

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

**EXAMINER'S GENERAL COMMENTS**

The candidates' performance in this paper was good but not what was expected based on the standard of the questions. Approximately 20% of the candidates who wrote the paper passed. This was below May 2020 of which approximately 37% of the candidates passed. The encouraging news is that the candidates have now been learning the subject based on the law and principles as indicated in the syllabus and also alluded to by the Chief Examiner in the May 2020 diet. Previous diets indicated that candidates were learning with questions instead of principles of taxation. There were clear general understanding of the questions and more also the questions included instructions to candidates that were specific and clear. Most of the candidates performed excellently probably because the instructions and requirements in the questions were clear enough.

This is the third diet for the paper after the change of the syllabus and candidates would have the opportunity to make amends by learning the rudiments of the paper. Candidates are advised, however, to read and pay attention more on the tax laws and principles. This is so because the Principles of Taxation is built on general knowledge on how the tax laws and principles are to work and more significantly how the law and principles are to be explained and applied.

**STANDARD OF THE PAPER**

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

Question one assessed the candidates on The Ghanaian Tax Systems, Fiscal Policy and Tax Administration and Tax Assessment. Candidates were examined on topics such as: functions of the Board of GRA and that of the Commissioner General of GRA, functions of the District Assembly Common Fund, computation of interest on overdue tax liability, and tax returns. These questions were supposed to be familiar to candidates because Fiscal Policy and Tax Administration are explicitly stated in the Principles of Taxation syllabus. The marks allocated were also fair for the efforts needed to answer the question.

Question two examined candidates on Value Added Tax. The questions were straightforward dealing with basic principles governing VAT. Some of the questions were: examples of taxable activities, VAT implication of instalment payments, and implications of agents and principals. Consistently for the past three sittings, the candidates' performance have been poor, probably because most of the candidates have not grasped the laws and principles governing the VAT withholding mechanisms.

Question three tested candidates understanding on Taxation of Partnerships, Individuals and the principles governing Residents and Non-resident persons.

Questions were set on computation of partners' assessable incomes, taxation implications of casual workers, temporary workers and part-time workers, and what constitute a resident person. The details given to the candidates were very clear and any average candidates should be in the position to provide good answers to the questions. The marks were fairly allocated to the questions.

Question four examined only capital allowance computations and its principles. Candidates are expected to have a fair idea on all the principles governing the computation of capital allowances. For the first time, candidates were expected to identify individual assets and put them in a pool before the computation of the capital allowances. So, the question was meant to test candidates understanding on how to identify assets for the pool system. Most candidates could not provide excellent answers and thus only earned average marks. Some of the candidates were confused with few of the assets but few were able to score high marks. Most candidates ended up scoring low marks as a result of poor presentation of the solution. Majority of the candidates had no idea of how to present schedule for capital allowances. This is an area of the syllabus that candidates can easily earn marks if they learn it very well.

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

#### **PERFORMANCE OF CANDIDATES**

Generally, the performance of the candidates was *good* but the expectations of the Examiner from the candidates were *not* met. Instructions were clear as to what the candidates were to do. Any student who could not pass cannot blame anyone but himself or herself for lack of preparation and understanding of the syllabus. Approximately 20% of the candidates passed the paper and this is NOT good enough because this is a paper meant to test student understanding on *principles*.

The reasons could be as follows:

Most of the candidates have not understood the principles of taxation very well. It could also be that the candidates did not have good tuition.

Those candidates who did well might have achieved good results because the instructions in most of the questions were clear and thus unambiguous.

Candidates who passed did not have much problems stating the principles in taxation. It is expected that this trend will continue.

There is evidence that some of the candidates are having a good tuition. However, some of the candidates did not show any evidence of good understanding of the basics of taxation. It could be there are still self-tuition.

Those candidates who did not perform well do not understand the computation of capital allowance, partnership taxation, capital gains, and Value Added Tax. These areas of taxation were examined prominently and it seems most of the candidates have little knowledge on these issues.

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

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

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

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

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

The understanding of the topics in the syllabus was good. Most of the candidates had an excellent understanding of the topics in the syllabus. Even those who could not pass, had fairly good marks, ranging between 30%-40%

It appears some candidates did not pay attention to certain topics. Probably, thinking those topics were not so important. Such topics are: Ghana National Pension Scheme, partnership, Tax Administration, and Value-Added Taxation. If candidates had given more attention to these topics, the pass rate would have been more than 40%.

