

**MARCH 2023 PROFESSIONAL EXAMINATIONS
ADVANCED TAXATION (PAPER 3.3)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

EXAMINERS' GENERAL COMMENTS

The paper covered the entire syllabus with appropriate marks to each question with sub questions. Any candidate who read across the entire syllabus was sure to pass. The paper tried to elicit understanding of optimal tax outcome from candidates and ways to improve or enhance tax savings of a taxpayer.

Candidates found this paper very manageable as they were able to attempt each one of them with many options. The questions were laced with a good blend of both computation and theory. The paper gave an advantage to persons who read the entire syllabus as that person was going to be broad-minded as against those who did selective reading.

Judging from the approach to the questions by the candidates, one could conclude that most of the candidates prepared adequately for the paper hence got rewarded with pass marks. For others, most of the questions were left unanswered. This means that they had challenges with preparation which dogged their performance in the examination.

The quality of the paper was good and the type setting was also in order. The clarity of the questions was impressive and elicited appropriate responses.

STANDARD OF THE PAPER

The standard of the paper was comparable to previously administered papers. The questions were good in terms of content and weight. The marks allocated looked good against the requirement, with a lot of sub questions as well to give candidates many options. Technically, it allowed candidates choice in the answering of the questions.

The paper had a good spread over the entire syllabus range with questions and sub questions which gave an average candidate who read the entire syllabus leverage. The questions did not appear to have errors in them. This means the moderation was properly done.

The quality of the paper followed the regular standard as set by the ICAG and followed the usual pattern.

PERFORMANCE OF CANDIDATES

Candidates exhibited impressive performance comparative to last year's. On the whole, candidates put in their best.

Most of the candidates got beyond the pass mark in each question. Needless to say, some candidates did not know where to start from or where to end. It was too bad for them. Candidates who studied by fits and starts had challenges in the answering of the questions and ended up not giving good account of themselves.

There was no visible evidence or sign of candidates engaging in examination malpractices in the scripts. Each script appeared unique and original.

NOTABLE STRENGTHS AND WEAKNESSES

Strengths

Candidates who passed demonstrated understanding of tax laws and computational abilities with good presentational style.

It appears from the answers that candidates now are very good at doing well in double taxation questions and how to answer questions on external companies. This bodes well for future tax practice.

Again, another important landmark is the computation of chargeable income of mining company and the computation of royalty payable. Though most candidates did not get the computation right, they appeared to know what the computation of the royalty entails.

Weaknesses

Candidates continue to exhibit weakness in not showing what the requirement of the questions are especially in chargeable income, assessable income or tax computation.

In computation questions, the following area of weaknesses came to the fore and for purpose of emphasis:

- No title as in the name of the taxpayer
- No mention of the requirement of the question
- No mention of year of assessment
- No basis period
- No currency sign

It therefore becomes difficult for examiners to appreciate what the candidates are answering.

Another area that needs attention is the determination of tax implication of resident and non-resident person.

Another area candidates should work on is the tax rate to apply to dividend. While others maintained that shareholders should be taxed at 8% others insist that taxpayers should be taxed at 25%.

Bad grammar continues to characterise the conduct of the examination. It clouds understanding of what the candidates would want to put across. Some candidates resort to short hand in the examinations. This is totally unacceptable in a professional examination. Some candidates appear to have bad handwriting which to all intents and purposes slowed marking. Candidates with such problems should try to work on them.

QUESTION ONE

- a) Thunder Ltd resident in the USA has established an external company in Ghana as Thunder Ghana Ltd (Branch).

The following relates to the activities of Thunder Ghana Ltd (Branch) for 2021 year of assessment.

