

**NOVEMBER 2019 PROFESSIONAL EXAMINATION  
PRINCIPLES OF TAXATION (PAPER 2.6)  
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME**

**EXAMINER'S GENERAL COMMENTS**

The performance of the students in this paper was very good as more than 40% of the students who wrote the paper passed. There was clear general understanding of the questions and more importantly, the questions included instructions to students that were specific and clear. Most of the Students performed excellently probably because the instructions and requirements in the questions were clear enough. Fortunately, this is the first diet for the paper and students would have the opportunity to make amends by learning the rudiments of the paper. Students are advised, however, to cultivate the habit of reading generally on taxation and listen more to or read from experts on taxation. 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 students 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.

Question one assessed the students on Fiscal Policy and Tax Administration. Students were examined on topics such as: purposes of taxation in an economy, application of taxation as a fiscal tool, and tax assessment. These questions were familiar to students 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.

Question two had two parts: first part on Value Added Tax. The question on the first part had instructions that were clear to students and this showed in their solutions as those students had prepared were able to answer very well. The marks students scored were however, very low. The question on the withholding taxes was however, a bit ambiguous but the instructions were certain on what students were to do. Most of the Students did so well with the second part of the question.

Question three sought to test students understanding on Taxation of Individuals, including the self-employed. Questions were set on computation of Overtime allowance, chargeable income of non-residents and vehicle income stickers. The details given to the students were very clear and any average students should be in the position to provide good answers to the questions. The marks were fairly allocated to the questions.

Question four examined three issues: examination of company accounts for taxation, differences between domestic expenditures and excluded expenditures,

and rules governing research and development expenses. Students are expected to have a fair idea imposition of taxation of which these topics could be extracted from. So, the question was a fair one. Most students could not provide excellent answers and thus only earned average marks. The instructions to the students were so clear but the students could not find the best way to present the solution. Most students ended up scoring low marks as a result of poor presentation of the solution. Majority of the students had no idea of the differences between domestic expenditure and excluded expenditure.

Question five was made up of three parts: capital gains and its taxation, gifts and its taxation, and the Ghana National Pension Scheme. The last part of the question was a problem to students because the instructions were not clear. This part of the question seems not to have anything to do with taxation but it is clearly stated in the syllabus for students to know.

### **PERFORMANCE OF CANDIDATES**

Generally, the performance of the students was very good and the expectation of the Examiner from the students was met. Any student who could not pass cannot blame anyone but himself or herself for lack of preparation and understanding of the syllabus. More than 40 percent of the students passed the paper and this is a good sign of how students prepared.

#### **The reasons could be as follows:**

- It is strongly believed that the students did well because the instructions in most of the questions were clear and thus unambiguous.
- Students do not have much problems stating the principles in taxation. It is expected that this trend will continue.
- There is evidence that the students are having better tuition. However, some of the students did not show any evidence of good understanding of the basics of taxation.
- Those students who did not perform well do not understand taxation activities so well. This area of taxation was examined prominently and it seems most of the students have little knowledge on these issues.

### **NOTABLE STRENGTHS & WEAKNESS OF CANDIDATES**

It is evident that most of the students had excellent understanding of the syllabus and the subject. This was demonstrated in the answering of the questions.

It is also clear that most of the students received very good tuition on the subject. Most of the answers provided were very good.

Those who passed really deserve it because it was clear that they had prepared as some of the students were getting marks above 60%. This is clear that students prepared well and understood the questions. The manner most of the students presented their answers was very good. This makes marking and scoring not so difficult.

Most of the students had excellent handwriting. This makes marking easy and facilitates understanding of students. Where there are plenty scripts to mark and the handwritings are not good it can be frustrating to script markers.

The understanding of the topics in the syllabus was good. Most of the students 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 of the students 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 students had given more attention to these topics, the pass rate would have been more than 50%

Students 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 students 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) Economists are unanimous on the view that taxation is an essential tool for mobilising resources for economic development and in particular for a middle-income country such as Ghana.

**Required:**

- i) Describe briefly **FIVE (5)** purposes of taxation for an economy such as Ghana. **(5 marks)**
- ii) Explain the use and application of taxation as a tool of fiscal policy to stabilise the economy. **(5 marks)**
- b) The only tool for communicating a tax liability to a tax payer is through a notice of assessment.