This is a new subject in the ICAG scheme that is meant to build student understanding of Taxation before they take up the Advanced Taxation at the final level. It is therefore, expected that candidates will learn everything and not to pick and choose what they want to learn. Tuition providers should also pay equal attention to all the topics and not to ignore some considered to be minor and unimportant.

## QUESTION ONE

- a) The Board of Ghana Revenue Authority is to ensure the proper and effective performance of the functions of the Ghana Revenue Authority.

**Required:**

- i) Describe **THREE (3)** functions of the Board of Ghana Revenue Authority. **(3 marks)**  
ii) State **TWO (2)** functions performed by the Commissioner-General of the Ghana Revenue Authority. **(2 marks)**

- b) Financial responsibility is a core component of decentralization. If local governments are to carry out decentralized functions effectively, they must have an adequate level of revenues either raised locally or transferred from the central government. In Ghana, one medium for intergovernmental fiscal transfers is the District Assembly Common Fund.

**Required:**

Explain briefly what the District Assembly Common Fund is and state **FOUR (4)** functions of the District Assembly Common Fund. **(5 marks)**

- c) The following tax outstanding is relevant to the records of Bobolibobo Ltd:
- |                           |             |
|---------------------------|-------------|
| Amount                    | GH¢ 200,000 |
| Period of tax outstanding | 6 months    |
| Statutory rate (annual)   | 20%         |

**Required:**

Compute the interest payable and the total tax liability from the above. **(4 mark)**

- d) Under what condition will a tax payer who has over paid tax in one tax type be used to offset another tax type or category? **(2 marks)**  
e) Paa Tee is a sole proprietor and has not filed his tax returns for 2018 year of assessment as at April 1, 2019. He has approached you to file his tax returns for him and from all indications, he has paid all his taxes based on the self-assessment estimate.

**Required:**

- i) What steps (if any) will you take to enable Paa Tee file his tax return and are there any financial implications in filing? **(2 marks)**  
ii) What factors may give rise to an adjusted assessment by the Commissioner-General? **(2 marks)**

**(Total: 20 marks)**

## QUESTION TWO

- a)
- i) What is Taxable Activity under Value Added Tax? **(1 mark)**
  - ii) Identify FIVE (5) examples of taxable activities. **(5 marks)**
- b) Serwaa Akoto, a VAT registered trader, sold goods to Kofi Asirifi under a credit agreement. Kofi Asirifi could not pay and Serwaa Akoto repossessed the goods.

**Required:**

What are the VAT implications? **(3 marks)**

- c) Rejoice Baah, a VAT registered trader, reserved goods for Agya Atta costing GH¢12,000. Agya Atta paid a deposit of GH¢2,000 with the agreement that the goods be made available to him after the remaining GH¢10,000 is paid. By mutual consent, the agreement was cancelled before Agya Atta could pay the remaining amount.

**Required:**

What are the VAT implications of the above transactions? **(3 marks)**

- d) An agent sold goods on behalf of a Principal. Who is the taxable person here? If the agent was rather an auctioneer, who would have been the taxable person? **(3 marks)**
- e) What are the tax compliance obligations of an individual who receives taxable gifts? **(5 marks)**

**(Total: 20 marks)**

## QUESTION THREE

Shika, Bekwai and Sena who are in partnership have agreed to share profits and losses in the ratio of 2:2:3 respectively. During the year ended 31 December, 2018 their books showed adjusted profit of GH¢210,000 after accounting for the following:

	<b>Shika</b>	<b>Bekwai</b>	<b>Sena</b>
	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>
Salaries	70,000	80,000	150,000
Interest on capital	12,000	16,000	12,000
Partners drawings	6,000	4,000	10,000

**You are given the following additional information:**

- i) Shika is married with two children who are in school and maintained two dependent relatives, who are more than 60 years, on which she spends GH¢10,000 annually.
- ii) Shika also has a life assurance policy on herself attracting capital sum of GH¢1,600,000 but pays annual premium of GH¢1,800.
- iii) Bekwai took a mortgage for his building and has been paying GH¢4,000 per month as mortgage interest.

