



APPLICATION LEVEL EXAMINATION

2024-2029 Syllabus

Mock Exam

(3 hours)

PRINCIPLES OF TAXATION

Paper 2.6

QUESTION ONE

- a) Taxation is an important tool that is employed to stabilize any economy and social system the world over.

Required:

- i) Explain **FOUR** social roles or impact of taxation in Ghana. (6 marks)
ii) List **FOUR** obligations of the taxpayers in any tax administration. (4 marks)

- b) Tax Authorities make fair assessment based on the submission of credible income tax returns by a taxpayer.

Required:

Explain what constitutes a *tax return*. (3 marks)

- c) Many countries have adopted self-assessment regimes in their tax administration as a means to reduce frictions between the Tax Authority and the tax payer. A regime that is widely celebrated. However, in Ghana there are other types of assessments.

Required:

- i) Explain self-assessment regime. (5 marks)
ii) Explain pre-emptive assessment. (2 marks)

(Total: 20 marks)

QUESTION TWO

- a) According to the Value Added Tax Act, 2013 (Act 870) as amended, a tax known as the Value Added Tax is imposed, which is applicable to:

- The supply of goods or services within the country, except for those that are exempt.
- The importation of goods or services, excluding exempt imports.

Required:

- i) Based on the Act, what is meant by *supply of goods*? (2 marks)
- ii) Explain *supply of services*. (2 marks)
- b) Notwithstanding the turnover thresholds outlined in Section 6 of the Value Added Tax Act, 2013 (Act 870) as amended, there are certain exceptions to these rules under Section 11 of the same Act.

Required:

State the exceptions to the turnover rules as described in Section 11 of the Value Added Tax Act, 2013 (Act 870) as amended. (3 marks)

- c) Agyapa Steel Works Ltd supplied iron rods to Okuley Construction Ltd in January 2024, with the total cost amounting to GH¢500,000 (inclusive of the National Health Insurance Levy, Ghana Education Trust Fund Levy, COVID-19 Health Recovery Levy, and Value Added Tax).

Required:

Calculate the National Health Insurance Levy, Ghana Education Trust Fund Levy, COVID-19 Health Recovery Levy, and Value Added Tax applicable to this contract for supplies.

(5 marks)

- d) Petro Ltd, a VAT-registered trader, supplied goods to Petra, who is also VAT registered. A VAT invoice was issued by Petro on 15 March 2023. On 20 March 2023, Petra received a call from Petro informing them that the VAT invoice had been lost.

Required:

What actions should Petra take in response?

(3 marks)

- e) An amount of GH¢500,000 was introduced as an expense item in the ledger. The company's tax liability will increase significantly if it is detected and reversed. The entity has no liquidity to pay any additional tax liability, if it is detected. To correct the mistakes will require a reduction in employment of staff including the role you play.

Your Chief Executive Officer (CEO) has asked for your advice on the above in order to table the issue at an impending Board Meeting.

Required

What is the appropriate advice to offer under this circumstance?

(5 marks)

(Total: 20 marks)

QUESTION THREE

- a) A friend who have been residing in Saudi Arabia for over 20 years has relocated to Ghana with all his savings and he intends to invest in any viable venture with you. He claims a tax consultant he happened to sit by on his flight to Ghana indicated that, it is beneficial to operate business as a partnership in Ghana.

Required:

- i) Enumerate the tax treatment of partnership and partners in Ghana. **(8 marks)**
- ii) Describe the tax treatment of loans given by employers to employees in the context of the Income Tax Act, 2015 (Act 896) as amended. **(2 marks)**
- b) Part IV of the Income Tax Act, 2015 (Act 896) contains provisions on the determination of gains and losses on the realization of assets and liabilities and also how to assess tax on the gains.

Required

- i) Describe the composition of cost of an asset and indicate any exclusion if any. **(5 marks)**
- ii) Briefly explain **THREE** circumstances under which an asset would be deemed realized. **(3 marks)**
- iii) What is the tax treatment of gains on realization of capital assets? **(2 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) Section 12 of the Income Tax Act, 2015 (Act 896) provides conditions and restrictions for the deduction of repairs and improvements incurred by a business against income. Such conditions and restrictions must be followed by businesses in the determination of their chargeable income.

