

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



NOVEMBER 2006 EXAMINATIONS
(PROFESSIONAL)

PART 2

**TAXATION
(Paper 2.4)**

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

- (a) Under the Value Added Tax Act 1998, a person dissatisfied with the decision of the Commissioner may lodge an appeal with any court with jurisdiction to hear and determine tax disputes.
- i. What obligations must the taxable person fulfill before lodging the appeal?
(5 marks)
 - ii. Should the taxable person appeal, what are his rights under the Act?
(5 Marks)
- (b) Under what circumstances will the Commissioner of Internal Revenue Service use his best of judgment in making a final assessment of the chargeable income and tax payable for a particular year?
(5 Marks)

(Total: 15 Marks)

QUESTION 2

- (a) General Investments Ltd has two subsidiaries which are 100% owned.

In the year 2001 the company made an advance of ₦200 billion to one of its subsidiaries for the purchase of machinery for a garment factory. After five years, the subsidiary went bankrupt due to the influx of Chinese garments into the country. No buyer could be found for the machines and the advance proved irrecoverable.

General Investments Ltd wrote-off the amount as bad debt.

- (i) What constitutes bad debt under the Internal Revenue Act?
- (ii) What conditions must be met before a bad debt will be allowed as a deduction?
(10 Marks)

- (b) In the year 2005 Papa Foods Ltd in a bid to establish a Research and Development Department acquired equipment, including computers, renovated part of its building to house the research staff and recruited and trained staff to an amount of ₦1,000,000,000.

The company wrote-off the amount as research and development expenditure.

- (i) For tax purposes, what amounts to Research and Development Expenditure?
- (ii) What should be the appropriate treatment of the above expenditure by papa Foods Ltd for tax purposes?
(10 Marks)

(Total 20 Marks)

QUESTION 3

A person who receives a taxable gift shall within 30 days of receipt furnish the Commissioner with a return in writing.

- (a) Outline the content of such a return. *(5 Marks)*
- (b) Joe Pasasa a loyal member of the Government was appointed District Chief Executive of Ogya District a new district in the Central Region on 15th March 2004. On the occasion of his induction to office he received the following gifts:

<u>TYPES OF GIFT</u>	<u>DONOR</u>	<u>VALUE</u>
Cash	Son living in UK	\$2,000 @ ¢9,200
Wrist Watch	His daughter's classmate	¢1,000,000
Two Plots of Land	Omanhene of Ogya	¢30,000,000
Kente Cloth	Mother-in-law	¢2,500,000
Cash	Old classmates	¢10,000,000
Toyota Camry (Salon)	His nephew living in UK	¢120,000,000

Required:

Compute any tax payable by Mr. Joe Pasasa.

(8 Marks)

- (c) Outline any four (4) benefits that Ghana is bound to get if it enters into double taxation treaties with other countries.

(12 Marks)

(Total: 25 Marks)

QUESTION 4

Mr. Ben Fosu is the Finance Director of ABL Loans and Savings Company Ltd. He has been in the company's employment for the past five (5) years and was on a monthly salary of ¢10,000,000 for the period January to June 2005.

Mr. Ben Fosu was relieved of his post on 30th June 2005 and paid the following:

	¢
Lumpsum Ex-gratia payment	100,000,000
Statutory redundancy payment	50,000,000
Payment in lieu of notice (1 month salary)	<u>10,000,000</u>
	<u>160,000,000</u>

He was allowed to keep his company car valued at ₺70,000,000 without making any payment.

Following a period of unemployment he had an offer from a Bank for employment. The financial aspects of the offer are that he will receive the following:

- (i) A basic salary of ₺240,000,000 per annum.
- (ii) A fully furnished accommodation. He will be in a company owned flat. Mr. Fosu will pay ₺1,000,000 a month for the accommodation.
- (iii) The company requires smart appearance from its employees. A clothing allowance of ₺10,000,000 will be paid each year.
- (iv) The company will provide him time off to pursue a part time MBA course at GIMPA. The fees for the course amounting to ₺140,000,000 will be borne by the company.
- (v) An interest free loan of ₺240,000,000 to buy a car for his own use will be provided. Fuel will be provided for use of the vehicle for Official Duties.

Required:

- (a) Determine the total assessable income of Mr. Ben Fosu assuming he remained unemployed to the end of the year. **(5 Marks)**
- (a) Prepare brief notes in preparation for a meeting with Mr. Ben Fosu on the proposed benefits package. **(20 Marks)**

(Total: 25 Marks)

QUESTION 5

Mr. Bediako bought a house at East Cantonment at the cost of ₵160,000,000 in the year 2000. He spent ₵80,000,000 to repair the house. In 2003 he decided to sell the house and therefore engaged a contractor to renovate the house so as to attract buyers. The renovation cost him ₵60,000,000. He engaged the services of a Sales Agent who was able to sell the house in November 2004 for ₵900,000,000 but charged a commission of 10% on the sale value.

Required:

- (a) To compute any taxes payable *(5 Marks)*
- (b) Assuming Mr. Bediako used all the proceeds (₵900,000,000) he realized from the sale to buy a new building at East Legon in December 2004; compute any taxes payable. *(5 Marks)*
- (c) Assuming that he used ₵600,000,000 out of the amount to buy the new house; compute any taxes payable. *(5 Marks)*

(Show workings)

(Total: 15 Marks)