

**AUGUST 2022 PROFESSIONAL EXAMINATION
PRINCIPLES OF TAXATION (PAPER 2.6)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME**

EXAMINER'S GENERAL COMMENTS

The performance of candidates for the August 2022 diet fell below expectation compared to the previous sittings. Approximately 16% of the candidates who wrote the paper passed. The least pass rate since the inception of the new syllabus in November 2019. The trend which was experiencing some steady improvement from the last two sittings (approximately 37% and 39% pass rate in April 2022 and November 2021 respectively) suddenly witnessed a sharp drop again. Tuition providers and students who might have been conversant with the trend by now should have been aware that the August 2022 paper would not be different. Again, the questions were spread across the syllabus. The paper tested the basic principles enshrined in the relevant tax laws and regulations. It has been repeatedly echoed that the principles of taxation paper describe the Ghanaian system of taxation; outlines the basic principles of taxation of individuals and corporations (entities) in addition to outlining key aspects of realisation of assets, VAT and describes how taxes are administered by the Ghana Revenue Authority.

Candidates should desist from specialising in certain topics and exert their energies in learning across the broad spectrum of the syllabus since this will propel them to pass the examination with ease.

Another general observation made was the fact that candidates were not really prepared for theoretical questions which constituted about 59% of the total mark compared to the computational questions which were assigned the remaining 41%. The theoretical questions were straightforward but surprisingly candidates failed to take advantage of them. Candidates normally perform abysmally in VAT questions no matter how simple they are. They however did well in the computational questions relating to branch profit tax and capital gain tax payable but incidentally, they formed only 11% in all. Candidates however lost out heavily on the computation of Interest on Underestimated Tax and Chargeable Income of Partners which took 24%. Tuition providers and/or students should exert their energies in sharpening the skills of candidates for both theoretical and computation related scenarios.

STANDARD OF THE PAPER

The standard of the questions was very good for a level two paper of the examination structure. With the exception of the "Benchmark Value Discount" policy in Custom Administration (which took only 5 marks) which candidates may not be abreast with, 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 were generally clear. As stated earlier, the questions fairly covered the entire syllabus and the expectations were that any average student who did prepare for the exams should have passed with ease. The marks were fairly allocated to the questions.

PERFORMANCE OF CANDIDATES

Generally, the performance of the candidates was not *satisfactory*. The expectations of the Examiner from the candidates were not met compared to the previous diet. Looking at the nature of the questions and spread of the marks, candidates should have performed better. The requirements were generally clear as to what the candidates were to do. Inadequate preparation and unwillingness of candidates to learn across the syllabus continue to be a challenge.

The reasons for the unsatisfactory performance could be as follows:

Most of the candidates underrated the subject forgetting that taxation is a creature of legislation. Questions based on the tax acts and regulations can therefore not be scored with conjecture. They may not have gone for tuition and are studying on their own. They therefore have not understood the principles of taxation very well.

Candidates' failure to balance theory with computation is also a cause for concern. Candidates who passed did well in the theory since that took 51% of the total mark. Most candidates could not handle the questions on the computation of interest for underestimation of Tax, the VAT and the Partnership questions which took 10%, 15% and 14% respectively. What is more troubling is that candidates failed to identify why there is a direct connection between expenditure and the business for the expenditure to be an allowable deduction and what constitute domestic and excluded expenditure as enshrined in the Income Tax Act of 2015, Act 896 as amended. In all, this also took 20%.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

It is evident that few 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 for the majority is still low. This was evident with some candidates scoring high marks in certain questions and abysmally low marks in other questions especially those that bother on the principles.

It is also clear that not too many candidates received very good tuition on the subject and therefore lost valuable marks that could have been grasped with ease. Both lecturers and candidates should pay attention to the law and the basic principles of taxation.

Only few candidates who really proved that they prepared well and understood the requirements of the questions scored more than half for each question. They thus earned marks above 60%.

Once again, it seems some candidates did not pay attention to the topics such as Fiscal Policy, Three-Tier Pension Scheme, Partnership, Tax Administration, and Value-Added Taxation. If candidates had given more attention to these recurring topics, the pass rate would have been more than 40% since the questions were pretty straightforward.

QUESTION ONE

- a) The Finance Minister of Ghana during the 2022 budget presentation in Parliament announced the withdrawal of the “Benchmark Value Discount” Policy on some imports. The President of the Professional Local Rice Growers Association (PLRGA) is elated about the announcement and has invited you as a student studying taxation to explain the concept of the Benchmark Value Discount policy to him.

