

**DECEMBER 2022 PROFESSIONAL EXAMINATIONS
PRINCIPLES OF TAXATION (PAPER 2.6)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

EXAMINER'S GENERAL COMMENTS

The questions tested candidates understanding of basic principles of taxation. The questions were clear and more also the questions included instructions to candidates that were specific and understandable.

Candidates are strongly advised to read and pay attention more on the tax laws and principles. This is so because the Principles of Taxation paper is built on general knowledge on how the tax laws and principles are to work and more significantly how the laws and principles are to be explained and applied.

STANDARD OF THE PAPER

The standard of the paper 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. However, some of the questions were allocated more marks than they deserve, thus favoring some candidates who studied those areas. Notwithstanding, the questions fairly covered the entire syllabus, and the expectations were that any average candidate who wrote the paper should be in the position to pass. Requirements to the questions were clear as to what the candidates were to do.

PERFORMANCE OF CANDIDATES

Generally, the performance of the candidates was very poor and the expectations of the Examiner from the candidates were largely not met. Approximately 20% of the candidates passed the paper and this is not good enough because this is a paper meant to test candidates understanding on principles.

The reasons for the performance could be as follows:

- Most of the candidates still do not understand and cannot apply the principles of taxation very well. It could also be that the candidates are not having 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.
- Also, candidates did very well because of the question one. This question was well answered with most of the candidates scoring more than 15/20.
- 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. This could be due to self-tuition.
- Those candidates who did not perform well do not understand the computation of capital allowance, fiscal policies, capital gains, and Value Added Tax, basic treatment of items such as research and development and treatment of Interest. These areas of

taxation were examined prominently and it seems most of the candidates have little knowledge on these issues.

NOTABLE STRENGTHS & WEAKNESSES 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 because some candidates still learn selected topics of the syllabus. This was evident with some candidates scoring high marks in certain question and almost nothing in other questions.

The manner most of the candidates presented their answers was very good. Candidates should always pay attention to their presentation style.

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

Weaknesses

It seems some of the candidates did not pay attention to certain topics. Probably, thinking those topics were not so important. Examples of such topics are: Ghana National Pension Scheme, Tax Administration, capital allowances, and Value-Added Taxation. If candidates had given more attention to these topics, the pass rate would have been more than 50%

QUESTION ONE

- a) In order to generate more revenue for national development in Ghana, tax experts often suggest the need to “deepen as well as widen” the tax system of Ghana.

Required:

Explain the difference between “*Deepening the Tax System*” and “*Widening the Tax System*” and suggest how the Ghana Revenue Authority can *deepen* and *widen* the tax system of Ghana. (5 marks)

- b) Taxation is a mechanism through which the government seeks to realise some of its economic objectives. It is one of the oldest means by which the government expenditure is funded. Taxation plays a central and significant role in developing countries over the world.

Required:

Explain **FIVE (5)** economic roles of taxation. (5 marks)

- c) The Commissioner-General may, in the circumstances specified in section 28 (3) of the Revenue Administration Act, 2016 (Act 915) make a pre-emptive assessment of tax payable or to become payable by a person under a tax law whether or not the person is required to file a tax return.

Required:

Under what circumstance will the Commissioner-General make a pre-emptive assessment? (5 marks)

- d) Where the Commissioner-General makes an assessment under a tax law, the Commissioner-General shall serve a written notice of the assessment on the taxpayer.

Required:

State **EIGHT (8)** elements contained in Commissioner-General’s notice of tax assessment. (5 marks)

(Total: 20 marks)

QUESTION TWO

- a) According to section (38) of the Value Added Tax Act, 2013 (Act 870), the Minister may by legislative instrument, make regulations to grant relief from tax on taxable imports of goods or taxable supplies of goods acquired in the country to the persons specified in the Third Schedule.

Required:

State **FOUR (4)** conditions that must be satisfied by VAT registered manufacturing companies before they are granted upfront relief of VAT and levies on imported raw materials. **(10 marks)**

- b) Section (33) of the Value Added Tax Act, 2013 (Act 870) states that; “Except as otherwise provided in this Act or Regulations, a taxable supply is a supply of goods or services made by a taxable person for consideration, other than an exempt supply, in the course of, or as part of taxable activity carried on by that taxable person”.

