JULY 2024 PROFESSIONAL EXAMINATION
PRINCIPLES OF TAXATION (PAPER 2.6)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

The questions tested candidates' understanding of the basic principles of taxation. The questions were generally clear, straight forward and spread across the syllabus. Candidates did not show serious level of preparedness and thus displayed below average performance across four out of the five questions. The general performance however showed a slight improvement over the March 2024 diet. Most of the questions were very basic and one expected candidates to exhibit an encouraging performance but to one's chagrin, candidates again did not display knowledge of the tax laws on the basic principles of taxation. Students and tuition providers are encouraged to go through the fundamentals of the subject in order not for candidates to lose valuable marks.

STANDARD OF THE PAPER

The paper was up to the standard required of the level. It mostly tested candidates on the basic principles of taxation seeking to invoke the preparedness of the candidates. The questions were quite simple, clear and straight to the point except for the whole of question two, where candidates displayed complete lack of knowledge. That is, the computational question on VAT which tested candidates understanding of a VAT trader that deals in taxable supplies and exempt supplies and how to apportion input tax under such a situation. Besides, they were unable to compute the VAT implication of a bad debt recovered as well as the tax reliefs for employees and employers under the National Pension Act 2008, Act 766. These questions looked difficult for candidates though it could have been manageable with sufficient preparation. The questions were also spread across the syllabus grid. The mark allocation was fairly allotted to each sub-question, it followed the weightings in the syllabus and proportionate to time required to pass.

There were virtually no typographical errors in the questions.

The import of the above is that, candidates who prepared adequately would have scored very high marks.

PERFORMANCE OF CANDIDATES

The general performance of the candidates across the centres was marginally below average. Approximately 30% of candidates passed the paper. A slight improvement over the March 2024 sitting which recorded a pass rate of 27%. One cannot boldly say the expectation of the examiner from the candidates were met, considering the fact that there were easy marks for grasp if an average candidate had sufficiently prepared for the exams. Once again, inadequate preparations, lackadaisical attitude to the questions and complete lack of understanding of most of the questions contributed to the below average performance. Taxation is based on law and one cannot use one's own knowledge to answer tax questions. The answers provided by candidates must be supported by the specific tax legislation and thus students and tuition providers should always take cognizance of this fact and to also prepare across the syllabus.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

Candidates demonstrated enough strength only in question five (5) involving questions on the computation of withholding tax, the calculation of taxable gain or loss on the disposal of the Warehouse by Gameli and the tax treatment of gift tax. These were very familiar and quite repetitive areas for the candidates. They were also simple, so candidates took advantage of them to better their scores. On the other hand, 76% showed a great deal of weakness in questions one (1) to four (4). Candidates displayed insufficient knowledge of these questions. No candidate scored a pass mark in question two. That is, the 15 mark questions on VAT and the 5 mark question on the tax reliefs for employees and employers under the National Pensions Act 2008, Act 766. This contributed immensely to the poor performance of candidates. The performance in the 8 mark question on the income tax treatment for the lessor and the lessee under finance lease was also nothing to write home about. What was clear was that candidates took delight in mostly revising familiar areas in the syllabus ignoring the examinable areas that were not familiar to them. It was observed that where questions required knowledge of the tax law and regulations, candidates were found wanting. Besides, candidates did not prepare deep and across the spectrum of the syllabus.

VAT questions have always been a bane to candidates; therefore, they should thoroughly grasp the principles on the subject, not forgetting the law on customs in the new syllabus. Topics such as Fiscal Policy, Business Income including Partnership, Withholding Tax, Employment Income, Tax Administration require mastering since they easily help candidates to pass.

QUESTION ONE

a) Panko Ltd is liable to pay taxes under the following tax types for 2023 Year of Assessment;

	GH¢
Pay As You Earn (PAYE)	25,000
Withholding Tax	30,000
Company Income Tax	50,000
Interest	45,000
	150,000

Required:
Assuming the Taxpayer has GH¢100,000 at its disposal, what should be the order of payment of the taxes? **(5 marks)**

b) The Bank of Ghana's summary of Economic and Financial data for May 2024 indicated that the nation's debt was GH¢611.2 billion at the end of 2023, which rose to GH¢626 billion in January 2024 and further increased to GH¢658.6 billion in February, 2024.