Required:

Explain what the “*Benchmark Value Discount*” policy in Custom Administration is and how its withdrawal will be of much benefit to the President of the PLRGA. (5 marks)

- b) Deficit financing is the budgetary situation where government expenditure is higher than government revenue. It is a practice adopted for financing the excess expenditure with external funding. Most governments both in the developed and developing world are having deficit budgets and these deficits are often financed through borrowing.

Required:

State **FIVE (5)** conditions that would make it necessary for a government to support its budget through deficit financing. (5 marks)

- c) The estimated chargeable income for Vito Ltd for the 2019 year of assessment was GH¢50,000,000 but its actual chargeable income declared at the end of the year was GH¢80,000,000. The company prepares account to 31 December each year. The company submitted its returns on 30 April, 2020. The BOG prevailing discount rate is 25%.

Required:

Calculate the interest for underestimation of tax. (10 marks)

(Total: 20 marks)

QUESTION TWO

- a) You are a student of taxation at Ebeyeyie Tax Education Institute. You have been contacted for tax advice by Ekumfi Fruit Processing Ghana Ltd. The company produces various kinds of fruit juices for both local and foreign markets. The Finance Director recently learned that the company can apply for VAT refund from the Ghana Revenue Authority (GRA) and has approached you for advice.

Required:

Advise the company on **SIX (6)** conditions that must be satisfied before the GRA may refund the excess VAT Input Tax to the company under the Value Added Tax Act, 2013 (Act 870), as amended. (9 marks)

- b) Where a taxable person does not have a tax invoice that provides evidence of the input tax paid, the Commissioner-General may allow a deductible input tax in the tax period in which the deduction arises to a taxable person under certain conditions.

Required:

State **THREE (3)** conditions that must be satisfied before a taxable person without a tax invoice may be allowed an input tax deduction? (6 marks)

- c) What are the contribution rates and how are they distributed between the Employer and Employee, under the 3-Tier Scheme? **(5 marks)**

(Total: 20 marks)

QUESTION THREE

- a) Yamutu was employed by Yazo Company Ltd on 1 June, 2016 and on an annual basic salary of GH¢400,000 by 40,000 to 560,000. She was paid a bonus of GH¢240,000 in 2019.

Required:

Determine the tax on bonus and total tax liability of Yamutu in 2019. **(6 marks)**

- b) Elorm and Eyram entered into partnership on 1 January, 2018 to produce hair products.
i) They agreed to share profit and losses equally after charging:

- Annual Salaries:

Elorm GH¢10,000,000

Eyram GH¢14,000,000

- Interest on capital of 5% p.a was deducted from the profit.
- Depreciation deducted from the profits for the various years of assessment are:

2018	2019	2020
GH¢80,000	GH¢60,000	GH¢180,000

- ii) Capital contributed by the partners are as follows:

Elorm GH¢100,000,000

Eyram GH¢80,000,000

- iii) To enable the partnership introduce a new product, they invited Elinam to join the partnership on January 1, 2019. Elinam was to receive a salary of GH¢6,000,000 annually in addition to an equal share of profit. He will not be entitled to interest on his capital of GH¢ 60,000, 000.

- iv) Elorm was elected as a Member of Parliament for Boli Constituency and resigned as a partner at the close of day of 30 June, 2020. The remaining partners continued to share profits equally.

- v) Operational profit/loss of the partnership are as follows:

	GH¢
Year ended December 31, 2018	500,000,000
Year ended December 31, 2019	(180,000,000)
Year ended December 31, 2020	1,000,000,000

- vi) Capital allowance of GH¢60,000 has been granted by Ghana Revenue Authority for each year of assessment.

- vii) Elorm received rent income of GH¢10,000,000 (net) per annum during the period he was in the partnership. None of the other partners had any income outside the partnership income and none has any capital gains.

Required:

Compute the Chargeable income of Elorm, Eyram and Elinam for 2018, 2019, and 2020 year of assessment. **(14 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) For an expenditure to be an allowable deduction, there must be a direct connection between the expenditure and the business.

Required:

Discuss this statement in line with the provisions of the Income Tax Act, 2015 (Act 896).
(10 marks)

- b) According to Act 896, the Commissioner-General shall not allow a deduction in respect of domestic expenditure and excluded expenditure incurred by a person.