Required:

State **THREE (3)** activities that do not constitute supply of goods or services under the Value Added Tax Act, 2013 (Act 870). **(5 marks)**

- c) Mr. John Romeski worked for Aligidon Company Ltd for 25 years and retired at the age of 60. In the last 3 years of his working life, he earned annual salary as follows:

Year	Annual Salary (GH¢)
58 th	93,000
59 th	96,000
60 th	99,000

He has 300 months’ contribution to his credit.

Required:

Assuming he retired under National Pension Act, 2008 (Act 766), compute his pension benefit and his monthly pension pay. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

Abotsi has been in employment at Asempa Ltd since 1 August, 2019 as Finance Manager on a salary scale of GH¢ 32,000 by GH¢ 8,000 to GH¢ 48,000.

His service conditions include the following:

- i) Responsibility allowance of 18% of basic salary
- ii) Utilities allowance per annum of 10% of basic salary
- iii) Risk allowance of 20% on basic salary and car maintenance allowance of 5% of basic salary.
- iv) Leave allowance of GH¢1,900 per annum.
- v) Medical allowance per annum of GH¢3,500.
- vi) Meals allowance of GH¢700 per month.
- vii) Two house helps on GH¢500 wages per month each. The amount is paid to Abotsi in cash directly by the company.
- viii) Bonus of 25% of annual basic salary.
- ix) Annual Overtime allowance of GH¢18,000
- x) Unaccountable Entertainment allowance of GH¢2,000 a year.
- xi) Provision of a well-furnished bungalow in respect of which he pays GH¢400 per month as rent by way of deduction at source.
- xii) Provision of a vehicle with driver and fuel for both official and private purposes
- xiii) Special retirement package by way of a provident fund of which he contributes 9% of his basic salary, while the company contributes 11%. (The scheme is approved by the Regulatory Body)
- xiv) Social Security and National Insurance Trust contribution of 5.5% and the employer contributes 13% of basic salary.
- xv) On 1 January, 2021 he was given a car loan of GH¢ 20,000 to purchase a car for his mother at a simple interest rate of 15% per annum. The institution gives similar facility to other customer at the rate of 28% but the statutory rate (Bank of Ghana Rate) is 25%. The loan is to be paid within the period of 24 months.
- xvi) He is married to Abotsiwaa and Abotsimaa who are unemployed and contribute little or no financial support to their husband. Their responsibilities are limited to the management of the house.
- xvii) He has six (6) children, four (4) of whom are in Silicon Valley International School, Accra-Ghana while the rest are working.
- xviii) He is also responsible for the upkeep of four (4) aged relatives of his.
- xix) He is currently pursuing MPHIL in Finance at UPSA where he incurred GH¢25,000 by way of educational expenses in 2021.
- xx) He is a director of Adwoa Mansa Ltd and he receives director's emolument of GH¢24,450 (net of taxes).
- xxi) He received Dividend of GH¢20,000 (net of taxes) from the Afia Manu bank. The dividend was taxed at 8%.

Required:

Calculate his chargeable income for the 2021 Year of Assessment.

(Total: 20 marks)

QUESTION FOUR

- a) A Nigerian investor (Niger Ltd) in Ghana has the following information relating to its business:

	2021	2020
	GH¢	GH¢
Revaluation Reserves	250,000	100,000
Share Capital	1,000,000	600,000
Retained Earnings	1,200,000	1,350,000

Required:

With relevant computations, comment on:

- The tax implication of the transfer from Retained Earnings to Share Capital. **(8 marks)**
- b) What is the tax treatment of Research and Development? **(6 marks)**
- c) Explain the conditions under which interest is deductible for tax purpose. **(6 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) The provisions of the Income Tax Act, 2015 (Act 896) requires a resident person who pays an amount for works or the supply of goods and services to another resident or non-resident person, with a source in Ghana, to withhold tax from the payment at the rate specified under Paragraph 8 of the First Schedule of the Act and pay same to the Commissioner-General.