Required:
What are the possible ***components of national debt*** that might have accounted for this increment? **(5 marks)**

c) Assessment is a determination of the amount of tax liability made under a tax law, whether by the Commissioner-General or by way of self-assessment. The Ghanaian government has switched from the ***Provisional Assessment*** regime to ***Self-Assessment*** regime.

Required:
Justify the essence of switching from Provisional Assessment to Self-Assessment.
(5 marks)

d) Procedures in tax administration generally commence with the filing of returns to the Commissioner-General.

Required:
State the period for filing the following returns in accordance with the Income Tax Act, 2015 (Act 896);

i) Estimated return (or Self-Assessment)
ii) Monthly Pay-As-You-Earn (PAYE)
iii) Company Income Tax Return
iv) Withholding Tax Returns
v) Value Added Tax Returns

(5 marks)

(Total: 20 marks)

QUESTION TWO

a) Fofoto Ltd is a distributor of rice. The company deals in both local and imported rice. The company also regularly exports rice to Nigeria.

The following transactions occurred in the month of January, 2023.

	GH¢
Import Duties paid on imported rice	53,720
VAT paid on imported rice	123,500
Supply of local rice into the local market	1,350,000
Export of rice to Nigeria	720,000
Supply of imported rice into the local market	3,930,000
VAT paid on warehousing rent	25,000
VAT paid on electricity	30,000
VAT paid on security services	9,000

Required:

For the month of January, compute the amount of:

i) Taxable supplies made. **(1 mark)**

ii) Total supplies made. **(1.5 marks)**

iii) Total input tax incurred. **(2 marks)**

iv) Deductible input tax. **(4.5 marks)**

v) Non-deductible input tax. **(1 mark)**

b) Abomu Ltd supplied goods amounting to GH¢235,000 on credit and accounted for VAT on the transaction to the Ghana Revenue Authority in January 2022. In May, 2022 the credit sales became irrecoverable (bad debt). However, in October 2022, Abomu Ltd pursued and was able to recover an amount of GH¢105,000 from the GH¢235,000 bad debts.

Required:

Compute and explain the tax implications of the recovery of GH¢105,000 from an amount of GH¢235,000 which was written off as bad debt by Abomu Ltd.
(Assume all amounts are VAT inclusive). **(5 marks)**

c) What constitutes relief and allowable deductions for employees and employers respectively under the National Pension Act, 2008 (Act 766)? **(5 marks)**

(Total: 20 marks)

QUESTION THREE

a) The Income Tax Act, 2015 (Act 896) provides for allowable deductions in the ascertainment of the taxable income of an employee.

Required:
State **FIVE (5)** exclusions in respect of employment income. **(5 marks)**

b) In a lease, one party grants the other the right to use real estate or other property in exchange for money and for a specific period of time. In essence, a lessor is someone who gives another person a lease. Therefore, a lessor is the owner of an asset that is leased to a lessee in accordance with a contract. In exchange for the use of the asset, the lessee pays the lessor a single payment or a series of recurring payments. The two most common types of leases are operating lease and finance lease.

Required:
With reference to the Income Tax Regulations, 2016 (LI 2244), outline the income tax treatment for the lessor and lessee under a finance lease. **(8 marks)**

c) Income Tax is imposed on the total income of both a resident and non-resident person who has chargeable income and a person who receives a final withholding payment during each year of assessment in accordance with the Income Tax Act, 2015 (Act 896).

Required:
Distinguish between ***assessable income*** and ***chargeable income*** in accordance with Act 896. **(4 marks)**

d) In respect of capital allowance of a road vehicle, other than a commercial vehicle, the capital portion shall not exceed GH¢75,000 as required by the Income Tax Act, 2015 (Act 896).

