

**NOVEMBER 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 as required by the syllabus. The questions were generally clear, straight forward and spread across the syllabus. Candidates showed some level of preparedness than the previous diets. They displayed some level of satisfactory performance especially in two out of the five questions and this pushed them to obtain the pass mark. The general performance showed a marked improvement over previous diets. Candidates, however, did not display adequate knowledge across the spectrum of the syllabus and this must be guarded against. Students and tuition providers are encouraged to go through the fundamentals of the subject and to prepare across board in order for candidates not 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 principles of taxation seeking to test the preparedness of the candidates. The questions were within the syllabus coverage, pretty simple, clear and direct to the point. 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 answer the question.

In all, the quality of the paper was good for the level. The implication of the above is that an average candidate with adequate preparation is expected to pass with ease.

**PERFORMANCE OF CANDIDATES**

The general performance of the candidates across the centres was quite satisfactory compared to previous diets even though it could have been better. Approximately 39% of candidates passed the Paper. An improvement over the July 2024 (30%), March 2024 (27%) and November 2023 (35%) sittings. Despite the improvement in performance compared to previous diets, the expectations of the examiner from the candidates were not greatly met looking at the nature of the questions and considering the fact that there were easy marks for grasp if an average student had sufficiently prepared across board for the exams. Students are advised to give prompt and broad attention to the whole coverage of the syllabus in order to guarantee a higher success rate.

There was no visible evidence or sign of candidates engaging in examination malpractices in the marked scripts.

**NOTABLE STRENGTHS & WEAKNESS OF CANDIDATES**

Candidates demonstrated moderate strength in questions one and two and a general weakness for questions three to five. It was generally observed that where the questions required solutions grounded in law candidates were found wanting. Specifically, the computational questions on VAT was a major strength for candidates in this diet.

The solution to the question on the tax reliefs for employees and employers under the National Pensions Act 2008, Act 766 remained a disappointment even though the question was repeated in the immediate past sitting. The questions on realization of assets and e-auditing were also not well dealt with, to say the least. Students are to pay attention to these areas. Candidates are always found victims anytime an area is being tested for the first time even though they are in the syllabus. Students should revise both familiar and unfamiliar areas in their preparations.

One would continue to emphasize that it takes barely three months to prepare after the release of results and therefore preparing for the exams must start early and answers given by candidates should be grounded in the tax laws and regulations where required. In view of the change in syllabus, students are encouraged to quickly enroll with the reliable tuition providing centres as an aid to their success.

## QUESTION ONE

- a) Monetary policy and fiscal policy are two different tools that have an impact on the economic activity of a country. Policy adjustments and institutional safeguards are needed to ensure that the two policies remain firmly within the region of stability.

**Required:**

- i) Distinguish between *Monetary Policy* and *Fiscal Policy*. (6 marks)  
ii) State **FOUR** monetary policy tools used in Ghana. (4 marks)

- b) Tax decisions by the Commissioner-General can lead to tax disputes. The taxpayer can object to a tax decision. Objection constitutes an inalienable right a taxpayer can exercise in any tax administration environment.

**Required:**

- i) When do we say that the Commissioner-General has taken a tax decision? (3 marks)  
ii) State **FOUR** circumstances under which an objection to a tax decision are considered to be valid before the Commissioner-General can act on it. (4 marks)  
iii) What are the options available to the Commissioner-General when he receives an objection from a taxpayer? (3 marks)

(Total: 20 Marks)

## QUESTION TWO

- a) In 2009, the former revenue agencies (VAT, IRS, and CEPS) were consolidated into the Ghana Revenue Authority (GRA). This integration was anticipated to provide certain benefits to both taxpayers and the overall tax administration.

**Required:**

State **FOUR** benefits resulting from the integration of the revenue agencies into the GRA. (2 marks)

- b) Section 33 of the Value Added Tax Act, 2013 (Act 870) as amended, stipulates that, "Except as otherwise provided in this Act or Regulations, a taxable supply refers to a supply of goods or services made by a taxable person for consideration, excluding exempt supplies, in the course of or as part of the taxable activity conducted by that taxable person."