**Required:**

What are the elements of a notice of tax assessment? **(8 marks)**

- c) The following data is relevant to Naab Ltd tax affairs for 2018 year of assessment:

**Self –assessment returns submitted:**

Tax paid on self-assessment	GH¢ 1,000,000
Chargeable income	GH¢ 4,000,000

**Actual Returns submitted:**

Chargeable Income	GH¢ 6,000,000
Correct amount-Tax payable	GH¢ 1,500,000

**Required:**

What is the amount of *tax underpayment* to be subject to interest computation? **(2 marks)**

**(Total: 20 marks)**

## QUESTION TWO

- a) Percy Cool (Percy) supplied goods to Perry Hot (Perry), both are VAT registered traders. Percy issued VAT invoice accordingly on 15 February, 2019. On 20 February, 2019 Percy received a call from Perry indicating that he has lost the VAT invoice issued to him.

**Required:**

What should Percy do?

**(3 marks)**

- b) Akorfa Vinyo, an equipment hiring company, raises an invoice in the sum of GH¢500,000.00 in respect of hiring of equipment services to a withholding VAT agent (Sir James Enterprise). This supply excludes Value Added Tax (VAT of 12.5%), National Health Insurance Levy (NHIL of 2.5%), and Ghana Education Trust Fund Levy (GETFL of 2.5%).

Assume that this is the only supply of value-added activity done by Akorfa Vinyo in the period and payments are made in the same period.

**Required:**

- i) Calculate the proportion of VAT that should be withheld by the agent in respect of payment of the invoice (the withholding VAT rate is 7%) **(3 marks)**
- ii) Calculate the output VAT to be shown on the face of Akorfa's monthly VAT Return. **(3 marks)**
- iii) Calculate the VAT payable by Akorfa, if the total input VAT incurred for the period is GH¢25,000. **(3 marks)**
- iv) Show the Payment details by the Withholding Agent for the Supply. **(3 marks)**
- c) Below are the various contracts awarded to KPP Books and Stationery limited by the Ghana Water Company for the 2018 year of assessment:
- i) 1st contract was for the supply of stationery costing GH¢1,000 in January 2018.
- ii) 2nd contract was for the supply of Station Diaries costing GH¢900 on March 2018.
- iii) 3rd contract for the supply of additional stationery costing GH¢900 on August 16 2018.

**Required:**

What amount of *withholding tax* is due to Ghana Revenue Authority in the year 2018 from Ghana Water Company? **(5 marks)**

**(Total: 20 marks)**

### QUESTION THREE

- a) King Peter is a Junior Staff member of Sir James Company Limited. His monthly basic salary is GH¢700.00. He was paid an overtime totaling GH¢50.00 during the month of January, 2019.

**Required:**

- i) Compute his tax liability on overtime for the month of January, 2019. **(2 marks)**  
ii) In the month of February, 2019, King Peter was paid overtime totaling GH¢500.00. Compute his tax liability on the overtime payments for the month of February, 2019. **(3 marks)**

- b) Amos is a Senior Staff member of Sims Company Limited. His monthly basic salary is GH¢1,490.00. He was paid an overtime totalling GH¢650.00 during the month of January, 2019.

**Required:**

What is the tax implication? **(3 marks)**

- c) Lord Pakro was seconded to Ghana from the Crops Scientists Institute in USA as a Crop Scientist to Crop Research Institute in Ghana, for a period of 5 months, starting from 1 August, 2018. He was based at Nyankpala (Northern part of Ghana), one of the farming sites of the Crop Research Institute.

His conditions of service were as follows:	<b>GH¢</b>
Salary	6,000 per month
Expatriate allowance	2,000 per month
Risk allowance	1,000 per month

He was provided with a furnished bungalow and a Toyota Pick-up vehicle with driver and fuel for both official and private activities.

In addition to the above, the parent company agreed to meet his commitment at home during his six months stay in Ghana at \$1,200 per month. The average exchange rate has been \$1=GH¢5.00

**Required:**

Determine Lord Pakro's chargeable income and tax liability, if any, during his stay in the country. Produce the related notes guiding your determination. **(6 marks)**

- d) In 2003, the Vehicle Income Tax Stickers (VITS) was introduced by way of LI 1727 and amended by Income Tax Regulations, 2016 ( LI 2244).