Required:

Explain what constitutes *domestic expenditure* and *excluded expenditure* in line with the provisions in the Income Tax Act, 2015 (Act 896).
(10 marks)

(Total: 20 marks)

QUESTION FIVE

- a) Chahuncha Ghana Branch declares a profit before tax of GH¢6,000,000 in 2020 year of assessment after charging depreciation of GH¢680,000 and a loss of GH¢1,500,000 which was incurred in 2012. The capital allowance for the year amounted to GH¢750,000 yet to be adjusted. The corporate tax rate is 25%.

Required:

Compute the Branch Profit Tax for the 2020 year of assessment. (6 marks)

- b) Explain **TWO (2)** circumstances under which withholding taxes are exempt. (4 marks)

- c) Fortune acquired shares in Obolo company Ltd, a manufacturing company situated in Nsawam and the following are the transactions in Obolo company:

- i) He acquired 100,000 ordinary shares for GH¢115,600 on 14 March, 2020. He also acquired another 220,000 shares on 26 November, 2020 at a price of GH¢1.2 per share.
ii) On 24 December, 2020, he sold 235,000 shares for GH¢305,500 which attracted a sales commission of 1.5% of the sales value to the brokerage firm.

Required:

Compute the capital gain tax. (5 marks)

- d) An individual who is required to furnish the Commissioner-General (CG) with a return in relation to a gift, has to do so to enable the CG subject it to appropriate tax.

Required:

Explain the treatment of a gift not received under employment or business. (5 marks)

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

- a) The “Benchmark Value Discount” Policy was introduced in April 2019 by government to make the Ghanaian ports competitive, reduce smuggling and increase government’s revenue from the port. Under this policy, certain commodities are benchmarked to the prevailing world prices as a risk management tool, to reflect the true market dynamics of these commodities. It also takes into consideration factors such as protection of health, the environment, and security as well as protection of local industries. The policy provided a discount of 50 percent on the delivery or benchmark values of imports with the exceptions of vehicles. The delivery values for vehicles were reduced by 30%. The government however suspended moves to remove the discount policy to allow for extensive stakeholder engagement on the viability of the policy and its impact on both government revenue and the domestic manufacturing industry. Following consultation between government and relevant stakeholders, government has now announced a revision of the policy resulting in a reduction in the discount offered on the delivery values of imports. The discount offered for vehicles will now be 10% (from 30%) and 30% for all other goods (from 50%).

A withdrawal of the Benchmark Discount on imported rice will mean that importers of rice will have to pay higher amount of duty on their imports compared to what they are paying under the benchmark discount regime. This will make imported rice comparatively more expensive to the local rice all things being equal. This means, assume all things are equal, consumers who are price sensitive will switch demand from imported rice to local rice and therefore local rice producers can have access to the local market to sell more and make income for themselves.

Thus, the withdrawal of the policy will be of much benefit to the president of the Professional Local Rice Growers Association (PLRGA) for the following reasons:

- i) It will make local production become competitive with related importation.
 - ii) It will increase demand for local production
 - iii) Increase the local production for the rice growers and generate employment
- (Explanation of policy = 2 marks)**
(Benefits of withdrawal = 3 marks)

b) **Conditions necessary for budget deficit financing**

- **During a Period of Depression:** Deficit financing assume greater importance when there is the need to recover after a major depression or to reduce the severity of the business cycle. This happens when there is the realization that private sector activities as well as traditional monetary policies prove inadequate in restoring economic stability. When economic activities are declining, or stagnant deficit financing may replace deficiency in aggregate demand by injecting funds and providing the necessary stimulant for reducing under-utilization of resources and

increase the deployment of labour and capital through additional spending to finance the budget deficit.

- **During Wars:** Governments try to raise additional resources to finance tribal conflicts during tribal wars. This may however have negative effects on inflation etc.
- **During a Process of Economic Development:** Usually in developing countries deficit financing is applied to cater for the meagre voluntary investment in order to progress rapid development to do away with the vicious circle of poverty (low savings, low investment, low income, etc).
- **Ineffective Financial Management:** Since budgetary projects in developing countries are not reliable, management also tend to be ineffective, and this leads to demand for loans, grants and aid to finance ineffective programmes.
- **Weak Expenditure Control and Monitoring:** The annual accounts are usually in arrears in such a way that year by year comparison is difficult. Besides the unpredictable economic and social environment, government may incur expenditure outside the budget which necessitates the inflow of budget expenditure in excess of expected revenue.
- **Low Revenue Mobilization:** The revenue or tax net does not encapsulate all taxable enterprise and individuals. Revenue from taxes therefore tends to be less than what is needed for payments of goods and services and other government current financial obligations.
- **Political Pressure:** Politicians make electioneering promises which have not been budgeted for. When political pressure becomes unbearable, there are attempts to implement policies (not budgeted for) in order to earn political integrity. These create extra burden needing extra funds to finance outside the budget.
- **Infrastructural Development**
- **To keep government workers productive by paying them**
- **Enhance economic livelihood, through Livelihood Empowerment Against Poverty (LEAP)**
- **Provide social goods**

