

SOLUTION 1

Working

COMPUTATION OF CAPITAL ALLOWANCE

2012 (1/1/2012 – 31/12/2012)	Class 1	Class 2	Class 3	Total
	<u>40%</u>	<u>30%</u>	<u>10%</u>	
	GH¢	GH¢	GH¢	GH¢
Writtendown value	5,000	30,000	5,000	
Addition	<u>-</u>	<u>4,500</u>	<u>26,000</u>	
	5,000	34,500	31,000	
Capital Allowance	<u>2,000</u>	<u>10,350</u>	<u>3,225</u>	15,575
	<u>3,000</u>	<u>24,150</u>	<u>29,025</u>	

(a) GLOBAL FEED

COMPUTATION OF CHARGEABLE INCOME FOR 2012 (1/12012 – 31/12/2012)

	GH¢000	GH¢000
Net profit as per account		527,500
Less: Rent income	156,250	
Profit on disposal	<u>15,000</u>	<u>(171,250)</u>
		356,250
Add back:		
Depreciation	7,500	
Wages for Directors private property	4,250	
Cost of New Engine	4,500	
Donations – Kotoko Football Club	7,500	
Business Promotion – Directors wedding recep.	3,500	
Repairs – Cost of new tiles for floor	16,000	
Repairs – New gates for factory	10,000	
Office expenses – new personal computer	18,750	
Office rent (9,000 ÷ 2 years)	<u>4,500</u>	<u>62,100</u>
		418,350
Less: Capital allowance		<u>15,575</u>
Chargeable income		<u>402,775</u>

(b) GLOBAL FEED

COMPUTATION FO TAX LIABILITY Y/A 2012 (1/1/2012 – 31/12/2012)

<u>Company Tax</u>	GH¢	GH¢
Chargeable income	<u>402,775</u>	
Tax there on @ 25% (25/100 x 402,775)	100,694	
Less: Tax debate @ 50% (50/100 x 100,694)	<u>50,347</u>	50,347
<u>Rent Tax:</u>		
Rent income	<u>156,250</u>	
Less there on 8% (8/100 x 156,250)	<u>12,500</u>	<u>12,500</u>
Total Tax Liability		<u>62,847</u>

SOLUTION 2

BADARY ZIMBLIM

COMPUTATION CHARGEABLE INCOME FOR 2012 YEAR OF ASSESSMENT

	GH¢	GH¢
Basic salary		5,212,500
Add allowances:		
Risk (15/100 x 5,212,500)	781,875	
Leave	667,500	
Medical	1,020,000	
Meals (2,700 x 12 months)	32,400	
Entertainment	600,000	
Duty post (168,000 x 4 guards)	<u>672,000</u>	<u>3,773,775</u>
Total cash emolument		8,986,275
Add benefit in kind:		
Rent element (10/100 x 8,986,275)	898,627	
Car element (12.5/100 x 8,986,275)		
= GH¢1,123,284 retracted to (350412)	<u>4,200</u>	<u>902,828</u>
Add non-cash benefit		9,889,102
Maid servant (273,750 x 2)		<u>547,500</u>
Total assessable income		10,436,602
Less relief:		
Marriage	35	
Children education (30 x 3)	90	
Social security fund (5.5/100 x 5,212,500)	281,683	
Life assurance policy	<u>1,043,660</u>	<u>1,325,468</u>
Chargeable income		<u>9,111,134</u>

COMPUTATION TAX FOR 2012 ASSESSMENT YEAR

Chargeable income: 9,111,134

Tax there on:

	<u>Tax rate</u>	<u>Amount</u>	
1 st 1,440	-	-	
Next 720	5%	36	
Next 1,008	10%	100.80	
Next 25,632	17.5%	4485.60	
Reminder: (9,111,134 – 28800) 9,082,334	25%	<u>2,270,583.50</u>	<u>2,275,205.90</u>

Comments:

- (i) The garden boy and the security/watchman is not subject to tax, have excluded from the total cash emolument because they are protecting the property of the employer.
- (ii) The maid servant is providing the service to Mr. Badary Zimblim hence it's included in the total assessable income because it's a benefit in kind.

