

**MAY 2017 PROFESSIONAL EXAMINATIONS
TAXATION & FISCAL POLICY (PAPER 3.4)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME**

EXAMINER'S GENERAL COMMENTS

This is a report on Taxation and Fiscal Policy geared towards bringing out the weaknesses of students and to help the Institute map out strategies to assist students to pass their examinations easily. The report would also help Tuition Centers to prepare students adequately for the examinations.

STANDARD OF PAPER

The questions followed the usual pattern in terms of standard, quality and coverage of the syllabus. It can be inferred that the standard of the questions was in line with what has been known over the years in the academic/professional community as far as ICAG final tax paper is concerned.

The questions administered in the examination were very clear. They were not error-ridden. The typing was quite clear and made reading easy. The marks allocated to each question and sub question were fashioned in accordance with the weighting in the syllabus and in line with previous examinations. The Institute should continue to insist on standards from their examinations in terms of standard and broad coverage of the syllabus to make students read all the areas instead of doing selective reading.

NOTABLE STRENGTHS & WEAKNESS OF CANDIDATES

English language continues to be a challenge especially with spelling mistakes, wrong tenses and wrong constructions. Some candidates demonstrated palpable evidence of lack of preparation for the paper as most of them had no clue as to the requirement.

The usual recall questions were missing in the paper. Others who prepared well were able to sail through. Notwithstanding the fact that students largely did not prepare for the paper as the trend showed, others did so well and gave good account of themselves.

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

QUESTION ONE

- a) Tax reforms have characterised global taxation. Countries have embarked on various reforms geared towards improvement in tax revenue to help provide the basis for infrastructure and guarantee sustainable development. Ghana has not been left out in these critical tax reforms.

Tax administration in Ghana therefore has seen a number of reforms since the 1960s, with the most recent being the integration of the Revenue Agencies to an Authority to act as a one stop shop as per the Ghana Revenue Authority Act, 2009 (Act 791).

Required:

Discuss the governance structure of the Ghana Revenue Authority. **(5 marks)**

- b) Public debt enables governments to invest in critical areas of the economy where the capacity of tax revenue to undertake these projects may be limited or in situations where printing additional money will disrupt the stability of the economy. It permits an equitable alignment of benefits and costs for long-gestation projects by shifting taxation away from current generations.

Required:

- i) What is public debt? **(5 marks)**

- ii) Critically examine Public debt as an alternative to Taxation and its effect on the economy. **(10 marks)**

(Total: 20 marks)

QUESTION TWO

Mr. George Amoako, a self-employed single parent with two children attending a private University in Ghana trades as George Amoako Enterprise. He commenced business on 1st January 2016 and submitted the following extracts of his financial statements for the year ended 2016.

	GH¢	GH¢
Gross Profit b/d		20,420
Interest on savings account		2,020
Gifts received		1,500
Interest on treasury bills		790
Auditor's fees	800	
Depreciation of assets	1,200	
Computers purchased	2,500	
PAYE paid on his personal salary	450	
Employee social security contribution (other staff)	396	
Office rent	2,400	
Personal salary (net)	7,200	
Other staff wages	4,300	
Stationery	852	
Vehicle purchased for CEO's personal use	18,000	
Transport	1,300	

Net Loss	<u>(14,668)</u>	<u> </u>
Total	<u>24,730</u>	<u>24,730</u>

Required:

- a) Determine the Chargeable Income of Mr. George Amoako for 2016 year of Assessment. **(10 marks)**
- b) Support your computations with relevant explanations **(5 marks)**
- c) Compute all Taxes payable **(5 marks)**

(Total: 20 marks)

QUESTION THREE

- a) CJA Ltd is a resident company engaged in Real Estate Business. As part of efforts to diversify its operations, it plans to acquire interest in Don-bill Ltd another resident company. At the last AGM held on 4th March 2017, some Shareholders were of the view that CJA should acquire 15% of the shares of Don-bill Ltd.