The theory of social goods is of prime importance to the economies of public sector. 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.
- **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, feeder roads etc., and in the industrial sector by setting up public enterprises like steel plants, heavy electrical, heavy engineering, machine-making factories, etc. All these enterprises are calculated to promote production and thereby economic development.
- **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 stabilizing price especially where the economy is in a depressed state.

- **Create employment**
Public expenditure is the most potent weapon to fight unemployment. The level of employment depends upon aggregate demand. The government can influence effective either by making more public expenditure or by resorting to such fiscal methods as may raise the level of private expenditure. Thus, as the government spends to resuscitate the economy from a depressed state it tends to create employment opportunities resulting from the multiplier effect of government expenditure.
- **Promote Balanced Growth**
There is a tendency to use economic resources for the further development of already developed regions. However, for overall growth, special attention needs to be paid for the development of backward areas and underdeveloped regions. This requires huge amounts for which reliance must 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 midday 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.
- **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. Thus, public expenditure must play its role here too.

(Any 5 points @ 1 mark each = 5 marks)

c) Percentage Difference: $\frac{30,000,000 * 100}{80,000,000}$
=37.5%

Margin of error is 37.5% more than the 10% allowed so interest is to be imposed.

	GH¢
90% of actual CI (80,000,000)	= 72,000,000
Tax on 72,000,000 @ 25%	= 18,000,000
Less Tax Paid on 50,000,000 @25	= <u> 0</u>
Difference	<u>18,000,000</u>

$$\begin{aligned} \text{Quarterly payment} &= 18,000,000/4 \\ &= 4,500,000 \end{aligned}$$

$$\begin{aligned} \text{Quarterly amount to compute Interest on} &= 18,000,000/4 \\ &= 4,500,000 \end{aligned}$$

$$\text{Annual Percentage rate} = r = 1.25 \times 25\% = 0.3125$$

1st Quarter: 1st April 2017-April 30th 2018

$$4,500,000 (1+.3125/12)^{13} = \text{GH}\text{c}6,285,755.45$$

$$\text{Interest} = 6,285,755.45 - 4,500,000 = \text{GH}\text{c}1,785,755.45$$

2nd Quarter: 1st July 2017-April 30th 2018

$$4,500,000(1+.3125/12)^{10} = \text{GH}\text{c}5,819,189.34$$

$$\text{Interest} = 5,819,189.34 - 4,500,000 = \text{GH}\text{c}1,319,189.34$$

3rd Quarter: 1st Oct 2017-April 30th 2018

$$4,500,000(1+.3125/12)^7 = \text{GH}\text{c}5,387,254.54$$

$$\text{Interest} = 5,387,254.54 - 4,500,000 = \text{GH}\text{c}887,254.54$$

4th Quarter: 1st Jan 2018-April 30th 2018

$$4,500,000(1+.3125/12)^4 = \text{GH}\text{c}4,987,380.51$$

$$\text{Interest} = 4,987,380.51 - 4,500,000 = \text{GH}\text{c}487,380.51$$

$$\text{Total Interest} = 1,785,755.45 + 1,319,189.34 + 887,254.54 + 487,380.51 = \text{GH}\text{c}4,479,579.84$$

(Marks are evenly spread using 20 ticks= 10 marks)

