

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



**MAY 2007 EXAMINATIONS
(PROFESSIONAL)**

PART 3

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

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

“Whatever Internal Revenue Service (I.R.S.) loses by way of under-invoicing, Customs, Excise and Preventive Services (CEPS) gains by way of over-invoicing”

How true is this statement? What measures are available to both IRS and CEPS to counteract such practices?

(20 marks)

QUESTION 2

Jimmy Craig is the Mines Supervisor of AngloGold Co Ltd based in South Africa. He was posted from South Africa to Ghana to advise on some faulty shafts at Obuasi.

He arrived and started work on 1st September 2005. He left his wife and children in South Africa where the children are attending school. His consolidated salary was ₵240,000,000 a month but he requested that half of the amount should be paid into his Bank Account in South Africa for the benefit of his wife and children.

While in Ghana, he received a management offer from Goldfields to offer or provide technical advice on a similar problem Goldfields was facing at that time.

He was paid ₵100,000,000 a month by Goldfields from October to December 2005. Tax of 15% was deducted from this payment.

During his short stay he found that Ghana has huge tourism potential. Accordingly he transferred \$50,000 from his Bank Account in London to enable him establish a holiday resort at Bortianor, near Accra. The project commenced in November 2005. The full amount was used.

Unfortunately the company's mines in Tanzania also developed similar problems and he was posted to Tanzania as from 1st January 2006. Before leaving he sold the holiday resort to another investor for \$55,000.

Required:

- (i) Find any taxes payable
- (ii) Use \$1 = ₵9,000

(20 marks)

QUESTION 3

Dr, Jimmy Wattalah, a consultant surgeon, was seconded from Cuba to the Tamale Teaching Hospital for 15 months effective from 1st October, 2004.

His contract of service provided for a consolidated salary of ¢240 million per annum. He was also paid a flat fee of ¢5 million per month for overtime and inconvenience

Other benefits include the following:

- i. a furnished accommodation
- ii. a watchman, garden boy and steward who were paid ¢800,000 each per month,
- iii. car with fuel

Dr. Wattalah was found to be a very conscientious worker but was getting too much involved in local politics. His appointment was therefore terminated with effect from 1st May, 2005 and was paid:-

- i. ¢60 million as salary in lieu of notice and
- ii. ¢140 million as compensation for loss of office

Before leaving Tamale, he distributed the amount of ¢200 million he received as terminal payments as follows:

i.	Catholic diocese, Tamale	¢20 million
ii.	Children's Block, Tamale Hospital	¢100 million
iii.	Gbewaa Tennis Club	¢20 million
iv.	Nurses, Children's Block	¢30 million
v.	Watchman, Garden Boy and Steward	¢30 million

Required:

Determine any taxes payable giving reasons where necessary.

(20 marks)

QUESTION 4

JUNNIIPER Manufacturing Company commenced business on 1/10/05 and presented the first accounts to year ended 30/9/06. Extracts from the Profit and Loss Account are as follows:

Management Salaries	₪ 420,000,000	Gross Profit b/d	₪ 2,500,000,000
Staff Salaries	650,000,000	Rent Received	24,000,000
Office rent	360,000,000		
Depreciation	60,000,000		
Vehicles repairs	74,000,000		
Repairs to factory premises	42,000,000		
Advertisements	112,000,000		
Office Expenses	200,000,000		
Miscellaneous	124,000,000		
Net Profit	482,000,000		
	2,524,000,000		2,524,000,000

NOTES TO ACCOUNTS

- Rents Received: This is surplus office space which was sublet to a nearby business house. This is a year's rent received.
- The factory premises is an old warehouse built in 1980. It cost ₪30,000,000. The company bought it in 2005 for ₪350,000,000 including ₪50,000,000 for goodwill.
- Office Rent: The office is separate from the factory. The amount is 3 years rent advance paid.
- Vehicle Repairs: This is made up as follows:-

Replacement of engine before commencement of business	=	₪ 50,000,000
Petrol, oil, tyres and tubes	=	24,000,000
- The vehicle is a used Delivery Van which was purchased at a cost of ₪200,000,000
- Repairs to factory: these expenses were made before commencement of business

Cost of terrazzo floor	=	₪ 25,000,000
New Iron gates	=	5,000,000
Painting and white washing	=	12,000,000
- Depreciation is in respect of factory building and vehicle.
- Advertisement: These are the details

Cost of Neon sign	=	₪ 60,000,000
Newspapers and T.V.	=	52,000,000

9.	Office Expenses: details are below		¢
	Cost of computer	=	120,000,000
	Stationery and Stores	=	80,000,000
10.	Miscellaneous: these are the details		¢
	Cost of registration and incorporation of business	=	100,000,000
	Retainer fee of lawyer	=	24,000,000

Required:

Find the net tax liability for the company which is located at Nsawam, a town which is located outside Accra-Tema Industrial area and which is not a regional capital.

(20 marks)

QUESTION 5

Kofi Adjah inherited a two storey building at Kumasi from his late father in 1992. It was then valued at ¢360 million.

He obtained a loan of ¢120 million from his bankers and converted it into stores and offices in 1995. It was rented out in January, 1996 attracting a gross rent of ¢180 million per annum.

In 1998, Kofi left for the United Kingdom to study law. Before leaving, he arranged with his bankers to remit to him an amount of ¢120 million per annum from his accounts.

He returned in February, 2003 and sold the building for ¢900 million in August of the same year. He then purchased another building at Tema in April, 2004 for ¢600 million.

He used the ground floor as stores and the second floor as his chambers.

Required:

Determine any tax implications.

(20 marks)