Required:
State what constitute commercial vehicle in accordance with the Income Tax Act, 2015 (Act 896). **(3 marks)**

(Total: 20 marks)

QUESTION FOUR

The following relates to the financial data of Kinbu Ltd, a company resident in Ghana with a basis period from January to December each year. It has submitted its tax returns to the Ghana Revenue Authority (GRA) for 2023 year of assessment. The extracts of its financial data for the year 2023 are shown below:

	GH¢	GH¢
Sales		22,044,000
Cost of sales		17,050,440
Gross profit		**4,993,560**
Other income		176,000
		5,169,560
Less:		
Administrative, selling and distribution expenses (11)	341,000	
Depreciation	2,684,000	
Staff cost	242,000	
Advertising	66,550	
Directors fees	275,000	
Repairs & improvement of equipment (4 & 9)	220,000	
Donation (3)	220,000	
Penalty and fines	55,000	
Interest charges (1)	985,050	
Subscriptions – Newspapers	1,958	
		5,090,558
Net profit		**79,002**
Tax charged @ 25%		19,750.50

Additional Information:

1) Interest charges:

	GH¢
Interest loan for MD's own housing project	550,000
Foreign exchange loss on loan	352,550
Bank charges	82,500
	985,050

2) Bonus shares to its existing shareholders amounts to GH¢110,000 transferred from Retained Earnings to Share Capital.

3) Donation is as follows:

	GH¢
Osu Children Home	11,000
Pastor One Touch	33,000
Labone Senior High School	22,000
National Disaster Management Organisation	55,000
Political Parties Fund Raising	99,000
	220,000

4) An amount of GH¢220,000 disclosed in the accounts was paid for repair and improvement of a machine bought three years ago. It is hoped that the performance of the machine will be enhanced greatly after the improvement.

5) Creditors of the company agreed to cancel an amount of GH¢132,000 owed as part of credit balance as incentive to the Company. This has not been taken into account by the Company in its tax returns submitted to GRA.

6) An amount of GH¢330,000 being the cost price of goods were issued to a related party outside Ghana at cost. The margin on the goods waived was sighted as GH¢44,000 in a correspondence with the related party.

7) Tax paid on account was GH¢22,000.

8) Capital allowance agreed with the GRA after taking into account all relevant issues was GH¢1,115,000 for 2023 year of assessment.

9) The machine (Pool 3 Asset) had a written down balance of GH¢176,000 as at 31 December 2022.

10) An allowable Bad debt included in the Selling and Distribution expenses for 2022 amounted to GH¢110,000. The company recovered the amount in 2023 but no transaction was recorded in 2023.

11) Kinbu Ltd disposed of one of its capital assets for GH¢275,000 to the Managing Director. It cost the company GH¢330,000 to acquire the asset some years ago. An investigation revealed that the market value of the asset at the time of disposal was GH¢385,000. The company had already included the loss of the sale of the asset in administration expenses.

Required:
Determine the tax payable for 2023 year of assessment.

(Total: 20 marks)

QUESTION FIVE

a) The following information is available to you as a tax consultant.

Description	**Amount (GH¢)**
Dividend paid to resident person	175,000
Dividend paid to non-resident person	350,000
Payment of goods to resident person	525,000
Payment of goods to non-resident person	700,000
Rent – residential property	262,500
Rent – commercial property	525,000
Natural resource payment	1,750,000
Management and technical service fees to non-resident	700,000
Interest paid to resident financial institution	35,000,000
Royalty paid to non-resident person	700,000

Required:
Compute the withholding taxes from the above information and indicate whether the tax is final or not final. **(10 marks)**

b) Gameli sold a warehouse on 15 February, 2023 for GH¢320,000. The warehouse was purchased on 24 January, 2020 for GH¢164,000 for investment purpose and he incurred legal fees of GH¢3,600 in connection with the purchase of the warehouse.

An extension of the warehouse was carried out at a cost of GH¢37,000 in March 2021. During May 2022, the tiles of the warehouse were replaced with terrazzo at a cost of GH¢24,000 following a fire outbreak.

Gameli incurred legal fees of GH¢5,800 in connection with the disposal of the warehouse.

