

**MAY 2020 PROFESSIONAL EXAMINATION  
PRINCIPLES OF TAXATION (PAPER 2.6)  
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

**EXAMINER'S GENERAL COMMENTS**

The candidates' performance in this paper was very good and encouraging as more than 45% of the candidates who wrote the paper passed. The candidates have now been learning the subject based on the law and principles. Previous diets indicated that candidates were learning with questions instead of principles of taxation. There were clear general understanding of the questions and more also the questions included instructions to candidates that were specific and clear. Most of the candidates performed excellently probably because the instructions and requirements in the questions were clear enough. Fortunately, this is the second diet for the paper and candidates would have the opportunity to make amends by learning the rudiments of the paper. Candidates are advised, however, to read more on the tax laws. This is so because the Principles of Taxation is built on general knowledge on how the law works and more importantly how the law is explained and applied.

**STANDARD OF THE PAPER**

The questions were excellent for part two. All the questions did reflect the Principles of Taxation syllabus of which the candidates were expected to have a fair knowledge to pass. The questions fairly covered the entire syllabus and the expectations were that any average student who wrote the paper should pass.

**PERFORMANCE OF CANDIDATES**

Generally, the performance of the candidates was very good and the expectations of the Examiner from the candidates were met. Questions were of good standard with respect to part two. Instructions were clear as to what the candidates were to do. Any student who could not pass cannot blame anyone but himself or herself for lack of preparation and understanding of the syllabus. More than 45 percent of the candidates passed the paper and this is a good sign of how candidates prepared.

The reasons could be as follows:

- It is strongly believed that the candidates did well because the instructions in most of the questions were clear and thus unambiguous.
- Candidates who passed did not have much problems stating the principles in taxation. It is expected that this trend will continue.
- There is evidence that the candidates are having a better tuition. However, some of the candidates did not show any evidence of good understanding of the basics of taxation.
- Those candidates who did not perform well do not understand imposition of taxation, capital gains and gifts tax, and Value Added Tax. These areas of taxation was examined prominently and it seems most of the candidates have little knowledge on these issues.

## **NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES**

It is evident that most of the candidates had excellent understanding of the syllabus and the subject. This was demonstrated in the answering of the questions. However, the coverage of the syllabus is still low. Candidates have been learning only certain parts of the syllabus. This was evident with some candidates scoring high marks in certain question and almost nothing in other questions.

It is also clear that most of the candidates received very good tuition on the subject. Most of the answers provided were very good. Lecturers should pay attention to the law. It seems some Lecturers do not follow the changes in the law.

Those who passed really deserve it because it was clear that they had prepared as some of the candidates were getting marks above 60%. This is clear that the candidates prepared well and understood the questions.

The manner most of the candidates presented their answers was very good. This makes the marking and scoring not so difficult. Candidates should pay attention to presentation style going forward.

The understanding of the topics in the syllabus was good. Most of the candidates had an excellent understanding of the topics in the syllabus. Even those who could not pass, had fairly good marks, ranging between 40%-45%.

It seems some candidates did not pay attention to certain topics. Probably, thinking those topics were not so important. Such topics are: Ghana National Pension Scheme, Fiscal Policy, Tax Administration, and Value-Added Taxation. If candidates had given more attention to these topics, the pass rate would have been more than 50%.

Candidates are advised to give equal attention to the topics since subsequent examinations will be based on all the topics in the syllabus and not only part of the syllabus.

This is a new subject in the ICAG scheme and candidates are expected to learn everything and not to pick and choose what they want to learn. Tuition providers should also pay equal attention to all the topics and not to ignore some considered to be minor and unimportant.

## QUESTION ONE

- a) Taxation system can be classified in many ways. It could be based on the method used in the computation of the tax or based on the incidence/responsibility for the payment of the tax.

**Required:**

Explain the *structural or classification* of the Ghanaian tax system. (5 marks)

- b) The government budget is a plan of government revenues and expenditures for a specified period, usually a year. When budgeted expenditures exceed projected tax revenues, the budget is projected to be in deficit. This will lead to deficit financing.

**Required:**

Describe briefly **FIVE (5)** causes of deficit financing. (5 marks)

- c) Knaah-Shormeh Ltd has to settle Ghana Revenue Authority on the following tax liabilities:

	<b>GH¢</b>
Custom duties	1,000,000
Withholding Tax Surcharge	80,000
Value Added Tax	500,000
Corporate Tax	<u>100,000</u>
<b>Total Liability</b>	<b><u>1,680,000</u></b>

**Additional Information:**

50% of the Value Added Tax relates to imports.