	GH¢
Sales	1,200,000,000
Cost of sales	<u>(700,000,000)</u>
Gross Profit	500,000,000
Add: Rental Income of Commercial Property (gross)	100,000,000
Interest on Treasury bills (gross)	<u>50,000,000</u>
	650,000,000
Less operating expenses:	
Depreciation	1,200,000
Penalty	600,000
Sponsorship to shareholders' children's education	100,000
Interest on loan on capital project to be completed in 5 years' time	50,000
Penalty imposed by Regulatory Authority	<u>290,000</u>
Net Profit	<u>647,760,000</u>

Capital allowance agreed with the Ghana Revenue Authority amounted to GH¢1700,700.

The management of Thunder Ltd has indicated its willingness to convert the company as an external company into a limited liability company.

Required:

- i) Explain **THREE (3)** reasons why it is better to convert the branch into a limited liability company rather than operate as an external company. **(3 marks)**
 - ii) Compute the tax payable and branch profit tax. **(7 marks)**
 - iii) What is the tax implication if an external company converts into a limited liability company? **(2 marks)**
- b) Kofi Agyemang worked in Canada for a very long time and relocated in Ghana to benefit from the One District One Factory (1D1F) initiative. Kofi Agyemang set up a company called Manpower Ltd and was granted approval by the 1D1F Secretariat to operate a manufacturing company at Koforidua, the capital town of Eastern Region.

An extract from the accounts of Manpower Ltd for the 2021 year of assessment was as follows:

	GH¢
Chargeable income	2,000,000
The chargeable income was arrived at after adding the following:	
Dividend from Val Ltd:	
Ghana (gross)	100,000
Canada (net of tax)	120,000
Interest on current account from:	
Ghana (gross)	80,000

Canada (net of taxes)	100,000
Rental Income:	
Ghana (gross)	200,000
Canada (Gross)	150,000
Depreciation	67,000

Additional information:

- i) Taxes paid on the foreign income:
 Dividend - GH¢18,000
 Interest - GH¢15,000
 Rental income - GH¢15,000
- ii) Capital allowance agreed with the Ghana Revenue Authority amounted to GH¢140,000.

Required:

Compute the tax payable by Manpower Ltd for the 2021 year of assessment. **(8 marks)**

(Total: 20 marks)

QUESTION TWO

- a) A Pastor of a Church at Kasoa intends to run a Non-Governmental Organisation (NGO) to serve the needs of the catchment area with the hope that, it would serve as a springboard to get a lot of people to fellowship with the Church.

The Pastor has invited you as a member of the community to give an advice on how to position the NGO in order not to run into problems with the Ghana Revenue Authority in respect of tax issues.

Required:

Discuss the position of the tax laws on Non-Governmental Organisations. **(6 marks)**

- b) Mamba, a company resident in Ghana has spent the following amounts on its officers for 2020 and 2021 years of assessment:

Expenditure:	Shareholders	Executive Directors	Non-Executive Directors
	GH¢	GH¢	GH¢
2020	10,000,000	2,000,000	3,000,000
2021	20,000,000	3,000,000	3,000,000

The breakdown of the expenditure is as follows:

Shareholders:

The company spent half the amounts for each of the years for its Annual General Meeting (AGM). The rest of the amount was spent on scholarship for shareholders' children's educational scholarship.

Executive Directors:

The amount spent in 2020 was on providing security arrangements in the private residence of the Managing Director. The 2021 amount was spent on recreational facility at the Deputy Managing Director's private home. They have both put in their best for the organisation.

Non-Executive Director:

The amounts for both years were spent to provide the directors with employable skills on the international arena when they exit as non-directors.

Required:

Enumerate the tax implication of these expenditures and comment on how the Ghana Revenue Authority would treat each of the expenditure. **(6 marks)**

- c) The Management of 6Up Ltd has asked for advice on which of the following options is better for their Managing Director in connection with tax planning.

Option 1: To rent the Managing Director's personal house for use by the Managing Director as part of his condition of employment while taking a withholding tax at the rate of 8% on the rental payment.

Option 2: To rent another place for the Managing Director instead of his own place so he may consider renting out his place of residence.