The Managing Director of CJA was of the view that the Company should rather invest and acquire 25% shares to give it enormous influence in Don-bill Ltd.

Your firm has been identified to give a professional advise on the two proposals to help in decision making.

Required:

What is the tax implication on the two proposals and which proposal will you advise CJA Ltd to adopt to leverage on the tax benefits. **(10 marks)**

- b) XYZ Ltd runs a business with a basis period from January to December each year. The following information is relevant to its business operations for 2016 year of assessment.

Chargeable Income from business operations GH¢40,000. The chargeable income was arrived at after the following adjustments were made:

Financial cost incurred on hedged transactions GH¢150,000.

Financial gain from hedged transactions GH¢ 60,000.

Required:

- i) Compute the financial cost to be allowed in 2016 year of assessment. **(6 marks)**
- ii) Advise management on the above results. **(4 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) Eddie Enterprise Ltd imported a vehicle for GH¢30,000 and was denied the claim of input tax (VAT) on the imports in 2014 on the vehicle by the Ghana Revenue Authority. In 2017, it intends to sell the vehicle for an amount of GH¢26,000.

Required:

The Company seeks your views as a seasoned Tax Expert to advise on the possible tax implication of the above transaction. **(5 marks)**

- b) Bossman Ltd acquired assets for GH¢10,000 from outside Ghana but failed to claim Value Added Tax (VAT) on imports of the assets in accordance with the Value Added Tax provisions and later sold the assets for GH¢12,000.

Required:

What is the tax implication of the transaction (if any) in the light of the provisions of the VAT Act 2013 (Act 870)? **(5 marks)**

- c) Sakote Ltd, a trading company has the following extracts from its financial records:
- It bought a 4 X 4 Vehicle for an amount of GH¢225,000.00 in the year 2015. The cost of the vehicle was limited to an amount of GH¢75,000 for capital allowance purposes in year 2015.
 - It also put up a building at a cost of GH¢150,000.00 in the same year. The cost of the land was GH¢20,000 and GH¢130,000 was the cost of the building.
 - The Company accordingly, informed the Commissioner-General about putting the assets into use and in the generation of its income in 2015 year of assessment.
 - In the year 2016, it exchanged the vehicle for 4 plots of land. The value of the plots of land agreed with the land owners was GH¢220,000.00. The exchange was deemed satisfactory to both parties and documentations were carried through.

Required:

- i) Calculate the amount of capital allowance claimable for 2016 year of assessment by Sakote Ltd. **(7 marks)**
- ii) Sakote Ltd paid for Goodwill amounting to GH¢10,000 in 2016 and intends to grant capital allowance on the value of the goodwill. Explain whether or not this arrangement is in accordance with the tax laws. **(3 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) You have recently been employed to join Kwame Adom Consult as a tax professional. Your partner has tasked you to present a paper on the circumstances under which “*Repairs and Improvement*” under Act 896 (Act 2015) are capitalised and capital allowance granted.

Required:

Submit a seasoned paper on the tax provision on “*Repairs and Improvement*” and the conditions under which capital allowance may be granted. **(10 marks)**

- b) AB Ltd is a mining company and has the following set of data relating to 2016 year of assessment.

	GH¢
Revenue	5,000,000
Cost of operation	<u>3,000,000</u>
Chargeable income	<u>2,000,000</u>

From the above, the following came to light:

- Capital allowance of GH¢500,000 was added to cost.
- Penalty of GH¢100,000 was imposed by the Minerals Commission for failure to follow standard operating guidelines.
- Loss from operation amounting to GH¢50,000 recorded in 2010 was added to the cost above.
- According to the accountant, the company is entitled to carryover its losses.

