

**MAY 2018 PROFESSIONAL EXAMINATIONS
TAXATION & FISCAL POLICY (PAPER 2.5)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

STANDARD OF THE PAPER

The questions followed the usual pattern in terms of standard, quality and coverage of the final level syllabus. The paper afforded an average student who studied hard to be able to pass the exam easily. The paper patterned after the previous ones in terms of quality, level of difficulty appropriate to the final level. The technical standard of the paper was quite impressive. The paper sought to create discrimination among good students and poor ones as the object of all professional examinations the world over. In other words, good students pass and bad ones fail.

The questions were properly moderated and for all practical purposes were devoid of errors. Clarity and unambiguity characterized all the questions and the mark allocation were quite appropriate for the requirement of the questions.

I can confirm without any scintilla of doubt that the paper was good one and an average student who prepared very well was sure to pass. Any student who did not approach the exam with any seriousness was sure to fail given the spread of the questions over the syllabus and the level of difficulty appropriate for the level.

The questions tested knowledge, skill and application of the students which the final level examinations seek to achieve as they prepare students to be practically-oriented and be able to think laterally.

The marks allocated to each question and sub questions were fashioned in accordance with the weighting in the syllabus grid known by students and in line with previous examinations and the amount of energy students are required to spend on the basis of the marks.

PERFORMANCE OF CANDIDATES

The performance reflected the level of difficulty of the paper quite appropriate for a final level. The paper in terms of standard was quite remarkable in my personal assessment and also gleaned from comments from my colleagues. In all honesty, some students showed lack of preparation for the paper as they had no clue as to the requirements and the demands of the examiners. Such students performed woefully.

The usual recall questions were missing in the paper. Students who passed the paper really demonstrated preparedness for the exams and got rewarded for their efforts.

The Institute should continue to maintain the standard and the level of difficulty for the professional level in order to get students to commit to learning as the only way that can guarantee their success.

QUESTION ONE

- a) The Ghana Revenue Authority Act, 2009 (Act 791) provides certain objectives to be achieved by the Ghana Revenue Authority (GRA) in the performance of its functions.

Required:

Identify **FIVE** functions that are to be performed by GRA to achieve its objectives.

(5 marks)

- b) One of the factors that helps determine the country's economic direction is fiscal policy. Government uses fiscal policy to influence the economy by adjusting revenue and spending levels.

Required:

Identify and explain **FIVE** goals of *government spending* as a fiscal policy instrument.

(10 marks)

- c) The decision to change the level, composition or timing of government expenditure or to vary the burden, the structure or frequency of the tax payment is a fiscal policy. Fiscal policies could be automatic stabilizers or discretionary.

Required:

Explain *automatic stabilizers* and *discretionary* fiscal policies.

(5 marks)

(Total: 20 marks)

QUESTION TWO

- a) Sekyiwaa Annam Industries Limited manufactures personal hygiene soaps and related products at their factory in Takoradi. The company commenced business operations on 1 April 2016 and had an assessed loss of GH¢150,200 for the period ended 31 December 2016.

The company recorded a net profit of GH¢762,800 for the year ended 31 December 2017 after taking into account the following transactions in the income statement:

- Gross rental income of GH¢180,000 received from the leasing of one wing of the office building. The rental income portion constitutes 10% of the office building.
- Net interest received on bank deposits from Ghana Commercial Bank of GH¢10,028. Withholding tax of 8% has been deducted.
- The registration of Trademarks at a total cost of GH¢75,000 in respect of the Company's personal hygiene soaps that is to last for 10 years. The research and development expenses incurred in connection with these soaps amounted to GH¢15,000 and the company intends to expense it. The legal costs incurred to complete the registration of the Trademark was GH¢5,000.
- A donation of GH¢120,000 worth of furniture was made to a local government assisted school as part of Company's corporate social responsibility programme which was duly acknowledged by Ghana Education Service (GES).

- Depreciation of fixed assets of GH¢57,000.
- Replacement of two motor vehicle engines costing GH¢51,000
- Exceptional costs amounting to GH¢150,000 as a result of the production manager sustaining an injury whilst working on one of the production lines in the factory. The production manager was rendered incapacitated and resigned as a result of the incident. GH¢35,000 of the costs relate to a payment made to the production manager as severance pay. GH¢110,000 was used to acquire additional computers. The remaining GH¢5,000 of the costs represent fines imposed by the Factory Inspectorate Department of the government following the incident.
- Purchases of Computer Server for accounting and human resource needs at a cost of GH¢20,000

Additional information

Details of Company's other fixed assets, at cost, are provided below. These were all acquired/constructed during the year to 31 December 2016:

	Cost (GH¢)
Factory Building	800,000
Plant and Machinery	510,000
Office Building	420,000
Furniture and Office Equipment	60,000
Motor vehicles (Goods Vans)	130,000
Computers	30,000