Required:
Calculate the taxable gain or loss on the disposal of the warehouse by Gameli. **(5 marks)**

c) 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)

Applicable Tax Rate

	GH¢	Rate of Tax (%)	Tax Amount (GH¢)
First	5,880	0	0
Next	1,320	5	66
Next	1,560	10	156
Next	38,000	17.5	6,650
Next	192,000	25	48,000
Next	366,240	30	109,872
Exceeding	605,000	35	

SUGGESTED SOLUTION

QUESTION ONE

a) The order of payment would be as follows:

	GH¢
Withholding Tax	30,000
PAYE	25,000
Company Income Tax	45,000
Total	**100,000**

Outstanding Taxes to be paid:	
Company Income Tax	5,000
Interest	45,000
Total	**50,000**

(5 marks)

b) The components of national debt could be both external debt and domestic (internal) debt, where external debt is the debt owed to lenders outside the country and internal debt represents the government's obligations to domestic lenders.

The government's borrowing within the country is known as internal debt. The government can borrow this debt from sources like banks, individuals, business firms and other internal sources. On the other hand, the government's borrowing from abroad or international is known as external debt.

Claims granted by international financial institutions (mainly the IMF, the World Bank or regional development banks) constitute multilateral debt. Claims granted by official bilateral creditors i.e. States (governments or their appropriate institutions, especially export credit agencies) constitute bilateral debt.

(5 marks)

c) The Government's policy to switch from Provisional Assessment to self-Assessment has been necessitated by the advantages of the latter over the former as discussed below:

- Under provisional assessment, there is usually a delay in the issuance and service of the notice of assessment. But self-Assessment avoids delay since the assessment is made by the taxpayer.
- It ensures prompt payment of taxes as opposed to provisional assessments.
- Under self-assessment, there is trust between the taxpayer and the tax administrator.
- There is high frequency of objection under provisional assessment but self-assessment minimizes the rate of objection since the taxpayer is involved in the determination of the tax liability.

- There is a high cost of collection under provisional assessment but self-assessment reduces collection cost to the GRA/Government since the assessment is made by the taxpayer.
- Under provisional assessment, officers are much occupied in the issue of notices and have little time to attend to other matters. But self-assessment saves time for the Revenue Officers that can be used in reviewing cases of greater revenue potential.
- Self-assessment tends to make taxpayers more conscious of their tax obligations since they are involved in the process.
- Promotes tax compliance and good citizenship.
- The taxpayers know their personal circumstances and can make a better estimate under no duress.
- The taxpayers are at will to revise their estimates so as to avoid any imposition of penalty as the circumstances of their business will dictate.
- It builds the technical skills of the taxpayers over the period.
- It promotes accurate record keeping by taxpayers. The self-assessment regime thrives on proper record keeping.

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

d) Filing period of the following;

Description	Period
Estimated return (or Self-Assessment)	**By the end of the 1st Quarter of the Basis Period**
Monthly Pay-As-You-Earn (PAYE)	**Not later than 15th day of the following month**
Company Income Tax Return	**Not later than 4 months after the end of the Basis period.**
Withholding Tax Returns	**Not later than 15th day of the following month**
Value Added Returns	**Not later than the last working day of the following month.**

(1 mark each = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question one was in four parts. The first part was for candidates to determine the order of payments of tax liability with GH¢100,000. This was poorly answered. Candidates were unaware that priority was to be given to third party payments such as withholding taxes, before 2nd party payments and payment of interest. The second part was for candidates to identify the possible components accounting for the national debt increment in Ghana from December 2023 to February 2024. One would have thought it was a bonus question but the answers were quite disappointing even though this was a topical issue in Ghana. The third and fourth parts which requested candidates to provide justification for switching from Provisional assessment to self-assessment and the returns due dates for some tax types respectively were well dealt with. On the whole, the pass rate was slightly below average.

QUESTION TWO

a)

i) Amount of taxable supplies made in the month

	GH¢
Supply of imported rice into the local market	3,930,000
Export of rice to Nigeria	720,000
	4,650,000
	(1 mark)

ii) Amount of total supplies made in the month

	GH¢
Supply of local rice into the local market	1,350,000
Supply of imported rice into the local market	3,930,000
Export of rice to Nigeria	720,000
	6,000,000
	(1.5 marks)

iii) Amount of total input tax incurred in the month

	GH¢
VAT paid on imported rice	123,500
VAT paid on warehousing rent	25,000
VAT paid on electricity	30,000
VAT paid on security services	9,000
	187,500
	(2 marks)

iv) Amount of deductible input tax in the month

	GH¢
VAT paid on warehousing rent	25,000
VAT paid on electricity	30,000
VAT paid on security services	9,000
Total non-attributable input tax	**64,000**
Apportionment (4,650,000/6,000,000*64,000)	49,600
Add VAT on imported rice	123,500
	173,100
	(4.5 marks)

v) Amount of non-deductible input tax in the month

	GH¢
Total input tax	187,500
Less deductible input tax	173,100
	14,400
	(1 mark)