**Required:**

Identify the *key features* of VITS tax system. **(6 marks)**

**(Total: 20 marks)**

## QUESTION FOUR

- a) Valentine Ghana Limited is a producer of love greeting cards and the following was extracted from its financial statements for the year ended 31 December, 2018.

	GH¢	GH¢
Turnover		7,140,000
Opening Stocks	680,850	
Purchases	4,828,000	
Carriage Inwards	<u>93,840</u>	
	5,602,690	
Less Closing Stocks	<u>(601,120)</u>	
Cost of Sales		<u>(5,001,570)</u>
Gross Profit		2,138,430
Other Income		<u>156,400</u>
		2,294,830
Deduct:		
Operating Expenses:		
Taxes Paid- 2017	289,000	
Electricity Bills Paid	51,000	
Wages & Salaries	255,510	
Rent & Rates	170,000	
Travelling Expenses	144,330	
Office Expenses	68,760	
Vehicle Running Expenses	174,930	
Depreciation	149,940	
Penalty for Late Filing of Statutory Returns	61,880	
Provision for Doubtful Debts General	154,020	
Stationery	70,905	
Medical Expenses	31,025	
Cost of Servicing	121,550	
Sundries	95,030	
Audit Fees	51,000	
Communication Expenses	<u>59,840</u>	
		<u>(1,948,720)</u>
<b>Net Profit</b>		<u><b>346,110</b></u>

**The following additional information are relevant:**

- i) Capital allowances for the year was GH¢204,000 as agreed with Ghana Revenue Authority (GRA).
- ii) The figures for repairs and maintenance include an amount of GH¢33,150 being cost of erecting a new gate to the factory.
- iii) 50% of other income was the personal rental income of the Managing Director.
- iv) One third of vehicle running expenses was expended on the personal car of the Managing Director, used for the company's operation based on the company's policy.

**Required:**

Calculate the chargeable income of Valentine Ghana Limited for 2018 Year of Assessment.

**(8 marks)**

- b) 'No deductions are allowed for domestic or excluded expenditure incurred by a person in the computation of assessable income'.

**Required:**

- i) Identify **FOUR (4)** items that constitute domestic expenditure. **(4 marks)**  
 ii) Identify **FOUR (4)** items that constitute excluded expenditure. **(4 marks)**
- c) Explain briefly the taxation rules governing *research and development* expenses. **(4 marks)**

**(Total: 20 marks)**

**QUESTION FIVE**

- a) Mamavi Dekey (Mamavi) purchased a land in Ho in the Volta Region for a cost of GH¢200,000 in the year 2010. In 2011 she spent GH¢8,000 for grading the land. In March, 2019 she spent another GH¢10,000 to reshape the land with the intention to sell it. Mamavi engaged Kobina Ebo, a Valuer, in June, 2019 to value the land and he charged GH¢2,000. In July, 2019, she placed an advert at 'Ho Bankoe FM' on the sale of the land and paid GH¢1,000. In October, 2019 she sold the land through an agent for GH¢300,000 to Kalika and the agent commission was 2% of the sale value. Mamavi also paid GH¢600 for stamp duty and legal permit for conveyance of the land to Kalika.

**Required:**

- Compute any tax payable. **(5 marks)**
- b) An individual may realise an asset on the death of another person, by way of transfer of ownership of the asset. What are the taxation rules on such transaction? **(5 marks)**
- c) Madam Okailey Armah, a prominent market queen and Philanthropist, was nominated Asafouakye of Namoale Traditional Area in Accra in January 2018. At her out-dooring in August 2018 as Naa Okailey Tsosatse II, she sat in state and received homage and gifts from her people, friends and business associates. The following were the quantifiable gifts she received.

	<b>GH¢</b>
Market Queens Association	1,000
Commercial Bank (Pick-Up)	5,000
Namoale Traditional Council	500
Father-in-Law	500
Anonymous admirer	1,000

A week after her out-dooring, she made the following donations:

Osu Children's Home Pick-Up Vehicle

	<b>GH¢</b>
Children's Hospital (Accra)	1,000
Weija Leprosarium	500
Children's Ward Korle Bu (Assorted Biscuits)	200
Thanksgiving Offering (Freeman Memorial Church, Bukom)	200



**Required:**

Determine any tax payable and briefly comment on the relevant tax implications.

