

**MAY 2016 PROFESSIONAL EXAMINATION
TAXATION & FISCAL POLICY (3.4)
EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

EXAMINER'S REPORT

STANDARD OF THE PAPER

The standard of the paper compared favourably with most of the diets administered in the previous sessions. The questions were based on the syllabus and also were within the capability of the candidates.

GENERAL PERFORMANCE OF CANDIDATES

The general performance of the candidates were above average. One could observe that some candidates did not prepare adequately for the examination. Some candidates seemed not to have properly grasped the basic principles of taxation. Candidates are probably engaged in self tuitioning. Some of the candidates performed so poorly and as such could be said to be woefully below average. No signs of copying were observed

NOTABLE STRENGTHS & WEAKNESSES

With the exception of a few scripts, no notable strengths were noticed.

Some candidates demonstrated weaknesses in answering the questions due to the following reasons:

- Short preparation period
- Lack of understanding of the basic principles
- Poor analytical skills
- Inability to handle typical examination type questions

The weaknesses may be remedied by the candidates obtaining adequate tuition from recognised institutions

- Candidates should also spend more hours of study
- Candidates should have more time for revision
- Candidates should also obtain seasoned text books on taxation with emphasis on current tax laws

TAXATION & FISCAL POLICY QUESTIONS

QUESTION ONE

Mr. Frank Danso was employed by Ghana Trust Ltd on 1st September 2010 on salary scale of GH¢4,500 x 500-7,500 as the financial controller of the company. He is provided with the following as part of his conditions of service for 2014 Year of Assessment.

- i) Well-furnished rented flat by his employers in respect of which he pays GH¢100 per month as rent by way of deductions at source.
- ii) Watchman allowance of GH¢200 per annum, paid directly to Mr. Frank Danso.
- iii) Risk allowance of GH¢905 per annum
- iv) Leave allowance of GH¢500 per annum
- v) Garden boy allowance of GH¢100 per quarter paid directly to Mr. Frank Danso.
- vi) Medical allowance of GH¢680 per annum
- vii) Meals allowance of GH¢50 per month
- viii) Two maidservants each on wages of GH¢200 per annum. The amount is paid to the maid servants directly by the company.
- ix) Bonus of 40% on annual basic salary
- x) Entertainment allowance of GH¢400 a year (accountable)
- xi) Duty post allowance of GH¢100 per month.
- xii) He has Life Assurance Policies with EIC Ltd. Below are the details:

Policy	Sum Assured (GH¢)	Annual Premium (GH¢)
A	4,000	420
B	2,800	240
C	16,000	1,650
D	5,000	525

- xiii) He is entitled to a company car and fuel for both official and private use.
- xiv) He has two wives and ten children; four of whom are in SHS in Accra, and the rest are gainfully employed; he caters for 3 of his aged relatives.
- xv) He contributes 7% of his salary towards the company's Provident Fund which has been approved by the National Pension Authority, he also contributes 5.5% of salary to the SSNIT.

Required:

- a) Compute his tax liabilities for 2014 Year of Assessment using 2014 rates. **(15 marks)**
- b) Determine his take home pay for the 2014 Year of Assessment. **(5 marks)**

(Total: 20 marks)

QUESTION TWO

Below is the Profit or Loss Accounts of Osu Mart Ltd, a manufacturing company in Accra for the year ended 31st December, 2014 submitted to the Commissioner of Domestic Tax Revenue Division of the Ghana Revenue Authority on 30th April, 2015.