- iv) Bekwai is undertaking a two-week training program to update his knowledge on how to manage accounting software used in partnership businesses. He has spent GH¢1,500 on the training.
- v) Bekwai received a television as a gift valued at GH¢3,000 for being the best worker in 2018 in Ghana.
- vi) Sena is 62 years and unmarried but has three dependent children while Bekwai is also unmarried but has one child who is schooling in Ghana.

**Required:**

- a) Compute the *assessable income* for each partner for the year 2018. **(10 marks)**
- b) The partnership business has some Casual workers, Temporary workers, and Part-time workers. What are the taxation rules and tax liabilities of such workers? **(6 marks)**
- c) Shika is an ‘international woman’ who travels often. There was confusion in 2018 as to whether she should be taxed as a resident or non-resident. What constitutes a resident individual for taxation purposes in Ghana? **(4 marks)**

**(Total: 20 marks)**

**QUESTION FOUR**

Fafana Manufacturing Company Ltd, producers of special fruit juice. It started business on 01/01/2016 preparing accounts to 31 December each year. The company had constructed an office building and was put into use on 01/01/2016.

The following are the capital allowance written down values brought forward from pools of assets as at 01/01/17

	<b>GH¢</b>
Pool 1	12,000
Pool 2	520,000
Pool 3	405,000
Office Building	540,000
Patent (acquired in 2016 for five years)	48,000

The company acquired the following chargeable assets for the business in 2017.

	<b>GH¢</b>
Factory Buildings	958,000
Plant and Machinery	2,500,000
File Cabinet	10,000
Electric Ceiling and Standing Fans	20,000
Window and Split Air conditioners	157,000
Motor Vehicles	110,000
Photocopier	14,000
LCD Television	3,000
Visitors Chairs	5,500
Office Chairs and Tables	56,000

The following assets were disposed off in 2017 since they were not suitable for the company: Computers and accessories GH¢11,600; Standing fans GH¢3,500. These were the cash sales proceeds.

The company acquired the following chargeable assets for the business in 2018.

	<b>GH¢</b>
Toyota Salon car	70,000
Toyota Pick-up (only one)	95,000
LCD Projector	5,500
Data Handling Machine	36,000
Trucks and Trailers	54,000
Trade Mark (registered for 8 years)	72,000

One of the vehicles was involved in an accident in 2018 and the company received GH¢45,000 as insurance compensation in the same year.

**Required:**

- a) Determine the capital allowances for Fafana Manufacturing Company Ltd for 2017 and 2018 years of assessment. **(16 marks)**
- b) Indicate how the classes or pool system works with the treatment of capital allowance. **(4 marks)**

**(Total: 20 marks)**

### QUESTION FIVE

- a) Abena Morgan acquired two mansions (one at East Legon, Accra and the other at Kwadaso, Kumasi) on 1 January 2010 at the cost of GH¢2,000,000 and GH¢11,500,000 respectively. Abena Morgan lives in the property at East Legon. On 10 March, 2019 she used GH¢2,500,000 to convert part of this dwelling house into a self-contained flat and sold it to her younger brother for GH¢3,300,000.

The Property at Kwadaso in Kumasi consists of two (2) detached bungalows, and she sold one of the bungalows to her elder sister for GH¢6,300,000 also on 10 March, 2019.

The market value of the apartment she sold to her younger brother at the time of sale was GH¢4,000,000 whilst the market price of the bungalow sold to her elder sister at the time of sale was GH¢8,750,000. She had used GH¢1,950,000 to refurbish the bungalow that was sold to her sister. The market price of the unsold bungalow on 10 March, 2019 was GH¢11,000,000.

**Required:**

Compute capital gains tax payable by Abena Morgan. **(5 marks)**

- b) The following relates to payments by Manita Ltd, a company resident in Ghana to another resident company, both companies are not exempt from withholding taxes:

	<b>GH¢</b>
Goods	3,000,000
Services	1,200,000
Works	2,000,000

Upon scrutiny of the company's records, the following additional information emerged:

- i) It came to light that the goods above includes a dividend payment of 10%.  
ii) The services above relate to 50% management and technical services and 50% consultancy services.

**Required:**

Compute the withholding taxes payable (if any) and state **TWO (2)** reasons for withholding tax imposition. **(6 marks)**

- c) Mike Kotex, a resident individual received interest from the following:

	<b>GH¢</b>
Resident Financial Institution-Bank	10,000
Pearl Micro-Finance	9,000
ABC Ltd –Oil Marketing Company	8,000

You have been invited to help with the possible withholding tax treatment of the above transactions.