Required:

- i) Calculate the capital allowances claimable by Sekyiwaa Annam Industries Limited for the year ended 31 December 2017 using all the available information. **(8 marks)**

- ii) Calculate the chargeable income of Sekyiwaa Annam Industries Limited for the year ended 31 December 2017 and tax payable. **(6 marks)**

- b) Briefly discuss the taxation rules on the following:
 - i) Payment for Overtime **(2 marks)**
 - ii) Payment for Bonus **(2 marks)**
 - iii) Payment to Casual Workers **(1 mark)**
 - iv) Payment to Temporary Staff **(1 mark)**

(Total: 20 marks)

QUESTION THREE

- a) Akua is a shareholder of Annam Company Limited, a company not listed on the Ghana Stock Exchange (GSE) Market. Akua has the following transaction in Annam Company Limited:
- i) On 01/07/2008 Akua purchased 200,000 ordinary shares for GH¢184,000. She purchased another 120,000 shares on 01/10/2008 at a price of GH¢1.00 per share. Akua again purchased 95,000 shares on 16/06/2009 at a price of GH¢1.15 per share.
 - ii) On 20/07/2009, Akua received bonus shares of 1 for every 10 shares currently held by her.
 - iii) On 01/01/2017, Akua accepted a right offer of 1 for 5 shares held as at 31/12/2015 at a price of GH¢0.90 per share.
 - iv) On 15/11/2017, Akua sold 340,000 shares for GH¢408,000 paying a commission of 2.5% of sale value to the brokerage firm that facilitated the sale. The proceeds received from the sale was GH¢0.10 per share lower than a similar share on the Ghana Stock Exchange Market.

Required:

Calculate the *capital gain tax* if any.

(9 marks)

- b) Tax planning is the analysis of a financial situation or plan from a tax perspective. The purpose of tax planning is to ensure tax efficiency, with the elements of the financial plan working together in the most tax-efficient manner possible.

Required:

Briefly explain the following terms with respect to tax planning:

- i) Tax holiday
- ii) Tax Exemptions
- iii) Tax Reliefs
- iv) Tax rebates/refund

(6 marks)

- c) The Government of Ghana recently signed a Double Taxation Avoidance agreement (DTA) with the government of Mauritius at Port Louis, Mauritius.

Speaking at a joint press conference after the signing ceremony, Ghana's Vice President, Alhaji Dr. Bawumia, said "*We have seen the manifestation of the first fruits of this Joint Permanent Commission with the signing of the historic double taxation agreement between Ghana and Mauritius, ..., and we believe this is just the beginning of our cooperation,*"

Required:

Discuss **FIVE** benefits likely to result from the Double Taxation Agreement. **(5 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) Tax administration allows for cross border transactions. To this end, entities conduct businesses across countries as a way of increasing their competitiveness and international appeal and consequently their profits.

Required:

Discuss how a non-resident person would be taxed in Ghana if he/she:

- i) has a Permanent Establishment. (2 marks)
ii) does not have Permanent Establishment (2 marks)

- b) A proprietor of an enterprise intends converting his business into a limited liability company. He also intends to have shareholders made up of 5 members as against 6 members proposed by his wife in a discussion. He has approached you as a final level ICAG Tax student to advise him on the relevance of the number of shareholders in a limited liability company setting.

Required:

Advise for *tax planning purposes*, the relevance of numbers of shareholders. (5 marks)

- c) In the month of September 2016, Akonfem Fabricating Ltd a registered trader for VAT made the following transactions:

Sales:	GHC
Local Supplies	425,000
Relief Supplies	215,000
Exports	550,000
Purchases/ Expenses (Input Invoices):	
Stationery -	2,030
Hotel Bill for the MD -	3,450
Raw Material (imported) -	545,000
MTN Phone Bills for MD	1,020
Electricity (Factory)	5,000

Note: Sales and purchases are all Value Added Tax/National Health Insurance Levy exclusive

Required:

- i) Compute the output and input taxes. (4 marks)
ii) Determine the tax payable, if any. (2 marks)

- d) XYZ ltd is into mobile telecommunication and manufactures scratch cards among other products for sale. In October 2017, it sold scratch cards amounting to GH¢3,000,000 to the public. XYZ ltd intends to appoint you as acting assistant accountant pending confirmation after successfully completing your ICAG examinations. As part of the engagement, you are to assist the Company file its returns with the Ghana Revenue Authority.

Required:

Compute the following taxes from the above data to aid the filing.