COMPUTATION OF LIFE ASSURANCE RELIEF

<u>Policy</u>	<u>Sum Assured</u> GH¢000	<u>10% of</u> <u>Sum assured</u> GH¢000	<u>Premium</u> GH¢000	<u>Relief</u> GH¢000
A	6,000	600	630	600
B	4,200	420	360	360
C	24,000	2,400	2,475	1,044
D	7,500	750	788	<u>750</u>
				<u>2,754</u>

Compare to 10% assessable income
 $(10/100 \times 10,436,602) = 1,043,660$

Life assurance policy relief = GH¢1,043,660

SOLUTION 3(a)

Mr. Appiah-Kubi

1. Effective rate of tax in USA = $\frac{\text{tax charge}}{\text{total income}} \times 100$
 Total income from USA = $(18,000 \times 1.5) = \text{GH¢}27,000$
 Tax on income from USA = $(4,500 \times 1.5) = \text{GH¢}6,750$
 Effective rate of tax in USA = $\frac{6,750}{27,000} \times 100 = 25\%$

SOLUTION: PRINCIPLES AND PRACTICE OF TAX, MAY 2014

$$2. \text{ Effective rate of tax in Ghana} = \frac{\text{tax charge}}{\text{total income}} \times 100$$

Computation of chargeable income

	GH¢	GH¢
Salary in Ghana		18,750
Gross income from USA		<u>27,000</u>
		214,500
Less: SSF contribution (5/100 x 187,500)		<u>9,375</u>
Chargeable income		<u><u>205,125</u></u>

Tax there on:

	CI	Rate	Amount
First	1200	-	-
Next	420	5%	21
Next	1104	10%	110.40
Next	23196	17.5%	4059.30
Reminder (205,125 – 25,920)			
	= 179,205	25%	<u>44,801.25</u>
			<u><u>48,991.95</u></u>

$$\text{Effective rate of tax in Ghana} = \frac{48,992}{205,125} \times 100 = 23.88\%$$

Since Ghana effective rate is lower, the USA effective rate:
Then USA income has to be grossed up at the Ghana rate as follows:

$$\text{Grossed up} = (13500 \times 1.5) \times \frac{100}{76.12} = \text{GH¢}26,602.73$$

Recomputation of Ghana tax:

	GH¢
Salary in Ghana	187,500
Gross income from France	<u>26,603</u>
	214,103
Less SSF contribution (5%)	<u>9,375</u>
Chargeable income	<u><u>204,720</u></u>
Tax there on:	
	Rate
First 1200	-
Next 420	5%
Next 1104	10%
Next 23196	17.5%
Reminder:	
(204,720 – 25,920)	
178,800 @	25%
	<u>44,702</u>
	<u><u>48,892.70</u></u>

SOLUTION: PRINCIPLES AND PRACTICE OF TAX, MAY 2014

Tax credit relief:	GH¢
Gross up income	26,603
Less net income from France	<u>20,250</u>
	<u>6,353</u>

Net tax payable by Mr. Appiah-Kubi

	GH¢
Tax charged	48,893
Less tax credit relief	<u>6,353</u>
Net tax payable	<u>42,540</u>

(3b) Distribution between Gifts taxable under sections 8(a) and 105 of Act 592

A gift is defined to mean a receipt without consideration or for inadequate consideration.

Gifts under section 8(a)

Its arise out of employment, donated by the employees under arrangement with the employer.

Its taxed at the graduated rate i.e. employment tax schedule.

The whole amount of gift is taxable.

The value of gift by way of perquisite is determined either by the cost of donor or amount realised is sold.

Gifts under section 105

These are taxable gifts as provided by the tax law.

Taxed at a flat rate i.e. 15%

Only amount in excess of the threshold of GH¢50 is taxable.

The value is determined as the market price at the time or date of receipts.

SOLUTION 4

(i) Exempt Supply

The supply of the goods and services specified in schedule one (1) is exempt supply and not subject to the Act. Examples- live animals, animal products, agricultural and aquatic food products.

Zero Rated Supply

Output tax shall be zero on the supply of the goods and services specified in schedule two (2) of the Act. Examples- export of taxable goods and services, goods supplied as stores on vessels and aircrafts leaving the territories of Ghana.

Difference between Exempt and Zero Rated Supply

Exempt Supply

Transactions are not taxable

Do not attract any VAT

Falls outside the scope of VAT

Traders engaged exclusively in the sale or supply of exempt supply and services are not obliged to register for VAT

Dealers in exempt suppliers cannot recover any input tax that may have been paid on inputs relating to exempt supplies.

