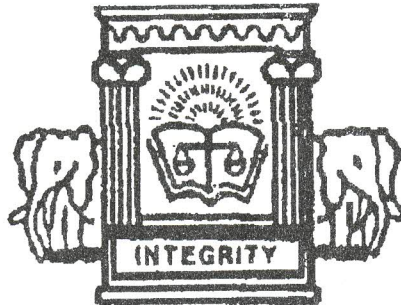


**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**NOVEMBER 2005 EXAMINATIONS
(PROFESSIONAL)**

PART 3

**ADVANCED TAX PLANNING & FISCAL POLICY
(Paper 3.4)**

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

Your prospective client, a Value Added Tax registered person engaged in mixed supplies, has requested your advice on whether there is any other method to compute Claimable Input Tax other than “The Standard Method” which his current tax advisors have been using. He is informed that there are “Special Methods”.

For the year 2004, his purchases and supplies details are as follows:

	€'000
Input tax on taxable supplies	20,000
Input tax on exempt supplies	15,000
Input tax that cannot be attributed directly to any of above	10,000
Value of taxable supplies (including 12.5% VAT)	337,500
Value of relief supplies	20,000
Value of exempt supplies	150,000

Required:

- (i) Determine the formula for computation of Claimable Input Tax based on “The Standard Method”. (3 marks)
- (ii) Compute Claimable Input Tax based on “The Standard Method”. (7 marks)
- (iii) Discuss the procedures, considerations and conditions under which “Special Methods” would apply. (10 marks)

(Total: 20 marks)

QUESTION 2

It has been said that taxation is an economic tool.

To what extent, if any, is this assertion valid in Ghana?

(Total: 20 marks)

QUESTION 3

- (a) Charles Kimble, a representative of Global Airlines, a company resident in Sweden, is in the country to explore investment opportunities in the air transport business.

Required:

He wants your advice on the tax implications if the company extends its operations to Ghana. (10 marks)

- (b) Sarah Asiedu is the proprietor of a restaurant which provides continental as well as local dishes and in the evening with live music.

Sarah is naturally endowed with a very sweet voice. On occasions, she mounts the stage to sing with the band or to render a solo.

The local tax inspector who patronises the restaurant raised an assessment on her including her receipts for the singing.

She vehemently protested saying they were donations.

Required:

State your opinion regarding Sarah Asiedu's protest. (5 marks)

- (c) The Managing Director of a firm producing electric appliances was encouraged by the Board to join social clubs in order to boost the image of the company and advertise its products.

His subscriptions and entertainment expenses were borne by the company and charged in the accounts.

Required:

Determine the deductibility of the expenses. (5 marks)

(Total: 20 marks)

QUESTION 4

It is said that Ghana's Income Tax System is based on the source jurisdiction.

Required:

Discuss this statement indicating any aspects of Act 592 which give this impression. **(Total: 20 marks)**

QUESTION 5

Mr Simon Adeleke has been in the employment of Balloons Limited since July, 2001 on a salary of ₦132,000,000 x 600,000 – 180,000,000 per annum. He contributes to the social security scheme. His other entitlements are:-

- i. accommodation with furnishing
- ii. vehicle with fuel
- iii. risk allowance ...₦500,000 per month.

He is married with four children, two of whom are at St Mary's Secondary School and the other two at Catholic JSS. He has a life policy with a monthly premium of ₦50,000 attracting a sum of ₦5,000,000.

Mr Adeleke also operates a haulage business. Accounts for the year ended 30th September, 2003 showed the following position:

Salaries/Wages	₦346,000,000	Earning (Net)	₦925,000,000
Repairs/Maintenance	172,000,000	Rents	216,000,000
Fuel/Lubricants	72,600,000		
Insurance	56,000,000		
Tyres	138,000,000		
Office Expenses	8,664,865		
Rent/Rates	26,000,000		
Utility Bills	18,000,000		
Business Promotion	35,000,000		
Bank Charges	2,135,135		
Depreciation	28,200,000		
Net Profit	<u>238,200,000</u>		
	<u>1,141,000,000</u>		<u>1,141,000,000</u>

Notes to the Accounts:

- i. Earnings have suffered a $7\frac{1}{2}\%$ withholding tax.
- ii. Salaries – Mr Adeleke collects ₦2.5 million per month.
- iii. Repairs/Maintenance:

(a) Periodic general maintenance	₦27,000,000
(b) Replacement of engine	120,000,000
(c) General repairs	<u>25,000,000</u>
	<u>172,000,000</u>

- iv. Business Promotion:-

(a) Tips	11,000,000
(b) Lunch/Dinner	<u>24,000,000</u>
	<u>35,000,000</u>

v. Capital Allowance:-

This was computed as ₦352,500,000

vi. P. A. Y. E.

vii. Rates of Tax

	1,200,000	.....	Free
	1,200,000	.....	5%
	3,000,000	.....	10%
	18,600,000	.....	15%
	24,000,000	.....	20%
Exceeding	48,000,000	.....	30%

Required:

To determine any tax due by Mr Simon Adeleke for the year 2003.

(Total: 20 marks)