**Required:**

Compute the taxes payable on payment to Mike Kotex and comment on the payment of interest by ABC Ltd to Mike Kotex. **(4 marks)**

- d) What are the main benefits and qualifying conditions under the *2<sup>nd</sup> –Tier Mandatory Occupational/Work Based Pension Scheme*. **(5 marks)**

**(Total: 20 marks)**



## SOLUTION TO QUESTIONS

### QUESTION ONE

a)

- i) The Board is to ensure the proper and effective performance of the functions of the Ghana Revenue Authority through the:
- Supervision and monitoring of the Authority in the performance of its functions;
  - Formulation of administrative policy for the smooth and efficient management of the Authority;
  - Determination of a scheme of service for the staff of the Authority;
  - Performance of any function incidental to the objectives of the Authority,
  - Recommendations to the Minister of Finance on tax policy, tax reform, tax legislation, tax treaties, tax exemption and tax concessions.

**(One point each for one mark. Maximum of three points= 3 marks)**

#### ii) Functions of the Commissioner-General of the Ghana Revenue Authority

- The Commissioner-General is responsible for the day-to-day administration of the affairs of the Authority and is answerable to the Board for the performance of the functions of that office.
- The Commissioner-General shall perform any other function determined by the Board.
- The Commissioner-General may delegate a function to an officer of the Authority but is not relieved from ultimate responsibility for the performance of the delegated function.
- The Commissioner-General is responsible for the direction and supervision of the employees of the Authority.
- The Commissioner-General shall in consultation with the Board appoint one of the Commissioners to act for the Commissioner-General in the absence of the Commissioner-General.

**(One point each for one mark. Maximum of two points= 2 marks)**

- b) The District Assemblies Common Fund, DACF is basically a Development Fund designed to ensure a more equitable distribution of national resources for development in every part of the country. The Fund is used to support a wide range of projects and programmes geared towards improving the lives of the people at the local level. Some of the areas that it supports are: housing, educational infrastructure, quality education primarily at the basic and secondary levels, primary health care, sanitation management; water, sustainable self-help development communities, maintenance of security and also community policing.

**(1 mark)**

#### **The Functions of the DACF includes the following:**

- To propose a formula annually for the distribution of the Common Fund for approval by Parliament.
- To administer and distribute monies paid into the Common Fund among the District Assemblies in accordance with the Formula approved by Parliament.

- To report in writing to the Minister on how allocations made from the Common Fund to the District Assemblies have been utilized by the District Assemblies; and
- To perform any other functions that may be directed by the President.

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

**c) Interest payable:**

Tax outstanding	=	GH¢ 200,000
Period	=	6 months
Statutory Rate	=	20%
Rate of interest	=	125% of statutory rates
Interest	=	Amount-Principal $(1 + \text{Rate} / 12)^6$
	=	$125\% * 20\% = 25\%$
Total Liability	=	$200,000(1 + 0.25/12)^6$
		$200,000(1 + 0.020833333)^6$
		$200,000 \times 1.131,694,109$
		226,338.83
Interest Tax	=	Amount - Principal
	=	$226,338.83 - 200,000$
	=	<b>GH¢ 26,338.83</b>

**(4 marks)**

- d) When a taxpayer has over paid tax in one area and has a liability in another area, it cannot be offset automatically. This could be done by application by the taxpayer or by the order of the courts else the taxpayer will have to pay the tax outstanding and the overpaid area will be carried forward as credit for the taxpayer.

**(2 marks)**

- e) Paa Tee, a sole proprietor has up to 30<sup>th</sup> April to file his tax returns. Given that, as of 1<sup>st</sup> April, 2019, he has not filed, steps should be taken to ensure that he files on or before 30<sup>th</sup> April, 2019.

- i) I could help him apply for an extension if there are reasons for doing so but that must be done before 30<sup>th</sup> April.

There is no financial implication if the filing is done on 30<sup>th</sup> April, 2019 or earlier or when extension is granted by the Ghana Revenue Authority.

**(2 marks)**

- ii) The factors that may give rise to an adjusted assessment may come about as a result of the following:

- Fails to file a tax return;
- Discovers a case of fraud;
- Willful default and

- Serious omission.