The above came about from adjusted assessment through an audit conducted and a report submitted on 31 January, 2019.

The company has engaged Miracle Consultants, a firm of Tax Practitioners to help it object to the assessment. It claims it is excessive and erroneous based on its facts and circumstances.

**Required:**

What conditions must be met by Knaah-Shormeh Ltd before the Commissioner-General makes a determination on the objection. (8 marks)

- d) What constitutes a *Tax Return*? (2 marks)

(Total: 20 marks)

## QUESTION TWO

- a) Pamela Noi Ltd is a non-resident person. The Company's Procurement Officer came down to Ghana to buy Ten (10) Toyota Vehicles manufactured by Safo Kantanka to be delivered in Mali. The vehicles are going to be used in Mali. The management of Pamela Noi Ltd requested that the vehicles be serviced in Ghana by High Class Mechanic, a popular mechanic in Accra-Ghana.

**Required:**

- i) What is the Value Added Tax (VAT) implication on the vehicle to be acquired by Pamela Noi Ltd? **(2.5 marks)**
- ii) What is the VAT implication of the servicing of the vehicle in Ghana? **(2.5 marks)**
- b) Mutumna Ltd is a manufacturer and invoiced goods valued GH¢20,000,000 to Lamlam Ltd, a resident company located in the Western Region of Ghana. Lamlam Ltd has been appointed as a Value Added Tax Withholding Agent.

**Required:**

Compute the VAT withholding taxes. **(3 marks)**

- c) The introduction of Withholding Value Added Tax was widely celebrated by tax administrators and tax practitioners as it is believed the benefits to be reaped by the Ghana Revenue Authority would be enormous.

**Required:**

What purpose does Withholding Value Added Tax seek to achieve? **(2 marks)**

- d) Abah Enterprise is a small business but intends to bid for government contracts. It has a very small cash flow, with turnover unable to be registered under the compulsory registration arrangement for Value Added Tax. The proprietor of Abah Enterprise, feels that if the enterprise is not registered for Value Added Tax, it will be difficult to be able to bid for government contracts.

**Required:**

Under what condition can Abah Enterprise apply to Ghana Revenue Authority for Value Added Tax Registration without meeting the threshold registration requirements under section 6 of the Value Added Tax Act 2013 (Act 870)? **(5 marks)**

- e) Zealow Ltd, a car battery dealer holds 26% voting power of Aboye Ltd, an energy and power distribution company. Both companies are resident in Ghana. Aboye Ltd declared dividend and the portion of dividend that should be credited to the accounts of Zealow Ltd is GH¢78,900.

**Required:**

Determine the taxes payable if any and comment on the treatment of dividend to Zealow Ltd. **(5 marks)**

**(Total: 20 marks)**

### QUESTION THREE

- a) During the year ended 31 December, 2018 the partnership of David, Stella and Percy reported an adjusted profit of GH¢951,000 before charging partners salaries, interest on capital and cost of travelling for leave.

	<b>David</b>	<b>Stella</b>	<b>Percy</b>
Profit/loss sharing ratio	3	2	1
	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>
Salaries	48,000	72,000	96,000
Interest on Capital	30,000	20,000	10,000
Cost of travelling for leave	<u>20,000</u>	<u>30,000</u>	<u>25,000</u>
	<b><u>98,000</u></b>	<b><u>122,000</u></b>	<b><u>131,000</u></b>

**Required:**

Compute the *assessable income* for each partner. (7 marks)

- b) It is necessary to find out whether an activity carried out by an individual amount to a profession (contract for service) or employment (contract of service). From taxation point of view there is the existence of employment where there is a *contract of service*.

**Required:**

What are the characteristics of *contract of service*? (6 marks)

- c) What are the taxation rules for *overtime payments* and *bonus payments* under employment income? (7 marks)

(Total: 20 marks)

### QUESTION FOUR

Stella-VD Company Limited, manufacturers of fruit juice for local consumption commenced business on 1/10/2017, with accounting year-end at 31 December. The company submitted its accounts for 2017 and was assessed accordingly. The company submitted its tax returns for 2018 year of assessment to the Ghana Revenue Authority on 30/04/2019. Below are the details:

Gross Profit		<b>GH¢</b>	<b>GH¢</b>
Other Income	(vi)		900,000
			<u>23,000</u>
			923,000
<b>Less operating expenses</b>			
Wages and Salaries	(v)	146,000	
Director's remuneration		52,000	
Electricity and water		31,500	
Printing and Stationery		8,200	
Telephone & Postage		1,800	
Installation of Plant and others in 2018	(ii)	60,000	
Registration and licencing		12,100	

