

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



**NOVEMBER 2011 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. Explain income splitting under the Internal Revenue Act, 2000, (Act 592). What steps can the Commissioner General take to counteract its effects? **(4 marks)**
- b. Differentiate between tax evasion and tax avoidance. **(4 marks)**
- c. Where the taxable person does not possess a tax invoice, under what circumstances will the Commissioner-General allow an input tax credit in the tax period in which the credit arises? **(4 marks)**
- d. Apart from the state warehouse which is for the Government, individuals are permitted to operate private bonded warehouses. State the conditions that must be met before an individual would be allowed to operate Customs Bonded Warehouse. **(8 marks)**

(Total: 20 marks)

QUESTION 2

Mr. Ralph Boadu, managing director of Boadu Metal Works Limited, has expressed interest in the self-assessed system and wishes to apply on behalf of his establishment for consideration. Presently, Boadu Metal Works Limited is under the provisional assessment system.

Required:

Compare and contrast the two systems to enable Mr. Boadu to take a firm decision.

(20 marks)

QUESTION 3

Progressive Insurance Company Limited submitted the following accounts for the year ended 30th September, 2010.

Details are as follows:

	GHS
Gross premiums received	380,000
Premiums returned	18,500
Reinsurance premiums paid	26,000
Claims settled and paid	185,000
Reinsurance recoveries	124,000
Commissions to agents	1,200
General administrative expenses	82,000
Interest on Treasury Bills	18,000
Dividends received (Net)	41,000
Reserves for previous year	210,000
Capital allowance for the year	29,100

Required:

Determine the chargeable income of the company on the basis of the information provided.

(20 marks)

QUESTION 4

- (a) “The characteristics of public goods and services make it hard to measure precisely how their benefits are apportioned among individuals and institutions. The situation is a bit different on the taxation side of the picture. Studies reveal, with somewhat greater clarity, the way the overall tax burden is apportioned. The average citizen is concerned with the overall level of taxes. Chances are that he or she is even more interested in exactly how the tax burden is allocated among individual taxpayers”.

In line with the above statement and the objective of Government fiscal policy, state and explain the following principles of taxation:

1. ‘Benefits Received’ **(4 marks)**
 2. “Ability To Pay’ **(4 marks)**
 3. Comment on the practicalities or otherwise on the application of these principles by the Government of Ghana. **(4 marks)**
- (b) Under Keynesian Macroeconomics, taxation is said to be used as a tool of fiscal policy. Explain how this is possible in relation to taxation and unemployment.

(8 marks)

(Total: 20 marks)

QUESTION 5

Mr. Benkuta has been the Head of Treasury in Bank Du Accra for many years. For the year 2010, his entitlements were as follows:

	GHS
Salary	14,000
Fully furnished accommodation	
Vehicle with fuel	
Inconvenience allowance	3,500
Risk allowance	9,000

He receives cash of GHS450 a month for entertaining visitors. He contributes towards the Social Security Scheme. He also has a life assurance policy with a capital sum of GHS30,000 upon which he pays a monthly premium of GHS250.

He has been operating two Urvan buses. His account for the year ended 31st December 2010 showed the following results:

	GHS	GHS
Total income		12,000
Less expenses:		
IRS quarterly stickers	1,250	
Repairs and testing	1,550	
Drivers and mates	1,500	
Petrol and lubricants	2,650	
Road tips	2,150	
Fines	900	
Insurance	850	
Depreciation	1,950	<u>12,800</u>
Net profit (loss)		<u>(800)</u>

He is married with five children all of whom are attending schools in the United States of America. Capital Allowance granted for the period amounted to GHS2,850.

You are required to determine his tax liability for the 2010 year of assessment.

(20 marks)

TAX RATE

First GHS240	.....	Free
Next GHS240	.....	5%
Next GHS1,200	.....	10%
Next GHS7,920	.....	17.5%
Next GHS9,600	.....	25%