Required:

Advise on which option is better from the stand point of tax planning implication for the Managing Director. **(4 marks)**

- d) Koliko Ltd established a free zone entity in Ghana and got approval to sell 20% locally and export the rest from the Minister of Trade. Contrary to the approval, Koliko Ltd decided to export 60% and sell 40% of its produce into the local market.

According to the Board Chairman of the company, this was wrong and that the Ghana Revenue Authority would consider the whole arrangement as artificial since the company departed from the approval by the Ministry of Trade.

Required:

What is the tax implication of the above arrangement? **(4 marks)**

(Total: 20 marks)

QUESTION THREE

- a) In an ICAG taxation lecture, the class captain said he read an article from the internet that states “Ghanaian business entities which conduct businesses across the globe are subject to tax in Ghana”.

This statement ignited a debate in the class. Your class lecturer walked into the class room to witness this argument and decided to show interest in the topic. He has asked that the class should take up the issue as a class assignment.

Required:

Evaluate this statement in the light of the Income Tax Act 2015, (Act 896). (5 marks)

- b) Businesses which fall under the temporary concessions enjoy tax incentives. Failure to apply for the temporary concession will not mean the denial of the benefit by the Ghana Revenue Authority.

Required:

Explain the steps persons in temporary concession should take to benefit from this dispensation. (3 marks)

- c) “Foreign companies which are non-resident can ply their businesses in Ghana and will not pay taxes in Ghana but rather in their home countries”. This was a statement that was made at a tax forum in Ghana as part of tax planning measures by a young tax graduate, who was asked to share his thoughts on non-resident persons and their tax issues. This created some arguments at the programme.

Required:

To what extent should foreign companies be liable to tax in Ghana? (3 marks)

- d) You have been asked to contribute to a public forum on the topic “business losses though not good have a direct effect on business development and growth as they are deductible allowance.

When businesses make losses, to the extent that the losses are allowable, management become happy from the stand point of taxation while shareholders are not too happy about the losses as these may make it impossible for them to receive dividend.

Required:

How are tax losses treated in businesses and how does the tax laws support the growth of business in loss making? (4 marks)

- e) Countries have enjoyed tax treaties while others have criticised the whole idea of tax treaty arrangements. Treaties may be bilateral or multilateral. Many countries weigh the benefits of treaties before they enter into them in order not to lose out.

Required:

Assess the rationale for tax treaties. (2 marks)

- f) Evaluate TWO (2) harmful effect of double taxation. (3 marks)

(Total: 20 marks)

QUESTION FOUR

Crystal mining Ltd is a resident mining company operating in two mining areas in the Eastern and Western parts of Ghana under the name Alpha Ltd and Beta Ltd respectively. Crystal mining Ltd has a shared processing facility for the two mining areas.

As part of efforts to increase its market share in the sector, it acquired 40% stake in the operation of Omega Ltd, also a mining company in the Western part of Ghana.

Omega Ltd's operations are in their early years hoping to start production in the next three years. Crystal mining Ltd commenced commercial operations in 2021.

The operational activity of Crystal mining Ltd for 2021 year of assessment is as follows:

	GH¢
Gross Revenue	1,000,000,000
Cost of operation	<u>300,000,000</u>
Gross Operating Margin	700,000,000
Operating and Other cost	<u>340,000,000</u>
Net Margin	360,000,000
Add interest (net of taxes) current account	1,000,000

Additional information:

- Gross Revenue included sale of an asset worth GH¢2,000,000 whose cost of acquisition was GH¢1,287,000.
- Gross dividend of GH¢400,000 was received from Axum Ltd, a company resident in Ghana in which Crystal mining Ltd holds 40% voting power. Axum Ltd engages in commerce. The dividend was added to the gross revenue above.
- Revenue from tailings amounting to GH¢1,000,000 was added to cost of operation.
- Included in the cost of operation is the excess of financial cost from derivative of GH¢2,000,000 over financial gain from hedged arrangement of GH¢ 890,000
- For the acquisition of 40% stake in Omega Ltd, Crystal mining Ltd paid GH¢4,000,000. The amount was added to cost of operation.
- Research and development cost amounting to GH¢1,000,000 has been included in operational cost.
- Depreciation, Depletion and Amortization of GH¢6,000,000 was included in the operational cost above.
- Overburdening stripping and shaft sinking cost of GH¢3,000,000 was added to Gross revenue as a way of tax planning, according to the accountant. This cost was incurred prior to access of the resource in 2021.