Depreciation		2,700	
Business promotion		6,000	
Legal Fees		8,000	
Staff Welfare	(iii)	26,200	
Donation and subscription	(iv)	28,000	
Advert and Publicity	(i)	<u>23,700</u>	<u>406,200</u>
<b>Net profit</b>			<b><u>516,800</u></b>

**Additional information- all amounts in (GH¢):**

<b>i) Advert and Publicity</b>			
Radio and Television			3,300
Newspaper advert			2,400
Permanent signboard at the Company's entrance in 2018			18,000
<b>ii) Installation of Plant and others</b>			
Installation of plant			21,500
Heavy Duty Generator bought in 2018 to support the Plant Machinery			20,500
General maintenance			18,000
<b>iii) Staff Welfare</b>			
Staff medical bills			3,700
Safety wear for staff			10,500
Canteen Equipment purchased on 30/11/2018			12,000
<b>iv) Donation and Subscription</b>			
Goods given as gratis to customs officials			13,000
Donation of goods to SOS Children Village			10,000
Subscription to Association of Ghana Industries			5,000
<b>v) Wages and Salaries</b>			
Old Staff			120,000
Fresh graduates employed by Stella-VD Ltd			26,000
Fresh graduates constitute 0.9% of the total workforce			
<b>vi) Other Income</b>			
Compensation from a customer for cancellation of sale order			8,000
Compensation for loss of trading stock of the company			10,000
Compensation for cancellation of purchase order by supplier			5,000

The Company's assets include the following:

<b>Type of Assets</b>	<b>Date of Acquisition</b>	<b>Cost (GH¢)</b>
Factory Building	01/10/2017	300,000
Plant and Machinery	25/10/2017	171,000
Delivery Van	01/11/2017	50,000
Computers	01/10/2017	40,000
Furniture and Fittings	10/12/2017	150,000
Other office Equipment	01/10/2017	200,000
Office Building	30/06/2018	500,000

**Required:**

- a) Compute the appropriate *capital allowance* for 2017 and 2018 year of assessment. **(8 marks)**
- b) Calculate the *chargeable income* of the company for assessment year 2018. **(12 marks)**

**(Total: 20 marks)**

**QUESTION FIVE**

- a) Papa Dekey purchased a house in Madina area of Greater Accra Region in year 2010 for GH¢400,000. The acquisition expenses incurred by the company amounted to GH¢50,000.

In June 2019, Papa Dekey sold the house for GH¢700,000 while the incidental expenses incurred were as follows:

	<b>GH¢</b>
Agent's commission	10,000
Solicitors fees	8,000
Advertising	3,000
Accountants fees	10,000
Income tax on rent collected by Estate Agent	6,000
Valuation fees	20,000

Papa Dekey also sold for GH¢1,000,000 in September 2019, Ghana Government Securities which cost GH¢800,000 in the year 2010. The incidental selling expenses amounted to GH¢50,000 in respect of Government Securities.

**Required:**

Compute the Capital Gains Tax payable by Papa Dekey. **(5 marks)**

- b) Mr. Nyametse John is a member of Community Christ Church. Mr. Nyametse does not run a business neither is he into employment. In 2018 year of assessment, he received the following from his Pastor who just returned from the United Kingdom:

	<b>£</b>
Wrist watch	100
Shoes	120
Mobile Phone	150

Exchange rate: GH¢ 6- £1

**Required:**

Compute any tax payable for 2018 year of assessment. **(5 marks)**

- c) The following unstructured invoice has been forwarded to Adamu Ltd from Asigra Ltd, a standard rated supplier:

Goods invoiced (VAT inclusive)

GH¢3,000,000

The above transactions relate to payment for goods in January 2019.

**Required:**

- i) Compute the withholding tax payable by Adamu Ltd. **(2 marks)**
- ii) Compute the penalty payable, assuming Adamu Ltd filed the withholding tax return 12 days after the due date? **(3 marks)**
- d) What are the features of the 3-Tier Ghana National Pension Scheme? **(5 marks)**

**(Total: 20 marks)**

**The Tax Rates- (ANNUAL 2020 to DATE)**

	<b>Chargeable Income</b>	<b>Rate</b>
	<b>GH¢</b>	
First	3,828	Nil
Next	1,200	5%
Next	1,440	10%
Next	36,000	17.5%
Next	197,532	25%
Exceeding	240,000	30%