Alternatively, where student assumed the Estimated Tax Payable was paid

90% Actual Tax Liability (0.9 x 80,000,000 x 0.25):	18,000,000
Less: Tax Paid (50,000,000 x 0.25)	<u>12,500,000</u>
Difference:	<u>5,500,000</u>

$$\begin{aligned} \text{Quarterly amount to compute Interest on} &= 5,500,000/4 \\ &= 1,375,000 \end{aligned}$$

$$\text{Annual Percentage rate} = r = 1.25 \times 25\% = 0.3125$$

Interest

90% of actual CI (80,000,000) = 72,000,000

Tax on 72,000,000 @ 25% = 18,000,000

Less Tax on 50,000,000 @25 = 12,500,000

Difference = 5,500,000

Quarterly payment = 5,500,000/4

= 1,375,000

1st Quarter: 1st April 2017-April 30th 2018

$1,375,000(1+.3125/12)^{13}$

= GH¢1,920,647.48

Interest = 1,920,647.48 -1,375,000 = GH¢545,647.48

2nd Quarter: 1st July 2017-April 30th 2018

$1,375,000(1+.3125/12)^{10}$

= GH¢1,778,085.62

Interest = 1,778,085.62 -1,375,000 = GH¢403,085.62

3rd Quarter: 1st Oct 2017-April 30th 2018

$1,375,000(1+.3125/12)^7$

= GH¢1,646,105.55

Interest = 1,646,105.55 -1,375,000 = GH¢271,105.55

4th Quarter: 1st Jan 2018-April 30th 2018

$1,375,000(1+.3125/12)^4$

= GH¢1,523,921.83

Interest = 1,523,921.83 -1,375,000 = GH¢148,921.83

Total Interest = 545,647.48 + 403,085.62 + 271,105.55 + 148,921.83 =
GH¢1,368,760.48

(Marks are evenly spread using 20 ticks= 10 marks)

EXAMINER'S COMMENTS

Question one assessed candidates on the meaning of "Benchmark Value Discount" policy in Customs Administration and how its withdrawal will benefit the Local Rice Growers. Though it is a current topical customs issue, it looked strange to most candidates. Fortunately, only 5 marks was awarded to it. The condition necessary for a government to support its budget through deficit financing which also took 5 marks was generally well dealt with. However, the calculation of the Interest for underestimation of tax was poorly done. It was allocated 10 marks. It looks as if tuition

providers and/or candidates did not prepare for it. Though the marks allocated for question one was fairly distributed in line with the weight in the syllabus for the efforts needed to answer these questions, the unpreparedness of candidates for these types of questions was the cause of the poor performance. In future, the question should be clear on the portion of the annual estimated tax payable which was paid.

QUESTION TWO

a) Conditions for VAT Refund.

- The VAT paid should qualify as a deductible input VAT.
- Provide all necessary records to support the refund application.
- The business must have submitted returns for all months for which it has been in operations.
- The company qualifies for refund of VAT where the excess VAT is attributable to exports.
- The company's exports exceed 25% of the total supplies within the tax period.
- The total export proceeds of the company have been repatriated to the company's authorized bank account in Ghana.
- The company may make the application for the refund where the excess VAT has been outstanding for a continuous period of three months or more.
- The Commissioner-General may order an audit of the claim for the refund to satisfy himself that the amount is legitimate.
- The company had duly completed a Refund Claim Form and submitted same to the Ghana Revenue Authority with all supporting documents.
- Where the Commissioner-General is satisfied that a refund is due the company, he is required to refund the money to the company within 30 days after receipt of the application.
- Where the Commissioner-General fails to make the refund within the 30 days, he will be required to refund the excess credit with an interest.

(Any 6 points @ 1.5 marks each = 9 marks)

b) Conditions that a taxable person without a tax invoice must satisfy before being allowed an input tax deduction;

- Taxable person took all reasonable steps to acquire a tax invoice;
- Failure to acquire a tax invoice was not the fault of the taxable person; and
- Amount of deductible input tax claimed by the taxable person is correct or verifiable.

(3 points @ 2 mark each = 6 marks)

c)

Tier 1 and 2 – Mandatory pension schemes

Worker – Contributes 5.5% of workers' basic salary

Employer – Contributes 13% workers' basic salary

Total – 18.5% of workers' basic salary

- Out of the 18.5%, employer remits 13.5% to SSNIT within 14 days following the end of the month to the mandatory First-Tier Basic Social Security Scheme.
- Again, out of the 13.5% paid to SSNIT, 2.5% is sent to the NHIA for the member's health insurance.

- The residual 5% is sent to the mandatory Second Tier Occupational Scheme which will be privately managed by Trustees approved and licensed by the Board of NPRA.

Tier 3 - This is a voluntary pension scheme also regulated by the NPRA

- The amount to be contributed by the employee and/or the employer is not fixed.
- However, to qualify as a relief the total amount contributed by the employee and/or employer should not exceed 16.5% of the employee's basic salary.