**(5 marks)**

d) Explain briefly the 3-Tier Ghana National Pension Scheme Mechanism. **(5 marks)**

**(Total: 20 marks)**

**The Tax Rates- (ANNUAL 2018)**

	<b>Chargeable Income</b>	<b>Rate</b>
	<b>GH¢</b>	
First	3,132	Nil
Next	840	5%
Next	1,200	10%
Next	33,720	17.5%
Next	81,108	25%
Exceeding	120,000	35%

## SOLUTION TO QUESTIONS

### QUESTION ONE

#### (a)(i)

The following are the main purposes or objectives of taxation in a developing economy

#### 1. **Mobilisation of Resources**

The first and the foremost objective of taxation in a developing economy should be to maximise the level of aggregate saving by applying a cut to the actual and potential consumption of the public at large. It then becomes necessary to collect more revenues mainly in the form of taxes, a major part of which will have to come from the rich, who constitute a small section of the society, mainly in the form of direct taxes

#### 2. **Taxation as an Instrument of Economic Stability**

The under-developed countries are very susceptible to three sources of instability which results from the nature of their economy and the logic of accelerated economic development.

- a. Instability caused by world market developments;
- b. Instability due to cyclical deficiency of effective demand in the short run, and
- c. Instability caused by inflationary pressures

#### 3. **The Re-allocative Role of Taxation**

The tax system in order to ensure effective allocation of resources should interfere as little as possible with the consumers' choices for consumption goods and the producers' choices regarding the use of factors of production. The owners of factors of production should be enabled to seek their most remunerative employment and the price mechanism should be allowed to operate freely so that there is optimum output of goods. Under this condition, it is essential that the tax system should be economically neutral and framed in such a way as to ensure the optimal allocation and utilisation of the productive resources of the economy.

#### 4. **The Re-distributive Objective of Taxation.**

The under-developed countries are characterised by the existence of extreme inequalities in the distribution of income and wealth and a large proportion of saving of the upper income groups is misdirected. Besides, in some of the under-developed countries, the consumption propensities of the upper income groups are higher than those of the upper income groups of the developed countries. Thus, there exists a large volume of avoidable inequality in the economy of the under-developed countries. Therefore, a good redistribution objective of the tax system in a developing country should be an instrument for the reduction of economic inequalities by redistributing the income through bridging the gap between the rich and the poor. The very purpose of taxation is not merely to raise revenues for the state but the revenues should be raised in such a manner as to ensure that the burden of tax should fall on the rich in the form of wealth-tax, income-tax, etc. and the proceeds, if possible, should be spent for the benefit of the poor.

## 5. Growth Objective of Taxation

The Government, in any economy, attempts to use taxation to achieve many goals, and mobilisation of resources for the government in a less-developed country is one of them. To see that taxes are paid and collected, a tax system has to have a proper administrative set up. In addition, the taxes should be equitable. From the point of view of the growth of the economy, its industries, trade, agriculture, consumption, etc., the tax policy has to be such that it does not upset the pattern of production, trade, consumption, savings, and investment in the economy.

**(5 points well explained for 5 marks)**

### (a)(ii) Taxation as an Instrument of Economic Stability

The under-developed countries are very susceptible to three sources of instability which results from the nature of their economy and the logic of accelerated economic development.

- a) Instability caused by world market developments;
  - b) Instability due to cyclical deficiency of effective demand in the short run, and
  - c) Instability caused by inflationary pressures
- The under-developed countries are more vulnerable to the effects of international cyclical fluctuations due to an unbalanced nature of their economic structure and heavy reliance on the export of primary products, as a source of their national income. This means any fluctuations in the international demand for their products, therefore, will tend to exercise a predominant effect on their national income through the medium of the foreign trade multiplier. Equally, as the under-developed countries export primarily raw materials, they import the finished manufactured goods from the developed countries and in the event of an international recession, the under-developed countries exporting primary products find that the resources in agriculture and some other primary industries are immobile in the short run and often continue to produce the same type and even quantities of output as before. But as the demand for these products are inelastic, it leads to a fall in the prices of these products in the international market leading to reduced export earnings which may affect the process of economic development in these countries adversely, as their own consumption requirements is very small due to their subsistence living.
  - Specific fiscal instruments like export taxes are more useful as stabilisation measures than aggregative fiscal instruments such as a general sales-tax and income-taxation. These specific tax measures are more flexible in adjustment than income-tax and can also single out the export sector of the economy and counteract the destabilising influences that arise from it. Besides, they are relatively simple to administer and difficult to evade. But the contribution of export taxes to internal economic stability, and thus, economic development can be of great significance only if the under-developed countries are able to resist a high propensity to import consumer goods, especially luxuries and have the necessary skill not only in the

manipulation of export and import taxes but also in timing the changes and channelling the proceeds for promoting their economic development.

