

**INSTITUTE OF CHARTERED ACCOUNTANTS GHANA**  
**PRINCIPLES AND PRACTICE OF TAXATION**  
**SOLUTIONS- MAY 2012**

**QUESTION 1**

**a. The conditions are**

- i. The business must be registered for VAT
- ii. The business must submit returns for all months for which it has operated.
- iii. The business must complete and submit a prescribed VAT claim form for the refund of the VAT paid to the VAT Service (Ghana Revenue Authority)
- iv. The business must be engaged in the export of 25% or more of its output.
- v. Total exports proceeds should have been repatriated by importer's bank to exporter's authorized bankers in Ghana.
- vi. The VAT paid should qualify as a deductible input VAT.
- vii. The input VAT paid should exceed the output VAT paid.

In the year 2006, the Budget Statement provided for a new system whereby the refund system was enhanced. The proposal was that the first two claims within a quarter are to be refunded automatically. The third claim, however, triggers an audit of the whole period.

**b. Related Persons**

- i. They are officers or directors of one another's business.
- ii. They are legally recognized partners in business.
- iii. They are employee and the employer
- iv. Any person, who directly or indirectly owns, controls or holds 5% or more of the outstanding shares or stock or both of them.
- v. Both of them are directly or indirectly controlled by a third person.
- vi. Together, they directly or indirectly control a third party.
- vii. They are members of the same family

Generally, under the CEPS Law, duties, levies, and taxes are computed on the value of the goods sometimes adjusted in accordance with the provisions of the law. Any manipulations therefore adversely affect revenue generation.

To obviate this, anti-avoidance provisions have been enacted to check all possible loopholes. One of such areas is the classification of persons deemed to be related. This is because; it is easier for related persons in business to attempt to evade taxes by engaging in all forms of artificial and fictitious transactions to gain a substantial economic effect. This may include over and under invoicing, transfer pricing, income splitting, value shifting and undistributed profits.

## QUESTION 2

### Capital Allowance computation

Year 2009	Class 2 (30%)	Class 5 (10%)	
Bal b/f	5,600	12,000	
Allowance	<u>1,680</u>	<u>1,200</u>	2,880
Bal c/f	3,920	10,800	
Year 2010			
Additions	<u>80,000</u>	--	
	83,920	10,800	
Allowance	<u>25,176</u>	<u>1,200</u>	26,376
Bal c/f	<u>58,744</u>	<u>9,600</u>	

### Computation of chargeable income

2009 Declared Profits	30,000
Less allowance	<u>2,880</u>
Chargeable Income	<u>27,120</u>
Rice 13,560 + 9,040	22,600
Jato	<u>4,520</u>
Total	<u>27,120</u>

	<u>Rice</u>	<u>Jato</u>
Share of profits	22,600	4,520
Cost of Living allowance	1,200	1,200
Risk Allowance	1,800	1,800
Interest on capital	3,000	1,500
Management allowance	<u>1,800</u>	<u>600</u>
Chargeable Income	<u>30,400</u>	<u>9,620</u>

Year 2010	
2010 Declared Profits	45,000
Less allowance	<u>26,376</u>
Chargeable Income	<u>18,624</u>

Share of profits	12,416	6,208
Cost of Living allowance	2,400	2,400
Risk Allowance	3,600	3,600
Interest on capital	6,000	3,000
Management allowance	<u>3,600</u>	<u>1,200</u>
Chargeable Income	<u>28,016</u>	<u>16,408</u>

### QUESTION 3

#### 2009 Year of Assessment

	GH¢	GH¢	GH¢
Net profits as per Accounts			8,000
Less Dividends (net)		36,000	
Rents		<u>140,000</u>	<u>(176,000)</u>
			(168,000)
Add Backs			
Depreciation		720,000	
Medical check-ups (director)		130,000	
Replacement of old machine		120,000	
Re-roofing of factory		160,000	
Erection of new sign board		42,000	
Donation – Great Olympics FC		10,000	
Improvement of drainage system		170,000	
Poly-tanks		<u>70,000</u>	<u>1,422,000</u>
Adjusted Profits			1,254,000
Less loss b/f			<u>380,000</u>
			874,000
Less Capital Allowance b/f	124,000		
Current Year Allowance	<u>320,000</u>		<u>444,000</u>
Chargeable Income			430,000
Add Gross Rent	140,000		
Less 30% Allowance	<u>42,000</u>		<u>98,000</u>
Chargeable Income			<u>528,000</u>
Tax @ 25%	132,000		
Less Location incentive	<u>66,000</u>		
Net Tax Payable	<u>66,000</u>		

### QUESTION 4

	GH¢	GH¢
Salary (01/01/09 – 31/12/09)		22,440
Risk Allowance		1,440
Responsibility Allowance		1,200
Inconvenience Allowance		600
Education Subsidy – children		<u>1,200</u>
		26,88
Add: car with fuel		<u>360</u>
Adjusted Employment Income		27,240
Add Rent: gross	6,000	
Less 30% allowance	<u>1,800</u>	<u>4,200</u>
		31,440
Less Reliefs: Marriage	30	
Children	48	
Life Assurance	<u>500</u>	<u>578</u>
Chargeable Income		<u>30,862</u>

## QUESTION 5

- a. Act 592 has two provisions for taxable gifts. The first is gifts received from one's employment and the second is gifts received under the Gifts Tax provision under chapter III of the same Act. The differences are as follows:
- i. Gifts received from employment, although not distinctly stated; form part of gains and profits arising from the employment and are generally donated by the employer, any of his associates or in the course of the exercise of the employment. Gifts under the gifts tax provisions may arise from any source.
  - ii. The tax payable on gifts arising from employment sources is computed using graduated rates of tax while gifts assessable under the gift tax provisions are taxed at a flat rate of 10%.
  - iii. Gifts from employment sources are taxed together with other incomes arising from the employment as well as individual's income from any trade, profession or vocation for a year of assessment. Gifts arising under the gifts tax provisions are not included in incomes from other sources. They are taxed separately.
  - iv. In the case of gifts from employment, the whole amount is taxed. However, in the case of gifts under the gifts provisions, there is a tax free element of GH¢50.
  - v. The value of the gift from employment sources is determined as either cost to the donor or how much would have been realized when sold. On the other hand, the value of a gift under the gift tax provisions is the market price at the time and date of receipt.
  - vi. Gifts arising from employment sources may take any form – cash or in kind. Gifts taxable under the gift tax provisions are specific.

### **b. Explanations should cover the following areas:**

1. The person who has committed the offence should first admit in writing to the Commissioner.
2. The Commissioner shall then determine the sum to be paid which shall not exceed the amount of the fine prescribed for the offence.
3. This shall then be communicated in writing to the offender, specifically:
  - a. The type of offence committed
  - b. Sum of money to be paid
  - c. Due date and
  - d. A copy of the written admission to be attached.
4. This is final and not subject to any form of appeal.
5. Failure to pay may be enforced in the same manner as a decree of a court
6. There shall be no prosecution in the Court.