Required:

- i) Calculate the Royalty payable if any. **(2.5 marks)**
- ii) Compute the corporate tax payable by AB Ltd. **(2.5 marks)**
- c) Ghana has joined its counterparts as an oil producing country. Discuss fully the following revenue streams due Ghana from the exploitation of the resource.
- i) Surface Rental **(2.5 marks)**
- ii) Carried Interest **(2.5 marks)**

(Total: 20 marks)

QUESTION ONE

a)

The Ghana Revenue Authority's governance structure is headed by 9-member Board of Directors made up of

- Chairperson,
- The Commissioner -General of the Authority. Commissioner General who is the CEO. The Commissioner-General is responsible for the day-to-day administration of the affairs of the Authority and is answerable to the Board. The Commissioner-General is assisted by three Commissioners namely:
 - ✓ Domestic Tax Revenue Division
 - ✓ Customs Division
 - ✓ Support Service
- A representative of the Ministry of Finance not below the rank of a Director,
- A representative of the Ministry of Trade and Industry not below the rank of a Director,
- The Governor of the Bank of Ghana or a representative of the Governor not below the rank of a Deputy -Governor, and
- Four other persons from the private sector, two of whom are women.

(5 marks)

b)

i) Public debt is defined as how much a country owes to lenders outside of itself. These can include individuals, businesses, and even other governments. The term "public debt" is used interchangeably with the term sovereign debt. Public debt is the accumulation of annual budget deficits. It's the result of years of Government spending more than they take in via tax revenues. **Public debt includes Treasury bills, notes, and bonds, which are typically bought by large investors.**

In the short run, public debt is a good way for countries to get extra funds to invest in their economic growth. Public debt is a safe way for foreigners to invest in a country's growth by buying government bonds.

(5 marks)

ii) Public debt as an alternative to Taxation and its effect on the economy

When Public Debt is used as an Alternative to Taxation

- Public borrowing has an important advantage over taxation. Taxation beyond a certain limit tends to affect economic activity adversely owing to its disincentive effect. There is no such danger in public borrowing. It does not have any unfavorable repercussions on economic activity by being disincentive, partly

because of its voluntary nature and partly because of expectation of return and repayment.

- Public debts enable governments to facilitate growth take-offs by investing in a critical mass of infrastructural projects and social sectors of the economy where taxation capacity may be limited. Public Debt for financing fruitful investment produces supplementary, creative capability in the financial system which or else would not have been achievable.
- Public Debt also facilitates tax smoothing and counter-cyclical fiscal policies, essential for reducing output volatility; and it permits an equitable alignment of benefits and costs for long-gestation projects by shifting taxation away from current generations.
- Public debt is a safe way for foreigners to invest in a country's growth by buying government bonds. This is much safer than foreign direct investment. That's when foreigners purchase a percentage interest in the country's companies, businesses or real estate. It's also less risky than investing in the country's public companies via its stock market. Public debt is attractive to risk-averse investors since it is backed by the government itself.
- When used correctly, public debt improves the standard of living in a country whilst Taxation increase the cost of living of citizens. That's because it allows the government to build new roads and bridges, improve education and job training, and provide pensions. This spurs citizens to spend more now, instead of saving for retirement, further boosting economic growth.

Consequences of Public Debt on the Economy

- Large public debt implies high interest payments and these are borne by tax payers. Governments have virtually no means of repaying debt other than through future taxation. While there is a multiplier effect to government spending, high levels of government debt essentially saddle future generations with the deadweight loss of higher taxation with no offsetting multiplier to the GDP from government spending.
- Government borrowing increases the total demand for credit in the economy, driving up the cost of borrowing in the process. Higher borrowing costs make it more expensive to finance investment in equipment, stock and other capital goods in the private sector. This increases the cost of doing business in the private sector.
- Currency collapse or currency depreciation when monies are printed to finance public debts.

(10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required students to discuss the governance structure of the Ghana Revenue Authority and to critically examine the public debt as an alternative to Taxation.

Interestingly, some candidates were commenting on the Revenue Agencies Governing Board, which was repealed by the Ghana Revenue Authority in 2009. This implies that some students are not reading enough to enable them have control over the subject. Others discussed the taxpayer segmentation of the Ghana Revenue Authority viz large, medium and small.