Exempt supply include goods and services in schedule one (1) of VAT law and destined for consumption in Ghana.

Zero Rated Supply

Transactions are taxable at zero (0) rate %

Attract VAT

Falls within the scope of VAT

Traders engaged in supply and sale of zero rated goods may register for VAT

Dealers in zero rated goods may recover any input tax incurred.

Zero rated supplies are suppliers destined for consumption outside territorial boundaries of Ghana and list in schedule two (2) of VAT law.

(ii) Value Added Tax Flat rate Scheme (VFRS)

VFRS is a special method of collecting and accounting for VAT/NHIL. It's designed for traders operating in a retail sector. Under this system the registered retailer of taxable goods shall charge VAT/NHIL at a marginal rate of 3% on the value of each taxable items sold.

It's simpler to operate and comes with a minimal record keeping requirements, eliminates the difficulty of apportioning input tax into deductible and non-deductible input taxes and has the potential to expand the tax net and create a level playing field for all retailers.

VFRS is not an additional tax but an alternative to the invoice-credit scheme and a simplified method of accounting for VAT/NHIL. Only registered retailers of taxable goods are qualify to operate the scheme and could be provided with special recalls indicating authorisation to operate the scheme.

VFRS is required by the VAT law to keep at least a minimum records required to be kept by VAT registered business. Records include books of accounts such as sales books, purchase books, cash books and cheque payment books, supported by documents such invoices, bank statements, cheques stubs, till rolls vouchers, daily receipts etc. for inspection. These documents have to b retained for six (6) years.

The VAT law enjoin VFRS operators to:

- Keep basic standard records such as sales records, invoice received and issues and VAT/NHIL accounts.
- To submit monthly VFRS VAT/NHIL returns to VAT service not later than the last looking day of the month to which the returns relates.
- To pay the tax due to VAT service not later than the last working day of the month immediately following the accounting period to which the return relates.

SOLUTION 5

(a) Reason why government needs to impose taxes:

(i) Source of government revenue for development

- Taxation is the blood of the nation
- Its government main source of income
- The amount of taxes levied on taxpayers may be use to develop a country's infrastructure such as schools, hospitals, roads, water, electricity etc.

(ii) Equitable distribution of income and wealth

- Taxation may be used as a tool for equitable distribution of income through progressive system of taxation.
- The rich are made to pay more to the taxation find to the poor, thus narrowing the gap between the rich and the poor.

(iii) Protection of local industries

- Discriminatory duties or super taxes may be imposed to discourage the importation of certain goods either to conserve foreign exchange or to protect local industries.
- Super taxes may be imposed on cigarettes, drinks, wax prints, imported chicken etc to prevent consumption of harmful goods.

(iv) Promote Growth in Key Sector of the Economy

- Taxation may be used to foster growth of the key sector of the economy by providing tax incentive such as
- In Ghana, agricultural sectors enjoy tax holidays of 5 or 10years.
- Manufacturing companies site in regional capital outside Accra and Tema enjoy tax rebate of 25% or 50%.
- Companies in real estate development have 5years tax holiday.

(v) Control certain aspect of the country's economy

- Taxation can be used as a tool to control the level of inflation and deflation by increasing the incidence of taxation and thereby withdrawing money in circulation
- An efficient tax administration may result in increase in revenue to narrow the budget deficit and reducing government borrowing.
- Tool to strengthen the balance of payment position.

(b) Distinguishing between Practice Notes and Private Ruling

Practice Notes:

- For the purpose of achieving consistency in administration of the Act 592 and to provide guidance to persons affected by the Act and offices of the Internal Revenue Service, the Commissioner may issue a practice note setting out the Commissioner's interpretation of this Act.
- A practice note is binding on the Commissioner until revised.
- A practice note is a note binding a person affected by the Act.

Private Ruling:

- The commissioner may upon application in writing by a person issue to that person a private ruling setting out the commissioner's position regarding the application of this Act to that person with respect to a transaction proposed or entered into by that person.
- The private ruling shall bind on the commissioner with respect to the applications of the Act.
- Taxpayers may rely on practice notes in determining the tax consequence of their transaction.
- Where there is inconsistency between a practice note and private ruling, priority is given to the terms of private ruling.