## SOLUTION TO QUESTIONS

### QUESTION ONE

#### a) Structural and classification of taxes in Ghana

##### **Based on the method used for the calculation of the tax**

- **Proportional Tax**

Here tax is levied at a fixed rate on the amount of income earned. A proportional tax is a tax whose burden is the same rate regardless of the income earned by the household. For example, under a proportional tax system, if the income tax rate is 10%, then a household who earns GH¢10,000 will pay 10% of their income in taxes, while a household who earns GH¢10 million will also pay 10% of their income as taxes. **(1 mark)**

- **Progressive Tax**

Here the rate that is used to calculate the amount of tax is determined by the person's total income. The bigger the person's income the more tax he will pay. A progressive tax is a tax that takes a higher percentage of income from higher income households than from lower income households. The current income tax system in Ghana on PAYE is a progressive tax. For example, under a progressive tax system, a household that earns GH¢10,000 would pay a 5% income tax while a household that earns GH¢10 million would have to pay a 35% income tax. **(1 mark)**

- **Regressive Tax**

This is where the tax rate reduces as the person's total incomes gets bigger. This type of tax does not exist in most countries, but a typical excise tax is regressive. **(1 mark)**

##### **Based on who has the responsibility to pay the tax**

- **Direct Tax**

In this case the impact and incidence of tax falls on the same person. Direct taxes are taxes on income. A Direct tax is a kind of charge, which is imposed directly on the taxpayer and paid directly to the government by the persons. The burden of direct tax is one that cannot be shifted by the taxpayer to someone else. Examples of Direct Taxes are: personal income tax from labour, interest etc, Company tax, Property tax, Stamp duties, Rent tax. **(1 mark)**

- **Indirect Tax**

Here the impact and incidence of the tax falls on different people. Indirect taxes are taxes on spending. It is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the customer). An indirect tax is one that can be shifted by the taxpayer to someone else. This kind of tax may increase the price of a good so that consumers are actually paying the tax by paying more for the products. Examples of Indirect Taxes are: Export and import tax, Excise tax, Surcharges, Entertainment tax, Licences, Value added tax, Petroleum tax. **(1 mark)**

**b) Causes of Deficit Financing**

- **During a Period of Depression:** Deficit financing assume greater importance when there is the need to recover after a major depression or to reduce the severity of the business cycle. This happens when there is the realization that private sector activities as well as traditional monetary policies prove inadequate in restoring economic stability. When economic activities are declining or stagnant deficit financing may replace deficiency in aggregate demand by injecting funds and providing the necessary stimulant for reducing under-utilization of resources and increase the deployment of labour and capital through additional spending to finance the budget deficit.
- **During Wars:** Governments try to raise additional resources to finance tribal conflicts during tribal wars. This may however have negative effects on inflation etc.
- **During a Process of Economic Development:** Usually in developing countries deficit financing is applied to cater for the meager voluntary investment in order to progress rapid development to do away with the vicious circle of poverty (low savings, low investment, low income, etc).
- **Ineffective Financial Management:** since budgetary projects in developing countries are not reliable, management also tend to be ineffective and this leads to demand for loans, grants and aid to finance ineffective programmes.
- **Weak Expenditure Control and Monitoring:** The annual accounts are usually in arrears in such a way that year by year comparison is difficult. Besides the unpredictable economic and social environment, government may incur expenditure outside the budget which necessitates the inflow of budget expenditure in excess of expected revenue.
- **Low Revenue Mobilization:** The revenue or tax net does not encapsulate all taxable enterprise and individuals. Revenue from taxes therefore tends to be less than what is needed for payments of goods and services and other government current financial obligations.
- **Political Pressure:** Politicians make electioneering promises which have not been budgeted for. When political pressure becomes unbearable, there are attempts to implement policies (not budgeted for) in order to earn political integrity. These create extra burden needing extra funds to finance outside the budget.

**(Any 5 point @ 1 mark each = 5 marks)**

- c) Knaah-Shormeh Ltd will have to object to the assessment within 30 days upon the receipt of the notice of the tax decision if it is not satisfied with the Commissioner-General's tax decision. The objection shall be in writing, stating precisely the grounds on which the objection is made.

The Commissioner-General may grant an application for extension when Knaah-Shormeh Ltd before the expiry of the 30 days apply for the extension.

An objection of Knaah-Shormeh Ltd shall not be entertained unless:

- ✓ Import duties and taxes associated with the import duties are fully paid including the taxes in disputes and

- ✓ In the case of other taxes, paid all outstanding taxes including 30% of the tax in dispute.

The Commissioner-General may waive, vary or suspend the above payment pending the determination of the objection or take any other action including the deposit of security.

If the objection is not done within 30 days, the tax decision is final.