On the national debt, it was unfortunate students discussed public debt but could not link it to taxation as an alternative as demanded by the question. As a result most candidates ended up not getting the required marks allotted to the question. Some attacked the question from only domestic debt point of view as if that was the only aspect of public debt we have in the literature. Some, however, understood the question and did so well.

It is recommended that tuition centres and providers would pay attention to the governance structure of the Ghana Revenue Authority which is key to understanding the concept of integration and also the concept of public debt which is an alternative to taxation as part of fiscal arrangement of the syllabus.

Additionally, students should put in a little more in their studies to have mastery over this topic and consequently help them do well in the examination.

On the average, candidates who attempted this question were above average.

QUESTION TWO

i) GEORGE AMOAKO

DETERMINATION OF CHARGEABLE INCOME FOR 2016 YEAR OF ASSESSMENT

BASIS PERIOD: 1/1/2016-31ST DECEMBER 2016

	GH¢	GH¢
Net profit per accounts		(14,668)
Less :		
Interest on savings		2,020
Interest on Treasury Bills		790
Gifts received		<u>1,500</u>
		(18,978)
Add disallowed expenses		
Personal Salary	7,200	
Depreciation	1,200	
Computers	2,500	
PAYE	450	
Vehicle	<u>18,000</u>	<u>29,350</u>
Assessable Income		10,372
Deduct Capital Allowance		<u>1,000</u>
Chargeable Income from business		9,372
Less Reliefs		
Marriage/Responsibility	200	
Children Education (200*2)	<u>400</u>	<u>(600)</u>
Chargeable Income		8,772
Add Gifts received		<u>1,500</u>
Total Taxable Income		<u>10,272</u>

(10 marks evenly spread using ticks)

ii) **Reasons for add back and or deduction:**

- **Interest on savings accounts and interest on treasury bills:** Interest paid to an individual is exempted from tax under Act 2015 Act 896 .
- **Gift received:** Gifts received that are business related are added to business income in accordance with Act 2015 Act 896 and Act 2016 Act 924 .

- **Personal Salary of Mr. Amoako and his tax paid:** This is not allowable deduction because the proprietor and the enterprise are one and should not be treated differently.
- **Depreciation:** Depreciation is not allowable for tax purpose instead capital allowance computed in line with the 3rd Schedule of the Income Tax Act, 2015 Act 896 section 130.
- **Computer Purchased:** This is Capital in nature and not allowed as an expense in computing the chargeable income under section 9 of Act 2015 Act 896. However, capital allowance is granted in accordance with Third Schedule of Act 2015 Act 896.
- **Vehicle Purchased for CEO:** this expenditure is for the personal use of Mr. Amoako and should not be allowed as a deduction in accordance with section 9 of the Income Tax Act, 2015 (Act 896). It is not wholly, exclusively and necessarily incurred for the purpose of the business.
- **Reliefs:** George Amoako will be granted responsibility relief instead of marriage relief in accordance with s.51 of Act 896 in view of the fact that he is not married but has two children.
- **Child Education Relief:** This will be granted in view of the fact that George has two children attending Universities in Ghana in accordance with section 51 of Act 896.

(Any 5 points for 5 marks)

iii)		Tax	
First	2,592	Nil	-
	1,296	5%	64.80
	1,812	10%	181.20
	<u>4,572</u>	17.5%	<u>800.10</u>
	<u>10,272</u>		<u>1,046.10</u>

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question required a knowledge of computation of chargeable income of self-employed persons and the tax to be charged. Some candidates used a tax rate of 25% instead of the graduated tax rates for self-employed individual.

Many candidates had challenges in the computation of the chargeable income of self-employed persons. Students should apply a little more effort to the understanding of the tax arrangement in terms of allowable and non-allowable deductions and also the computation of taxes of self-employed persons.