**Required:**

State **TWO** activities that do not qualify as the supply of goods or services under the Value Added Tax Act, 2013 (Act 870) as amended. (2 marks)

- c) One of the innovative measures introduced by the Ghana Revenue Authority (GRA) is the Withholding VAT Scheme, designed to enhance tax compliance.

**Required:**

Describe **FOUR** objectives of the Withholding VAT Scheme. **(2 marks)**

- d) N&L Associates, an accounting firm, issued an invoice to a withholding VAT agent for GH¢250,000 (including VAT, GETFund Levy, NHIL, and COVID-19 Levy) for assurance services provided to a client in March 2024. These were the only services provided by the firm during the period, and payments are to be made within the same period.

**Required:**

- i) Calculate the portion of the GETFund Levy, NHIL, and COVID-19 Levy that the agent must compute for the payment of the services rendered. **(3 marks)**
- ii) Determine the output VAT to be reported on the accounting firm's monthly VAT return. **(2 marks)**
- iii) Compute the withholding VAT to be withheld if N&L Associates are VAT withholding agents. **(2 marks)**
- iv) Calculate the tax payable by the accounting firm if the total input tax for the period amounts to GH¢7,200. **(2 marks)**
- e) You have been engaged as an Accounts Officer in Abokobi LTD. Sales of GH¢10,000,000 was inadvertently under declared. A team from the Ghana Revenue Authority (GRA) is at your premises conducting an audit. The GRA Audit Team did not review the sales revenue. After the audit, you noted that the amount constituting the under declaration of the sales was mistakenly credited to suppliers account in the ledger.

**Required:**

Detail out your position on the above as to what action to take. **(5 marks)**

**(Total: 20 marks)**

### QUESTION THREE

- a) Describe the tax treatment of the following transactions in the context of Income Tax Act, 2015 (Act 896).
- i) Payment of GH¢2,500 salary for a casual worker in the month of Feb 2024. (2 marks)
  - ii) Payment of Bonus of GH¢32,000 to an employee with an Annual Basic salary of GH¢180,000. (2 marks)
  - iii) Payment of GH¢3,200 to a temporary worker in the month of July 2024. (2 marks)
  - iv) Payment of income to non-resident employee in Ghana. (2 marks)
  - v) Redundancy payment to an employee. (2 marks)
- b) Kwamoso LTD sold the following assets to Mr. Badu on 18 May, 2023 for GH¢450,000 to settle a tax liability. Kwamoso LTD is not listed on the Ghana Stock Exchange.

Below are details of the assets.

Name of Asset	Cost	Net Book Value	Market Value 18 May 2023	Market value 31 Dec 2023
	GH¢	GH¢	GH¢	GH¢
Truck vehicle	750,000	480,000	320,000	350,000
Generator	60,000	29,400	8,400	8,000
Laptops	48,000	17,200	8,000	7,200

#### Required:

- i) Compute the consideration received in respect of each asset realised. (6 marks)
- ii) What constitute capital assets in the context of capital gains tax in Ghana? (2 marks)  
Under what circumstance would there be a loss in the realisation of a liability? (2 marks)

**(Total: 20 marks)**

## QUESTION FOUR

- a) Amasa Architecture and Building LTD has been in business for the past seven years. The following information relates to the company's operations for the years ending 31 December 2022 and 2023.