In summary, it will pay the custom duty fully and 50% of the value added tax before the determination:

	GH¢
Custom duties	1,000,000.00
Value Added Tax	<u>250,000.00</u>
<b>Total payment before objection is determined</b>	<b>1,250,000.00</b>

And pay 30% of the following:

Withholding Tax Surcharge	80,000.00
Value Added Tax	250,000.00
Corporate Tax	<u>100,000.00</u>
	<b>430,000.00</b>

Total payment before the objection is determined is 30% of GH¢ 430,000 which is **GH¢ 129,000.00**

**(8 marks)**

- d) It is an official statement that contains the income of the person and any allowable deduction for any year of assessment from employment, business and or investment. It is statutory.

**(2 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENT**

The question assessed the candidates on The Ghanaian Tax Systems, Fiscal Policy and Tax Administration and Tax Assessment. Candidates were examined on topics such as; structural or classification of the Ghanaian tax system, causes of deficit financing, what conditions must be met before the Commissioner-General makes a determination on tax objection, and tax returns. These questions were familiar to candidates because Fiscal Policy and Tax Administration are explicitly stated in the Principles of Taxation syllabus. The marks allocated were also fair for the efforts needed to answer the question.

Most of the candidates could not answer the classification of taxes. There was a little confusion as to what the Examiner was looking for. The causes of deficit financing question was well answered by the candidates. Majority of the candidates did not

know anything about VAT withholding. Candidates defined tax return appropriately. However, few answers were strange to read.

## QUESTION TWO

a)

i) Value added tax is tax on value addition through the production and supply chain. The VAT is charged on goods, services and imports. The VAT is on the destination principle. Charge VAT if the goods and services are going to be consumed in Ghana and do not charge VAT if the goods and services are going to be consumed outside Ghana.

Pamela Noi Ltd being a non-resident person and with the purchase of 10 pickups to be used in Mali will not attract VAT in line with destination principle.

**(2.5 marks)**

ii) The VAT is charged when service is consumed in Ghana. Given that the vehicles will be serviced in Ghana by Ghanaian Mechanic, the service will attract VAT. The servicing to be performed of the 10 pickups in Ghana is a taxable activity and consequently, will attract VAT in line with destination principle.

**(2.5 marks)**

b) Invoiced value = GH¢20,000,000

VAT Rate: 12.5%

$$\text{VAT} = \frac{\text{Rate} \times 20,000,000}{\text{Rate} + 100}$$

$$\frac{12.5 \times 20,000,000}{112.5}$$

$$= 2,222,222.22$$

$$= 2,222,222.22$$

$$\text{Taxable Value} = 20,000,000 - 2,222,222.22$$

$$= 17,777,777.78$$

$$\text{VAT Withholding Tax} = 7\% \times 17,777,777.78$$

$$= \text{GH¢ } 1,244,444.44$$

**(3 marks)**

c) Withholding VAT is not a new tax but a compliance measure to ensure that all VAT due government is paid. It involves the declaration of VAT by both the supplier and the withholding agent. It is to help check the abuse by the non-filers of the VAT after charging VAT without accounting for the VAT. **(2 marks)**

d) Abah Enterprise can apply for VAT registration provided the following conditions are met:

- It has a fixed place of abode or business
- Has reasonable ground to believe that that person may:
- Keep proper accounting records related to any business activity carried on by that person

- Submits regular and reliable tax returns as required
- Is fit and proper person to be register

**(5 points @ 1 mark each = 5 marks)**

- e) Under section 59(3), a dividend paid to a resident company by another resident company is exempt from tax where the company that received the dividend controls indirectly or directly, at least twenty-five percent of the voting power of the company which paid the dividend.

From the above, Zealow Ltd holding 26% voting power of Aboye Ltd, makes Zealow Ltd a shareholder and entitled to dividend. The dividend in this case is exempt from tax under section 59(3) of Act 2015 Act 896.

In conclusion, the dividend of Ghc78,900 credited to the accounts of Zealow is exempt from tax in the hands of both Zealow Ltd and Aboye Ltd.

**(5 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENT**

Question two examined candidates on Value Added Tax (VAT). The questions were straightforward dealing with basic principles governing VAT. Some of the questions were: withholding taxes, withholding tax agents, and basic computation of withholding taxes on goods and services. Unfortunately, the candidates performed poorly, apparently because most of the candidates have not grasped the laws and principles governing the VAT withholding mechanisms.

Majority of the candidates did not have any idea about withholding taxes. Some scored high marks because the computations were not difficult. Almost all the candidates had no idea about the conditions for the payment of dividend of resident companies in Ghana with respect to the percentage holding in associates. The only portion of the question well answered was part d) on the conditions for registration for VAT.