Further information:

- Reconnaissance and prospecting cost up to 2020 in respect of Alpha Ltd amounting to GH¢80,000,000 was added to cost of operation.
- Reconnaissance and prospecting cost up to 2020 in respectful of Beta Ltd amounting to GH¢78,000,000 was added to cost of operation.
- Apart from Pay As You Earn (PAYE) from the staff, Crystal mining Ltd has never paid taxes to the Ghana Government. This is a big concern to the Ministry of Lands and Natural Resources.

Required:

- a) Compute the taxes payable by Crystal mining Ltd and state any assumptions if any. **(16 marks)**
- b) Advise the management of the company on when it must pay its taxes to the Ghana Revenue Authority. **(2 marks)**
- c) What are the sanctions for non-adherent to the obligation of payment of taxes? **(2 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) Randy Koomson who hails from Cape Coast in the Central Region, died in January, 2021 and left his businesses and estates with trustees, who happened to be non-residents. Randy Koomson has two children: Araba Koomson and Kwamina Koomson. These two children were made the beneficiaries and each of them is entitled to 1/3 of the net distributable income of the trust with the rest for administrative expenses.

The terms of the trust deed provided for discretionary payments to the beneficiaries and donations towards worthwhile causes. During the year 2021 discretionary payment of GH¢300,000 each were made to the children.

Gross Profit, before discretionary payments and other expenses below, for the year 2021 was GH¢3,500,000.

The following expenses were incurred:

	GH¢
Donations (Note 1)	120,000
Trustees' fees and remuneration	70,000
Administration and other expenses (Note 2)	110,000
Depreciation	85,000

Note:

- 1) The Donations were made to the following persons and Institutions:

	GH¢
Ghana Scholarship Secretariat, receipt obtained from Ghana Education Service	20,000
A Political Party for campaign	30,000
Funeral of the mothers of two members of the Governing Board of the trustee	5,000
Osu Children's Home, receipt from Social Welfare Department	15,000
COVID-19 Fund, receipt from Ministry of Finance	40,000
The Chief (Omanhene) of Cape Coast	<u>10,000</u>
	<u>120,000</u>

- 2) The administration and other expenses include:

	GH¢
Legal fees for a litigation on one of the buildings of the late Randy Koomson	12,000
Accounting Services & Audit	9,000
Penalty for late payment of income tax of the staff	1,600
Entertainment	45,800
Legal fees for collection of overdue rent	3,700

Motor Running expenses	30,000
Bank charges	<u>7,900</u>
	<u>110,000</u>

The Ghana Revenue Authority has agreed on a capital allowance of GH¢72,550

Required:

Compute the income tax payable by the Trustees on the income for 2021 year of assessment. **(10 marks)**

- b) Ghana celebrated the “Year of Return with FANFARE” in 2019. The programme was said to be a huge success.

The Year of Return Committee has asked you, a tax expert to give a talk at the Ghana UK Based Achievement (GUBA) programme to be held at the Accra International Conference Centre (AICC) on tax benefits for Ghanaians in the diaspora who are interested in doing business in Ghana.

Required:

Discuss the tax efficient investment opportunities available to Ghanaians in the diaspora under the Income Tax Act, 2016 (Act, 896). **(10 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

a)

i) Reasons why it is better to convert a branch into a limited liability company:

- Branch profit tax is imposed annually at the rate of 8%
- Interest on loan from the parent company is treated as loan to self and therefore not allowable
- Unless it is a close company, dividend is paid at will and therefore it is better to incorporate
- External company cannot sue in its name. It is the parent company that can sue.