Required:

Explain with examples the following:

- i) Final withholding tax. **(2.5 marks)**
- ii) Withholding tax on account. **(2.5 marks)**
- b) Explain tax credit certificate and its importance in/to tax administration. **(5 marks)**
- c) Yaa Baby acquired shares in Adom Ltd as follows:
- i) 1/2/2019 bought 1,000 shares at GH¢2.
- ii) 1/3/2019 bought 1,500 shares for GH¢3,750.
- iii) 1/6/2020 bought 2,000 shares at GH¢3.
- iv) 1/4/2021 bought 1,750 shares at GH¢4.
- v) 1/12/2021 received rights issue of 1 share for every 10 shares held at GH¢1.5.
- vi) 31/12/2021 sold 3,800 shares at GH¢6.

Required:

Compute the capital gain on the realisation and the tax payable. **(5 marks)**

- d) Explain realisation of asset by way of merger, amalgamation or re-organisation under section 47 of Income Tax Act, 2015 (Act 896). **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

a) "Deepening the Tax System" and "Widening the Tax System"

Widening the tax system entails *including instruments* in the tax system that were *previously not in the system*. This would include introducing new taxes (e-levy, COVID Levy), subjecting people to tax who were previously exempt, for example by lowering the tax threshold, etc. Widening the tax base and system is therefore meant to increase government revenue.

Tax Deepening is when government *imposes taxes on the same people* in respect to the *same taxable activity*, for example by increasing the tax rates or disallowing deductions, this counts as tax deepening. Ghana Revenue Authority can deepen the tax base simply by subjecting more gross income to taxation by eliminating or curbing tax expenditures such as deductions, exclusions, credits, exemptions, and preferential treatment of capital income over labour income.

Tax deepening have value beyond raising revenue. They would help the tax law adhere more closely to the principle of horizontal equity, a core public finance and taxation theory concept stating that two people with the same income should not pay significantly different effective tax rates based on the ability to exploit tax law preferences or loopholes.

With high levels of tax overload worldwide, widening the tax base is no longer a viable option for most countries that have already 'out-widened' their tax bases. The remaining option would be to deepen the tax base, which is by no means a viable option either.

(2.5 marks each = 5 marks)

b) Economic roles of taxation

Raising revenue for public expenditure

Tax revenues are the most important source of income to Governments. They enable governments to provide social services and infrastructural facilities for the benefit of their citizens, such as: provision of good roads, maintenance of law and order, defense against external aggression, regulation of trade and business to ensure social and economic maintenance. Provision of these social services and infrastructure goes a long way to reduce the total cost of operation of a business. It means that businesses can expand their operations rather than striving to provide these services and infrastructures for themselves.

Without taxes, the governments would not be able to provide basic services such as health, education, roads, transportation, water etc. The provision of these services helps to improve the quality of life of citizens of a country.

Redistribution of income

Taxation can be used as a tool for equitable redistribution of income. Through the institution of a progressive system of taxation, the rich or wealthy are made to contribute more to the "Taxation Fund" than the poor. Hence, the rich contribute more to cushion the low-income earners. More so, tax income contributed by the rich is used to provide social amenities which benefit the poor.

Controlling inflation and deflation

Taxation can be used as a tool to control the level of inflation or deflation. In spiraling inflationary situation, taxes are increased to reduce the disposable income in the hands of consumers, thereby reducing the amount of money in circulation. This helps in mopping up the excess liquidity. Similarly, in a deflationary situation, taxes are reduced to increase the disposal income of the consumers, thereby increasing the volume of money in circulation.

Redistribution of the location of industries

Taxation may be used to channel growth of the key sectors of the economy of a nation. Under the current tax laws of Ghana, for example:

- Manufacturing companies cited in the regional capitals other than Accra and Tema enjoy a tax rebate of 25%, while those located in non-regional capitals enjoy a tax rebate of 50%.
- In the case of young entrepreneur, tax rates applicable for the five-year period after the initial concession at the rate of zero (0) percent, would enjoy incentives as follows:

No.	Location	Tax rate
1	Accra/Tema	15%
2	Other regional capitals outside the three northern regions	12.5%
3	Outside other regional capitals	10%

Encouragement of investment in certain sectors of the economy

Under the Sixth Schedule of the Income Tax Act, 2015 (Act 896), the following concessions are provided to encourage investment into those areas:

- Farming enjoys a tax holiday of 5 or 10 years depending on the nature of the farming activity engaged in.
- Real estate developers enjoy a holiday for 5 years.
- Venture capital firms enjoy a tax holiday of 5 years from corporate income tax, dividend and capital gains.
- Privately-owned universities shall be exempt from tax when they plough back a hundred percent of their profit-after-tax into the business.