Workings:

Input tax apportioned = A x B/C

Where:

A = Input tax to be apportioned = 64,000

B = Value of taxable supplies = 4,650,000

C = Value of all supplies = 6,000,000

Input tax apportioned = 64,000 x $\frac{4,650,000}{6,000,000}$

= GH¢49,600

b) VAT on amount Recovered = A x B/C

A = VAT on amount previously written off (see workings) = 26,111.11

B = Amount of the bad debt recovered = 105,000

C = Amount of Bad debt previously written-off = 235,000

VAT on amount recovered = 26,111.11 x $\frac{105,000}{235,000}$

= GH¢11,666.67

Workings

VAT on amount previously written off = $\frac{\text{Rate of VAT X 235,000}}{\text{100 + Rate of VAT}}$

= 12.5/112.5 x 235,000

= 26,111.11

Implication

Abomu Ltd will have to declare an amount of GH¢11,666.67 as output tax in its October 2022 VAT return.

(5 marks)

c) Section 112 of the National Pension Act, 2008 (Act 766) specifies the tax reliefs available to the employee and employer respectively as follows:

- Subject to this Act, contributions made by an employer to a provident fund scheme on behalf of a contributor shall be treated as part of the deductible income for that employer for a tax year for the purpose of income tax.
- Contributions not exceeding sixteen and one half per centum of a contributor's monthly income, made by either a contributor or the contributor's employer or both shall, be treated as deductible income, for the purpose of income tax for the contributor and the contributor's employer to the extent of their respective contributions.
- Persons in the informal sector who are not covered by the mandatory first tier basic national social security scheme and second tier occupational pension scheme, shall have thirty-five per centum of their declared income treated as deductible income for the contributor for the purposes of income tax.
- Investment income including capital gains from the investment of scheme Funds shall for the purposes of income tax, be treated as deductible income.
- A withdrawal of all or part of a contributor's accrued benefits under a provident fund or personal pension scheme;
    - ✓ on or after retirement shall be tax exempt;

    - ✓ shall be subject to the appropriate income tax for contributors in the formal sector before ten years of contributions and before retirement;
    - ✓ shall be subject to the appropriate income tax for contributors in the informal sector before five years of contributions and before retirement.
- A withdrawal from a scheme at any time after certification by a medical board that the contributor is incapable of normal gainful employment due to a permanent physical or mental disability is tax exempt.
- A withdrawal from a provident fund or personal pension scheme at any time by the beneficiaries of the estate of a deceased contributor is tax exempt.

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

(Total: 20 marks)

EXAMINER'S COMMENTS

The worst attempted question. Very woeful to say the least. The question on VAT was for 15 marks in line with the weight in the syllabus. It was in two (2) parts. Candidates have since displayed a lack of grasp of the principles of VAT since the inception of the outgone syllabus (November 2019 to July 2024). Candidates should prepare well on the laws and regulations regarding the principles of VAT as we usher ourselves into the new syllabus to avoid the unfortunate trend. Tuition providers should assist in this regard. On what constitutes relief and allowable deductions for employees and employers under the National Pensions Act, 2008 (Act 766), it was clear that candidates were not conversant with the requirements under the said law. Candidates were rather writing on tax reliefs in the Income Tax Act, 2015 (Act 896) as amended.