**(Any 2 points for 2 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

- Almost all the candidates were able to answer the question on the functions of the Board of GRA and that of the Commissioner-General
- More than 90% of the candidates could not provide good answers for the functions of the DACF. This was because student did not know that the word FUND means the whole institution or organisation administering the Common Fund. Candidates rather provided answers for what the common fund money is used for.
- Less than one percent of the candidates were able to calculate the interest on the amount outstanding as a tax liability. Candidates should pay attention here.
- Factors that account for adjusted assessment by the Commissioner-General were fairly provided by the candidates.

### **QUESTION TWO**

a)

- i) A taxable activity means an activity which is carried on by a person (a) in Ghana, or (b) partly in Ghana, whether or not for a monetary profit, that involves or is intended to involve, in whole or in part, the supply of goods or services to another person for consideration. **(1 mark)**

ii) In specific terms, a taxable activity includes but not limited to:

- An activity of a local authority or unincorporated association or body that involves, in whole or in part, the supply of goods or services to another person for consideration.
- The processing of data or supply of information or similar service.
- The supply of staff.
- The acceptance of a wager or stake in any form of betting or gaming, including gaming machines.
- The making of gifts or loans of goods.
- The leasing or letting of goods on hire.
- The appropriation of goods or services for personal use or consumption by the taxable person or by any other person.
- The sale, transfer, assignment or licensing of patents, copyrights, trademarks, computer software and other proprietary information; and
- The export of non-traditional products.

**(1 point for 1 mark. Maximum of 5 points = 5 marks)**

- b) Where goods are repossessed under a credit agreement, the repossession is a supply of the goods by the debtor under the credit agreement to the person

exercising the right of repossession. Where the debtor is a registered person for VAT, the supply is made in the course or furtherance of the taxable activity of the debtor, unless the goods did not form part of the assets held or used by the debtor in connection with that taxable activity.

**(3 marks to be allocated)**

- c) Where payment of a sum of money as a deposit is made, and it is not made for a returnable container, the payment is treated as a supply when the deposit is cancelled or forfeited.

A deposit here is an amount of money or property received from a prospective purchaser to secure performance of the agreement that is the subject of the deposit, to be applied to the purchase price or returned if the depositor performs and ordinarily, is forfeited if the purchaser defaults.

**(3 marks to be allocated)**

- d) A supply of goods or services made by a person as an agent for another person who is the principal is a supply by the principal. However, this does not apply to the supply of services of an agent as agent to the principal.

A supply of goods by auction is for the purposes of the VAT Act treated as a supply of goods by the auctioneer for consideration in the course or furtherance of a taxable activity carried on by the auctioneer.

**(3 marks to be allocated)**

- e) The new income tax laws have classified gifts under the main types of incomes. That is incomes from employment will include the gifts obtained from employment. Incomes from business will include gifts received from conducting the business activities. Incomes from investment will include all other gifts that may not be classified under employment or business.

The above means that gifts received under employment will be taxed using the graduated rates because it is added to the employment income. Gifts added to the business income will be taxed using the relevant company tax rates. The same will apply to the gifts relating to investments.

**(5 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

- The definition of taxable activity was so difficult for almost all the candidates. This is basics of VAT and candidates should be in the position to answer.
- Candidates were able to list the taxable activities. Excellent marks were obtained by candidates
- The principles governing VAT on repossession, goods on deposits, and goods supplied by agents were poorly answered. This goes to confirm the fact that most of the candidates do not understand the basic principles of VAT. Lecturers and candidates should pay attention to these basic principles.

### QUESTION THREE

#### a) Computation of Partners Assessable Income for 2018 Tax Year.

	Shika GH¢	Bekwai GH¢	Sena GH¢
Salaries	70,000	80,000	150,000
Interest on Capital	12,000	16,000	12,000
Share of Profit (W 1)	<u>62,857</u>	<u>62,857</u>	<u>94,286</u>
Gross Income	144,857	158,857	256,286
Gifts		3,000	
Mortgage Interest	0	(48,000)	0
Less: Reliefs			
Marriage Responsibility	(200)	0	(200)
Child Education	(400)	(200)	0
Dependent Relatives	(200)	0	0
Self-Education	0	(400)	0
Old Age	<u>0</u>	<u>0</u>	<u>(200)</u>
Chargeable Income	<u>144,057</u>	<u>113,257</u>	<u>255,886</u>

#### Workings 1:

Adjusted Profit:		210,000
Add drawings: Shika	6,000	
Bekwai	4,000	
Sena	<u>10,000</u>	<u>20,000</u>
		220,000

#### Share of profit:

Shika	$2/7 \times 220,000 = 62,857$
Bekwai	$2/7 \times 220,000 = 62,857$
Sena	$3/7 \times 220,000 = 94,286$

(10 marks to be allocated using ticks)

#### b) Payment to Casual Workers

Where a person makes payment to a casual worker that 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.