	GH¢	GH¢
Gross Operating Profit		1,880,000
Profit on Sale of Assets		<u>95,000</u>
		1,975,000
Less Gen. & Admin. Expenses		
Salaries and Wages	1,000,000	
Rent	60,000	
Insurance	54,000	
Acquisition of Trade Mark	30,000	
Research & Development Expenditure (Note 1)	59,500	
Painting of Premises	56,000	
Loans to staff written offs	53,850	
Advertisement (Note 2)	49,000	
Staff Welfare (Note 3)	103,000	
Traveling and Transport	80,000	
Donations & Subscription (Note 4)	65,200	
Bad Debt (Note 5)	40,000	
Depreciation	<u>81,500</u>	
		<u>(1,732,050)</u>
Net Profit		<u>242,950</u>

The following notes relate to the Accounts:

i) Research and Development Expenditure	GH¢
a) Acquisition of New Machinery	28,500
b) Staff Training Cost	<u>31,000</u>
	<u>59,500</u>
ii) Advertisement	
a) Cost of Neon Sign	20,500
b) Media Adverts	<u>28,500</u>
	<u>49,000</u>

iii) Staff Welfare	
a) Refund of Staff Medical Bills	51,650
b) Safety Wear Acquired for Staff	17,550
c) Cost of Canteen Equipment	<u>33,800</u>
	<u>103,000</u>
iv) Donations and Subscription	
a) Donation to the Ghana Heart Foundation	40,000
b) Goods given gratis to Customs Officials	13,200
c) Subscription to Ghana Manufactures Assoc.	<u>12,000</u>
	<u>65,200</u>
v) Bad debt	
a) General Provision	25,000
b) Specific Bad Debt	<u>15,000</u>
	<u>40,000</u>
vi) Capital Allowance is agreed as GH¢65,240	

Required:

- a) Compute the chargeable income of the company for 2014 Year of Assessment. **(18 marks)**
- b) State the significance of the Auditor's Certificate to Examination of Accounts. **(2 marks)**
- (Total: 20 marks)**

QUESTION THREE

- a) i) Explain the terms "*Provisional Assessment*" and "*Self Assessment*" in tax administration. **(6 marks)**
- ii) Discuss the rationale for the shift from Provisional Assessment to Self Assessment. **(8 marks)**
- b) ABC Ltd is a company under self-assessment and prepares accounts to 31st March each year. Its estimated chargeable income for the year 2014 was GH¢ 1.2 billion. However, the Company's Returns which were submitted to the Large Tax Payers Office at the VAT House on 15th April, 2015 showed a chargeable income of GH¢1.8 billion

Compute the penalties payable by the company **(6 marks)**

(Note: Rate of Company Tax: 25%) **(Total: 20 marks)**

QUESTION FOUR

- a) Under what circumstances will a taxable person be entitled to a tax refund or tax credit where the amount of input tax which is deductible exceeds the amount of output tax due in respect of the tax period. **(10 marks)**
- b) With reference to the *CEPS (Management) Law 1993, PNDCL 330* clearly outline the basis for determining the customs value of imported goods into Ghana. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) Mrs. Olivia Quartey is a resident in Ghana and works as the Finance Director of Ghana Trustees Limited. She earned a gross salary of GH¢30,000.00 for 2014 year of assessment. She contributed 5.5% of her salary to the social security fund. In 2014 the gross royalties that accrued to her was £4,000 from the United Kingdom from which tax of £800 had been deducted with the remainder of £3,200 being remitted to her in Ghana.

Granted that Ghana has a double taxation agreement with the United Kingdom, you are required to calculate the tax credit relief (if any) available to Mrs. Olivia Quartey for the year 2014. **[Exchange rate, GH4.50=£1.]**

(16 marks)

- b) Mention the countries with which Ghana has double taxation agreements. **(4 marks)**

(Total: 20 marks)