(Any 3 points @ 1 mark each = 3 marks)

ii) Thunder Ltd

Computation of Branch Profit Tax

Year of assessment 2021

Basis Period 1st January -December 31, 2021

	GH¢	GH¢
Net Profit		647,760,000
Deduct:		
Rental Income	100,000,000	
Interest on T. bills	50,000,000	150,000,000
		497,760,000
Add Back:		
Depreciation	1,200,000	
Penalty	600,000	
Sponsorship	100,000	
Interest on loan	50,000	
Penalty	290,000	
		2,240,000
Adjusted Profit		500,000,000
Capital Allowance		1,700,700
Chargeable Income		498,299,300
Tax Charged @ 25%		124,574,825
Branch Profit		373,724,475
Branch Profit tax @8%		29,897,958
Investment Income		
Rental Income		100,000,000
Interest on T. bills		50,000,000
		150,000,000
Tax Charged @ 25%		37,500,000
Less withholding tax		
Rent 15%	15,000,000	
Int. on T. bills	4,000,000	19,000,000
Tax Payable		18,500,000

(7 marks)

- iii) Conversion of an external company to an incorporated company will require the issue of shares to serve as stated capital or the conversion of Head Office investment into stated capital and also the payment of stamp duty at the rate of 0.5%. **(2 marks)**

- b) **Manpower Company Ltd**
 Computation of Tax Payable
 Year of Assessment 2021
 Basis Period 1/1/21-31/12/21

	GH¢	GH¢
Chargeable Income		2,000,000
Deduct:		
Capital Allowance	140,000	
		140,000
		1,860,000
Add Back		
Canada -Dividend Tax	18,000	
-Interest Tax	15,000	33,000
Chargeable Income		1,827,000
Tax Charged @18.75%		354,937.50
Tax Payable bef. Relief		354,937.5
Foreign Tax Relief:	Dividend	18,000
	Interest	15,000
	Rental	15,000
Tax Payable		306,937.5
	Interest: 15,000/115000*100	13.04%
	Dividend: 18,000/138000*100	13.04%
	Rental Income:15000/50,000*100	10%

(8 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The sub-question a) required good understanding of taxation of external companies operating in Ghana and the computation of the tax payable including branch profit tax. Additionally, candidates were required to compute tax on income that suffered double taxation. What candidates should note is that in double taxation, the foreign rate is tax to the taxable income and the average Ghanaian tax rate is the tax to chargeable income and not assessable income. For external companies, their investment income are not treated as final withholding tax. Candidates should learn to gross up in the determination of income under investment.

For the b) part of the question, the rate of tax of a manufacturing located in Koforidua is 18.75%. Note that manufacturing in Accra/Tema 25%, Regional capitals 18.75% and any other area 12.50%.

Rental income and dividend are investment returns. Under no circumstances should they be treated under part of the business income.

QUESTION TWO

- a) Non-Governmental Organizations are considered as charitable organisation under section 97 of Act 896.

Non-Governmental Organizations are exempt from that if they have a written constitution that specifically indicates that they will not use the platform to promote partisan political activities or to use their platform to engage in partisan political activities.

The Non-Governmental Organisation must apply in writing for the exemption to be granted.

Additionally, the operation of the Non-Governmental Organisation will not confer private benefits on the individuals establishing them.

It must be noted that it is their investment income that is exempt from tax but their business income is taxable. **(6 marks)**

- b) **Shareholders**

The expenditure in respect of the AGM for each of the years is allowable. The expenditure in relation to the shareholders' children' educational scholarship is not allowable. It will be treated as deemed dividend and therefore not allowable as a deduction.

Additionally, a withholding tax at the rate of 8% would be deducted as deemed dividend withholding tax.