The growth in the key sectors of the economy may lead to the growth of the economy in general which may result in increased employment and improved standard of living.

Control of budget deficit

Taxation may also be used as a tool to narrow budget deficit or fiscal gap. An efficient and effective tax administration may result in increase in tax revenue. This may have the effect of narrowing the budgetary deficit resulting in reduced government borrowing.

Promotion of exports

Taxation may be used as a tool to promote export. Under the Income Tax Act, 2015 (Act 896), companies engaged in the production and export of non- traditional goods enjoy a concessionary tax rate of 8%. Also, under the VAT Act, 2013 (Act 870), exports are zero rated to make export product competitive in the international market.

Non-traditional goods are defined under the First Schedule of Act 896 to include: Horticultural products, Processed and raw agricultural products grown in Ghana other than cocoa beans, Wood products other than lumber and logs, Handicrafts, Locally manufactured goods.

A Free Zone developer or an enterprise granted a license under the Free Zones Act, 1995 (Act 504) is exempt from the payment of income tax on profits for the first ten years.

Discouragement of consumption of certain goods

Discriminatory Duties or Super Taxes may be imposed to discourage the importation of certain goods either to conserve foreign exchange or to discourage their consumption, for example, alcoholic beverages and tobacco by imposition of higher tariffs and import duties.

Protection of infant industries

Indigenous industries at their teething stage and with high costs of production face stiff competition from foreign goods imported into the country. Import duties and tariffs are raised to protect these infant industries.

Stimulation of economic growth

In times of depression in an economy, taxation can be used as an instrument to stimulate growth. This can be done by reducing taxes to enable companies plough back or reinvest profits that would otherwise go into tax payments. At the same time, reduction in consumption taxes and individual taxes would help boost consumption thereby increasing economic growth.

Attraction of foreign direct investment

Taxation can be used as an instrument to attract foreign direct investments (FDIs). Taxation and tax incentives like tax holidays among others can **attract foreign investors to a country**. This gives investors the opportunity to fully recoup their investments during such periods as well as reinvest such in order to operate on a larger scale. This brings about economies of scale. Again, capital allowances provide businesses the opportunity to recover the amounts they spend in capital

expenditure. All these will eventually result in an expanded economy and thus economic growth.

Double Taxation Agreements (DTAs) for example provide reliefs from double taxation and also may provide concessional tax rates in those agreements. For example, management and technical service fee for non-residents is taxed at 20%. However, management and technical service fees earned by non-residents from treaty countries are taxed at lower rates. E.g., France is 10%, Netherlands is 8% among others.

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

c) Circumstances for pre-emptive assessment

The Commissioner-General may make a pre-emptive assessment of tax payable or to become payable by a person under the following circumstances:

- The person becomes bankrupt,
- The person's business is wound-up
- The person's business goes into liquidation
- The Commissioner-General believes on reasonable grounds that the person is about to leave the country indefinitely.
- The Commissioner-General believes on reasonable grounds that the person is about to cease activity or business in the country.
- The Commissioner-General believes on reasonable grounds that the person has committed an offence under a tax law.
- The Commissioner-General considers it appropriate, including where the person fails to maintain adequate documentation.