### QUESTION THREE

a) **David, Stella and Percy**

**Share of appropriation of profit for partnership year 2018**

**Partnership Computed Income**

	GH¢	GH¢
Adjusted profit		951,000
Share of Profit		
David $\frac{3}{6} \times 951,000$	475,500	
Stella $\frac{2}{6} \times 951,000$	317,000	
Percy $\frac{1}{6} \times 951,000$	158,500	

**Computation of Assessable Income of Each Partner for 2018 Year of Assessment**

	David GH¢	Stella GH¢	Percy GH¢
Share of Profit	475,500	317,000	158,500
Salaries	48,000	72,000	96,000
Interest on Capital	30,000	20,000	10,000
Cost of travelling for leave	20,000	30,000	25,000
Assessable income	<u>573,500</u>	<u>439,000</u>	<u>289,500</u>

*(In accordance with section 52(7) of the Income Tax Act (Act 896), benefits paid to partners are added back)*

**(7 marks evenly spread using ticks)**

b) **Characteristics of contract of service**

- The worker is controlled by their employer. They must perform the tasks they are instructed to by a line manager according to their job description. In a contract of service, the employer normally enjoys the power of control over the work of the servant and the servant is bound to obey the orders/instructions of the master. The matter of control by the employer over the employee has been emphasized by the Courts as being the important factor in deciding whether the relationship of employer and employee exists.
- The worker is expected to work at a specific place during specific hours on specific days. For contract for service (i.e. an independent contractor), on the other hand, undertakes to produce the required result, but in the actual execution of the job to produce the result, he is not under the order or control of the person for whom he executes that work. He is free to use his discretion. Do note that a contract of service only comes into effect when the employee turns up for work on the appointed starting date, as stipulated in the agreed terms of the contract.
- A contract of service has a formal contract which defines the employer-employee relationship, including the terms and conditions of employment. The contract

must include certain terms and essential clauses, such as hours of work and job scope. The agreement can be in writing, verbal, expressed or implied. It can be in the form of a letter of appointment or employment, or an apprenticeship agreement. However, to minimise disputes on the agreed terms and conditions, the contract should be in writing.

- Employees have statutory rights regarding how they can be asked to leave their employment. Employees have statutory rights to holiday pay, sick pay, maternity and paternity rights and redundancy payments.
- Economic considerations. Is the business carried out on the person's own account, or is it for the employer? If it is for the employer, then there is contract of service. Can the person share in profit or be liable to any risk of loss? If the person cannot share in the profits and risks of running the business, then there is contract of service. Where liability for any errors or defects in work completed for clients, is born by the employee, and this may expand to personal liability (assuming the contractor is a director), then there is contract for service.
- In a contract of service, there will be typically a clause that provides for situations where either the employer or employee can terminate the contract, and the applicable procedures for the termination of the contract. A contract of service may be terminated if the employee decides to resign, the employer dismisses the employee, or the contract terms have expired. A contract for service may be terminated if the performance of the service provider is not satisfactory, or if the performance of the project or service is disrupted due to unforeseen circumstances, or it becomes impossible to continue on a project that is already in progress.
- The next test is the Integration Test. The test is whether the work being performed under a contract is integral to the operation of the business structure as a whole, or it is only works on the side of the main business. In this case, it is stated that an employee is a person who is integrated with others in the work place or business even though the employer may not necessarily exercise a detailed control over what the employee does.
- An individual's employment status will affect their entitlement to certain social welfare benefits (e.g. social security contribution by employees, workers' pension fund, old-age contributory pension and disability benefit, marriage responsibility allowance, child education benefits etc).

**(Any 4 points @ 1.5 marks each = 6 marks)**

**c) Overtime**

- Where an employer makes a payment for overtime work to a qualifying junior employee during a year of assessment, and the payment is up to 50% of the basic salary of the employee for the month, the employer is required to withhold tax at the rate of 5% from the payment. Any excess above the 50% is taxed at 10%.
- A junior employee is the one whose qualifying employing income does not exceed eighteen thousand currency points (GH¢18,000.00) per annum.

**(2 points @ 1.5 marks = 3 marks)**

### **Bonus Payment**

Where an employer pays a bonus to an employee during a year of assessment and the sum of the payment during the year:

- Does not exceed 15% of the annual basic salary of the employee, the employer is required withhold tax from the gross amount of the payment at the rate of 5%
- Exceeds 15% of the annual basic salary of the employee, the employer shall:
  - ✓ add any excess above the 15% payments to the employment income of the employee for the year, and
  - ✓ withhold tax from the payment in accordance with the income tax rates for resident individuals (i.e. the graduated rates)
- Tax withheld under overtime and bonus is a final tax on the overtime or bonus payment and the payment shall not be included in calculating income derived by the employee from that employment.
- Where an employer makes a payment for overtime to an employee who is not a qualifying junior employee, the payment would be included in calculating the income of that employee from the employment and taxed at the graduated rates.