Tax Rate

	INCOME	RATE
	GH¢	%
FIRST	1,584.00	FREE
NEXT	792.00	5
NEXT	1,104.00	10
NEXT	28,200.00	17.5
EXCEEDING	31,680.00	25

TAXATION & FISCAL POLICY SCHEME

QUESTION ONE

FRANK DANSO

COMPUTATION OF TAX LIABILITIES FOR YEAR 2014

	GHS	GHS
Basic Salary		6,166.67
Watchmen Allowance	200.00	
Risk Allowance	905.00	
Leave Allowance	500.00	
Garden Boy	400.00	
Medical Allowance	680.00	
Meals Allowance	600.00	
Bonus (2466-925)	1,541.67	
Daily Post Allowance 100 x 12	1,200.00	
Maid servant	<u>400.00</u>	<u>6,426.67</u>
Total Cash Emolument		12,593.34
Add:		
Rent Element 10%	1,259.33	
Less Rent Paid	<u>1,200.00</u>	59.33
Car Element 10%	1,259.33	1259.33
Restricted to	3,600.00	
Total Assessable Income		<u>13,912.00</u>
Less Reliefs		
Social Security (5.5% of 6166)		339.17
Provident Fund (7% of 6166)		431.67
Responsibility Relief		200.00
Child Education		600.00
Aged Dependent Relief		200.00
Life Assurance Relief		<u>1,391.00</u>
		<u>3,162.03</u>
Chargeable Income		10,749.97
Tax payable		1,422.24
5% of Bonus (925*5%)		<u>46.25</u>
Total Tax Liability		<u>1,468.49</u>

FRANK DANSO
COMPUTATION OF TAKE HOME PAY FOR THE YEAR 2014

	GHS	GHS
Total Cash Emolument		12,593.34
Add bonus @15%		<u>925.00</u>
		13,518.34
Less;		
Provident Fund	431.67	
Rent	1,200.00	
Social Security	339.17	
Income Tax	1,422.24	
5% Tax on Bonus	46.25	
		<u>3,439.33</u>
Take Home Pay		<u>10,079.01</u>

Workings in GHS

1/10/2010 - 30/9/2011	4,500
1/9/2011 - 30/9/2012	4,500 + 500 = 5,000
1/9/2012 - 30/9/2013	5,000 + 500 = 5,500
1/9/2013 - 30/9/2014	5,500 + 500 = 6,000
1/9/2014 - 30/9/2015	6,000 + 500 = 6,500

$$\frac{8}{12} \times 6,000 = 4,000$$

$$\frac{4}{12} \times 6,500 = 2,166.67$$

$$=4000+2166.67$$

$$\text{Basic Salary}=6,166.67$$

Life Assurance Relief

Step 1

Policy	Sum Assured 10%	Assessable Income 10%	Premium	Relief
A	400	1,391.20	420	400.00
B	280	1,391.20	240	240.00
C	1,600	1,391.20	1,650	1,391.20
D	500	1,391.20	500	500.00
Total				2,531.20

Step 2

	Relief	Assessable Income 10%	Total Relief	Relief
		1,391.20	2,531.20	1,391.20

Cumulative Tax Table

	Income	Rate %	Tax		
First	1584.00	Free	-		
Next	792.00	5	39.60		
Next	1,104	10	110.40		
	7,269.97	17.50	1,272.24	Total Tax	1,422.24

EXAMINER'S COMMENTS

This was a good and fair question but was not well answered by the majority of the candidates. Most of the candidates could not compute appropriately total cash emoluments. Candidates could not identify items that are not cash emoluments and as such placed them under the wrong caption. Most candidates could not differentiate between cash payment and payment in kind. Majority of Candidates scored nil marks for the computation of life assurance relief. Majority of candidates could not compute accurately the basic consolidated salary under the salary notch system.

QUESTION TWO

(a)	GH¢	GH¢
Net profit per a/cs		242,350
Deduct profit from sale of asset		<u>95,000</u>
		147,950
Add Back		
Acquisition of Trade Mark	30,000	
Acquisition of New Machinery	28,500	
Loans to Staff written off	53,850	
Cost of Neon Signs	20,500	
Cost of Canteen Equipment	33,800	
Goods given gratis	13,200	
General Provision for bad Debt	25,000	
Depreciation	81,500	<u>286,350</u>
		434,300
Deduct		
Capital Allowance		<u>(65,240)</u>
Chargeable Income		<u>369,060</u>

16 Marks

(b) **SIGNIFICANT OF THE AUDITOR'S CERTIFICATE**

It indicates the quality of the accounts to the examiner, whether proper books have been kept and therefore acceptable.