(At least 1 point under each tier = 3 marks and remaining 2 points under any Tier)

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

Question two examined candidates on Value Added Tax for a total mark of 15 which is in line with the weight in the syllabus. Candidates were to state six conditions that must be satisfied before the Ghana Revenue Authority (GRA) may refund the excess VAT input tax under the VAT Act 2013 (Act 870), as amended. Candidates were also to state three conditions that must be satisfied before a taxable person without a tax invoice may be allowed an input tax deduction. Surprisingly, even though these are the basic principles to learn about VAT, it was the worst attempted question. Consistently, for the past seven sittings, candidates' performance has not been encouraging. Tuition providers and students are advised to pay particular attention to this aspect of the syllabus since it continues to contribute to the poor performance of candidates. Candidates were also required to identify the contribution rates and how they are distributed between the Employer and Employee, under the 3-Tier Scheme. This was simple and has been a regular area. Again, more than half of the candidates did not take advantage to score all the 5 marks.

QUESTION THREE

a) **Yamutu**

Determination of Basic salary for 2019

1st June, 2016 - 31st May, 2017	400,000
1st June, 2017- 31st May, 2018	440,000
1st June, 2018- 31st May, 2019	480,000
1st June, 2019- 31st May, 2020	520,000

$$(5/12 * 480,000) + (7/12 * 520,000)$$

$$200,000 + 303,333.33$$

$$= 503,333.33$$

Computation of tax on Bonus

$$15\% * 503,333.33$$

$$= 75,500$$

Bonus payment = 240,000

$$15\% \text{ threshold} = \frac{75,000}{165,000} * 5\% = 3,750$$

Determination of total tax liability for 2019 Y/A

Basic salary	503,333.33
15% Excess Bonus	<u>165,000.00</u>
	668,333.33

	GH¢	%	Tax
First	1,200	0	0
Next	420	5	21
Next	1,104	10	110.40
Next	23,196	17.5	4,059.30
Exceeding	642,413.33	25	<u>160,603.33</u>
			164,794.03

Tax on Bonus

$$15\% \text{ threshold} = 75,000 * 5\% = \underline{3,750.00}$$

Total Tax liability **168,544.03**

(Marks are evenly spread = 6 marks)

b)

**ELORM, EYRAM AND ELINAM
COMPUTATION OF CHARGEABLE INCOME**

Year of Assessment	2018	2019	2020
Basis Period	1/1/18 - 31/12/18	1/1/19 - 31/12/19	1/1/20 - 31/12/20
	GH¢	GH¢	GH¢
Operational Profit/(Loss)	500,000,000	(180,000,000)	1,000,000,000
Add: Depreciation	80,000	60,000	180,000
Interest on Capital	9,000,000	9,000,000	6,500,000
Salaries	24,000,000	30,000,000	25,000,000
Less: Capital Allowance	(60,000)	(60,000)	(60,000)
Adjusted Profit	<u>533,020,000</u>	<u>(141,000,000)</u>	<u>1,031,620,000</u>

2018 (1/1/2018 -31/12/2018)

	Elorm	Eyram
	GH¢	GH¢
Share of Profit	266,510,000	266,510,000
Interest on capital	5,000,000	4,000,000
Salaries	<u>10,000,000</u>	<u>14,000,000</u>
Chargeable Income	<u>281,510,000</u>	<u>284,510,000</u>

2019 (1/1/2019 -31/12/2019)

	Elorm	Eyram	Eyram
	GH¢	GH¢	GH¢
Share of Loss	(47,000,000)	(47,000,000)	(47,000,000)
Interest on capital	5,000,000	4,000,000	-
Salaries	<u>10,000,000</u>	<u>14,000,000</u>	<u>6,000,000</u>
Chargeable Income	<u>(32,000,000)</u>	<u>(29,000,000)</u>	<u>(41,000,000)</u>

2020

(1/1/2020 -30/6/2020)	Elorm	Eyram	Eyram
	GH¢	GH¢	GH¢
Share of Profit (1,031,620,000/ 2)	171,936,666.67	166,686,666.67	166,686,666.67
Interest on capital	2,500,000.00	2,000,000.00	
Salaries	5,000,000.00	7,000,000.00	3,000,000.00
(1/7/2020 -31/12/2020)			
Share of Profit		257,905,000.00	257,905,000.00
Interest on capital		2,000,000.00	
Salaries		<u>7,000,000.00</u>	<u>3,000,000.00</u>