Executive Directors

The expenditure incurred in the security arrangement of the private residence of the managing director is considered domestic expenditure and therefore not allowable. The managing director is required to pay tax on it as employment income or pay an open market for it in order for it to be allowable.

Non-Executive Director

Expenditure incurred to provide employable skills on the international is considered domestic expenditure and not allowable for tax purpose.

(6 marks)

- c) Every organisation has an obligation to provide benefit to its employees. Gains and profits paid to employees are taxable. The employee may look for interventions to reduce the tax impact on their employment income.

In respect of renting the employee's house and withhold 8% is a benefit to the employee as it implies being accommodated by the employer. The tax implication is that, the payment by the employee for the rental of the house shall be considered cash payment to the employee and the 8% withholding tax shall be treated as tax on account.

The rental of another place for the Managing Director shall be treated as a benefit in kind and treated for tax. The Managing Director may rent his place and suffer a final withholding tax at 8%.

Better option

The better option is to rent another place for the Managing Director in order to reduce the tax burden of the Managing Director. **(4 marks)**

- d) The free zone enterprises are required to export all or per the approval sell up to 30% if approval is granted. The company got approval to sell 20% locally and export the rest. However, it decided to vary the rates of approval.

The 60% being exports, shall be taxed at the rate of 15% while the 40% of the local sale will be taxed at 25%. **(4 marks)**

(Total: 20 marks)

EXAMINER'S COMMENTS

Sub-question a) required adequate understanding of the exemption status of an NGO. The exemption is automatic but the management should apply stating clearly that they are not into partisan politics and will not use the platform to promote partisan politics. The operation shall not confer private benefit for those who establish it. The NGO must also be national in character. Its investment income is exempt from tax but business income is taxable.

For the b) part, anything paid to a shareholder must be construed as dividend. Note that dividend is an excluded expenditure. Payments to Executive Directors in respect of their private buildings shall be construed as domestic unless it is paid for using the open market value or it is added to the directors' employment income while payments made to the Non-Executive Directors shall be interpreted as fees with a withholding tax at 8%.

Alternatively, it will be disallowed and taxed at the rate the entity is exposed to.

For sub-question c), it will not be wise for tax planning purposes to rent an employee's house and allow him to occupy the house with a withholding tax at 8%. The Ghana Revenue Authority will disallow that arrangement and instead consider the rental income to him as an allowance with the 8% withholding tax as tax on account.

Allowing the employee to rent out his own house and rent out another place for him is the best option to stay out of tax conundrum.

For the d) part of the question, Ghana Revenue Authority is minded to raise revenue. The free zone enterprises may decide to vary the percentage to see locally upon approval. For the Ghana Revenue Authority, any volume that is sold locally shall be taxed at 25% and whatever is exported shall be taxed at 15%. The proof of what has been exported shall be in completing the export declaration.

QUESTION THREE

- a) Income subject to tax in Ghana is income from employment, business and investment.

Resident persons are subject to tax on their global income or on their world income. Resident persons can launch into other countries through incorporation or as external company. If it is an incorporation, the company will only pay its taxes in that country. When dividend is paid, the parent company shall be subject to tax in Ghana.

If the company launches as an external company, it will be exempt from tax for the first 183 days or the first 6 months continuously under section 111 of Act 896. Taxes are paid quarterly, the Commissioner-General may ask the external company to pay and prove that it has been outside continuously, then take a refund or it should not pay and if unable to prove continuity, then payment is made.

(5 marks)

- b) Taxation is governed by law. Some benefits can be applied for and approval granted by the Commissioner-General. Those that are granted by law, the taxpayer does not need to apply, it is granted gratis.

With the temporary concession, it is granted by law and therefore no application is required to enjoy the temporary concession. But the taxpayer must sign for tax types and Taxpayer Identification Number.

(3 marks)

- c) Taxation is governed by law. Non-resident persons are taxed on income in Ghana if the income is derived from Ghana and accrued in Ghana. If foreigners ply their businesses in Ghana as trading with Ghana, they are not liable to tax in Ghana but if they ply their businesses in Ghana as trading in Ghana, they will be liable to tax in Ghana.