It is required on a tax return certifying that all information to the Commissioner-General is complete and accurate can be provided as evidence that can be tendered in court.

4 Marks

Total: 20 Marks

EXAMINER'S COMMENTS

This was a popular and a straight forward question. Most candidates scored high marks for the first part of the question. Few candidates however seems not to know how to compute adjusted profit. It must be noted that adjusted profit computation does not involve the rewriting of the entire account but rather the adjustment of the net profit by either adding back non-deductible expenses and also deducting non trading income. The second part of the question was poorly answered. In fact some candidates that attempted this particular question scored zero.

QUESTION THREE

(a) **PROVISIONAL ASSESSMENT**

It is an assessment that emanates from the office of the Commissioner-General which indicates a persons' tax liability based on Commissioner General's best judgement. It indicates the chargeable income and the tax charged. It also indicates the manner of objection.

3 Marks

SELF-ASSESSMENT

This is a mode of assessment where the onus of determining the tax liability and the payment of the tax thereby is on the taxpayer. The taxpayer is expected to furnish the Commissioner with an estimate of the chargeable income and the tax liability at the commencement of his basis period.

3 Marks

(b)

The shift from Provisional Assessment to self-Assessment has been necessitated by the comparative advantage of the latter over the former as discussed below.

- (i) Under provisional assessment, there is usually a delay in the issuance and service of the notice of assessment. But self-Assessment avoids delay since the assessment is made by the taxpayer.
- (ii) Under self assessment, there is trust between the taxpayer and the tax administrator
- (iii) There is high frequency of objection under provisional assessment but self assessment minimizes the rate of objection since the taxpayer is involved in the determination of the tax liability.
- (iv) There is a high cost of collection under provisional assessment but self-assessment reduces collection cost to the Revenue since the assessment is made by the taxpayer.
- (v) Under provisional assessment, officers are much occupied in the issue of notices and have little time to attend to other matters. But self-assessment saves time for the Revenue Officers that can be used in reviewing cases of greater revenue potential.
- (iv) Self assessment tends to make taxpayers more conscious of their tax obligations since they are involved in the process.
- (vii) Promotes tax compliance and good citizenship

8 Marks

c) **UNDER ESTIMATING ESTIMATED TAX PAYABLE**

Chargeable Income (based on Returns) = 1,800,000,000

Estimated Chargeable Income
(Self Assessment) = 1,200,000,000

Estimated Chargeable Income = 66.67% of the Actual Income

$$\text{i.e. } \frac{1,200,000,000 \times 100}{1,800,000,000}$$

PENALTY

90% of Tax payable based on Actual Income	=	405, 0000,000 (90% of 450,000,000)
Estimated Tax (Self Assessment) = Difference	=	<u>300,000,000</u> <u>105,000,000</u>
Penalty = 30% of 105, 000,000	=	<u>31,500,000</u>

EXAMINER'S COMMENTS

This was another straight forward and popular question. Part (a) and (b) were fairly attempted by the students. They however scored low marks for the (c) part of the question. It is important for candidates to understand the question so as to provide an answer in accordance with the appropriate law. This section required candidates to compute penalty for under declaration of income. Some candidates were rather computing quarterly assessment.