- i) Communication Service Tax (CST) (2 marks)
- ii) Value Added Tax (VAT) (2 marks)
- iii) National Health Insurance. (1 mark)

(Total: 20 marks)

QUESTION FIVE

- a) The following data is relevant to the upstream petroleum operations of Lanandam Ltd for 2017 year of assessment.
 - i) 200,000 barrels of oil sold internationally at \$68 per barrel
 - ii) An asset bought at the inception of petroleum operations was sold for \$1,000,000 in 2017 year of assessment
 - iii) 50,000 barrels lifted and sold to its Parent company in the United States at an agreed price of \$56/barrel. The price ruling on the international market on the day of lifting the oil for the Parent Company was \$60/barrel.

Required:

Compute the revenue from the above and comment on the treatment of the sale of the petroleum assets as indicated above. (5 marks)

- b) AB ltd is a mining company operating at Kyebi in the Eastern Region. The following data is relevant for the last quarter of 2017 year of assessment.

	GH¢
Revenue	20,000,000
Cost of operation including expenses	<u>14,000,000</u>
Margin	<u>6,000,000</u>

The following additional information is relevant:

- i) Royalty has not been computed and paid on the above yet.
- ii) Depreciation of an amount of GH¢1,000,000 was part of the cost of operation above.
- iii) Proceeds from sale of depreciable assets amounting to GH¢500,000 were added to revenue above.
- iv) Capital allowance agreed with the Mining Unit of Ghana Revenue Authority was agreed to be GH¢800,000.

Required:

Compute the taxes payable by AB Ltd to Ghana Revenue Authority and comment on any **TWO** items as to why you allowed or disallowed it in the tax computation. (5 marks)

- c) What constitutes “Duty Draw Back” and what are the types of “Duty Draw Backs” in Custom Administration? (5 marks)
- d) The Transfer Pricing Unit of the Ghana Revenue Authority frowns upon any transaction between controlled persons that is not conducted at arm’s length.

Required:

What is arm’s length price and its effect on tax revenue? (5 marks)

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a) **To achieve the objects, the Authority shall perform the following functions:**

- Administer and give effect to the laws or relevant provisions of the laws set out in the First Schedule and use optimum efficiency in assessing, collecting and accounting for all revenue to which those laws apply;
- Pay the amounts collected into the Consolidated Fund unless otherwise provided by this Act and other Acts;
- Promote tax compliance and tax education;
- Combat tax fraud and evasion and co-operate to that effect with other competent law enforcement agencies and revenue agencies in other countries;
- Advise District Assemblies on the assessment and collection of their revenue
- Prepare and publish reports and statistics related to its revenue collection;
- Make recommendations to the Minister on revenue collection policy.

(Any 5 points for 5 marks)

b) **The goals of public expenditure are the following:**

• **Provide social goods:**

The theory of social goods is of prime importance to the economies of the public sector. The market economy, if certain conditions are met, enables an efficient use of resources for providing private goods.

However, when it comes to providing public or social goods (e.g. parks roads, bridges, free or subsidised educational facilities), the market economy often runs into trouble. Social goods are goods which are required for the welfare of society as a whole, but for which the market fails to provide a value.

People are generally ignorant of the value or utility of social goods. An individual knows that once one category of social goods say a road, is constructed, he cannot be denied its use whether he paid for its construction or not.

Everyone assumes that others would pay for it. It is these failures of the market (i.e., provision of social goods) that bring the role of the government and public expenditure in focus for providing social goods for the welfare of the public in general.

Some economists divide social goods under two heads: Social and economic overheads. Social overheads like hospitals, schools and colleges and technical institutions and economic overheads like roads and railways, irrigation and power projects etc. are all essential for economic development. It is the responsibility of Public expenditure to build up sound social and economic overheads as money for these things does not usually come from private sources.

• **Remove unemployment:**

Public expenditure is the most potent weapon to fight unemployment. The level of employment depends upon effective demand. The government can influence

effective demand either by making more public expenditure or by resorting to such fiscal methods as may raise the level of private expenditure.

The role of public expenditure becomes very significant during the period of depression when the private entrepreneurs are not keen to take up investment activities.

The government can resort to counter cyclical fiscal policy, which means the taxes and government spending be varied in an anti-cyclical direction; government spending being cut and taxes increased in the expanding phase of cycle and government spending increased and taxes cut during the contraction phase. Increased government expenditure will open new job opportunities in the country, which means creation of demand of goods and services.

Mention may also be made of pump priming and compensatory expenditure to raise the level of employment in the economy. Pump priming refers to increase in private expenditure through an injection of fresh purchasing power in the form of an increase in public expenditure even through budgetary deficit.

It is argued that such an initial public expenditure may set in motion a process of recovery from the condition of depression. Compensatory expenditure refers to the variation in the government budget expenditure to compensate the deficiency in private demand so as to maintain high level of investment, employment and income stability.

In the words of Keynes, government expenditure becomes a balancing factor in order to maintain national income at a given level. Such expenditure may be progressively raised during depression phase of the business cycle, and progressively reduced in the recovery phase.

