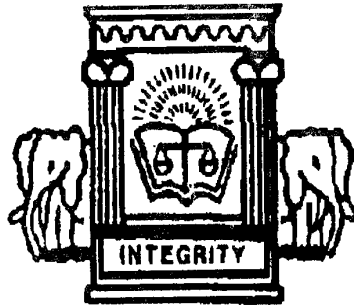


**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**MAY 2008 EXAMINATIONS
(PROFESSIONAL)**

PART 3

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

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

James Mahama has decided to return home after 15 years in California, U.S.A. He intends to go into cattle rearing and eventually produce corned beef and other meat products.

Required:

Advise on all available tax incentives.

(20 marks)

QUESTION 2

Afutu Fruit Processing Co. Ltd commenced business at Assin Fosu in the Central Region on 1/10/02.

The company processes all kinds of fruits into drinks for the local market. The company was registered on 1/7/02 but commenced business on 1/10/02. It acquired the following assets for use in the business:

Factory building was completed on 1/7/02 at a cost of ₵500,000,000. Plant and machinery was installed on 1/8/03 at a cost of ₵850,000,000. 2 Delivery Trucks costing ₵500,000,000 were acquired on 1/9/02.

The Trucks were found to be unsuitable and so were exchanged on 1/01/04 for better ones from the same dealers.

The cost of the two new ones was ₵900,000,000 but the company paid ₵500,000,000 as the difference after the bargain.

The company declared the following results:

<u>YEAR</u>	<u>INCOME</u>
Year to 30/9/03	₵ (50,000,000)
Year to 30/9/04	1,750,000,000

Required:

Find the tax payable by the company for all relevant years.

(20 marks)

QUESTION 3

Discuss the tax implications of the following cases.

- (a) New-Ways Mining Co. Ltd which has been operating in Sampa for the past ten years decided to put up ten classrooms for the local primary school and also dig two boreholes for the village. In the year 2006 the Company spent GH¢50,000 on these projects. This amount was charged against profits. Is it allowable?
- (b) There was an auction sale of seized cars by Customs, Excise and Preventive Service, (CEPS) last year. A messenger who works at CEPS obtained a loan from a money lender and bought a Mercedes Benz car at the auction sale for GH¢5,000. The following week, he sold the car for GH¢12,000 and paid off the loan with interest totalling GH¢5,500. Is this money assessable to tax?
- (c) An oil distributing company gave a client a loan to establish a retail outlet on the outskirts of Accra. The loan and interest was to be repaid through commissions earned by the distributor. After completion of the station, it was pulled down because there was no prior permit from the Environmental Protection Agency. The business could not be undertaken any more. The Oil Company charged the loan as loss in its accounts. Is it allowable?
- (d) Mr. John Mensah is one of the pioneers of Papaye Fast Foods Ltd. He started with the Company and knows a lot about its operations. He retired at the end of 2006. The Company paid him all his entitlements and, in addition, GH¢5,000 to dissuade him from setting up similar fast food joint in the Accra Metropolis.
He agreed to set up one in Kumasi instead.
The Company charged the additional GH¢5,000 as part of its expenses. Is it allowable?
- (e) Jo-joy Company Ltd did business in a building on Asafoatse Nettey Road in Accra. The Company was given 20 years lease with the option to renew. The original lease was to expire in 2010 and the Company hoped to continue business after that date. However the Company realized that the building was in a state of disrepair. In order to enable it to continue its business, the Company entered into agreement with the lessor to carry out repairs and improvements. The building is more than 100 years old.
The ceiling was re-roofed, the joints were fitted with iron rods and concrete walls were erected. In all, the company spent GH¢5,000 and charged the expenses to Profit and Loss Account. Is it allowable? **(20 marks)**

QUESTION 4

The primary responsibility of the Tax Consultant is to complement the work of the Tax Administrator to collect just and fair taxes but not to assist his client to evade tax. How does the Tax Consultant play this complementary role?

(20 marks)

QUESTION 5

Charlie Kusorgbor has been in the employment of Solid Construction Limited since 1992. On 1st May 2002 he was promoted Works Foreman and placed on a salary scale of GH¢6,000 x 1,200 to 9,600 per annum.

His other entitlements were listed as follows:

Risk allowance	-	GH¢50 per month
Responsibility allowance	-	GH¢50 per month
Medical allowance	-	GH¢50 per month

He was provided with accommodation and a vehicle with fuel and driver at every construction site he resided and worked. For this, he was paid inconvenience allowance of GH¢100 every month.

The Company won a contract for the construction of a Senior High School and teachers bungalows at Sogakope and Charlie was requested to move to the site.

Charlie started to meddle in chieftaincy affairs in the area giving him not much time to concentrate on his work. His appointment was therefore terminated on 1st October, 2007.

He was paid the following:

i.	Three months salary in lieu of notice	-	GH¢3,000
ii.	Compensation for loss of office	-	GH¢10,000
iii.	Gratuity for long service	-	GH¢30,000
iv.	He was allowed to take home the rickety Company pick-up he was using valued at	-	GH¢3,600

Charlie is not married but he is responsible for his three children who are all attending registered Senior High Schools.

Required:

Compute his tax liability for the year 2007. Show full workings and give brief reasons for the assessability or otherwise of any payments or benefits received.

Rates of Tax:

First 240		Free
Next 240	at	5%
Next 1200	at	10%
Next 7920	at	17.5%
Next 9600	at	25%

(20 marks)