In conclusion, foreign companies which have presence in Ghana shall be liable to tax in Ghana. It is therefore not true that foreigner non-resident companies which ply their businesses in Ghana shall be liable to tax in Ghana.

(3 marks)

d) Losses under section 17 may be carried forward for 3 years or 5 years. Businesses run to make income for the shareholders.

When losses are made, because the losses can be carried forward, the businesses are happy as they can carry over losses and these losses support the growth of business as there are allowable deductions thereby reduce the tax payable. Losses are deducted from income before taxes are imposed and support the growth of business in times of income. **(4 marks)**

e) It eliminate the obstacles of double taxation and promote the development and flow of international trade and investment. **(2 marks)**

f) Harmful effects of double taxation.

- Movement of capital, technology and on the exchange of goods and services are affected negatively
- Double taxation makes cross-border investments and transactions shrink, and results in decline of national economy in the long run.

(2 points @ 1.5 marks = 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

a) Ghanaian businesses across the globe are subject to tax in Ghana. This is not wholly true because a foreign Permanent Establishment (PE) is exempt from tax when it is proven that the foreign PE continuous for 183 days or 6 months.

b) Temporary concession is guaranteed by law and not by the Commissioner-General. The taxpayer should register for tax type and taxpayer identification number (TIN). The temporary where 1% tax is paid is granted by law.

c) Companies which trade in Ghana pay taxes in Ghana but those that trade with Ghana do not pay taxes in Ghana.

d) Losses are incentive under the tax laws. They are deducted from income unless expired by law. Priority area is 5 years carry over of loss while other areas are 3 years.

e) Tax treaties are of benefit since they reduce tax exposure and guarantee fiscal certainty.

QUESTION FOUR

- a) Crystal Mining Company Ltd
 Computation of Tax Payable
 Y/A 2021
 January 1-December 31, 2021

	GH¢	GH¢
Net Margin		360,000,000
Deduct the following:		
Proceeds from sale of asset	2,000,000	
Dividend	400,000	
Royalty payable	49,780,000	
Overburdening Stripping	3,000,000	55,180,000
		304,820,000
Add to Revenue:		
Separate Mineral Operation	4,000,000	
Research and Development	1,000,000	
Revenue from tailings	2,000,000	
Financial cost from derivatives	1,110,000	
Depreciation	6,000,000	
Reconnaissance and Prosp	80,000,000	
Reconnaissance & Pros	78,000,000	172,110,000
		476,930,000
Capital Allowance		32,200,000
		444,730,000
Add Gains on Real.	2000,000-1287000	713,000
		445,443,000
Tax Charged @ 35%		155,905,050
Capital Allowance:		
	Reconnaissance	80,000,000
	Reconnaissance	78,000,000
	Overburdening strip.	3,000,000
	Total	161,000,000
	20% of 161,000,000	32,200,000
Revenue	1000,000,000	
Sale of assets	(200,000)	Royalty =5% of Reve.
Dividend	(400,000)	
Overburdening stripping	(3000,000)	
Tailings	1,000,000	=49,780,000
Total	995,600,000	

(Marks are evenly spread = 16 marks)

- b) Corporate Taxes are paid quarterly by persons who are installment payers. The royalty payment is also done quarterly. **(2 marks)**
- c) When taxes are not paid, it will trigger interest imposition, which is computed at 125% of statutory rate compounded monthly. **(2 marks)**

(Total: 20 marks)

EXAMINER'S COMMENTS

This question requires the computation of capital allowance and royalty. Many candidates got the royalty wrong because it required adjustment to be made to determine the true income for tax purpose. Royalty is both tax and an allowable expenditure for tax purposes. Additionally, candidates must note that research and development expenditure in mining is not an allowable expenditure.

Candidates must note that mineral right acquired must be separately accounted for tax purpose.