- The stabilisation objectives of taxation should also aim at maximising the level of aggregate saving by applying a cut to the actual and potential consumption of the public at large. This stabilisation objective should aim at curbing the conspicuous consumption of the rich and force them to save for capital formation, which if maximised, should break economic stagnation and lead the country on the path of rapid economic growth.
- Another objective of the stabilisation policy of taxation should aim at protecting the economy of an under-developed country from the evils of inflation and depression as the under-developed countries have unusual susceptibility to inflationary pressures. Stagnation is regarded as too heavy and unacceptable a price to pay for achieving stability in prices. At the same time, large scale inflation as a means of promoting the economic development of the under-developed countries is beset with so many evils. Thus, the taxation policy for a developing economy should aim at curbing inflationary pressures inherent in a developing economy as in such an economy, there is always an imbalance between the demand for and supply of real resources.
- Equally, during depression, taxation along with other fiscal policy must operate in coordination with each other to offset it. Thus, taxation policy along with other fiscal policy measures are ideally suited to check inflation and depression in a developing economy. Taxation will be reduced in deflationary situation while during inflationary situation, taxation will be increased. If inflation is not controlled in time, it can undermine the very process of economic growth and development. As such, a suitable taxation policy for an under-developed country should be designed as to curb the demon of inflationary and deflationary situations which can prove ruinous to an underdeveloped economy.

**(5 points well explained for 5 marks)**

**(b) Notice of assessment**

Where the Commissioner-General makes an assessment, the Commissioner-General is required to serve a written notice of the assessment on the taxpayer. In addition to any requirement of the tax law in question, the notice of assessment should contain:

- The name of the taxpayer
- The Taxpayer Identification Number of the taxpayer
- The assessment by the Commissioner-General of the tax payable by the taxpayer for the period, event or matter to which the assessment relates
- The amount of tax remaining to be paid after any relevant credits, reductions or pre-payments
- the manner in which the assessment is calculated
- The reason why the Commissioner-General has made the assessment
- The date by which the tax is to be paid; and

- The time, place and manner of objecting to the assessment.

**(8 points for 8 marks)**

**(c)**

Computation of underpayment to be subjected to interest computation

Correct amount	<u>1,500,000</u>
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90% of correct amount	1,350,000
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Less tax paid on self-assessment	<u>1,000,000</u>
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Difference	<u>350,000</u>
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<b>Therefore, underpayment subject to tax is</b>	<b>350,000</b>
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**(2 marks)**

**(Total: 20 marks)**

#### **EXAMINER'S COMMENTS**

- Most of the students could not calculate the underpayment of taxes under the self-assessment. Tuition centres should pay attention to this area as most students still find it difficult to understand the principles on the self-assessment and the interest computation.
- Few students could not identify the objectives or purposes of taxation. However, most of the students were able to answer this excellently
- Taxation has been used over the years as a tool to stabilise the economy. It is unfortunate that only some few students were able to answer this part of the question fairly.

## QUESTION TWO

- a) Where, within thirty calendar days after the date of a supply, a recipient who is a taxable person claims to have lost the original tax invoice for a taxable supply, the taxable person making the supply is required to, on receipt of a request in writing from the recipient, provide a certified copy clearly marked "copy" to the recipient within fourteen calendar days of receipt after the request.