Chargeable Income	<u>179,436,666.67</u>	<u>442,591,666.67</u>	<u>427,591,666.67</u>
-------------------	-----------------------	-----------------------	-----------------------

(Marks are evenly spread using ticks = 14 marks)

Alternatively, where student did not add the appropriated incomes in determining the Adjusted Profit

**ELORM, EYRAM AND ELINAM
COMPUTATION OF CHARGEABLE INCOME**

Year of Assessment	2018	2019	2020
Basis Period	1/1/18 - 31/12/18	1/1/19 - 31/12/19	1/1/20 - 31/12/20
	GHC	GHC	GHC
Operational Profit	500,000,000	180,000,000	1,000,000,000
Add: Depreciation	80,000	60,000	180,000
Less: Capital Allowance	(60,000)	(60,000)	(60,000)
Adjusted Profit	<u>500,020,000</u>	<u>180,000,000</u>	<u>1,000,120,000</u>

2018 (1/1/2018 -31/12/2018)

	Elorm	Eyram
	GHC	GHC
Share of Profit	250,010,000	250,010,000
Interest on capital	5,000,000	4,000,000
Salaries	<u>10,000,000</u>	<u>14,000,000</u>
Chargeable Income	<u>265,010,000</u>	<u>268,010,000</u>

2019 (1/1/2019 -31/12/2019)

	Elorm	Eyram	Eyram
	GHC	GHC	GHC
Share of Profit	(60,000,000)	(60,000,000)	(60,000,000)
Interest on capital	5,000,000	4,000,000	-
Salaries	<u>10,000,000</u>	<u>14,000,000</u>	<u>6,000,000</u>
Chargeable Income	<u>(45,000,000)</u>	<u>(42,000,000)</u>	<u>(54,000,000)</u>

2020

(1/1/2020 -30/6/2020)	Elorm	Eyram	Eyram
	GHC	GHC	GHC
Share of Profit (1,000,120,000/ 2)	166,686,666.67	166,686,666.67	166,686,666.67
Interest on capital	2,500,000.00	2,000,000.00	

Salaries	<u>5,000,000.00</u>	7,000,000.00	3,000,000.00
(1/7/2020 -31/12/2020)			
Share of Profit		250,030,000.00	250,030,000.00
Interest on capital		2,000,000.00	
Salaries		<u>7,000,000.00</u>	<u>3,000,000.00</u>
Chargeable Income	<u>174,186,666.67</u>	<u>434,716,666.67</u>	<u>422,716,666.67</u>

(Marks are evenly spread using ticks = 14 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

Question three tested candidates on how to determine the annual salary of an employee given a salary scale and the treatment of annual bonus in determining the chargeable income for 6 marks. Candidates demonstrated their understanding of treatment of the annual bonus. However, there is a knowledge gap in the determination of the salary using the salary scale which tuition providers and/or candidates need to close. The computational question on the determination of the partner's chargeable income for the three years of assessment was straightforward but it was handled below expectation. Taxation of Partnerships questions is not new, but candidates failed to take advantage of it.

QUESTION FOUR

a)

Unless otherwise required, the Commissioner-General shall not allow an expenditure as a deductible expense unless there is a direct connection between the expenditure and the business. (Section 9 of the Income Tax Act of 2015, Act 896 as amended)

Thus Expenses (deductions) are deemed to have a direct and intimate connection with the business to the extent that:

- That expense is wholly, exclusively and necessarily incurred by the person in the production of the income from the business during the year.
- Wholly relates to the quantum of the amount being charged. The amount should be for the purpose of the business. The amount should be related wholly to the income.
- Exclusively relates to the purpose for which the expense was incurred. The expenses must be relevant to the operation of the business. They must have a bearing in the operation of the business.
- Necessarily connotes some form of compulsion on the taxpayer. The expense must be inevitable. In other words, the business cannot go on without incurring the expense.
- The deductions or expenses are not of capital nature. "Expense that is of a capital nature" includes an expense that secures a benefit that lasts for more than twelve months.

(10 marks for a good explanation)

b) What constitutes domestic and excluded expenditure in line with the provisions in Section 130 of the Income Tax Act, 2015 (Act 896) are:

1) Domestic Expenditure

Where an individual incurs expenditure in respect of that individual, the expenditure is domestic expenditure to the extent that it is incurred:

- In maintaining the individual, including the provision of shelter, meals, refreshment, entertainment or other leisure activities;
- By the individual in commuting from home;
- In acquiring clothing for the individual, other than clothing that is not suitable for wearing outside of work; or
- In educating the individual, other than education that is directly relevant to a business conducted by the individual and that does not lead to a degree or diploma.