<b>DETAILS</b>	<b>2022 GH¢</b>	<b>2023 GH¢</b>
Profit before tax	795,000	2,110,000
Provision for Depreciation	230,000	115,000
Donation to Manhya Children Home-Approved by Social Welfare Department	350,000	210,000
Donation towards 2023 Aday Kese Festival	105,000	150,000
Capital allowance agreed with the Ghana Revenue Authority	1,500,000	1,700,000
Withholding tax paid as contained in certificates received	10,000	25,000

**Required:**

Using the information provided above, compute the chargeable income and tax payable by Amasa Architecture and Building LTD for years of assessment 2022 and 2023. **(10 marks)**

- b) Madam Tanaa is an employee of Tapoli Brewery Ghana LTD. Her husband who is a retired staff of Tapoli Brewery LTD gifted her a brand new Toyota Camry costing GH¢270,000 On their 20th wedding anniversary. Madam Tanaa is worried about the tax implication of the gift and has approached you as a student learning tax at the Institute of Chartered Accountants, Ghana.

**Required:**

Advise Madam Tanaa on the Tax implication of the Gift of a Toyota Camry she received from her husband on their wedding anniversary including the various options available to her. **(3 marks)**

- c) Repairs are essential for maintaining the safety of a property and renovation improves the overall functionality of a property.

**Required:**

What is the tax treatment of repairs and renovations? **(2 marks)**

- d) There are a number of tax reliefs under the National Pensions Act, 2008 (Act 766) available to both employers and employees.

**Required:**

State **FIVE** tax reliefs under the National Pensions Act, 2008 (Act 766) available to both employers and employees. **(5 marks)**

**(Total: 20 marks)**

## QUESTION FIVE

- a) For purpose of withholding tax, the Income Tax Act, 2016 (Act 896) requires a resident person who enters into a contract with a non-resident person which gives rise to income from Ghana to notify the Commissioner-General within thirty (30) days.

**Required:**

State the items that must be detailed in the notification to the Commissioner-General.

**(5 marks)**

- b) Charley Chemist LTD made a taxable supply of medical consumables amounting to GH¢750,000 exclusive of VAT and levies on 23 November, 2023 to the University of Ghana Medical Centre. The University of Ghana Medical Centre is a withholding tax agent for both VAT withholding and Direct Tax withholding.

**Required:**

- i) Compute the amount of VAT withheld by the University of Ghana Medical Center. **(4 marks)**
- ii) Compute the amount of direct tax withheld by the University of Ghana Medical Centre. **(1 mark)**

- c) The integration of Information Technology in tax administration has enabled the Ghana Revenue Authority (GRA) to adopt e-auditing processes, allowing for the remote examination of taxpayers' records.

**Required:**

- i) Describe the process of e-auditing and how it differs from traditional tax audits. **(3 marks)**
- ii) Discuss **TWO** advantages of e-auditing for both the taxpayer and the tax authority. **(2 marks)**
- d) GRA's use of data analytics has become increasingly important in identifying tax evasion and improving compliance.

**Required:**

- i) Explain how data analytics can be used to detect tax evasion. **(3 marks)**
- ii) Provide **TWO** examples of how GRA might use data analytics to enhance tax compliance. **(2 marks)**

**(Total: 20 marks)**

## SOLUTION

### QUESTION ONE

a)

i)

Monetary policy may be defined as control through the banking system of the money supply, directly by a limit (target) on its growth; or indirectly by measures which affect the cost and availability of credit, whereas fiscal policy acts through taxation and government borrowing and spending. The aim of fiscal policy is to ensure full employment, stable prices and a balance of payments surplus.

Fiscal policy is policy enacted by the legislative branch of government. It deals with tax policy and government spending. Monetary policy is enacted by a government's central bank. It deals with changes in the money supply of a nation by adjusting interest rates, reserve requirements, and open market operations.

**(6 marks)**

ii)

Tools of monetary policy are as follows

- Directives
- Interest Rates
- Open Market Operation
- Cash Ratio or Liquidity Reserve Requirements
- Special Deposits
- Moral Suasion

**(4 marks)**

b)

i)

Section 41(2) of the Revenue Administration Act 2016, Act 915 states that:

A tax decision is made

- a) in the case of an assessment made by the Commissioner-General when the notice of assessment is served on the taxpayer; and
- b) in the case of any other tax decision, when the Commissioner-General serves the affected person with written notice of the decision.