- **Increase Production:**

Public expenditure contributes to production through a large number of public enterprises both in industries and agriculture. Government incurs a lot of expenditure in the agricultural sector, e.g. on irrigation and power, seed forms, fertilizer factories, warehouses, etc., and in the industrial sector by setting up public enterprises like the steel plants, heavy electrical, heavy engineering, machine-making factories, etc. All these enterprises are calculated to promote production and thereby economic development.

- **Exploitation and Development of Mineral Resources:**

Minerals provide a base for further economic development. The government has to undertake schemes of exploitation and development of essential minerals, e.g. coal and oil. Public expenditure has to play its role here too.

- **Promote Price Stability:**

Increase in public expenditure relieves the economy from the quagmire of depression and conversely public expenditure can be scaled down when there is a fear of inflationary rise in prices. Thus, public expenditure helps in stabilising price.

- **Promote Balanced Growth:**

There is a tendency to use economic resources for the further development of already developed regions. But for overall growth, special attention needs to be paid for the development of backward areas and under developed regions. This requires huge amounts for which reliance has to be placed on public expenditure.

- **Reduce Inequality of Income:**

Another objective of Public expenditure is to reduce the inequality of income. Expenditure on old age pensions, unemployment relief, free education, free mid-day meals etc. benefits the poorer classes of the community at the expense of the rich. The above objectives reveal that public expenditure properly made of utmost important for social welfare and economic prosperity.

(Any 5 points well explained for 10 marks)

c) **Automatic Stabilizers**

- Some tax and expenditure programs change automatically with the level of economic activity. These are called Automatic Stabilizers. Automatic stabilisers refer to how fiscal instruments (taxes and government spending) will influence the rate of growth and help counter swings in the economic cycle.
- In a period of high economic growth, automatic stabilisers will help to reduce the growth rate. With higher growth, the government will receive more tax revenues – people earn more and so pay more income tax (note the tax rate doesn't change, the amount received just becomes higher). With higher growth, there will also be a fall in unemployment so the government will spend less on unemployment benefits.
- In a recession, economic growth becomes negative. However, automatic stabilisers will help to limit the fall in growth. With lower incomes people pay less tax, and government spending on unemployment benefits will increase. This increase in benefit spending and lower tax helps to limit the fall in aggregate demand

Discretionary Fiscal Policy

- Discretionary fiscal policy refers to deliberate changes in taxes or spending. The government cannot control certain aspects of the economy related to fiscal policy. For example: The government can control tax rates but not tax revenue. Tax revenue depends on household income and the size of corporate profits.
- Government spending depends on government decisions and the state of the economy. Discretionary government spending and tax policies can be used to shift aggregate demand.

(2.5 marks each = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

- The question had A, B and C. The question "A" required students to identify the functions of the Ghana Revenue Authority. It must be noted that this question appears popular among students. Interestingly, some students misunderstood it and wrote on good tax administration system. Others looked at the administrative processes of the Ghana Revenue Authority by discussing the recruitment processes of the Ghana Revenue Authority such as imposing penalties/interest on late submission of tax returns.
- Some students commented on the functions of Ghana Revenue Authority as legislating tax laws, designing sanctions for defiant taxpayers. Clearly, this is an indication of lack of preparation for the exams. There are sufficient materials on the functions of the Ghana Revenue Authority which students could lay hands on easily if they wanted.
- The question "B" was on fiscal policy. It required students to identify and explain any five goals of government spending as a fiscal policy. Few students understood the question and provided the right answers.
- Question "C" required the explanation of 'automatic stabilizers and discretionary' fiscal policies. With some level of lateral thinking, students should be able to answer this question very well if even they were seeing it for the first time.
- Some, unfortunately, did not attempt it at all. Some related the automatic stabilizers to generators for electricity. Incredible!. This sort of answers only explains how ill-prepared some students were.
- Students should know that as part of the syllabus, they are required to read on fiscal policy. It is an area some students, unfortunately, do not show much interest in hence not demonstrating adequate knowledge. This area can help students maximize marks if they take it seriously given that it has become a common feature of the Tax Paper.
- Additionally, students should spend considerable time in their studies if they want to excel in their papers.
- It is recommended that Tuition Providers would pay attention to the fiscal policy issues which are an important part of the syllabus.
- On the whole, some students did so well and bagged impressive marks in this question.