We also observed that some candidates just reproduced the question as the solution to the examiner. That was unacceptable for a final level candidate. It is recommended that Tuition Providers would take note of this simple blunder and teach students what to add and what to deduct in the determination of chargeable income of self-employed persons.

Additionally, students should acquire the tax laws and read them carefully to gain some understanding of some of these simple issues.

QUESTION THREE

a) Introduction

Investment in a company certainly gives the acquirer some benefits when returns are received. Beyond the benefits in terms of returns, there is room for tax planning when a resident company acquires another resident company. In the case of CJA Ltd-a real estate company investing in Don-bill Ltd, there are benefits when dividend is paid in future as it will be an income.

(2 marks)

Tax Provision

Under section 59(3) of Act 896 of Act 2015 as amended, 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.

(2 marks)

Tax implication:

The proposal of shareholders:

The shareholders interest in the investment of 15% will inure to the benefit of CJA Ltd when dividend is paid in future. Future dividend will be subject to dividend tax at the rate of 8%.

(2 marks)

The proposal of Managing Director of CJA Ltd:

The acquisition of 25% in Don-bill will benefit the Company as any dividend that may be earned in future will not be subject to tax as it is exempt from tax. Both withholding tax and corporate tax will not be applicable to such future dividends.

(2 marks)

Decision/Advise

For benefits to CJA Ltd, it is prudent and aids tax planning to acquire at least 25% as proposed by the Managing Director of CJA Ltd to leverage on the tax benefits

(2 marks)

b)

XYZ LTD
COMPUATION OF CHARGEABLE INCOME FROM OPERATION
Y/A OF ASSESSMENT-2016

	GH¢
Chargeable income (given)	40,000
Add Financial Cost from hedging	<u>150,000</u>
	190,000
Less Financial gain from operation	<u>60,000</u>
Income from operation	<u>130,000</u>

COMPUATION OF FINANCIAL COST ALLOWABLE

Y/A -2016

	GH¢
Financial Gain from hedging	60,000
Add 50% Chargeable Income from operation (50%*130,000)	<u>65,000</u>
Financial Cost allowable ceiling	<u>125,000</u>

(6 marks)

ii)

Advise to Management:

Cost incurred from hedging was GH¢150,000. The allowable ceiling on the cost incurred is GH¢125,000. The excess of (GH¢150,000-125,000) GH¢25,000 will be carried over for five years. The financial cost carried forward shall be allowed in five years following. It is granted in the order in which they occur.

Management should in future be mindful of the implication of cost on derivatives as they are not allowed wholesale but are restricted in accordance with section 16 of Act 896 Act 2015 and its amendment.

(4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required the understanding of investment proposals as regards dividend payment and tax implication under the two scenarios as given in the question. This is a clear case of tax planning. Most students were discussing the share of profit to be paid under each scenario which was not the requirement of the question.

Some students interpreted it as a transfer pricing issue. It clearly shows that some students do not read widely and consequently interpreted questions as they appeal to them.

In fact, the question was a straight forward one in the opinion of the examiner and one would have expected candidates to excel in it but that was never the case.

The second part of the question dealt with the computation of financial cost in line with the new Act 2015, (Act 896). This was quite new but straight forward and a student who read the tax laws would have noticed it in the law. Some students did well and got all marks allocated to the question.

It was also observed that some students do not read questions carefully before answering them. Candidates should be encouraged to read questions carefully before they proceed to answer in subsequent examinations.

QUESTION FOUR

- a) A taxable person registered for VAT, is required to claim input VAT on the acquisition of goods and services which are business related and also required to pay output VAT on goods and services. In effect, the net is claimable or payable (i.e. input tax-output tax). If the input tax exceeds the output tax, it is claimable and if the output tax exceeds the input tax, it is payable. **(2 marks)**

If the input tax paid by the registered person is denied, the supply of the goods and services by the taxable person is a supply of goods and services other than in the course or furtherance of a taxable activity. **(1 mark)**

Conclusion:

Eddie Enterprise Ltd was denied the claim of VAT paid on the importation of a vehicle. The proposed sale of the vehicle shall be deemed as sale that will not attract output VAT in accordance with section 25 of Act, 2013 Act 870 as amended.