(3 marks)

### b) Workings

	GH¢	GH¢
Taxable Value excluding VAT/NHIL/GETFL		500,000.00
Add: NHIL 2.5% x GH¢500,000	12,500.00	
GETFL 2.5% x GH¢500,000	<u>12,500.00</u>	
		<u>25,000.00</u>
<b>Gross Amount exclusive of VAT</b>		<b><u>525,000.00</u></b>

- i) Proportion of VAT that should be withheld by the agent:  $7\% \times \text{GH¢}525,000.00$   
= GH¢36,750.00

(3 marks)

- ii) Calculation of the output VAT =  $12.5\% \times 525,000$   
= 65,625.00

(3 marks)

- iii) Calculate the VAT payable by Akorfa

Output VAT		65,625.00
Less: Input VAT:		
VAT incurred (@ 12.5%)	25,000.00	
VAT withheld by the agent	<u>36,750.00</u>	
Total Deductible input		<u>61,750.00</u>
VAT payable by Akorfa		<b><u>3,875.00</u></b>

(3 marks)

### iv) Payment details by the Withholding Agent

	GH¢	GH¢
Amount exclusive of VAT/NHIL/GETFL chargeable		500,000.00
Add: NHIL & GETFL (500,000 x 5%)		<u>25,000.00</u>
		525,000.00
VAT (525,000 x 12.5%)		<u>65,625.00</u>
Amount inclusive of VAT/NHIL/GETFL		590,625.00
Less: VAT withheld by the agent (7% of 525,000.00)	36,750.00	
Service withholding tax (7.5% of 500,000.00)	<u>37,500.00</u>	
Total Withholding Taxes (payable to GRA)		<u>74,250.00</u>
Net amount payable to Akorfa		<b><u>516,375.00</u></b>

(3 marks)

(c)

- i) The 1st Contract Sum of GH¢1,000 does not meet the threshold amount of GH¢2,000 so there will be no tax withheld on the amount. **(1 mark)**
- ii) The 2nd Contract Sum of GH¢900 does not meet the threshold of GH¢2,000. Furthermore, the aggregate value of the 1st and 2nd contracts (GH¢1,000 + GH¢900 = GH¢1,900) also does not meet the threshold of GH¢2,000 hence no withholding tax will be charged on payment of the 2nd contract. **(1.5 marks)**
- iii) The 3rd Contract Sum of GH¢900 does not meet the threshold of GH¢2,000. However, the aggregate value of the 1st, 2nd and 3rd contracts (GH¢1,000 + GH¢900 + GH¢900 = GH¢2,800) exceeds the threshold of GH¢2,000 hence the cumulative amount of GH¢2,800 will be subject to withholding tax at the applicable rate. **(1.5 marks)**

Tax withheld is  $3\% \times \text{GH¢}2,800 = \text{GH¢}84.00$  **(1 mark)**

**NB: A student would be correct if he or she states that, at the start of the year, the company anticipates that purchases from the vendor will exceed the threshold of GH¢2,000. In this case, the first, second and third purchases will all be taxed at 3% and the same tax liability will result.**

**(Total: 20 marks)**

#### **EXAMINER'S COMMENTS**

- Most students were able to identify that the National Insurance and Education fund are **levies** and computed that very well. The students who were able to compute the levy appropriately added to the cost of the item.
- Almost all the students could not realise that the item dealt in was a service and the transaction should suffer service withholding tax of 7.5%. This was to be expressed on the cost of the item and treated as part of the payment made upfront by the dealer.
- Most of the students were able to identify that the current VAT rate is 12.5%. Some students calculated 17.5% as VAT which is wrong.
- It is worrying that only about 5% of the students could answer the question on the 'lost VAT receipt'. The advice is that students should pay attention to details since the paper is examining students on principles of taxation

### QUESTION THREE

a)

- i) Percentage of overtime to basic salary:  $\text{GH}\text{c}50/\text{GH}\text{c}700 \times 100\% = 7.14\%$   
 This does not exceed 50% of basic salary. Tax payable is thus 5% of the overtime amount  
 Tax payable =  $5\% \times \text{GH}\text{c}50.00 = \text{GH}\text{c}2.5$  **(2 marks)**

- ii) Percentage of overtime to basic salary:  $\text{GH}\text{c}500/\text{GH}\text{c}700 \times 100\% = 71.43\%$

This exceeds 50% of basic salary. Tax payable will be as follows:

50% x GHc700.00 = GHc350 x 5%	17.50	
Excess 700-350 = GHc150 x 10%	<u>15.00</u>	
	<u><b>32.50</b></u>	<b>(3 marks to be allocated)</b>

- b) Amos is a senior staff member, and therefore, irrespective of the salary paid him (i.e. GHc1,490), which is less than GHc1,500, all of the overtime payment shall be considered as part of the chargeable income and taxed using the graduated rates **(3 marks)**

c)