QUESTION TWO

a) Sekyiwaa Annam Industries Ltd

i) Computation of Capital Allowance

	Class 1 GH¢	Class 2 GH¢	Class 3 GH¢	Total GH¢
2016: Cost	30,000	640,000	60,000	
Capital Allowance (275 days)	<u>9,041</u>	<u>144,658</u>	<u>9,041</u>	
	20,959	495,342	50,959	
2017 Additions	<u>130,000</u>	<u>33,663</u>	<u>0</u>	
	150,956	529,005	50,959	
Capital Allowance	<u>60,384</u>	<u>158,702</u>	<u>10,192</u>	229,278
	90,572	370,303	40,767	

	Factory Building GH¢	Office Building GH¢	Trademark GH¢	
2016: Cost	800,000	420,000	0	
Capital Allowance (275 days)	<u>60,274</u>	<u>31,644</u>	<u>0</u>	
	739,726	388,356	0	
2017: Additions	<u>0</u>	<u>0</u>	<u>80,000</u>	
	739,726	388,356	80,000	
Capital Allowance	<u>80,000</u>	<u>37,800</u>	<u>8,000</u>	125,800
	659,726	350,556	72,000	
Total Capital Allowance (2017)				355,078

(8 marks evenly spread using ticks)

ii) Sekyiwaa Annan Industries Ltd

Computation of Chargeable Income for the Assessment year 2017

	GH¢
Net Profit	762,800
Gross Rental Income	180,000
Interest on Deposit	<u>10,028</u>
	190,028
	572,772
Trade mark & Registration	80,000
Depreciation of Fixed Asset	57,000
Motor Vehicle Purchase -Repairs& Improv.	33,663
Fines for Factory Accident	5,000
Additional Computers	110,000
Purchase of server	<u>20,000</u>

Adjusted Profit	878,435
Capital Allowance	<u>355,078</u>
Chargeable Income before loss	523,357
Loss Assessed	<u>150,200</u>
	373,157
Gross Interest 100/92*10,028	<u>10,900</u>
Chargeable Income	384,057
Tax Charged @ 18.75%	72,011
	<u>872</u>
Net Tax Payable	71,139

(6 marks evenly spread using ticks)

Repairs and Improvement

	Class 2 (30%)	
WDV b/f	495,342	
Capital Allowance	148,603	
Depreciation basis	346,739	
Repairs & Impr	WDV c/f	5% WDV c/f
51,000	346,740	17,337

Determination of amount to be capitalised

Amount incurred	51,000
Amount to be expensed	<u>17,337</u>
Amount to be capitalised (diff)	33,663

b)

i) Overtime

- Where an employer makes a payment for overtime work to a qualifying junior employee during a year of assessment, the employer shall:
- Withhold tax from the total of the payment at the rate of five percent, if the amount paid does not exceed fifty percent of the basic salary of the employee for the month.
- Withhold tax from the excess of that payment at the rate of ten percent, if the amount paid exceeds fifty percent of the basic salary of the employee for that month.
- Where an employer makes a payment for overtime to an employee who is not a qualifying junior employee, the payment shall be included in calculating the income of that employee from the employment and taxed in accordance with the First Schedule of the Act (i.e. using the graduated rates).
- Tax withheld is a final tax on the overtime and the payment shall not be included in calculating income derived by the employee from that employment; and the tax paid by withholding satisfies the tax liability of the employee with respect to the payment and may not be reduced by any tax credits allowed to the employee.

(2 marks)

ii) Bonus

- Where an employer pays a bonus to an employee during a year of assessment, the employer shall:

- If the total of the bonus payments made by that employer to the employee during the year of assessment does not exceed fifteen percent of the annual basic salary of that employee, withhold tax from the gross amount of the payment at the rate of five percent; or
- If the total bonus payments made by the employer to the employee during the year exceeds fifteen percent of the annual basic salary of that employee
- Add the excess payments to the employment income of that employee for that year; and
- Withhold tax from the total amount obtained in accordance with the First Schedule of the Act (i.e. using the graduated rates).
- Tax withheld is a final tax on the bonus payment and the payment shall not be included in calculating income derived by the employee from that employment; and the tax paid by withholding satisfies the tax liability of the employee with respect to the payment and may not be reduced by any tax credits allowed to the employee.

(2 marks)

iii) Casual workers

- Where a person makes payment to a casual worker, which payments shall be treated as income earned by that casual worker, and the person shall withhold tax from the gross income paid to the casual worker at the rate of five percent. Tax withheld shall be treated as final tax.

(1 mark)

iv) Temporary workers

- Where a person makes payment to a temporary worker as defined under section 78 of the Labour Act, 2003 (Act 651) that payment shall be treated as income earned by the temporary worker, and the person shall withhold tax from that income in accordance with section 114 of the Income Tax Act, 2015 (Act 896) as amended and the First Schedule of the Act (i.e. using the graduated rates).