Required:

State **THREE** conditions and restriction that must be fulfilled for deduction of repairs and improvements against income in the determination of chargeable income. **(3 marks)**

- b) The information below was extracted from the books of Zibtus Manufacturing Company LTD for the 2022 year of assessment.
- 1) Repairs and improvements amounts for 2022 year of assessment:
 - Plant and machinery GH¢75,000
 - Motor Vehicles GH¢69,000
 - 2) Written down values of assets on which repairs and improvements were made as at 1 January, 2022:
 - Plant and machinery GH¢200,000
 - Motor Vehicles GH¢105,000
 - 3) Additions to fixed assets in the year 2022 were as follows:
 - Plant and machinery GH¢300,000
 - Motor Vehicle (Toyota Camry) GH¢275,000
 - 4) Zibtus Manufacturing Company LTD declared a profit before tax of GH¢519,000 after deduction depreciation charges of GH¢187,000

Required:

- i) Compute the capital allowance deductible for Zibtus Manufacturing Company LTD for the year 2022 **(5 marks)**
 - ii) Compute the amount of repairs and improvements that is not allowable for deduction in the year 2022. **(4 marks)**
 - iii) Compute the adjusted chargeable income for Zibtus Manufacturing Company LTD for the year 2022 **(3 marks)**
- c) All over the world, countries have introduced policies to guarantee income for their hard working workforce who may go on retirement to enable them live meaningful lives after retirement.

Required:

Differentiate between a *full pension* and a *reduced pension*. **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) The Managing Director of Sofame Limited is worried about the amount of withholding tax deductions the company suffers when the company receives payment for the supply of goods to some customers. The Managing Director has heard that you are a student who studies taxation as part of programme of study at Institute of Chartered Accountants, Ghana. He wants your advice regarding the conditions the company must satisfy to be granted exemption from withholding tax.

Required:

State **TEN** qualifying conditions for exemption from withholding tax to the Managing Director of Sofame Limited. **(10 marks)**

- b) The use of blockchain technology is being explored in various countries as a tool for enhancing transparency and security in tax administration.

Required:

- i) Discuss how blockchain technology could be applied to improve the tax administration process in Ghana. **(2 marks)**
- ii) Identify **TWO** potential benefits and one challenge associated with implementing blockchain technology in Ghana's tax system. **(3 marks)**
- c) Automation in tax administration has led to the development of intelligent tax systems that can automatically calculate, file, and pay taxes on behalf of taxpayers.

Required:

- i) Explain how automation can reduce errors in tax filing and improve compliance rates. **(3 marks)**
- ii) Discuss **TWO** ethical considerations that arise with the use of automated tax systems. **(2 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a)

i) Social Role of Taxation

- To redistribute income
- To curb the consumption of harmful products
- To provide social amenities
- To curb social and environmental cost

(4 points for 6 marks)

ii) Obligation of Taxpayer

- To register with the Ghana Revenue Authority
- To file tax returns
- To pay taxes
- To disclose income honestly
- To present financial statements (Reporting requirement)

(4 points for 4 marks)

b)

A tax return is a declaration by a taxpayer that indicates the income and the deduction and or reliefs the taxpayer is entitled to. There are different types of a tax return and submitted at different periods.

(3 marks)

c)

i) Self –assessment is a regime that allows the taxpayer to make estimate about the estimated assessable income and the estimated chargeable income and the estimated tax payable.

The projection must be based on realism of the business activities.

It can be revised as and when the economic circumstances dictate.

The margin of error should not be more than 10%.

Taxes on the self-assessment is paid quarterly by the self-assessment taxpayer.

The taxpayer pays an interest at 125% of statutory rate compounded monthly.

(4 marks)

ii) Pre-emptive assessment

Section 38 of Revenue Administration Act (RAA), 2016 (Act 915)

In some circumstances, Commissioner-General may raise an assessment earlier than when the taxpayer is required to file and pay taxes in order to ensure that tax revenue is not lost. The following circumstances may occasion a Pre-emptive Assessment:

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

(3 marks)

(Total: 20 marks)

QUESTION TWO

a) (i) Supply of goods

Under the VAT Act, the term "supply of goods" refers to any arrangement in which the owner of the goods relinquishes possession through means such as sale, barter, lease, transfer, exchange, gift, or similar transactions. It specifically excludes the supply of money. The disposal of a taxable business activity, or a segment of it that can operate independently as a going concern, also qualifies as a supply of goods conducted in the course or advancement of the taxable activity. Additionally, the provision of any form of power, heat, refrigeration, or ventilation is considered a supply of goods.