QUESTION THREE

a) The following constitute exclusions in respect of employment income:

- An exemption under Section 7; (That is exempt amount or those incomes exempted from taxation)
- A final withholding payment
- A discharge or reimbursement of an expense incurred by an individual on behalf of the employer of that individual that serves the proper business purposes of the employer;
- A discharge or reimbursement of the dental, medical or health insurance expenses of an individual where the benefit is available to each full-time employee on equal terms;
- A payment providing passage of the individual to or from the country in respect of the employment of that individual by the employer or the termination of the employment where the individual
    - ✓ Is recruited or engaged outside the country;
    - ✓ Is in the country solely for the purpose of serving the employer; and
    - ✓ Is not a resident of Ghana
- A provision of accommodation by the employer carrying on a timber, mining, building, construction, farming business or petroleum operations to that person at a place or site where the field operation of the business is carried on or as a prescribed by Regulations;
- A payment made to employees on a non-discriminatory basis and which by reason of the size, type and frequency of the payments, are unreasonable or administratively impracticable for the employer to account for or to allocate to an individual; and
- Redundancy pay especially arising as a result of amalgamation, mergers, re-organisation and information technology.

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

b) **Treatment in respect of Lessor**

In ascertaining the income for a year of assessment

- that lessor shall include the whole of the amount of the interest and repayment of the capital for that year as income in respect of the leased asset.
- is not entitled to capital allowance in respect of the leased asset.
- may reduce the amount of repayment of capital included in income by a capital amount determined by the Commissioner-General.

Treatment in respect of the lessee

In ascertaining the income for a year of assessment

- the lessee shall deduct the interest portion for each year of assessment as an expense from income.
- treat the repayment of capital as a repayment under a loan agreement and shall not deduct that repayment from the income.
- be entitled to capital allowance in respect of the capital portion.

- in respect of the lease of a road vehicle, other than a commercial vehicle, the capital portion shall not exceed GH¢75,000 as required by the third schedule of act 896.

(8 marks)

c) **Assessable income** is income of a person from any employment, business or investment. A resident person's assessable income is that person's worldwide income from all sources. A non-resident person's assessable income is that person's income from Ghana. The assessable income of a non-resident person, who has a permanent establishment in Ghana is the income of the permanent establishment. Income has its source in Ghana if the income is accrued or derived in Ghana.

Chargeable income of a person for a year of assessment is the total of the assessable income of that person for the year from each employment, business or investment less the total amount of deduction allowed that person under the Act.

(2 marks each = 4 marks)

d) **Commercial Vehicle**

- It refers to a road vehicle designed to carry loads of more than half a tonne or
- Road vehicle designed to carry more than thirteen passengers.
- A vehicle used in the transportation or vehicle rental business

(Any 2 points @ 1.5 mark each = 3 marks)

(Total = 20 marks)

EXAMINER'S COMMENTS

Question three was in four parts. Candidates were to state five (5) exclusions in respect of employment income in the first part for five marks. This was a harmless question but it turned out to be a weak area for candidates. One cannot learn the computation of employment income without learning the exclusions. The second part, which was for eight marks, tasked candidates to outline the income tax treatment for the lessor and lessee under finance lease. Here, candidates displayed a complete lack of knowledge and thus lost almost all the marks awarded. It is always advisable for candidates to also revise areas not frequently examined once they are in the syllabus. The distinction between assessable income and chargeable income as well as what constitute commercial vehicle in the Income Tax Act, 2015 (Act 896) which was in the third and fourth parts respectively recorded an average performance. Some candidates were writing the make-up of employment income as assessable income and most candidates could not state what constitute a commercial vehicle.

QUESTION FOUR

Kinbu Ltd
Determination of tax payable for the 2023-year of assessment
Basis period: 01/01/2023 to 31/12/2023

	GH¢	GH¢
Net profit per account		79,002
Add:		
Depreciation	2,684,000	
Penalty and fines	55,000	
Donations (33,000 + 99,000)	132,000	
Repairs and improvement	212,960	
Loan interest (MD's House)	550,000	
Other income (creditors)	132,000	
Undisclosed income	44,000	
Bad debts recovered	110,000	
Loss on realisation	55,000	
Gains on realisation	55,000	4,029,960
		4,108,962
Less capital allowance		(1,155,000)
Chargeable income		**2,953,962**
Tax charged 25%		738,490.50
Less tax paid		(22,000)
Tax payable		**716,490.50**