Casual worker means a worker engaged on a work which is seasonal or intermittent and not for a continuous period of more than six months and whose remuneration is calculated on a daily basis.

(2 marks)

### **Payment to a Temporary Worker**

Where a person makes payment to a temporary worker, that payment shall be treated as income earned by the temporary worker, and the person shall withhold tax from that income in accordance with the *graduated rates for individuals*.

Temporary worker means a worker who is employed for a continuous period of not less than one month and is not a permanent worker or employed for a work that is seasonal in character. (2 marks)

### **Payment to Part-Time Employment**

A part-time employment is taxed:

- At the rate of **10%** percent on account, where the employee is a resident individual; and
- At the rate of **20%**, where the employee is a non-resident individual.

(2 marks)

- c) An *individual* is resident in Ghana for a year of assessment if that individual is:
- A citizen of Ghana, and does not have a permanent home outside of Ghana and lives in that home for the whole of that year;
  - Present in Ghana during that year for an aggregate period of one hundred and eighty-three days or more in any twelve-month period that commences or ends during that year;
  - An employee or an official of the Government of Ghana posted abroad during that year;
  - A citizen who is temporarily absent from Ghana for a period of not more than three hundred and sixty-five continuous days, where that citizen has a permanent home in Ghana.

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

(Total: 20 marks)

### **EXAMINER'S COMMENTS**

- Candidates were finding difficulties with the treatment of drawings by partners. There was also the problem with life assurance policies.
- This was a well answered question. Most of the candidates were able to apply the principles governing the partnership.
- Another area of basic principles are the tax implications of casual workers, permanent workers and part time workers. It was strange that most candidates did not know the tax rates for these category of staff.

## QUESTION FOUR

### a) Computation of Capital allowance (GH¢)

		Pool 1	Pool 2	Pool 3	Total
01/01/17	Written Down Value	12,000	520,000	405,000	
	Additions	0	2,610,000	265,500	
	Disposals	<u>(11,600)</u>	<u>0</u>	<u>(3,500)</u>	
		400	3,130,000	667,000	
	Capital Allowance-2017	<u>(400)</u>	<u>(939,000)</u>	<u>(133,400)</u>	<b>1,072,800</b>
01/01/18	Written Down Value	0	2,191,000	533,600	
	Additions	36,000	199,000	5,500	
	Disposals	<u>0</u>	<u>(45,000)</u>	<u>0</u>	
		36,000	2,345,000	539,100	
	Capital Allowance-2018	<u>(14,400)</u>	<u>(703,500)</u>	<u>(107,820)</u>	<b>825,720</b>
	Written Down Value	<u>21,600</u>	<u>1,641,500</u>	<u>431,280</u>	

		Office Building	Factory Building	Patent	Trade Mark	Total
01/01/17	Cost	600,000	0	60,000	0	
	Additions	0	958,000	0	0	
	<b>Capital Allowance</b>	<u>(60,000)</u>	<u>(95,800)</u>	<u>(12,000)</u>	<u>0</u>	<b><u>167,800</u></b>
01/01/18	Cost	600,000	958,000	60,000	0	
	Additions	0	0	0	72,000	
	<b>Capital Allowance</b>	<u>(60,000)</u>	<u>(95,800)</u>	<u>(12,000)</u>	<u>(9,000)</u>	<b><u>176,800</u></b>

(16 marks to be allocated using ticks)

b) The summary description of the Pool System is:

- This is where depreciable assets of same class are put together for the purpose of capital allowance.
- In the pool system the identity of the assets is lost.
- Assets are placed in their respective pool(s).
- Class 1-3 depreciable assets follow the pool system
- Class 4 and 5 depreciable assets are placed in a pool of its own separately from other assets of that class or any other class
- Only that part of the assets which is used in the production of the income shall be placed in the pool.