(2 marks for well explained "supply of goods)

(ii) Supply of Services

"Supply of services" refers to the provision of services, which may involve (i) performing a service for another person, (ii) making a facility available, (iii) tolerating a situation, or (iv) refraining from engaging in an activity. If a service is incidental to a supply of goods, it is considered part of the supply of goods. Conversely, if goods are incidental to a supply of services, they are considered part of the supply of services. Furthermore, a service that is incidental to the import of goods is treated as part of the importation of those goods.

(2 marks for well explained "supply of services)

b) Exceptions to turnover rules

(i) A promoter of public entertainment,

(ii) An auctioneer, or

(iii) A national, regional, local or other authority or body which carries on any taxable activity shall apply for registration.

(3 points for 3 marks)

c) Okuley Construction Ltd

	GH¢
Cost/Purchase	410,172
NHIL (2.5% * 410,172)	10,254
GETFL (2.5% * 410,172)	10,254
Covid-19 L (1% * 410,172)	<u>4,102</u>
	434,783
VAT (15% * 434,783)	<u>65,217</u>
VAT Inclusive	<u>500,000</u>
National Health Insurance Levy: GH¢10,254	(1 mark)
Ghana Education Trust Fund Levy: GH¢10,254	(1 mark)
COVID-19 Health Recovery Levy: GH¢4,102	(1 mark)
Value Added Tax: GH¢65,217	(2 mark)

d) If, within thirty calendar days following a supply, a taxable person who is the recipient of the supply reports the loss of the original tax invoice, the supplier must, upon receiving a written request from the recipient, provide a certified copy of the invoice marked "copy" within fourteen calendar days of receiving the request.

(3 marks for well explained issues)

e) The issue is a tricky one but requires ethical consideration

The company has no liquidity and to pay will also mean reduction in employment including me losing my job.

It is a tough decision but requires that I uphold professional ethics in all I do.

It requires the restatement of financial facts which undoubtedly will impact on employment.

If the CEO does not take the action of the reversal, I will take the following actions:

- Engage the CEO on the matter again for the need for reversal
- I will put it into writing –the need to correct the mistake
- Seek audience with the Institute of Chartered Accountants
- May consider resigning from my post to look for a new employment

(5 marks)

(Total: 20 marks)

QUESTION THREE

a)

Tax Treatment of partnership

- i. Partnership is not taxable
- ii. Individual partners are taxed on their income from the business
- iii. Partnership is treated as a sole trader for the purposes of computing profits
- iv. All appropriations of partners are disallowed for profit computation
- v. Partners chargeable income is computed by aggregating all appropriations and share of profit
- vi. Taxes withheld from the partnership is shared among partners in agreed ratio of sharing profit and treated as tax paid by the partners

Tax treatment of staff loans

When an employer give loans to employees at interests lower than what the market offers, the tax law considers it as a gain from employment.

If the loan meets the under listed requirement, the gain is considered not taxable

- i. The loan should be from the employer to the employee
- ii. The loan term should not be more than twelve months
- iii. The loan amount and any outstanding loan balance of the employee should not exceed three months basic salary

If any of the three condition is defaulted, a calculation is made and added to assessable income before computing tax using the graduated personal tax rates.

(10 marks)

b)

i) Composition of Cost

- Expenditure incurred in the acquisition of the asset and its associated incidentals
- Expenditure incurred in repairing, maintaining, altering and improvement

- Incidental expenditure

Exclusion

- Consumption expenditure
- Excluded expenditure and expenditure that is directly deducted from the income of the owner of the asset
- Expenditure included in the cost of another asset

(5 points for 5 marks)

ii) Circumstances deemed as realization section 38 - Any 3 points

- Where a person parts with ownership of an asset
- Where a person ceases to exist including by reason of death
- Where consideration received from sale of asset other than trading stocks or a depreciable asset exceeds the cost of the asset
- Where a debt claim owned by a person other than a financial institution provided the person
 - Reasonable believes that the debt claim will not be satisfied
 - Has taken reasonable steps in pursuing the debt claim and
 - Has written off the debt claim as a bad debt
- Where a resident person becomes non resident
- Where the use of an asset other than trading stock, depreciable asset, capital asset or investment asset changes its original characterization of the asset
- Where there is a change in ownership of a company of 50% and above at any time within the period of three years

(3 marks)

iii) Gains arising from the realization of capital assets in respect of employment, business and investment are to be included in calculating the gains and profits from employment, business and investment.

