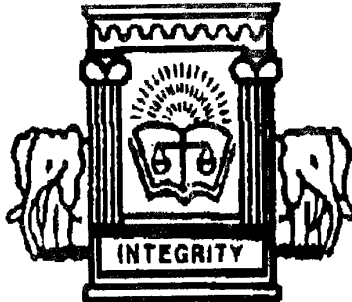


**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



NOVEMBER 2006 EXAMINATIONS
(PROFESSIONAL)

PART 3

ADVANCED TAX PLANNING & FISCAL POLICY
(Paper 3.4)

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

- (a). Explain the following
- (i) Operating Ratio
 - (ii) Operating Margin
 - (iii) Operational Cost
- (b) Compute the Mineral Royalty payable in the case of Good Luck Mining Co. Ltd. for the year ended 31/12/05.

Extracts of Trading, Profit and Loss Account are as follows:

	¢
Turnover	5,000,000,000
Investment Income	1,500,000,000
Rent from excess office Complex	500,000,000
Salaries & Wages	1,500,000,000
Consumable stores	300,000,000
Bank charges	200,000,000
Royalties paid	750,000,000
Depreciation	1,000,000,000
Loss on sale of asset	250,000,000
Income Tax paid	1,500,000,000
Capital allowance claimable	500,000,000

USE THESE RATES

<u>Operating Ratio</u>	<u>Rate of Royalty</u>
(a) 30% or less	- 3%
(b) Between 30% and 70%	- 3% plus 0.225 of every 1% by which Operating Ratio exceeds 3%
(c) 70% or more	- 12%

(20 Marks)

QUESTION 2

Discuss the following cases.

- (a) Tim Oluwalomi is a Nigerian resident in Lagos. He deals in Law books. He is an agent of H. S. Smith and Company Ltd of London. Since 2005 he has been supplying books to some institutions, libraries and individuals in Ghana. He comes to Ghana personally in a van stocked with Law books and supplies to his customers on credit.

The Internal Revenue Service got wind of his activities in Ghana and he was assessed to tax for the year of Assessment 2005. He objected strongly on the grounds that he is not based in Ghana. He has no office, no shop, nor address in Ghana. Is there any merit in his objection?

- (b) Gifty Mensah won a Mercedes Benz car in a Standard Chartered Customer Raffle Draw in 2004. She immediately sold the car to Silver Star Auto Company Ltd for ₵350,000,000 and used the proceeds to build a house. Is she liable to any tax?
- (c) Nipa Nua is the Regional Chairman of the Onlookers Peoples Party in the Western Region. There was a contract for the construction of a feeder road to his home town. He applied for the contract worth ten billion cedis and won. He has no equipment and road construction machines.

He gave the contract to a qualified contractor for a fee of twenty five million cedis. The contractor executed the job satisfactorily but charged the fee he paid in his accounts as expense. Should the fee be allowed as expense and should Nipa Nua be asked to pay tax on it?

- (d) Smooth Dry Gin Company Ltd. started manufacturing gin in a small house at Nungua in 1995. Ten years later the business had flourished such that the Company obtained a loan from Merchant Bank to expand its business.

A new factory and warehousing facilities were built at Asamankese. The company transferred all its machinery and equipment to the new site in early 2006. In the accounts for the year ended 30/06/06 the company charged the cost of removal of equipment and installation of same as expenses. What is your reaction?

- (e) Johnny Smart is a lawyer resident in Tema. He has his chambers in Accra. He has no means of transport. Accordingly, he has arranged with a taxi driver who picks him for moderate fees.

For year ended 31/12/05 the taxi driver submitted the following bill which he also charged in his accounts.

		¢
From Tema to chambers	=	3,000,000
From chambers to various courts	=	1,000,000
From chambers back to Tema	=	<u>3,000,000</u>
Total		<u>7,000,000</u>

Should this be accepted and why?

(20 Marks)

QUESTION 3

In recent times (since 1997) Ghana has signed Double Taxation Avoidance Agreements with some countries.

- i. In general terms, what are the implications or import of such Agreements?
- ii. In your estimation, do you think Ghana stands to gain from these Agreements?
- iii. Name three countries which have signed this Agreement with Ghana since 1997.

(20 Marks)

QUESTION 4

Below are extracts of the Accounts of Safeway Insurance Co. Ltd. for year ended 31/12/05

SHORT TERM

	¢
Gross Premiums Received	2,500,000,000
Claims settled during the year	300,000,000
Reinsurance premiums paid	200,000,000
Salaries and Wages	600,000,000
General and Admin. Expense	100,000,000
Commission paid to Agents	500,000
Recoveries under Reinsurance	150,000,000
Premiums returned to clients	1,250,000
Interest earned on Loans	1,005,000,000
Capital Allowance Claimable	70,000,000
Reserve at close of previous year	1,200,000,000

Note

Reserve is calculated at 40% of Net premium Income.

LIFE

	¢
Interest on Treasury Bills	475,000,000
Interest from H.F.C. Unit Trust	250,000,000
General and Admin. Expenses	310,000,000
Salaries and Wages	450,000,000
Capital Allowance Claimable	15,000,000
Redemption of policies matured	500,000,000

Required:

Find the tax payable by the Insurance Company. Use Tax rate of 28%.

(20 Marks)

QUESTION 5

A renowned economist, Dr. Nii Moi Thompson has argued recently that the Value Added Tax (VAT) Service at present collects only a fraction of its potential. He asserted that if the service is working efficiently it can boost its present collection four fold. Do you agree with this statement?

What should be done to make the service more efficient?

(20 Marks)