(2 marks)

- b) Input VAT paid for goods and services are claimable by a VAT registered trader and by the same token, is (trader) required to account for output VAT when it parts with ownership of the assets. **(1 mark)**

Under section 48(4) (b) of Act 2013 Act 870, input tax deduction shall not be made after the expiration of a period of six months after the date the deduction accrues.

The taxpayer's right to claim is extinct under the above situation, if it is not exercised at the right time that is after 6 months. **(2 marks)**

Conclusion:

For failure to claim the input tax within 6 months, Bossman Ltd has lost the right to claim but must charge and account for VAT on the sale of the assets accordingly as the failure to claim is not a denial of claim.

(2 marks)

c) Amount of capital allowance claimable for 2016 year of assessment by Sakote Ltd.

Working 1.

Sakote Limited			
Computation of capital allowance claimable			
	Class 2	Class 4	Capital
Allowance	30%	10%SLM	
	GH¢	GH¢	GH¢
Y/ A 2015			
Cost	75,000	130,000	
Capital Allowance	<u>(22,500)</u>	<u>(13,000)</u>	
WDV c/d	52,500	117,000	
			(2 marks)

Sakote Limited			
Computation of capital allowance claimable for 2016 Year of Assessment			
	Class 2	Class 4	Capital
Allowance	GH¢	GH¢	GH¢
Y/ A 2016			
BP 1/1/16-1/12/16			
WDV b/d (W1)	52,500	117,000	
Addition	-	-	
Proceeds from sale	<u>220,000</u>	<u>-</u>	
	<u>(167,500)</u>	117,000	
Capital Allowances	-	<u>13,000</u>	13,000
WDV c/d	-	104,000	
			(4 marks)

Conclusion:

Analysis:

The amount of GH¢167,500 constitutes income which should be added to business income and capital allowance of GH¢13,000.00 is claimable for 2015 year of assessment. (1 mark)

ii) Goodwill is an asset that qualifies as a capital expenditure for accounting purposes only. Capital allowance is not granted in respect of assets as such but on depreciable assets as defined by tax provisions. In accordance with section 133 of Act 896 Act 2015 on Interpretation, goodwill shall not be granted capital allowance.

Conclusion:

The expenditure of GH¢10,000 incurred by Sakote ltd cannot enjoy capital allowance as it is not depreciable assets. (3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question was on value added tax. This is a popular question among tax practitioners. One would have expected students to do well in that question but that was not to be. Some students linked it to capital gains tax and consequently computed capital gains tax as a solution.

It was observed that most students did not do well in this area. However few candidates that attempted this particular question performed above average.

The second part of the question had to do with capital allowance computation. The trick with it had to do with the exchange of vehicles for plots of land. Some students did not know that the exchange agreed and the amount involved established at arm's length constituted the proceeds from realization of the class 2 depreciable assets. Others under wrong assumptions granted capital allowance on the plots of land acquired. The acquisition of land as a qualifying expenditure does not enjoy capital allowance.

Additionally, goodwill no longer enjoy capital allowance in the Act. Most candidates appeared not to have any knowledge of this basic principle.

Tuition Centres should take note of this and prepare students adequately for the tax paper

QUESTION FIVE

- a) **An improvement** is any type of renovation that will extend the "useful life" of the property. The theory here is that it will add value to the property for years to come and not just in the current tax year. Improvements are generally considered adding something that was not previously there, upgrading something that was existing or adapting the asset to a new use. Improvements are usually more intensive than repairs and usually involve greater cost.

Examples of Improvements: adding an addition, adding central air conditioning, installing a security system, installing brand new carpet, replacing an entire roof etc.