Non-adherent to tax obligation of payment is the interest that is computed at 125% of the statutory rate compounded monthly. Mining in general is a popular area. Candidates performed so well.

QUESTION FIVE

Randy Koomson's trustees

Computation of chargeable income for 2021

	GH¢	GH¢
Gross profit		3,500,000
Donations:		
Scholarship secretariat	20,000	
Osu Children	15,000	
Covid 19	<u>40,000</u>	75,000
Administration and others		
Legal fees	1,600	
Accounting services	9,000	
Legal fee for rent overdue	3,700	
Motor Running expenses	30,000	
Bank Charges	<u>7,900</u>	62,000
Allocation:		
Araba Koomson	300,000	
Kwamina Koomson	<u>300,000</u>	600,000

Remuneration		
Trustees fees	70,000	<u>70,000</u>
Adjusted Profit		2,692,400
Less Capital Allowance		<u>72,550</u>
		<u>2,619,850</u>
Tax @ 25%		<u>654,962.50</u>

(10 mark)

- c) There many investment opportunities in Ghana with attractive tax incentives which will be of interest to persons in the Diaspora. For the purpose of today's talk, the issues will be looked at from the perspective of the nature of business and the tax incentives that are associated with each for your decision making.

The issues will be looked at from the following perspective:

- Temporary concession
- Indefinite exemption
- Holidays

	Temporary Concession pay 1% during the period
Farming: Tree Crops	10 years from Harvest
Cattle	10 years from operation
Live stocks other than cattle & cash crops	5 years from operation
Agro-processing	5 years from operation
Cocoa by product person	5 years from operation
Waste Processing	7 years from operation
Real Estate Development	5 years from operation
Venture capital financing company	10 years from operation
Rural Banks	10 years from operation
Income of cocoa farmer from cocoa farming	Indefinite exemption
Real Estate Investment Trust	Indefinite Exemption
Unit Trust Scheme	Indefinite Exemption
Mutual Funds	Indefinite Exemption
	Holidays
Free zone enterprise	First 10 years
Young Entrepreneur aged up to 35 years	First 5 years
Semi-knocked down vehicle is exempt from tax	First 3 years from date of commencement of the manufacturing or assembling business

Complete-knocked down vehicle is exempt from	Period of 10 years from commencement of the manufacturing or assembling business
A manufacturer or assembler who starts with semi-knocked down vehicle and converts to complete-knocked down vehicle	Concessionary period not greater than 10 years

(10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

A lot of candidates after taking into account an amount of GH¢3,500,000 as gross profit still deducted non allowable deduction. Candidates should pay particular attention to peculiarities in examination of accounts. If all expenses are taken into account in the determination of net profit, then that will mean that all non-allowable deductions are added back. In this case, only allowable deductions are deducted from the gross profit.

The question was on taxation of Trust. Trust must pay its taxes to the State. Many candidates were seen deducting donation from gross profit. The following are examples:

- To political party,
- To chief (Omanhene) of Cape Coast
- Penalty for late payment of income tax of the staff
- Entertainment

The above are never allowable and therefore should not be deducted from gross profit.

For the b) part, people in the diaspora are interested in business opportunities. Anything that will bring about low tax exposure is welcome. Examples are as follows:

- Temporary concessions
- Locational incentive
- Tax loss carry over

CONCLUSION

Candidates should not see the report as a criticism but as a genuine feed-back on their performance to help them improve their leaning and consequently their pass rate.

RECOMMENDATION

- Tuition Centres should occasionally conduct mock examination to determine the level of preparedness for the examination.
- Candidates should desist from solving a computational problem without identifying what the issue is, the basis period and the year of assessment.

- Candidates who really want to pass must learn that taxation is the mastery of tax laws and procedures. This does not come easily but by constantly studying the right materials and access the right classes.
- To overcome poor writing skills, candidates must read widely including listening to news on radio and televisions. Reading Novels continuous to be the surest bet.