**(4 points @ 1 mark each = 4 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENT**

The question sought to test candidates understanding on Taxation of Individuals and partnerships. Questions were set on computation of partners' chargeable incomes, differences between contract of service and contract for service, conditions governing overtime payment and bonus payments. The details given to the candidates were very clear and any average candidates should be in the position to provide good answers to the questions. The marks were fairly allocated to the questions.

The question on partnership assessment was answered excellently by majority of the candidates. However, few of the candidates were totally lost as to how the arrangements of the solution should be. Valuable points were lost. One of the excellently answered question was the features of contract of service. This has been a popular question over the years and candidates now understand the principles.

The distinction between the principles governing Overtime and Bonus payments is still confusing for candidates. Some candidates confused the two. Some candidates also did not understand the differences at all. Wrong percentages were quoted for overtime and bonus payments.



## QUESTION FOUR

### a) Computation of capital allowance for 2017 and 2018

	Class 1	Class 2	Class 3	Factory Building	Office Building	Total
<b>2017 (92/365 days)</b>	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>
Cost (N.1)	40,000	263,000	362,000	318,000	0	
Capital Allowance	<u>(4,033)</u>	<u>(19,887)</u>	<u>(18,249)</u>	<u>(8,015)</u>	<u>0</u>	<b>50,184</b>
<b>2018 (full year)</b>						
Written Down Value	35,967	243,113	343,751	309,985	0	
Additions	0	0	0	0	500,000	
Disposal	<u>0</u>	<u>(50,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	
	35,967	193,113	343,751	309,985	500,000	
Capital Allowance	<u>(14,387)</u>	<u>(57,934)</u>	<u>(68,750)</u>	<u>(31,800)</u>	<u>(50,000)</u>	<b>222,871</b>
	<u>21,580</u>	<u>135,179</u>	<u>275,001</u>	<u>278,185</u>	<u>450,000</u>	

#### Note 1: Class 2

	GH¢
Installation of Plant	21,500
Generator	20,500
Plant and Machinery	171,000
Delivery Van	<u>50,000</u>
	<b><u>263,000</u></b>

#### Note 1: Class 3

	GH¢
Canteen Equipment	12,000
Furniture and fitting	150,000
Office equipment	<u>200,000</u>
	<b><u>362,000</u></b>

#### Total of Factory building

Factory building	300,000
Permanent signboard	<u>18,000</u>
	<b><u>318,000</u></b>

(8 marks evenly spread using ticks)

b)

**Stella-VD Ltd**

**Computation of chargeable income for the year of assessment, 2017 and 2018**

	<b>GH¢</b>
Draft Net Profit	516,800
Registration and license of Business	12,100
Depreciation	2,700
Advert and publicity: Permanent signboard	18,000
Installation and others: Installation of plant	21,500
Staff welfare- Canteen equipment	12,000
Donations and subscription: Goods given as gratis	13,000
Wages and salaries: Fresh Graduates (10% x 26,000)	<u>2,600</u>
	598,700
Capital allowance: 2017	(50,184)
2018	<u>(222,871)</u>
<b>Chargeable Income</b>	<b><u>325,645</u></b>

**(12 marks evenly spread using ticks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENT**

The question examined two issues: examination of company accounts for taxation and computation of capital allowances. Candidates were expected to have a fair idea on imposition of taxation of which these topics could be extracted from. So, the question was a fair one. Most candidates could not provide excellent answers and thus only earned average marks. The instructions to the candidates were so clear but the candidates could not find the best way to present the solution. Most candidates ended up scoring low marks as a result of poor presentation of the solution. Majority of the candidates had no idea of how to present schedule for capital allowances. This is an area of the syllabus that candidates can easily earn marks if they learn then very well.