#### KING PERRY

#### COMPUTATION OF CHARGEABLE INCOME FOR THE ASSESSMENT YEAR 2019

	GHc	GHc	GHc
Basic Salary 6,000 x 5 months			30,000
Add Benefits in Cash:			
Expatriate allowance 2,000 x 5		10,000	
Risk allowance 1,000 x 5		5,000	
Other commitments \$1,200 x GHc5 x 5		<u>30,000</u>	<u>45,000</u>
Total Cash Emoluments			75,000
Add Non-Cash Benefits:			
Driver, Vehicle and Fuel 12.5 x 75,000		9,375	
Restricted GHc600 x 5		<u>3,000</u>	<u>3,000</u>
Chargeable Income			<u><b>78,000</b></u>

**Tax Payable**             $25\% \times \text{GH}\text{c}78,000 = \text{GH}\text{c}19,500$   
**(6 marks evenly spread using ticks)**

d) **Key Issues of The LI 1727**

- VIT Stickers are mandatory for all commercial road vehicles
- Stickers are to be purchased every quarter in advance and shall be valid only for that quarter
- Stickers are to be displayed on the windscreens of all commercial vehicles as done with Insurance and Road Worthiness Certificates.



- The VIT Sticker system shall be enforced by the Police Service and monitored by Ghana Revenue Authority.
- Taxpayers are required to file their tax returns at the end of each year since the payment for the VIT stickers are only payment on account.
- Stickers can be purchased by a Transport Association for its members.
- Specified rates are provided for various classes of commercial vehicles.

**(One point for one mark. Maximum of 6 points= 6 marks)**

**(Total: 20 marks)**

#### **EXAMINER'S COMMENTS**

- This was the best answered question. Almost all the students were able to identify the overtime principles and computed the figures correctly
- Most of the students were able to identify that Lord Pakro was a non-resident person for taxation purposes. Almost all the students used 20% rate instead of 25%.
- The tuition centres and students should pay attention to details. This is largely a law paper and it is expected that students go by the law exactly.

## QUESTION FOUR

a)

<b>Valentine Ghana Limited</b>		
<b>Computation of Chargeable Income for 2018 Tax Year</b>		
	<b>GH¢</b>	<b>GH¢</b>
Net profit as per Account		346,110
Adjustments:		
Provision for doubtful Debts – General	154,020	
Penalty for late filing of statutory returns	61,880	
Depreciation	149,940	
Taxes paid- 2017	289,000	
Cost of erecting new gate	33,150	
Capital Allowance	(204,000)	
Other Income 50% x 156,400	<u>(78,200)</u>	
		<u>405,790</u>
<b>Chargeable Income</b>		<b><u>751,900</u></b>

(8 marks to be allocated using ticks)

b)

i) **Domestic Expenditure**

The Act 896 stipulates that where an individual incurs expenditure in respect of herself or himself, the expenditure is said to be domestic expenditure if it is incurred:

- In maintaining the individual, including in providing shelter as well as meals, refreshment, entertainment or other leisure activities.
- In the individual commuting from home to work.
- In acquiring clothing for the individual. This does not include clothing that is not suitable for wearing outside of work.
- In educating the individual. Any education that is directly relevant to a business conducted by the individual. Any education that leads to a degree or diploma is not allowed.
- Interest on money borrowed to do any of (1) to (4) above

(One point for one mark. Maximum of four marks= 4 marks)

ii) **Excluded expenditure means**

The Act 896 provides that the following expenses are 'excluded expenditure' and therefore, not allowed against a person's income:

- Tax paid or payable under the Act 896 and any other tax law.
- Bribes and expenditure incurred in corrupt practices
- Interest, penalties and fines paid or payable to a government or a political subdivision of a government of any country for breach of any law or subsidiary legislation
- Expenditure to the extent incurred by a person in deriving exempt amounts or final withholding payments;

- Retirement contributions, unless they are included in calculating the income of an employee
- Dividends of a company
- The depreciation of any fixed asset
- Provisions (e.g. provision for doubtful debts, provision for warranty, provision for reconstructions etc.)