(1 mark)

(Total: 20 marks)

EXAMINER'S COMMENTS

- This question required a knowledge of computation of capital allowance, assessable income and chargeable income of a manufacturing concern located in a regional capital.
- This question required understanding of the treatment of repairs and improvement in respect of acquisition of engines, redundancy package of the production manager who sustained injury while working on a production line and the tax rates applicable to a manufacturing concern in a regional capital as the location of the company was Takoradi. With manufacturing concerns, taxes are paid as: Accra/Tema, @ 25%, Regional capitals @18.75% with a rebate of 25% while any other areas is 12.50% with a rebate of 50% on the marginal tax rates.

- Additionally, the question required students to distinguish allowable and non-allowable deductions. Some got the trick and did justice to it while others failed to distinguish this.
- What was alarming, however, was the computation of capital allowance in respect of assets acquired by the Company. Given that capital allowance computation is a very popular area, one would have thought that the question was going to be a launching pad but that was not to be.
- Candidates were required to discuss the taxation rules on overtime, bonus, casual workers and temporary staff. This area strangely, created problems for some students to the chagrin of the examiners.
- It is recommended that Tuition Providers would take note of this and emphasize the taxation rule of the above simple terms which are basic in employment taxation.
- Notwithstanding the above, some students garnered above average marks in this question

QUESTION THREE

a) Computation of capital gain tax

Date	Details	Shares	Price	GH¢
01/07/2008	Purchase of shares	200,000	0.92	184,000
01/10/2008	Purchase of shares	120,000	1.00	120,000
16/06/2009	Purchase of shares	<u>95,000</u>	1.15	<u>109,250</u>
		415,000		413,250
20/07/2009	Bonus 1/10 * 415,000	<u>41,500</u>		<u>0</u>
		456,500		413,250
01/01/2017	Right issue 1/5 * 456,500	<u>91,300</u>	0.90	<u>82,170</u>
		547,800		495,420
15/11/2017	Sale of shares	<u>340,000</u>		
		207,800		

Computation of Capital Gain

	GH¢	GH¢
Sum Realised		408,000.00
Cost of Assets (W1)	307,489.59	
Commission (2.5% * 408,000)	<u>10,200.00</u>	<u>317,689.59</u>
Gains from Realisation of Asset		90,310.41
Tax Charged @ 15%		13,546.56

Workings 1

$$\text{Cost of Asset} = \frac{A}{A+B} * C$$

$$A = \text{Sum Realised} = 408,000$$

$$B = \text{Value of asset remaining} \\ (547,800 - 340,000)$$

$$\text{Multiply by shares remaining} \quad \underline{207,800}$$

C = Cost before disposal of shares

$$\text{Therefore Cost} = \frac{(340,000 * 1.2) * 495,420}{(340,000 + 207,800) * 1.2} \\ = 307,489.59$$

(9 marks evenly spread using ticks)

b)

i) TAX HOLIDAY

A tax holiday is a **temporary** reduction or elimination of a tax. Tax holidays may be granted by government at national, regional, and local levels. In developing countries, governments sometimes reduce or eliminate corporate taxes for the purpose of attracting foreign direct investment or stimulating growth in selected industries. **(1.5 marks)**

ii) **TAX EXEMPTIONS**

Tax exemption generally refers to **removal** from taxation of a particular revenue item or class of people. It generally refers to a statutory exception to a general rule rather than the mere absence of taxation in particular circumstances. Tax exempt status may provide a potential taxpayer complete relief from tax, tax at a reduced rate, or tax on only a portion of the items subject to tax. **(1.5 marks)**

iii) **TAX RELIEF**

A tax relief is an approved deductible allowance intended to reduce taxable income and thereby lessen tax burden. Personal circumstances are always taken into consideration when allowing reliefs. **(1.5 marks)**

iv) **TAX REBATE**

A tax rebate may be a **partial sum** of money refunded to taxpayers from paid taxes, or it may be an amount by which the tax payer reduces his/her taxes before paying them. To many the term tax rebate connotes the happy idea of a government sending back some amount of taxes already paid. **(1.5 marks)**

c) **Benefits of double taxation agreements among others are:**

- They create an environment of fiscal certainty which encourages trade and investments
- They protect international shipping and air transport activities
- They create machinery for administrative co-operation between tax authorities of the contracting states.
- They discourage the more obvious forms of discriminatory taxation of foreign nationals and enterprise.
- They also afford the exchange of information between the relevant tax authorities.
- They also help prevent international tax avoidance and evasion.

(Any 5 points for 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

- The question required the understanding and computation of capital gains tax by an individual. Individuals in respect of capital gains, may elect to tax it at the rate of 15% or using the personal income tax rates. All those who attempted the question used the rate of 15%. This appeared quite straight forward.
- Some students used First in First Out (FIFO) in the adjustment of the disposal of shares in arriving at the cost of shares sold. The question required adjustment from the accumulated purchases of shares and not the employment of FIFO.
- Some students bagged all the marks in this area as they understood the question and its demand and consequently did well but others performed below average.
- The "B" part of the question required understanding of the types of tax incentives. This was a popular question and most students performed very well.
- Others demonstrated lack of knowledge of the area borne out of ill-preparedness.