(2 marks)

(Total: 20 marks)

QUESTION FOUR

a)

(i) Repairs and improvement shall not exceed five percent of the written down value of the pool at the end of the year.

(ii) Repairs and improvement is allowed in the order in which the expense was incurred.

(iii) Excess repairs and improvement expense for which a deduction is not allowed as a result of the limitation shall be added to the depreciation basis of the pool to which it relates.

(3 points for 3 marks)

b)

i) **ZIBTUS MANUFACTURING COMPANY LTD**

COMPUTATION OF NON-ALLOWABLE REPAIRS AND IMPROVEMENT

COMPUTATION OF CAPITAL ALLOWANCE FOR 2022 YEAR OF ASSESSEMENT

	POOL 2	POOL 3	TOTAL
	30%	20%	
WDV B/F	200,000.00	105,000.00	305,000.00
ADDITIONS	300,000.00	75,000.00	375,000.00
	500,000.00	180,000.00	680,000.00
DISPOSAL	-	-	-
DEP. BASIS	500,000.00	180,000.00	680,000.00
CAP. ALLOW.	150,000.00	36,000.00	186,000.00
W.D.V C/F	350,000.00	144,000.00	494,000.00
NON-ALLOWABLE REP & IMP. FOR 2022			
WDV before repairs	350,000.00	144,000.00	494,000.00
5% OF W.D.V	17,500.00	7,200.00	24,700.00
Repairs deducted	75,000.00	69,000.00	144,000.00
Excess Repairs	57,500.00	61,800.00	119,300.00

Non-Allowable Repairs	57,500.00	61,800.00	119,300.00
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(5 marks evenly spread using ticks)

ii) **ZIBTUS MANUFACTURING COMPANY LTD**

COMPUTATION OF CAPITAL ALLOWANCE FOR 2022 YEAR OF ASSESSEMENT

POOL 2	POOL 3	TOTAL	
	30%	20%	
WDV B/F	200,000.00	105,000.00	305,000.00
ADDITIONS REPAIRS	300,000.00	75,000.00	375,000.00
&IMPROVEMENT	57,500.00	61,800.00	119,300.00
DEP. BASIS	557,500.00	241,800.00	799,300.00
CAP. ALLOW.	167,250.00	48,360.00	215,610.00
W.D.V C/F	390,250.00	193,440.00	583,690.00

(4 marks evenly spread using ticks)

iii) **ZIBTUS MANUFACTURING COMPANY LTD**

ADJUSTED CHARGEABLE INCOME FOR 2022 YEAR OF ASSESSEMENT

	GH¢	GH¢
Net Profit before tax		519,000.00
Add back		
Depreciation	187,000.00	
Excess Rep. & Imp	<u>119,300.00</u>	
		<u>306,300.00</u>
Assessable income		825,300.00
Less Cap. Allowance		<u>215,610.00</u>
Chargeable income		609,690.00

(3 marks)

c)

Full Pension

This is paid to a Member of the Scheme who retires at the age of 60 and has contributed not less than 180 months under Act 766 or 240 months under PNDC Law 247 in aggregate.

Reduced Pension

This is paid to a Member who retires voluntarily on attaining age 55 or more, but below age 60 and has contributed for 180 months under Act 766 or 240 months under PNDC Law 247 in aggregate.

(5 marks)

(Total: 20 marks)

QUESTION FIVE

a)

1. Registration of business with tax authority:

The Taxpayer must have registered for all relevant tax types administered by the Commissioner General, including VAT unless exempt under the law.

b) The following key persons of the Taxpayer must have Tax Identification Numbers (TIN):

i) Shareholders

ii) Directors

iii) Employees

2. Business Records

The Taxpayer should have kept and maintained adequate and reliable business records in the country.