Section 41(3) of the said Act states that in the absence of the notice referred to in subsection (2)(b), a person may elect to treat the Commissioner-General as having made an unfavourable tax decision, if

- a) the tax law specifies a time by which the Commissioner-General is to make a decision and that time expires; or
- b) a time frame is not specified in the tax law and ninety days have elapsed after the affected person files a request for the Commissioner-General to make the decision.

**(Any relevant point for 3 marks)**



ii)

The following are the conditions making an objection valid

**Objection to a tax decision (Section 42 of Act 915)**

- A person who is dissatisfied with a tax decision that directly affects that person may lodge an objection to the decision with the Commissioner-General within 30 days of being notified of the tax decision.
- An objection to a tax decision shall be in writing and state precisely the grounds upon which the objection is made.
- A person may, before the expiration of the period, apply in writing to the Commissioner-General for an extension of time to file an objection. (on grounds of absence from Ghana by the objector, sickness or other reasonable cause.)
- An objection against a tax decision shall not be entertained unless the person has
  - a) in the case of import duties and taxes, paid all outstanding taxes including the full amount of the tax in dispute; and
  - b) in the case of other taxes, paid all outstanding taxes including thirty percent of the tax in dispute.
- The Commissioner-General may, however, waive, vary or suspend the payment above pending the determination of the objection or take any other action that the Commissioner-General considers appropriate including the deposit of security. Here the Commissioner-General shall consider the need to maintain integrity of the dispute resolution procedure and the need to protect Government revenue and integrity of the tax system as a whole in exercising a discretion.

**(Any four points for 4 marks)**

iii)

The following are the options available to the Commissioner-General when he receives an objection from a taxpayer.

After consideration of an objection,

- The Commissioner-General may vary a tax decision in part.
- The Commissioner-General may vary a disallow the objection.
- The Commissioner-General shall, within sixty days of receipt of an objection, serve the objector with notice of the decision including the reasons for the decision.
- Where the Commissioner-General does not serve the person with notice of the decision within sixty days, the person may, by notice in writing to the Commissioner-General, elect to treat the Commissioner-General as having made a decision to disallow the objection.
- A decision is made in respect of an objection on the date the person is served with notice of the decision; or if a person makes an election, thirty days from the date the person files the election with the Commissioner-General.

**(3 marks)**

**(Total: 20 marks)**

## EXAMINER'S COMMENTS

Question one was in two parts subdivided into two and three bits respectively. The first part was for candidates to distinguish between monetary policy and fiscal policy and to state four monetary policy tools used in Ghana. This was a straightforward question and the topic was explicitly stated in the syllabus. Candidates were expected to do better.

The first bit of the second part asked candidates to state when one can say the Commissioner-General has taken a tax decision. Most candidates did not understand the question and therefore lost marks. The other two bits required candidates to state what the objector should do to make his objection to a tax decision valid and the options available to the Commissioner-General when he receives an objection from a taxpayer. It was an average performance. This was the best answered question.

## QUESTION TWO

- a) Benefits envisaged to be derived from the integration of the erstwhile revenue agencies into the Ghana Revenue Authority are:
- i) Reduced administrative and tax compliance cost
  - ii) Better service delivery
  - iii) Improved departmental information flow.
  - iv) Holistic approach to domestic tax and customs administration
  - v) Enhanced revenue mobilisation

**(Any 4 points for 2 marks)**

- b) Activities that do not constitute supply of goods or services under the Value Added Tax Act, 2013 (Act 870) as amended are:
- i) Supply of goods does not include the supply of money. (Section 20(2)).
  - ii) A supply of services by an employee to an employer by reason of the employment of that employee is not a supply of services for Value Added Tax purposes. (Section 24(2))
  - iii) The transfer of goods to a person acting in a representative capacity to the transferor is not a supply of goods. (Section 24(3))