- The “C” part of the question was on the benefits of Double Taxation Agreement (DTA). It appeared to be the most well answered question by candidates.
- The question required discussion of the benefits of the double deduction, meaning both the positive and negative of the DTA if any? Some students looked at only the positive side of double taxation agreement.
- It was also observed that some students did not read the question carefully before answering them and lost out on the requirement. Candidates ended up with irrelevant rendition.
- Candidates on the whole gave a good account of themselves on this question.

QUESTION FOUR

a)

i) For a non-resident person with a Permanent Establishment, the PE is required to file returns on its activities to the Commissioner General as if it were a distinct and separate person engaged in the same or similar activities under the same or similar conditions and dealing wholly independently. That is a PE has to file and comply with the tax laws of Ghana as if it were a subsidiary of a parent company.

(2 marks)

ii) The income of a non- resident person without a Permanent Establishment attract a final withholding tax and in some instances if the income forms part of the business income of the non-resident person no taxes may be deducted if there is a double taxation treaty with the non-resident person’s country.

(2 marks)

b) A company with shareholders not more than 5 members is referred to as a close company. A company withholds tax on dividend declared by the company and pays same to the Ghana Revenue Authority.

A close company that operates for a reasonable period of time without declaring dividend, the Commissioner-General has the right under section 59(8) of Act 2015 Act 896 to set aside part of its income as dividend and proceed to tax it accordingly at the rate of 8% final. This is not applicable where the shareholders are more than 5. The proprietor’s wife assertion is correct if the proprietor intends to plan his tax affairs

(5 marks)

c)

i) **Output and Input Taxes**

	GH¢	GH¢
Output tax		
Local supplies (425,000@17.5%)		74,375
Relief supplies (215, 000*17.5%)		Nil
Export (550,000*0%)		0
Total Output tax		<u>74,375.00</u>
Input tax		
Stationery (2,030 *17.5%)	355.25	
Hotel bill for the MD (GH¢3, 450) (non-deductible)	-	
Raw material (imported) (545,000*17.5%)	95,375.00	
MTN phone bills (1,020) (non-deductible)	-	
Electricity (factory) (5,000 *17.5%)	<u>875.00</u>	
Total deductible input tax		<u>(96,605.25)</u>
ii) Credit due from Commissioner -General		<u>(22,230.25)</u>

(6 marks evenly spread using ticks)

d) **Tax Payable**

i) Vat 15%	Rate/117.5* amount		
	1. $15 \times 3,000,000 / 117.5 =$	382,978.72	(2 marks)
ii) NHIL 2.5%	Rate/117.55* Amount		
	1. $2.5 \times 3,000,000 / 117.5 =$	<u>63,829.79</u>	(1 mark)
	VAT/NHIL	446,808.51	

iii) Amount inclusive CST=(3,000,000-446808.51)

1. $= 2,553,191.49$

Rate of CST=6%

CST = Rate*Amount/106

$= 6 \times 2,553,191.49 / 106$

$= \text{GH¢}144,520.27$

CST **144,520.27**

Comments:

VAT/NHIL are the last tax to be imposed and working in reverse, shall be the first to be deducted

(2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

- The "A" part of the question required the discussion of how a non-resident person is taxed as a permanent establishment and without a permanent establishment. This appeared a very simple question to most candidates but others had some challenges with the solution they proffered.
- On the part of question "B", candidates were required to identify the importance of number of shareholders in a limited liability company for tax planning purposes. This appeared a good question as it reflected in the marks students got.
- Question C was on value added tax (VAT). The examiner indicated that the sales and purchases were all value added tax/National Health Insurance levy exclusive. Interestingly and sadly too, many candidates did not see that additional information as part of the requirement and therefore presented the solution as VAT/NHIL inclusive.
- It was also observed that students treated hotel bill for the MD as input tax deductible contrary to the VAT laws. Others also charged VAT/NHIL on exports at 17.5% instead of zero rated.
- Others did not realize that they needed to deduct the input tax from the output tax. Others also added the purchases as one transaction and the sales and applied a uniform rate on both. This was contrary to the provision of the VAT laws. Yet others also deducted the purchases from the supplies and presented the resultant figure as the solution. This can only be blamed on lack of understanding of the VAT laws. Others also got all the marks in this segment.
- This question required the extraction of VAT, National Health Insurance and Communication Service Tax (CST) from a set of data presented.
- This question betrayed some students as the area was unfamiliar to many of them. A good student who prepared very well should be able to pick all the marks as the question never intended to pose a problem.
- Admittedly, ICAG for a very long time or perhaps has never set questions on this area and therefore, the question might have caught students off guard.
- It was observed that some students did not do well in this question. Others who attempted it performed beyond average
- On the whole, a lot of students did so well and consequently got their pass mark
- Tuition Centres should take note of this aberration and prepare students adequately for the tax paper.