(4 points @ 1 mark each = 4 marks)

2) Excluded Expenditure

Excluded expenditure" means

- Tax payable under the Act;
- Bribes and expenditure incurred in corrupt practices;
- Interest, penalties and fines paid or payable to a government or a political subdivision of a government of any country for breach of any legislation;

- Expenditure to the extent incurred by a person in deriving exempt amounts or final withholding payments;
- Retirement contributions, unless they are included in calculating the income of an employee; and
- Dividends of a company.

(6 points @ 1 mark each = 6 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

Question four was on business income requesting candidates to use the Income Tax Act 2015, Act 896 to discuss the statement that, for an expenditure to be an allowable deduction, there must be a direct connection between the expenditure and the business for 10 marks and using the same act to state what constitutes domestic and excluded expenditure for another 10 marks. Incidentally, it was just a near average performance.

QUESTION FIVE

a)

CHAHUNCHA GHANA BRANCH
COMPUTATION OF BRANCH PROFIT TAX FOR 2020 Y/A

	GH¢
Net Profit	6,000,000
Add: Depreciation	680,000
Loss from 2010	<u>1,500,000</u>
	8,180,000
Less: Agreed capital allowance	<u>(750,000)</u>
Adjusted Net Profit	7,430,000
Tax @ 25%	<u>(1,857,500)</u>
Net profit after tax	<u>5,572,500</u>
 Branch Profit Tax @ 8% (5,572,500_x 8%) =	 GH¢445,800

(Marks are evenly spread using ticks = 6 marks)

b) Circumstances under which withholding taxes are exempt are:

- Contract sum for the supplies of goods, works and services not exceeding GH¢2,000 for the year.
- Payment for the sale of goods that constitute trading stock for both the vendor and the purchaser.
- Where the Commissioner-General exempts a person accordingly.
- Interest paid to a resident financial institution.
- Interest received by an individual from a resident financial institution.
- Premiums paid to a registered resident insurance company.
- Where a resident company acquires 25% or more voting power of another resident company. (This excludes Upstream Petroleum and Mining Companies).

(4 marks for any two points)

c) **Workings 1 (Computation of cost before disposal and Number of unsold shares)**

Date (GH¢)	Details Shares	Price (GH¢)	Amount
14/03/2020 Purchase of shares	100,000	1.156	115,600
26/11/2020 Purchase of shares	<u>220,000</u>	1.2	<u>264,000</u>
	320,000		379,600
24/12/2020 Sale of shares	<u>(235,000)</u>		
Number of shares remaining	85,000		

Workings 2

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

A= Sum Realized = 305,500
 B = Value of shares remaining = 85,000*1.3 = 110,500
 C= Cost before disposal of shares = 379,600

$$\text{Therefore, Cost} = \frac{305,500}{(305,500 + 110,500)} \times 379,600$$

$$= \text{GH¢ } 278,768.75$$

FORTUNE
COMPUTATION OF CAPITAL GAIN TAX PAYABLE - DECEMBER 2020

	GH¢	GH¢
Sum Realized		305,500.00
Cost of Assets Realised (W2)	278,768.75	
Commission (1.5% * 305,500)	<u>4,582.50</u>	<u>283,351.25</u>
Gains from Realization of Asset		<u>22,148.75</u>
 Tax Charged @ 15%		 3,322.31

(Marks are evenly spread using ticks = 5 marks)

- d) An individual can elect for the market value of such a gift received to be taxed separately at a flat rate of 15%. That individual shall within thirty (30) days of receipt furnish the Commissioner General (CG) with a return in writing.

A person who is ascertaining the profits and gains of that person or of another person from an investment for a year of assessment or part of that year shall include in the calculation an amount specified in respect of a gift received by a person other than a gift received in respect of business or employment as substituted by the Income Tax (Amendment) (No.2) Act 2016, Act 924.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

Question five was in four parts: The a) part was on the computation of the branch profit tax for 6 marks. It was not a familiar area for candidates. Candidates were able to determine the chargeable income but did not know how the branch profit is calculated. Surprisingly, most candidates could not identify any two circumstances under which withholding tax is exempt for 4 marks. For the (c) and (d) parts, majority of the candidates scored more than half of the mark on the computation of capital gain tax and treatment of gift not received under employment or business. This was because they have been regular topics in the principles of taxation examinations.