QUESTION FOUR

a) CONDITIONS FOR A REFUND OF VAT PAID ON BUSINESS INPUTS S 25

The following conditions have to be satisfied before a registered VAT trader can get a refund paid on his/her inputs for business purposes;

1. The business must be registered for VAT that is he/she must be a registered VAT trader
2. The business must have submitted returns for all months for which it has been in operations.
3. The business must complete and submit a prescribed VAT claim form for the refund of the VAT paid to the VAT Service
4. The business must be engaged in the export of 25% or more of the output
5. Total export proceeds should have been repatriated by importer's bank to exporter's authorized dealer banks in Ghana
6. The VAT paid should qualify as deductible input VAT
7. The input VAT paid should exceed the output VAT paid
8. Possession of all original tax (vat) invoices
9. Where the credit remains outstanding for a continuous period of three months or more

b) DETERMINATION OF CUSTOMS VALUE OF IMPORTED GOODS

This consists of the transaction value, i.e. the price actually paid or payable for the imported goods

In addition, it may include the following:

- i) Commission and brokerage except buying commissions.
- ii) the cost of containers
- iii) the cost of package whether for labour materials.
- iv) materials, components, parts and similar items incorporated in the imported goods.
- v) engineering, development, artwork, design work, plans and sketches undertaken elsewhere other than in the country of importation and necessary for the production of the imported goods.
- vi) Royalties and license Fee
- vii) The cost of transport of the imported goods to the part of place of importation.
- viii) Loading unloading and handling charges with the transport of the imported goods to the part of place of importation.
- x) the cost of insurance

EXAMINER'S COMMENTS

This was a good question but was poorly attempted by majority of the candidates. Most of the candidates could not display full understanding of input tax and the fact that zero rated supplies are input tax. Candidates are reminded of the fact that zero rated supplies are taxable supplies except that they are taxed at zero percent and any associated input taxes on exports are deductible and as such a refund could be claimed where appropriate. Candidates again seem to forget the fact that all cost associated with imported items forms part of the transaction value and as such needs to be considered in the determination of custom value of imported goods.

QUESTION FIVE

Effective Rate of Tax of the UK income

$$\frac{\text{Tax Charged}}{\text{Total income}} * 100 = \frac{3600}{18000} * 100 = 20\%$$

Exchange Rate = £1 = 4.50

$$800 * 4.50 = 3,600$$

$$4000 * 4.50 = 18,000$$

Effective Rate

Salary in Ghana	30,000
Gross Income from UK	<u>18,000</u>
	48,000
Less SSF Contribution	
5.5% * 30,000	<u>1,650</u>
	46,350

	INCOME	RATE 10%	TAX	CUM INCOME	CUM TAX
FIRST	1584.00	FREE	-	1,584.00	-
NEXT	792.00	5	39.60	2,376.00	39.60
NEXT	1,104.00	10	110	3,480.00	150.00
NEXT	28,200.00	17.5	4,935.00	31,680.00	5,085.00
NEXT	14,670	25	3,667.50	46,350.00	8,752.5

Average Tax Rate of Ghana : Tax payable/Chargeable Income*100%

$$\frac{8,752.5}{46,350} * 100 = 18.88\%$$

A comparison of the UK effective rate the Ghana effective rate shows that the Ghana rate is lower.

With the Ghana rate being lower than that of UK, the UK income has to be taxed at the average rate of Ghana tax as follows;

Tax on Total Income	8,752.50
Less Foreign tax credit granted (18.88% of 18,000)	<u>3,398.40</u>
	<u>5,354.10</u>

16 Marks

b)

Countries that Ghana have double taxation agreement.

1. France
2. Belgium
3. Italy
4. South Africa
5. Germany
6. Switzerland
7. Netherlands
8. Denmark
9. United Kingdom

(Any 8 for 4 marks)
Total: 20 Marks

EXAMINER'S COMMENTS

This was also one of the most answered questions by the candidates. Candidates should however be careful in determining effective rate of tax. This is very so where the Ghana effective rate of tax is lower than the foreign one. They must remember to use the Ghana rate as the gross up value. Again the relief is granted on the difference and not the final computed tax figure. Finally candidates should be encouraged to familiarise themselves with the various tax treaties that Ghana has signed with its trading partners.