QUESTION FIVE

a) Lanandam Ltd

Computation of Revenue

Year of Assessment-2017

Basis period Jan 1-Dec 31, 2017

	US\$
200,000 barrels of oil @ 68	13,600,000
50,000 barrels of oil @60	<u>3,000,000</u>
	16,600,000
Add Proceeds from sale of assets	<u>1,000,000</u>
Total Revenue	<u>17,600,000</u>

(4 marks)

Comments: Sale of assets after commencement shall be added to revenue.

(1 mark)

b)

AB ltd

Computation of corporate tax payable

Year of assessment 2017

	GH¢	GH¢
Margin		6,000,000
Add back Depreciation		<u>1,000,000</u>
		7,000,000
Deduct the ff:		
Royalty (5%*(20,000,000-500,000))	975,000	
Proceeds from Depreciable Asset	500,000	
Capital allowance	<u>800,000</u>	
		<u>2,275,000</u>
Chargeable Income		4,725,000
Tax Charged @ 35%		1,653,750
Other Tax: Royalty		
5%* (20,000,000-500,000)		<u>975,000</u>
Total Taxes		2,628,750

(5 marks evenly spread using ticks)

c) A Duty drawback is a regime that allows a refund of duties to an importer on account of re-exports of same goods or after processing those into finished goods for re-export.

This system is aimed at encouraging exportation of goods.

Types of Duty Drawback

- Material Duty Draw Back:
- Same State Duty Draw Back:

(2 marks)

Material Duty Draw Back:

It is a refund of duty on materials imported into the country, processed into finished goods for re-export. The duty paid is refunded to importer to serve as incentive to the importer **(1.5 marks)**

Same State Duty Draw Back:

Same state duty drawback: it is a refund of duty on goods which are imported into the country for re-export of such in the same manner they were imported. Content, packing case etc are the same. **(1.5 marks)**

- d) **Arm's length price** is the market price of goods and services. It can be said to be a price that a willing and a knowledgeable buyer and seller agree to exchange for goods and services. **(2 marks)**

The effect of arm's length price on revenue:

The arm's length price is the price the tax administrators allow to be used by persons in a controlled relation. It allows for proper reporting of revenue by the seller of the goods and services. This helps the GRA be able to compute the true tax profit of the person. **(3 marks)**

(Total: 20 marks)

EXAMINER'S COMMENTS

- The question "A" was on the computation of revenue from a set of data in respect of petroleum operations. It appeared to be a popular question. The technical area with this question was the sale of an asset after commencement which required that candidates added it to petroleum revenue. Some added it to the revenue computed. Others did not consider it at all.
- The second part of the question had to do with the tax payable by a mining company. The royalty students were required to compute unfortunately was left out in the computation of the chargeable income of the mining company as an allowable deduction. Failure to deduct it as an allowable deduction ended up exposing the company to a higher tax. Most students were okay with the computation of the tax on the mining company and got all the marks.
- Question "C" was on duty draw back. It became apparent from the solution that some students did not read on duty draw back.
- Others in their rendition said duty drawback is the challenge in the administration of duty by the Custom Division. Really?
- Others saw duty draw back as the hindrances in collecting the duties by GRA. With the types of duty draw back as required by the question, others said they are "direct and indirect duty draw back". The only explanation with this is lack of preparation.
- With sub question "D" arm's length was described as transfer of goods between related parties. This was quite sad given that arm's length was a common expression in accounting.

Recommendations

- English language coupled with spellings continues to be a nightmare for students and portrays students not showing interest in this area. ICAG should push students to read more with questions requiring students to write memos, reports etc. This by and large would invite them to read more and thereby work on their vocabulary range.
- Candidates should be encouraged to read articles on technical topics, novels, newspapers and journals with the view of widening their knowledge in writing. The Institute should as a matter of urgency help students come up in the English language else the poor representation of students would cast slur on the Institute.
- The paper also revealed the fact that preparation for the examination by some students was quite inadequate hence students could not do their best and consequently produced sub -standard solutions.

Conclusion

- The standard of the paper would continue to direct students to read tax materials to create the fluidity they need to sail through the exam easily. On the whole, the paper was comparable to any final level tax paper anywhere and also prepared students for career in taxation.
- It is hoped that this report would help the Institute take remedial measures to improve the pass rate and also help students to be able to develop critical analysis skill.
- Additionally, it would help tuition providers improve their tuitions to enable students go through their examination easily.
- Students equally would find this report useful in their bid to improve on how to comprehend questions and meet the examiners demands and consequently improve their pass rate.