**(Any 2 points for 2 marks)**

- c) The objectives of the Withholding VAT Scheme are as follows:
- i) Decrease the incidence of nil and non-filers: By implementing rigorous surveillance and monitoring, the scheme aims to discourage deceptive practices among those who would otherwise fail to file returns or evade taxes.
  - ii) Minimize future uncollectible debts: The scheme ensures that tax is collected in advance from major consumers, reducing the risk of debts that may not be collectible later.
  - iii) Boost voluntary registration: Knowing that they are under scrutiny, taxpayers are more likely to register voluntarily and adhere to their tax obligations.
  - iv) Enhance government revenue flows: The scheme provides a means for the government to generate revenue while encouraging compliance.
  - v) Improve overall compliance: The introduction of the scheme has led to increased general compliance among taxpayers.
  - vi) Ensure fair application of tax laws: The scheme promotes an equitable application of tax regulations.

**(Any 4 points for 2 marks)**

d)

i	Sales Value	205,086.14	
	GETFL ((2.5/106 x 217,391.30)	5,127.15	
	NHIL (2.5/106 x 217,391.30)	5,127.15	(1 mark for each levy)
	COVID-19 (1/106 x 217,391.30)	<u>2,050.86</u>	
	Non Vatable Value	217,391.31	

ii	Output VAT (15/115 x 250,000)	<u>32,608.69</u>	(2 marks)
	Invoice Value	<u>250,000.00</u>	

iii Withholding VAT = 7% x 217,391.31 = 15,217.39 (2 marks)

iv	Tax Payable =		
		Output Tax	32,608.69
	Less	Input Tax	<u>7,200.00</u>
			25,408.69
	Less Withholding VAT	<u>15,217.39</u>	
		<u>10,191.30</u>	(2 marks)

e)

Every employee is engaged to provide value to the entity that employs the person.

As a student of ICAG, I owe it to my professional ethics to ensure that the financial statements of my employer meets the required standard.

Steps or action to be taken:

- To this end, I will draw the knowledge of my superior officers of the anomaly.
- I will seek the permission to restate the transaction and profit.
- Resubmit the tax returns
- Pay the appropriate taxes to government
- Where my superior officers do not agree, I will report same to the Institute of Chartered Accounts for support.
- Last is to consider resignation.

It must be noted that, audits conducted can be re-performed in future

(5 marks)

(Total: 20 marks)

## EXAMINER'S COMMENTS

The question was in five parts. The (a) part requested candidates to state four benefits from the integration of the revenue agencies into GRA. This was straightforward and well answered. The b, c and d were VAT related questions for a total of 13 marks. About half of the candidates passed the VAT questions which is a considerable improvement compared to previous diets. It seems candidates have heeded to the successive advice given to prepare for VAT questions. They are encouraged to keep it up to earn valuable marks with ease.

Most of the candidates failed to identify that the (e) part was on ethics as required in the syllabus. Students should remember that every profession has ethical values and they should not forget that in their subsequent preparations.

### QUESTION THREE

a)

i) **Casual salary of GH¢2,500**

It will be taxed at 5% on the gross amount of GH¢2,500. It constitutes a final tax.

The employee will not be entitled to any relief or deduction.

**(2 marks)**

ii) **Bonus payment of GH¢32,000**

Bonus payment up to 15% of annual basic salary will tax as final tax at 5%.

15% Basic  $15\% \times 180,000 = 27,000$

Bonus Amount of GH¢32,000 is more than GH¢27,000 by GH¢5,000

Bonus taxation

Bonus Amount taxable at 5% (GH¢27,000 x 5% = GH¢1,350)

Excess Bonus GH¢5,000 - This is to be added to salary and other benefits in cash and in kind and taxed using graduated tax rates.

**(2 marks)**

iii) **Temporal employee salary of GH¢3,200**

The full amount of GH¢3,200 is taxable using the graduated tax rates

He is entitled to relief and deduction.