3. Submission of particulars of contract with a non-resident

The Taxpayer must have submitted notice of particulars of the contracts entered into with non-resident persons within THIRTY (30) days from the date of entering into such contracts in accordance with Section 116 (11). Discovery of non-compliance with this provision disqualifies taxpayer for at least twelve (12) months.

4. Submission of all tax returns by due date

a) The Taxpayer should have submitted all relevant Tax returns administered by the Domestic Tax Revenue Division (DTRD); such as Annual Corporate Tax Returns, Pay as You Earn (P.A.Y.E), Withholding Tax, Value Added Tax (VAT), Communication Service Tax (CST), Excise and other tax type (where applicable).

b) The following key persons of the Taxpayer should have submitted their returns by the due dates for all relevant years:

i) All Directors

ii) Expatriate Staff

iii) Employees provided with accommodation and / or vehicle.

5. Assessment

a) Self-Assessment Estimate: The Taxpayer must have submitted its estimated Chargeable Income and Taxes payable for the current year of assessment.

b) Provisional Assessment: Where this applies, taxpayer should have been provisionally assessed for the current year.

6. Tax Payments by due dates

The Taxpayer should have paid all taxes which have fallen due by their due dates (both direct and indirect taxes).

7. Audit

The Taxpayer should have been audited for a period within the last three (3) years. In addition, repeated infractions of any provisions of the tax laws which has been uncovered by previous audits disqualifies a taxpayer for the grant of exemption or renewal of exemption from withholding tax for at least twelve (12) months

8. Dishonoured Cheques

Taxpayers whose cheques are not honoured by their bankers are disqualified for the next two (2) years from the grant of exemption or renewal of exemption from withholding taxes

9. Default in payment terms

Taxpayers who have defaulted in payment terms arrangement do not qualify for the exemption for at least twelve (12) months.

10. Quarterly Submission of List of particulars of payments exempted from withholding tax.

The Taxpayer should have submitted a list of particulars of all payments that would have suffered withholding tax but for the exemption at the end of every calendar quarter.

11. Third Party Information

Discovery of Third Party information on transactions undertaken by Taxpayer, which are not included in Taxpayer's Business Records and / or Financial Statements, disqualifies Taxpayer for at least twelve (12) months.

12. Cash-Flow Challenges

The Taxpayer should demonstrate to the Commissioner-General that suffering withholding tax would lead to:

i) Cash-flow problems, or

ii) Payment of taxes with part of working capital

13. Application

All applications for exemption from withholding tax should be submitted at the Taxpayer's Tax Office stating the following:

- i) Projected Turnover for the current year
- ii) Projected Chargeable Income for the year
- iii) Projected Tax for the year.

(Any ten points for 10 marks)

b)

i) Application of Blockchain Technology in Tax Administration:

Blockchain could be used to create a transparent, tamper-proof ledger of all transactions. This would allow GRA to track tax payments, monitor compliance, and prevent fraud with high accuracy. *Example:* Smart contracts on a blockchain could automatically calculate and deduct taxes at the point of sale, ensuring instant and accurate tax collection.

(a point well explained with example should attract full 2 marks)

ii) Benefits and Challenges of Implementing Blockchain:

- Benefits:
 - 1. Transparency: Every transaction is recorded and visible to all parties, reducing opportunities for fraud and ensuring accountability.
 - 2. **Security:** Blockchain's decentralized nature makes it highly secure against hacking and data tampering.
- Challenge:
 - High Initial Costs: Implementing blockchain technology can be expensive and requires significant investment in infrastructure and training.

(1 mark each =2 marks)

c)

i) Reducing Errors and Improving Compliance Through Automation:

Automation minimizes human errors in tax calculations, filing, and payment processes. Automated systems can automatically apply tax rates, update records, and ensure timely submission, leading to higher accuracy and compliance.

(a point well explained with example should attract full 3 marks)

ii) Ethical Considerations with Automated Tax Systems:

1. Privacy Concerns: Automated systems collect and store vast amounts of taxpayer data, raising concerns about data privacy and potential misuse.

- *Mitigation:* Implement strong data protection measures and transparency about how taxpayer data is used.

2. Job Displacement: Automation may reduce the need for manual tax preparation and filing services, potentially displacing workers in these fields.

- *Mitigation:* Provide retraining programs to help displaced workers transition to new roles within the tax administration system.

(1 mark each =2 marks)

(Total: 20 marks)