

Required:

Determine the branch profit tax payable by the company in 2010. Explain your answer.

(10 marks)

(Total: 20 marks)