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

d) Notice of assessment

Where the Commissioner-General makes an assessment, the Commissioner-General is required to serve a written notice of the assessment on the taxpayer. In addition to any requirement of the tax law in question, the notice of assessment should contain:

- The name of the taxpayer
- The Taxpayer Identification Number of the taxpayer
- The assessment by the Commissioner-General of the tax payable by the taxpayer for the period, event or matter to which the assessment relates
- The amount of tax remaining to be paid after any relevant credits, reductions or pre-payments
- The manner in which the assessment is calculated
- The reason why the Commissioner-General has made the assessment
- The date by which the tax is to be paid; and
- The time, place and manner of objecting to the assessment

(marks are evenly spread = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question one assessed the candidates on The Ghanaian Tax Systems, Fiscal Policy, and Tax Administration. Candidates were examined on topics such as: widening and deepening the tax system, economic roles of taxation, making of assessment. 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. This question was excellently answered, and the candidates scored very high marks.

QUESTION TWO

a) Conditions for VAT registered manufacturing companies for relief of VAT on imported raw materials.

VAT-registered manufacturers importing raw materials. This relief is subject to the condition that:

1. The manufacturer is a member in good standing of the Association of Ghana Industries.
2. The manufacturer has submitted all previous tax returns and paid the tax, penalties and interest from previous tax periods if any.
3. The Commissioner-General is satisfied that the manufacturer has met the conditions above and has listed the manufacturer in a register published by the Commissioner-General with a validity period of twelve months effective from 1st January of each year;
4. The imported raw materials will be applied solely and exclusively for the manufacturing operations of the relief beneficiary.
5. Have an input-output ratio of a minimum of 20% except where import level is GH¢100,000 or more in a year.
6. Should belong to one of the following sub-manufacturing caegories:
 - Textiles
 - Food, Drug and Tabacco
 - Toiletries and Cosmetics
 - Energy
 - Leather, Rubber and Plastics
 - Building materials
 - Chemicals
 - Wood Processing
 - Electrical and electronics

(Any 4 points @ 2.5 marks each = 10 marks)

b) Activities that do not constitute supply of goods or services:

1. Supply of goods does not include the supply of money
2. The transfer of goods to a person acting in a representative capacity to the transferor is not a supply of goods.
3. A supply of services by an employee to an employer by reason of the employment of that employee is not a supply of services for Value Added Tax purposes.

(5 marks)

c) Compute pension benefit and monthly pension pay

Pension = Three years average salary x pension right x early retirement reduction factors

$$\begin{aligned}\text{Three years average salary} &= \frac{(93,000 + 96,000 + 99,000)}{3} \\ &= \text{GH¢}96,000\end{aligned}$$

The pension right is:	%
Minimum right	37.5
Add additional percentage (300 months -180 months) x 0.09375	<u>11.25</u>
	<u>48.75</u>

Early retirement reduction factor. Mr. John Romeski worked for 25 years and retired at the age of 60. There is no retirement reduction factor. This factor would have been necessary if he retired between the ages of 55 and below 60.

$$\begin{aligned} \text{Pension} &= 48.75\% \times \text{GH}\text{c}96,000 \\ &= \text{GH}\text{c}46,800 \end{aligned}$$

$$\begin{aligned} \text{Monthly pension pay} &= \frac{\text{Pension entitlement}}{12 \text{ months}} \\ &= \frac{\text{GH}\text{c}46,800}{12} \\ &= \text{GH}\text{c}3,900.00 \end{aligned}$$

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question two examined candidates on Value Added Tax and the Pensions. The questions on VAT were straightforward dealing with basic principles governing VAT. The question on Pensions, however, demanded computations. Some of the questions were: conditions that must be satisfied before granting of VAT relief, activities that do not constitute supply of goods and services. Computation of monthly pension entitlement. Consistently for the past sittings, candidates' performance have been poor, probably because most of the candidates have not grasped the laws and principles governing the VAT withholding mechanisms. This was the most poorly answered question. Only 10% passed this question.