Working:

i) **Repair and improvements**

Pool 3	
Written down value at 01/01/2023	176,000
Depreciation allowance 20%	35,200
Written down value at 31/12/2023	140,800
Total repair and improvement cost	220,000
Allowable repair and improvement (5% x 140,800)	7,040
Excess to be capitalised or excess disallowed as expense	**212,960**

ii) **Gains or loss on realisation of asset**

Consideration received	385,000
Cost of asset	330,000
Gain on realisation added to income	**55,000**

Marks were evenly spread using ticks

(Total: 20 marks)

EXAMINER'S COMMENTS

Candidates were to determine the tax payable for the 2023 year of assessment given the extract of the financial data for that year for 20 marks. It is a familiar area which normally feature almost every sitting. Surprisingly, performance was disappointing with more than 60% failing to attain half of the mark. Most candidates did not know the expenses to be allowed or not to be allowed as deductible expenses for tax purposes and thus lost valuable marks. One could underpin the lack of practice to this low performance. The notes to the accounts were not well dealt with due to the poor understanding of the principles in the treatment of the expense items. They also showed a poor understanding of the incomes that could not be accounted for and therefore must be added back to the profit per the accounts. Almost all candidates could not determine the amount to be capitalised for repairs and improvement of the equipment as an add back. They did not know that the amount to be allowed should be 5% of the written down value of the applicable pool as at the end of the year and not as at the beginning of the year.

In future diets, since there are specific deduction rules for donation and foreign exchange loss, there should be clear notes for candidates to determine which portions could be allowed and disallowed.

QUESTION FIVE

a)

Description	**Amount GH¢**	**Tax Rate (%)**	**Tax to be Withheld GH¢**	**Remarks**
Dividend paid to resident person	175,000	8	14,000	Final Tax
Dividend paid to non-resident person	350,000	8	28,000	Final Tax
Payment of goods to resident person	525,000	3	15,750	Not a Final Tax
Payment of goods to non-resident person	700,000	20	140,000	Final Tax
Rent – residential property	262,000	8	21,000	Final Tax
Rent – Commercial Property	525,000	15	78,750	Final Tax
Natural Resource Payment	1,750,000	15	262,500	Not a Final Tax
Management and Technical Service fees to non-resident	700,000	20	140,000	Final Tax
Interest paid to resident financial institution	35,000,000	0	0	Exempt
Royalty paid to non-resident person	700,000	20	140,000	Final Tax

(0.5 mark for each correct withholding tax computed and 0.5 mark for each correct comment = 10 marks)

b) **GAMELI**

<u>COMPUTATION OF TAXABLE GAIN – FEB 2023</u>

	GH¢	**GH¢**
Realised Sum		320,000
Less Cost:		
Purchase Cost of warehouse	164,000	
Legal fees in connection with purchase	3,600	
Extension cost	37,000	
Replacement cost	24,000	
Legal fees in connection with disposal	5,800	
		(234,400)
GAIN ON DISPOSAL		**85,600**

(5 marks)

c) **Tax treatment of a gift not received under employment or business**

According to the Income Tax Act 2015, Act 896 the tax treatment of a gift received is when a person receives a gift in respect of their employment, business or investment the gift is added to the person's income from employment, business or investment and taxed at the appropriate income tax rate. Thus, gift received under investment is to be added to the person's investment income and taxed at the appropriate income tax rate. It presupposes that the returns will be submitted at the same time the person is filling returns on income in the year of receipts.

However, where an individual receives a gift other than a gift received in respect of business or employment, the individual may elect to pay at the tax rate of 25%

and this constitutes a final tax. Thus, an individual who elects for gift received to be taxed separately shall within thirty (30) days of receipt furnish the Commissioner General (CG) with a return in writing.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question five was the best attempted question. It was in three parts. The first part was for candidates to compute the withholding tax in respect of each transaction and state whether the tax computed constitute a final tax or not. Quite a familiar area and candidates showed an above average performance. What was however shocking was the fact that some candidates did not know that all the withholding taxes in respect of non-residents constitute a final tax and would have scored all the related comments without sweat. The second part was to determine the taxable gain for the sale of the warehouse. It was straightforward for five marks and was well dealt with. Candidates however exhibited an average performance in the tax treatment of gift that is not received under employment or business.