**QUESTION FIVE**

	GH¢	GH¢
a) Consideration Received		700,000
Cost of Asset:		
Original Cost of asset	400,000	
Acquisition expenses	50,000	
Agents commission	10,000	
Solicitors fees	8,000	
Advertising	3,000	
Accountants fees	10,000	
Valuation fees	20,000	
		<u>(501,000)</u>
<b>Gains from realisation</b>		<u>199,000</u>
<b>Tax payable</b>	<b>15% x GH¢199,000 = GH¢29,850</b>	

(5 marks evenly spread using ticks)

- b) **Mr. Nyametse John**  
**Computation of Tax Payable**  
**Y/A 2018**  
**BP January 1-December 31, 2018**

	£	
Wrist Watch	100	
Shoes	120	
Mobile Phones	<u>150</u>	
Total	370	
	£	GH¢
Market Value of Gifts (370 *6)	370	2,220
<b>Tax Charged @ 15%</b>		<b>333</b>

(5 marks evenly spread using ticks)

- c) Goods invoiced includes VAT and other taxes (GETFUND, NHIL)

- i) Computation of withholding taxes:
- |                                     |                         |
|-------------------------------------|-------------------------|
| Invoiced value                      | GH¢3,000,000            |
| VAT Rate = 12.5%                    |                         |
| VAT = Rate/Rate+100 X 3,000,000     |                         |
|                                     | <u>12.5 X 3,000,000</u> |
|                                     | 12.5+100                |
|                                     | = GH¢333,333.33         |
| Taxable Value =Invoiced Amount -VAT |                         |
|                                     | =3,000,000-333,333      |
|                                     | = GH¢2,666,666.67       |

Computation of Cost:

$$\frac{\text{Rate X taxable Value}}{\text{Rate+100}}$$

$$\frac{5 \times 2,666,666.67}{105}$$

$$= \text{GH}\text{c}126,984.13$$

$$\text{Cost} = \text{Taxable Value} - (\text{GetFund} + \text{NHIL})$$

$$= 2,666,666.67 - 126,984.13$$

$$= \text{GH}\text{c}2,539,682.54$$

**Withholding Tax:**

$$\text{Goods} = 3\%$$

$$\frac{3}{100} \times 2,539,682.54$$

$$= \text{GH}\text{c}76,190.48$$

**Withholding Tax Payable = GHc76,190.48**

- ii) Penalty for filing 12 days late  
 GHc500+ (GHc10x12days)  
 =GHc620

**(5 marks evenly spread using ticks)**

**d) Features of the 3-Tier Ghana National Pension Scheme**

- It is a 3-tier scheme.
- The first two are mandatory for all workers.
- The Third-Tier is a voluntary, fully-funded by members and a privately managed provident fund and personal pension scheme.
- SSNIT pays only the monthly pension of the beneficiary and the Fund Managers who manage the Second Tier with the 5% contribution rates will pay the lump sum.
- The Act is for both the public and private sector workers.
- Minimum contribution rate - 18.5% of the approved monthly minimum wage (13.5% - SSNIT 1st Tier; 5% - 2nd Tier).
- Maximum Contribution - a maximum amount will be determined by SSNIT in consultation with the NPRA periodically. Currently, the maximum contribution is on a salary of GHc25,000.00.
- Minimum contribution period is 180 months in aggregate or 15 years.
- Entry age/Maximum Age - New minimum age is 15 years and the maximum age for a new entrant is 45 years.
- Age Exemption - those who were 55 years and above before the commencement of Act 766 were exempted from this new scheme. On the other hand, a person who is 55 years and above exempted from the Act may opt to join the scheme.
- The new scheme includes almost all the various pensions systems in the country

**(Any 5 points @ 1 mark each = 5 marks)**  
**(Total: 20 marks)**

## **EXAMINER'S COMMENT**

Question five was made up of three parts: capital gains and its taxation, gifts and its taxation, and the Ghana National Pension Scheme. Candidates scored poorly here. It seems candidates have not taken too much interest in the capital gain tax and gift tax. Candidates are advised to pay attention to every aspect of the syllabus.

The question on capital gains was perfectly answered. Majority of the candidates scored full marks. The question on gift tax was also answered excellently. Unfortunately, some candidates were still using the old computation. The computation of VAT liability was a problem in the examination. This part of the question was poorly done. Candidates are encouraged to pay more attention to VAT mechanisms. It seems candidates felt Pension Systems have not been part of the syllabus. Hence only a few of the candidates answered this part of the question.

## **CONCLUSION**

Tuition centres and candidates should bear in mind that subsequent examinations will cover the entire syllabus and therefore, should pay attention to the entire syllabus. There should not be any pick and choose attitude towards the syllabus and the examination.

There is nothing like 'the examination trend'. Candidates are to be examined on all the topics and therefore, the dynamics of the examination could change but still based on the syllabus.

Candidates should pay attention to details when reading. It seems candidates do not read carefully in between the lines when reading. This was clearly demonstrated in the examination. Answers were not provided in full.

Candidates are strongly advised to learn the subject with the syllabus. Candidates should not learn the subject with questions. This attitude will leave out most of the topics unattended to. The past questions are only a guide as to how the questions are asked.