QUESTION THREE

Abotsi

Computation of Chargeable Income

Year of Assessment: 2021

Basis Period: January to December

	GH¢	GH¢	GH¢
Basic Salary:			
01/08/2019 – 31/07/2020	32,000.00		
01/08/2020 – 31/07/2021	40,000.00 x 7/12	23,333.33	
01/08/2021 – 31/07/2022	48,000.00 x 5/12	<u>20,000.00</u>	43,333.33
Add all Cash Allowance:			
Responsibility Allowance	18% x 43,333.33	7,800.00	
Utility Allowance	10% x 43,333.33	4,333.33	
Risk Allowance	20% x 43,333.33	8,666.67	
Car maintenance	5% x 43,333.33	<u>2,166.67</u>	<u>22,966.67</u>
			66,300.00
Other Cash Benefits:			
Leave Allowance		1,900.00	
Medical Allowance		3,500.00	
Meals Allowance 700 x 12		8,400.00	
Househelps (500 x 2 persons x 12 months)		12,000.00	
Bonus: Excess [(25-15) % x 43,333.33]		4,333.33	
Overtime Pay		18,000.00	
Unaccountable Entertainment Allowance		<u>2,000.00</u>	<u>50,133.33</u>
			116,433.33
Indirect Cash Payments:			
Provident Fund: Employer 11% x 43,333.33		4,766.67	
Social Security: Employer 13% x 43,333.33		<u>5,633.33</u>	<u>10,400.00</u>
Total Cash Employment			126,833.33
Add Non-Cash Benefits:			
Accommodation (10% x 126,833.33)	12,683.33		
(Less Rent 400 x 12)	<u>4,800.00</u>	7,883.33	
Car (12.5% x 126,833.33)	15,854.17		
(Restricted 600 x 12)	<u>7,200.00</u>	7,200.00	
Loan:			
Statutory Interest 25% x 20,000	5,000.00		
Actual Interest 15% x 20,000	<u>3,000.00</u>		
	<u>2,000.00</u>		
Taxable Benefit ¼ x 2,000.00		<u>500.00</u>	<u>15,583.33</u>
Qualifying Employment Income			142,416.66
Less Reliefs and Deductions:			
Provident Fund: Employee 9% x 43,333.33		3,900.00	

Employer 11% x 43,333.33	4,766.67	
Social Security: Employee 5.5% x 43,333.33	2,383.33	
Employer 13% x 43,333.33	5,633.33	
Marriage Responsibility Allowance	1,200.00	
Child Education Allowance 3 x 600	1,800.00	
Aged Dependence 2 x 1,000	<u>2,000.00</u>	<u>21,683.33</u>
		120,733.33
Other Income: Directors Fee 24,450/0.8		<u>30,562.50</u>
Chargeable Income		<u>151,295.83</u>

Note on treatment of excess retirement contribution

Candidates who treated the excess of the retirement contribution as part of the staff income were marked correct.

(mark are evenly spread using ticks = 20 marks)

EXAMINER'S COMMENTS

Question three tested candidates understanding on Taxation of Individuals and specifically on employment income. Questions were set on computation of chargeable income of an individual. 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

a) **Tax implication of the transfer from Retained Earnings to Share Capital**

The transfer of GH¢150,000 from the retained earnings account to the stated capital is referred to as 'deemed dividend'.

This implies that a tax at the rate of 8% shall be imposed on the transfer. Thus $150,000 \times 8\% = \text{GH¢}12,000.00$

There will be a stamp duty payment of 0.5%. Thus, $0.5\% \times 150,000 = \text{GH¢}750.00$
(8 marks)

b) **Tax treatment of Research and Development**

Research and development expenses meeting the requirements of wholly, exclusively and necessarily incurred during the year by the person and in the production of income from the business or investment may be deducted irrespective of whether they are of a capital nature.

Research and development expenses means expenses incurred by the person in the process of developing the person's business and improving business products or process.

Research and development expenses excludes expenses incurred that are otherwise included in the cost of an asset used in the process of the research and development.

(6 marks)

c) **Conditions under which interest is deductible for tax purpose**

Interest incurred by a person during a year of assessment under a debt obligation of the person and is incurred in the production of income of the person is an allowable deduction.

The following two conditions should be observed:

1. The debt obligation was incurred in borrowing money, the money is used during the year or was used to acquire an asset that is used during the year in the production of income; and
2. In any other case, the debt obligation was incurred in the production of income.

(2 points @ 3 marks each = 6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question four examined basic principles and computation of taxes on deemed dividends. The questions were meant to test candidates understanding on how to identify transactions that are allowable and those not allowed. Three principles were tested here: treatment of deemed dividends, treatment of research and development expenditure, and treatment of interest. Most candidates were able to provide excellent

answers and thus earned excellent marks. Majority of the candidates had no idea of how to treat research and development expenditure and Interest. This is an area of the syllabus that candidates can easily earn marks if they learn them very well.