**(2 marks)**

iv) **Taxation of Non- Resident Employee**

Gross income is taxable at 25%

**(2 marks)**

v) **Redundancy payment to an employee**

Not taxable because payment is not made in return for services rendered.

**(2 marks)**

**(10 marks)**

b)

i) **Consideration** Received in respect of each asset

$$= \frac{\text{Market Value of Asset} \times \text{Total Consideration Received}}{\text{Total Market Value of all Assets}}$$

$$\text{Truck Vehicle} = \frac{320,000 \times 450,000}{336,400} = 428,061.83$$

$$\text{Generator} = \frac{8,400 \times 450,000}{336,400} = 11,236.62$$

$$\text{Truck Vehicle} = \frac{8,000 \times 450,000}{336,400} = 10,701.55$$

**(6 marks)**

ii)

Capital asset is an asset other than a trading stock or a depreciable asset which is employed in a business or investment. **(2 marks)**

iii)

Loss on Liability: A loss occurs on the realization of a liability when the sum of consideration offered for the liability is more than the amount outstanding at the time of realization.

**(2 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

Question three recorded a below average performance. It was in two parts of five and three bits respectively. The first part was on simple questions relating to employment income for 10 marks in all. It was just an average performance implying that candidates did not pay attention to the expectations of the examiner. The second part tested candidates on the gains or losses on realization of assets and liabilities for 10 marks. The questions were simple and straight forward but the performance was shambolic. Most candidates displayed ignorance of the subject area. Students are advised to give equal attention to the syllabus grid and acquaint themselves with the related tax laws.

### **QUESTION FOUR**

a)

**AMASA ARCHITECTURE AND BUILDING LTD  
COMPUTATION OF CHARGEABLE FOR 2022 YEAR OF ASSESSMENT  
01/01/2022 – 31/12/2022**

	GH¢	GH¢
Profit before tax		795,000
Add Back:		
Depreciation	230,00	
Donation towards Adaekese	<u>105,000</u>	<u>335,000</u>
Assessable Income		1,130,000
Less Capital allowance		<u>1,500,000</u>
Unrelieved loss c/f		(370,000)
Tax Charged		-
Tax paid		(10,000)

**AMASA ARCHITECTURE AND BUILDING LTD**  
**COMPUTATION OF CHARGEABLE FOR 2023 YEAR OF ASSESSMENT**  
**01/01/2023 – 31/12/2023**

	GH¢	GH¢
Profit before tax		2,110,000
Add Back:		
Provision for depreciation	115,000	
Donation to Adae Kese	150,000	<u>265,000</u>
Assessable income		2,375,000
Less Capital allowance		1,700,000
Loss b/forward from 2022		<u>(370,000)</u>
Chargeable income		<u>305,000</u>
Tax charged		76,250
Less Tax paid:		
Overpayment in 2022	10,000	
Paid in 2023		<u>35,000</u>
Tax payable	<u>25,000</u>	<u>41,250</u>

**(10 marks)**

b)

Gift tax according to the Income Tax Act, 2015 Act 896, is when a person receives a gift in respect of their employment, business, and/or investment other than under a will, upon intestacy or by way of transfer to the spouse, child or parent of that person. Any such gift is taxable under the income tax law at 25%.

Thus, the brand new Toyota Camry worth GH¢270,000 from the husband to Madam Tanaa the wife on their wedding anniversary is not taxable.

**(3 marks)**

c) **Tax treatment of repairs and renovations**

Deduction allowed in respect of an expense for repair or improvement of a particular asset shall not exceed 5% of the written down value of the applicable pool of that depreciable asset held at the end of the year.

The excess of the expense after deduction is added to the depreciable basis of the applicable pool for calculation of capital allowance expenditure in the current year.

