

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



**MAY 2007 EXAMINATIONS
(PROFESSIONAL)**

PART 2

**TAXATION
(Paper 2.4)**

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

A taxable trade whose input tax exceeds the amount of output is allowed to claim a refund of the excess.

a) Outline the conditions under which the trader can get a refund of the VAT paid on his/her inputs for business purposes. (8 marks)

b) Under what circumstances would this overpayment not be refunded? (6 marks)

c) List any **six (6)** powers of officers of Customs, Excise and Preventive Service under PNDC Law 330 as amended. (6 marks)

(Total: 20 marks)

QUESTION 2

Kassim Ibrahim has been employed as the Chief Accountant of Peekay Ltd for several years. His gross salary per month as at 1st January 2005 was ₵12,000,000.

He is entitled to the following unconsolidated monthly allowances:

	₵
Responsibility allowance	800,000
House help allowance	500,000
Accountable Imprest	600,000

He is provided with a company vehicle with fuel for his official and private use.

The employer also provides him with a well furnished accommodation.

He contributes 5% of his basic salary to Social Security and another 5% to a Provident Fund. His employer also contributes 10% of his basic salary to the Provident Fund.

He is married with four children who are attending Government Registered Senior Secondary Schools in different parts of Ghana.

In May 2005 he was promoted to the rank of General Manager with a basic salary of ₵16,000,000 per month.

His other allowances and benefits remained the same throughout the year 2005.

Required:

Calculate his tax liability for each of the months January 2005 and May 2005 using the annual rate only.

2005 ANNUAL TAX RATE SCHEDULE – INDIVIDUAL

	<u>INCOME</u>	<u>RATE</u>	<u>TAX THEREON</u>
First	1,800,000	0%	0
Next	1,800,000	5%	90,000
Next	4,800,000	10%	480,000
Next	27,600,000	15%	4,140,000
Next	36,000,000	20%	7,200,000
Exceeding	72,000,000	28%	

(25 marks)

QUESTION 3

a) State any **four (4)** situations in which the gains arising from the disposal of chargeable assets are not subject to capital gains tax. **(10 marks)**

b) K. K. Peters acquired 20 plots of land at Weija in the Ga South District of Accra at a total cost of ₵10,000,000 for the cultivation of vegetables in 1980.

In 2004 he decided to sell the land to individual developers for residential premises and so engaged the services of a surveyor who charged him ₵1,000,000 per plot for the demarcation and plotting work.

The valuers determined the 20 plots of land to be worth ₵200,000,000 as at 2004.

K. K. sold all the plots of land in November 2006 for ₵350,000,000.

He incurred incidental expenses like fees charged by lawyers in drafting documents, labour to clear the land and commission to agent all totaling ₵50,000,000.

Required:

Compute any capital gain tax arising from the transaction. Give reasons for your action

(5 marks)

(Total: 15 marks)

QUESTION 4

Mr. John Hopkins was appointed the managing director of a local bank with effect from July 1, 2005.

The company paid him a living allowance of ₵20,000,000 per month which was used in computing his monthly PAYE which was paid to the Internal Revenue Service.

During audit in May 2006 the tax auditors obtained his employment contract which showed the following details.

Basic salary (annual)	₵750,000,000
Living allowance (per month)	₵20,000,000

He was provided with an official vehicle, a driver and fuel. He also had a soft furnished accommodation. The contract also provided for the payment of a performance-based bonus. His salary was to be paid into his bank account outside Ghana.

Mr. Hopkins left his job after six months in office and returned to his home country in January 2006.

Required:

- (a) Compute the tax already paid for the period July to December 2005.
- (b) Compute the actual tax due for the year 2005
- (c) What are the consequences for the company of the above transaction?

Tax Rates

		Rate
First	2,400,000	-
Next	2,400,000	5
Next	12,000,000	10
Next	79,200,000	17.5
Above	91,000,000	25

(20 marks)

QUESTION 5

- a) What is a Tax relief?
- b) Under the tax Relief Card system some relieves are granted upfront. What are these reliefs?
- c) What factors are considered in granting the relief in respect of life insurance under section 57 of Act 592?
- d) What are the obligations of the employer and employee under the Tax Relief Card System?

(20 marks)