**(One point for one mark. Maximum of four marks= 4 marks)**

**c) Research and Development Expenses**

Research and development expenses meeting the requirements of wholly, exclusively and necessarily incurred during the year by the person and in the production of income from the business or investment may be deducted irrespective of whether they are of a capital nature.

Research and development expenses means expenses incurred by the person in the process of developing the person's business and improving business products or process. Research and development expenses excludes expenses incurred that are otherwise included in the cost of an asset used in the process of the research and development.

**(4 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

- Students were able to score high marks for the part (a) of the question on the examination of accounts. The question examined basic principles on the examination of accounts and students performed creditably well
- The arrangements for the allowable and non-allowable items were a problem for some students. Tuition centres should pay attention to the format for the presentation of examination of account for taxation purposes
- Majority of the students were able to list the domestic and excluded expenses. Those who could not identify the domestic and excluded expenses were clearly not prepared for the exams
- Some of the students could not clearly expect the tax implication of research and development

## QUESTION FIVE

a)

	GH¢	GH¢
Consideration Received		300,000
Cost of Asset:		
Original Cost of asset	200,000	
Grading of the land	8,000	
Reshaping of the land	10,000	
Valuation of the land	2,000	
Advertisement for sale of land	1,000	
Agent fee 2% x 300,000	6,000	
Conveyance fee	<u>600</u>	
		<u>227,600</u>
Gains from realisation		<u>72,400</u>

**Tax Payable** =  $15\% \times \text{GH¢}72,400 = \text{GH¢}10,860$   
(5 marks to be allocated)

b) Where an individual realises an asset on death, by way of transfer of ownership of the asset to another person:

- That individual is treated as deriving an amount in respect of the realisation equal to the market value of the asset.
- The person who acquires the asset is treated as incurring an expenditure of the amount equal to the market value of the asset.

(5 marks to be allocated)

c) The tax implication of the gifts received by Madam Okailey are as follows:

	GH¢	
Market Queens Association	1,000	This is taxable
Commercial Bank (Pick-Up)	5,000	This is taxable
Namoale Traditional Council	500	This is taxable
Father-in-Law	500	This is taxable
Anonymous admirer	1,000	This is taxable

The donations made will have the following tax implication in the hands of those who received the gifts from Madam Okailey:

Osu Children's Home Pick-Up Vehicle. This will not be taxed in the hands of the Home

	<b>GH¢</b>	
Children's Hospital (Accra)	1,000	This is not taxable
Weija Leprosarium	500	This is not taxable
Children's Ward Korle Bu (Assorted Biscuits)	200	This is not taxable
Thanksgiving Offering (Church,)	200	This is not taxable
		<b>(5 marks to be allocated)</b>

**d) The First Tier**

This tier is a mandatory scheme that is managed by the Social Security and National Insurance Trust (SSNIT). The contribution amount due is 13.5% of the employee's basic monthly salary. The employer pays 13% and the employee pays 0.5%. This amount is paid to SSNIT. Note that the employee gets a tax relief on the percentage he/she personally contributed – i.e. the 0.5%.

The contributions for any given month are due no later than 14 days after the end of that month. So, effectively employers will pay their previous month's contributions to SSNIT on the 14th of every month.

**The Second Tier**

The second tier is also mandatory but unlike the first tier, it is managed by Private Pension Service Providers (PSPs). The contribution amount due is 5% of the employee's basic monthly salary. This cost is borne by the employee.

The main distinction here is that the contribution is not paid to SSNIT, but rather, the employer is allowed to select their preferred Pension Service Provider. This gives employees a chance to earn higher rates of return on their investment, usually above what SSNIT offers.

**The Third Tier**

This is a voluntary provident fund and personal pension scheme. It is supported by tax benefits to provide additional funds for workers who want to make voluntary contributions to enhance their pension benefits.

**(5 marks to be allocated)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

- This was a well answered question. The question on capital gain was the best answered question. Most of the students scored high marks.
- The poorly answered part of the question was the Ghana Insurance Pension Scheme. This is part of the syllabus and students should pay attention to it

## **CONCLUSION**

- Tuition centres and students should bear in mind that the subsequent examinations will cover the entire syllabus and therefore, pay attention to the entire syllabus. There should not be any pick and choose attitude towards the syllabus.
- Students should pay attention to details when reading. It seems students do not read carefully in between the lines when reading. This was clearly demonstrated in the examination. Half-baked answers were provided.