**(2 marks)**

d) **Tax reliefs under the National Pensions Act, 2008 (Act 766) available to both employers and employees**

i) Tax is not payable by an employer or employee in respect of contribution towards retirement or pension schemes.

ii) Tax is not payable on the benefits received under a pension scheme. The social security scheme and any existing scheme under this Act is an approved scheme for ascertaining the chargeable income of a person for making the appropriate deductions under the income tax

law, and income tax shall not be paid by an employer in respect of a worker on contributions which do not exceed thirteen and one half percent (13.5%) of that person's basic salary.

- iii) An employer or employee shall not pay income tax in respect of contributions on a mandatory occupational pension scheme.
- iv) Contributions made by an employer to an approved provident fund scheme on behalf of a contributor shall be treated as part of the deductible expenses for that employer for a tax year for the purpose of income tax.
- v) Aside the 18.5% contribution to the 1st and the 2nd tiers, contributions not exceeding sixteen and one half percent (16.5%) of a contributor's monthly basic income, made by either a contributor or the contributor's employer or both shall, be treated as deductible expenses (3rd tier).
- vi) A withdrawal of all or part of a contributor's accrued benefits under a provident fund or personal pension scheme:
- vii) 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.
- viii) 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.

*(5 marks for any five points)*

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

The worst attempted question in all. In the first part, candidates were to compute the chargeable income and the tax payable for the 2022 and 2023 years of assessment given a short extract of the company's operations for those years. A topical question. Surprisingly, candidates did not grab the required marks. Almost all candidates failed to indicate the basis periods for the two years. Many showed a poor understanding of contribution to worthwhile causes (Donations which are regarded as allowed and not allowed). Some candidates were also subtracting withholding tax credits to arrive at chargeable income instead of deducting from gross tax payable. The gift tax question was quite tricky for most candidates. The Income Tax Act 2015, Act 896 as amended has limited the non-taxability of gifts received to very few instances including gifts received from a spouse once the gift is not received under employment, business or investment. Most candidates did not realise this position. The treatment of repairs and renovation was also not well dealt with.

On the reliefs under the National Pensions Act, 2008 (Act 766), it was clear that candidates were not conversant with the requirements under the said law. This was examined in the July 2024 diet but it eluded candidates again. It presupposes that candidates have not been going through the examiner's report.

## QUESTION FIVE

a)

Obligation of Resident Persons who enter into contract with Non-resident persons

A resident person who enters into a contract with a non-resident person which gives rise to Income from Ghana is required to notify the Commissioner-General within thirty (30) days.

The notification shall contain the following:

- i. The nature of the contract;
- ii. The likely duration of the contract;
- iii. The name and postal address of the non-resident person to whom payments under the contract are to be made; and
- iv. The total sum estimated to be payable under the contract to the non-resident person.

**(4 points @ 1.25 = 5 marks)**

b)

Sales Value	750,000
NHIL (2.5%)	18,750
GETFL (2.5%)	18,750
COVID (1%)	<u>7,500</u>
	795,000
VAT (15%)	<u>119,250</u>
Invoice Value	<u>914,250</u>

- i) VAT Withheld       $(7\% \times 795,000) = 55,650$       **(4 mark)**
- ii) WHT               $(3\% \times 750,000) = 22,500$       **(1 mark)**

c)

i) E-Auditing Process:

- E-auditing involves the remote review of a taxpayer's electronic records by the tax authority. Taxpayers submit their financial and transactional data through digital platforms, enabling auditors to conduct a thorough examination without an on-site visit.
- Difference from Traditional Audits: Traditional audits require physical access to records and in-person meetings, whereas e-auditing leverages technology to perform these tasks remotely.

**(1.5 mark each =3 marks)**

ii) Advantages of E-Auditing:

### **For the Taxpayer**

1. **Convenience:** Taxpayers can submit records electronically from any location, reducing disruptions to their daily operations.
2. **Cost Savings:** E-auditing eliminates costs associated with on-site visits, such as workspace setup and time spent with auditors.
3. **Reduced Audit Time:** Automation and data analysis tools can expedite the audit process, allowing taxpayers to receive results and resolve issues more quickly.