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

(Total: 20 marks)

## EXAMINER'S COMMENTS

- This question was answered very well. There were few candidates who could not answer the question. The format for answering capital allowance question was not done properly making marking very difficult
- Candidates were able to state the principles governing capital allowance very well

## QUESTION FIVE

a) Computation of Capital Gains Tax Liability For 2019 Year of Assessment

	GH¢	GH¢
Disposal of self-contained flat to younger brother		
Consideration - taken as market value		4,000,000
Less cost of construction		<u>(2,500,000)</u>
Capital Gain		<u>1,500,000</u>
Disposal of Bungalow to Elder Sister		
Consideration (taken as market value)		8,750,000
Less cost of part sold		
<u>8,750,000</u>	x <u>GH¢11,500,000</u>	5,094,937
8,750,000 + 11,000,000	1	
Cost of refurbishing the bungalow	<u>1,950,000</u>	
Capital Gain		<u>(7,044,937)</u> <u>1,705,063</u>
Total chargeable gain	GH¢1,500,000 + GH¢1,705,063	= GH¢3,205,063
Capital Gain Tax	15% X GH¢3,205,063	= GH¢480,756

**(5 marks to be allocated using ticks)**

b)

Goods GH¢ 3,000,000  
 Dividend 10%  
 Total =100%  
 If 100% =3,000,000  
 ∴ 10% =?  
10x3,000,000  
 100  
 =GH¢300,000  
 Dividend=GH¢300,000  
 Value of goods= 3000,000 -300,000  
 =GH¢2,700,000



Computation of withholding taxes payable

Description	Amount	Rate	Amount
	GHC	%	GHC
Goods	2,700,000	3	81,000
Dividend	300,000	8	24,000
Training Consultancy	1,000,000	7.5	75,000
Management and Technical Services	1,000,000	7.5	75,000
<b>TOTAL LIABILITY</b>			<b>255,000</b>

(6 marks)

c)

Description	Value	Rate	Amount-Tax
Interest- Res. Fin. Ins	10,000	Exempt	Nil
Interest Micro Fin	9,000	Exempt	Nil
ABC Ltd Oil Mark. C	8,000	1%	GHC800.00

Interest paid by a resident financial Institution to an individual is exempt from tax. Micro finance is part of definition of financial institution.

Interest paid by a Micro Finance which falls within the definition of financial institution is exempt from tax

Interest paid by ABC Ltd which is not a resident financial Institution is taxable at the rate of 1%.

(4 marks)

d) The 2<sup>nd</sup>-Tier is mandatory scheme designed to pay lump-sum benefit to members of the scheme. Therefore, one key benefit paid under this scheme is the lump sum benefit.

To claim the benefit, the member must satisfy any of the following conditions:

- ✓ The member must reach the retirement age between 55-60 years.
- ✓ The member must be age 50 years and prove that he/she is unemployed.
- ✓ That the member has retired before age 50 in accordance with Terms and Conditions of his/her employment.

Other benefits paid under the 2<sup>nd</sup>-Tier mandatory scheme include survivors benefit, invalidity benefit and emigration benefit. All these benefits are paid in the form of lump sum.

The qualifying condition is however same as the conditions under the 1<sup>st</sup> Tier Scheme. The only difference is that the medical board to certify the invalidity must be set up by the Authority in collaboration with the Ministry of Health.

(5 marks)

(Total: 20 marks)

### **EXAMINER'S COMMENTS**

Candidates performed averagely on this question. More tutorial needed on withholding taxes and the tax rates

### **CONCLUSIONS**

This conclusion is a repetition of the comments by the Chief Examiner in the May 2020 report. It is worth repeating for students and tuition centres.

- Tuition centres and students should bear in mind that the subsequent examinations will cover the entire syllabus and therefore, pay attention to the entire syllabus. There should not be any pick and choose attitude towards the syllabus and the examination.
- There is nothing like 'the examination trend'. Students are to be examined on all the topics and therefore, the dynamics of the examination could change but still based on the syllabus.
- Students should pay attention to details when reading. It seems students do not read carefully in between the lines when reading. This was clearly demonstrated in the examination. Answers were not provided in full.
- Students are strongly advised to learn the subject with the syllabus. Students should not learn the subject with questions in mind. This attitude will leave out most of the topics unattended to. The past questions are only a guide as to how the questions are asked.