A repair is maintenance that is necessary to keep the property in working condition. They are those that "do not add significant value to the property or extend its life." They are reasonable in amount and are necessary to keep the property in habitable condition. Repairs are generally considered restoring an item to its previous good condition.

Examples of Repairs: refinishing a wood floor, repainting a room, repairing a roof, repairing existing plumbing, repairing existing appliances, replacing a doorknob etc.

(2 marks for Explanation)

Expenditure incurred whose benefits go beyond one accounting period qualifies to be capitalised and capital allowance granted provided it relates to depreciable assets in line with the third schedule under Act 896 Act 2015. The Act 896, however, provides a novel treatment of repairs and or improvement under section 12.

The provision of the requirement of section 12 of the Income Tax Act 896 is furnished as below.

- Repairs and improvement as expenditure in a tax provision of Act 2015 (Act 896) allows a person (Tax Payer) to deduct that expense relating to repairs and improvement of a depreciable asset of that person to the extent that it is wholly exclusively and necessarily incurred by the person in the production of the income for which deduction is required to be made against.

The above means that it will be an allowable deduction for tax purposes irrespective of the fact that it may be of a capital expenditure.

(3 marks)

- The provision of the tax law allows for a deduction for a year of assessment with respect to a depreciable asset in a particular pool of a depreciable asset of a person. Such expenditures are, however, capitalized on some conditions.

Conditions on which repairs and or improvement is capitalised.

- a) The expense does not exceed five percent (5%) of the written down value of the pool at the end of the year and
- b) Is allowed in the order in which the expense was incurred

The excess of “a” above the 5% of the expenditure shall not be allowed to be deducted but added to the pool of that depreciable asset that relates to the repairs and improvement and granted capital allowance alongside any addition of that pool as a capital expenditure.

(5 marks)

b)

Royalty Rate 5%

Computation of Royalty is 5% of Revenue

$5\% \times 5,000,000 = 250,000$

Royalty payable by AB Ltd is GH¢250,000.00

**AB Ltd
Computation of Tax payable
Year of assessment 2016**

	GH¢	GH¢
Chargeable Income (given)		2000,000
Add the following:		
Penalty	100,000	
Loss from operation	<u>50,000</u>	
		<u>150,000</u>
Recomputed chargeable income		<u>2,150,000</u>
Tax Charged @ 35%		<u>752,500</u>

Explanations:

- The capital allowance was added to cost which eventually decreased the chargeable income is appropriate per the law.
- Penalty is an infraction which should not be an allowable deduction. From the question, it came to light that it was part of the cost of operation.
- Loss is carried over for five years both under the old law and the new Act. Loss recorded in 2010 would have expired in 2015 if it was not entirely deducted.

(5 marks)

c)

- Surface rental** is revenue charged by government per square kilometre in respect of acreage of block given to a contractor for petroleum operations. It is paid at each anniversary. The amount paid depends on the stage of production. It is lower at exploration stage, it increases at development and production. The contractors pay these monies into the petroleum holding fund.
- Carried Interest:** It is the interest of government that allows the state to a share of the oil produced without making a contribution towards exploration and development cost. The State, however, contributes towards production cost being its proportionate representation in the petroleum operations.

(2.5 marks for each point)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on repairs and improvement created some challenges for some students. Some had to set their own question by writing on repairs and maintenance instead of repairs and improvement.

The second part had to do with the computation of royalty payable. Most student had challenges with the computation of the royalty in the mineral operations. This is incredible for final level candidates.

The last part of the question had to do with government take. This was a straight forward one and did not seem to pose problems for many students. Some few students had no clue at all what the question wanted and fired wrongly.

CONCLUSION

The paper also revealed the fact that preparation for the examination was inadequate hence students could not do their best and consequently produced terrible solutions. In my considered opinion, the standard should be maintained and sustained to help bring out the best in candidates. By and large, the paper was of the highest standard in recent times and should be maintained to compel students to sit up and be able to pass.