4. **Greater Transparency:** The structured format of e-auditing helps taxpayers understand requirements and ensures a clear audit trail, reducing the chance of misunderstandings.

#### **For the Tax Authority**

1. **Efficiency and Speed:** E-auditing allows for a larger volume of audits to be conducted in less time, increasing the tax authority's productivity.
2. **Cost Reduction:** Conducting audits remotely reduces travel and logistical costs, allowing the tax authority to allocate resources more effectively.
3. **Enhanced Data Accuracy:** Electronic records and automated analysis reduce human error, allowing auditors to detect discrepancies more accurately.
4. **Increased Compliance:** E-auditing makes it easier to cross-reference and verify taxpayer data, encouraging voluntary compliance due to the higher likelihood of detection.

In summary, e-auditing offers a modernized approach to tax audits that benefits both taxpayers and tax authorities by enhancing efficiency, reducing costs, and promoting transparency and compliance.

*(2 points for 2 marks)*

d)

Data analytics is a powerful tool for the Ghana Revenue Authority (GRA) in detecting tax evasion and enhancing compliance by analyzing large volumes of taxpayer information to identify discrepancies, patterns, and anomalies that might indicate underreporting or other forms of non-compliance. Here's how data analytics can be used for these purposes, along with examples specific to the GRA:

i) Using Data Analytics to Detect Tax Evasion:

- Data analytics can analyze large volumes of financial data to identify patterns and anomalies indicative of tax evasion. For example, discrepancies between reported income and bank deposits could trigger further investigation.
- **Pattern Recognition and Anomaly Detection:**  
Data analytics tools can detect unusual patterns in taxpayer data that may signal tax evasion. For example, if a business has a sudden, unexplained decrease in reported revenue or consistently low profit margins compared to industry averages, this could be a red flag. Advanced algorithms can identify anomalies by comparing a taxpayer's records against historical data or the records of similar businesses.
- **Cross-Referencing Third-Party Data:**  
GRA can use data analytics to compare information reported by taxpayers with data from third parties such as banks, suppliers, and regulatory bodies. Inconsistencies—such as a company reporting lower sales revenue than its bank transactions indicate—could suggest underreported income.

*(A point well explained = 3 marks)*

ii) Examples of Data Analytics Enhancing Tax Compliance:

- 1) **Cross-Referencing Data:** GRA can cross-reference income data with third-party sources like banks or employers to identify underreporting.
- 2) **Predictive Analytics:** Using historical data, the GRA can predict potential non-compliance areas and focus audit efforts on high-risk taxpayers.
- 3) GRA can use data mining to identify businesses or individuals with a high likelihood of noncompliance based on their financial characteristics.

- 4) Network analysis is a technique used to identify relationships and connections among taxpayers, businesses, and financial entities that may indicate tax evasion. For example, they can be used to identify shell companies or offshore accounts that may be used to evade taxes.
- 5) GRA can employ text mining, a technique used to extract information from a variety of sources such as emails, social media, and chat logs to detect tax evasion.
- 6) GRA can also make use of data visualization, which is a method used to present financial data in a clear and intuitive way, making it easier for analysts to identify patterns and anomalies that may indicate tax evasion.

**(2 points for 2 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

Question five was the second worst attempted question. It was in four parts of five marks each. The first part was for candidates to state the items that must be detailed in the notification to the Commissioner-General where a resident person enters into a contract with a non-resident person. Very simple and straightforward question, however it was not well dealt with. Candidates displayed lack of knowledge of the requirement perhaps because it was being examined for the first time. The VAT question for five marks recorded a satisfactory performance. The performance in the (c) and (d) parts of the question on e-auditing and how data analytics can be used to detect tax evasion giving examples was quite abysmal. Students should prepare well so far as Section H (Explain how information technology has influenced taxation) is concerned. It is an area where students can easily gain marks with a better preparation.