QUESTION FIVE

a)

i) **Withholding Taxes That Are Final**

Withholding taxes are said to be **final** if:

- That income that suffered the withholding tax is not required to be included in ascertaining the assessable income of the person who receives it.
- That income will not suffer any expense deductions.
- The tax payable by the person is not to be reduced by any tax credit.
- The liability of the person is satisfied if the tax payable has been withheld by a withholding agent.

(2.5 marks)

ii) **Withholding Taxes on Account**

This means the withholding tax is **not final** and hence the actual gross income will still be taken into account in determining a person's assessable income for the year. After determining the total tax liability of the person for the year, a credit is then granted for the amount of tax paid on account (i.e., the withholding tax paid is deducted from the total tax liability before paying the difference to the Ghana Revenue Authority.

(2.5 marks)

b) **Tax Credit Certificate**

1. The Commissioner-General is required, upon receipt of an amount of withheld tax paid, issue to the withholding agent in favour of the payee a tax credit certificate.
2. A withholding agent is also required to deliver to the payee the tax credit certificate setting out the amount of tax withheld.
3. A payee who is required to furnish a return of income is expected to attach to the return, the tax credit certificate supplied to him/her.
4. The payee is required to use the tax credit certificate to offset his/her tax liability for the basis period ending within the year of assessment for which a return is submitted.

Where the tax withheld is a final tax, the tax payer does not suffer tax on that particular income again. However, where the withheld tax is not final tax, the amount withheld is credited against the tax assessed on the tax payer for the year of assessment.

(5 marks)

c) Yaa Baby

Computation of Capital Gain tax

Date	Details of transaction	No. of shares	Share price GH¢	Value GH¢
01/02/19	Purchase of Shares	1,000	2.00	2,000.00
01/03/19	Purchase of Shares	1,500	2.50	3,750.00
01/06/20	Purchase of Shares	2,000	3.00	6,000.00
01/04/21	Purchase of Shares	<u>1,750</u>	4.00	<u>7,000.00</u>
		6,250		18,750.00
01/12/21	Right issue 1/10 x 6,250	<u>625</u>	1.50	<u>937.50</u>
		6,875		<u>19,687.50</u>
31/12/21	Sale of Shares	<u>3,800</u>		
		<u>3,075</u>		

Sum Realised	3,800 x GH¢6	22,800.00
Less Cost	(Note 1)	<u>10,881.82</u>
Capital gain		<u>11,918.18</u>

Computation of capital gains tax 25% x GH¢11,918.18 = GH¢1,787.73

Note 1:

$$\text{Cost} = \frac{A}{A + B} \times C$$

A	Sum Realised	22,800.00
B	Value of share remaining (3,075 x GH¢6)	18,450.00
C	Cost of shares before disposal	19,687.50

$$\text{Cost} = \frac{22,800}{22,800 + 18,459} \times 19,687.50$$

$$= \frac{22,800}{41,250} \times 19,687.50$$

$$= \text{GH¢10,881.82}$$

d) **Realisation of Asset as a Result of Merger, Amalgamation or Reorganisation**

The gains on realisation of an asset accruing to or derived by a company arising out of a merger, amalgamation or re-organisation of a company is exempt from tax where there is continuity of at least **fifty per cent** of the underlying ownership in the asset.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question five was made up of three parts: capital gains on shares and its taxation, withholding taxes, and realisation of assets by way of merger. This was also one of the worst answered questions of all the five questions.

CONCLUSIONS

The Chief Examiner would wish to reiterate the following:

- Tuition centres and candidates should bear in mind that the principles of taxation examinations will continue to 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'. Candidates are to be examined on all the topics and therefore, the dynamics of the examination could change but still based on the syllabus.
- Candidates should pay attention to details when reading. It seems candidates do not read carefully in between the lines when reading. This was clearly demonstrated in the examination. Answers were not provided in full.
- Candidates are strongly advised to learn the subject with the syllabus. Candidates should not learn the subject with questions. 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.