

SOLUTION: TAXATION MAY 2008

QUESTION 1

Computation of Mr. Johnson Zakari's Tax Liability for 2000
(Basis Period: 1/1/06 to 31/12/06)

		¢	
	1/9/00 - 31/8/01		120,000,000
	1/9/01 - 31/8/02		126,000,000
	1/9/02 - 31/8/03		132,000,000
	1/9/03 - 31/8/04		138,000,000
	1/9/04 - 31/8/05		144,000,000
	1/9/05 - 31/8/06		150,000,000
	1/9/06 - 31/8/07		150,000,000
Basic salary:			¢
	1/1/06 - 31/8/06	8/12 x 150,000,000	= 100,000,000
	1/9/06 - 31/12/06	4/12 x 150,000,000	= <u>50,000,000</u>
			150,000,000
Add Allowances:			
	Duty Post Allowance	(7.5% x 150m)	11,250,000
	Professional allowance	(15% x 150m)	22,500,000
	Risks Allowance	(2.5% x 150m)	<u>3,750,000</u>
			<u>37,500,000</u>
Total cash emolument			187,500,000
<u>Add</u>			
	Car element	(15% x 187,500,000)	28,125,000
	Restrict to		3,600,000
			<u>3,600,000</u>
	Qualifying employment Income		191,100,000
	Add: Business Income		<u>28,125,000</u>
Total Assessable Income			<u>219,225,000</u>
Reliefs			
	Less/Liability/Marriage	300,000	
	Child education	720,000	
	SSF (5% is 150m)	<u>7,500,000</u>	<u>8,520,000</u>
	Chargeable Income		210,705,000
Total charged (W1)			43,856,000
Tax Paid:			
	PAYE		24,856,000
	CIT		<u>4,000,000</u>
			<u>28,856,250</u>
Tax Payable			<u>15,000,000</u>

(W1)

Tax Computation

<u>CI</u>	<u>RATE</u>	<u>TAX</u>
¢		¢
2,400,000	Nil	-
2,400,000	5%	120,000
12,000,000	10%	1,200,000
79,200,000	17.5%	13,860,000
114,705,000	25%	<u>28,676,250</u>
		<u>43,856,250</u>

QUESTION 2

- (a) (i) Import Duty
- (ii) Import VAT
- (iii) National Health Insurance Levy on goods imported
- (iv) Export Duty
- (v) Excise Duty
- (vi) Export Development and Investment Fund Levy (EDIF)
- (vii) Inspection Fee
- (viii) Examination Fees. This fee is paid for valuation services in respect of imported used motor vehicles
- (ix) Ecowas Levy
- (x) Special duty

(b) Exempt Supply	Zero Rated Supply
(i) Transactions are not taxable	(i) Transactions are taxable at 0%
(ii) Do not attract any VAT	(ii) Attract VAT
(iii) Supplies fall outside the scope of VAT	(iii) Falls within the scope of VAT
(iv) Traders engaged exclusively in the sale or supply of exempted supply and services are not obliged to Register for VAT	(iv) Traders engaged in supply and sale of zero rated goods and services may Register for VAT
(v) Dealers in exempt supplies cannot recover any input tax that may have been paid on inputs relating to exempt supplies.	(v) Dealers in zero rated goods may recover any input tax incurred.

A taxable person may recover the VAT on stocks and total goods purchased or imported prior to Registration provided that:

- (i) The goods are still in the ownership and possession of the taxable person.
- (ii) In the case of stock, the purchase or import occurred not more than four (4) months prior to the date of Registration.
- (iii) In the case of capital goods, the purchase or import occurred not more than six (6) months prior to the date of registration.
- (iv) The taxable person is in possession of a tax invoice or relevant customs entry.
- (v) The taxable person produces an inventory of all goods on hand on the effective date of Registration.

QUESTION 3

COMPUTATION OF CAPITAL ALLOWANCE FOR AGYA BAFFOUR & CO LD – 2000

Basis period (1/1/00 – 31/12/00)

	<u>COMPUTER</u>	<u>MOTOR VEHICLE GT 3518R</u>	<u>MOTOR VEHICLE GR 2512C</u>	<u>F/F</u>	<u>P/M</u>	<u>BUILDING</u>
	¢	¢	¢	¢	¢	¢
WDU @ 1/1/00	4,120,000	8,650,000	5,058,295	1,254,700	120,000,000	68,000,000
Capital Allowance	<u>824,000</u>	<u>1,297,500</u>	<u>779,295</u>	<u>94,100</u>	<u>35,000,000</u>	<u>2,058,000</u>
Residue c/f	3,296,000	7,352,500	4,279,000	1,160,600	85,000,000	65,542,000

COMPUTATION OF CAPITAL ALLOWANCE – 2001

Basis period 1/1/01 – 31/12/01

<u>POOL</u>	<u>RATE</u>	<u>W/D C/F</u>	<u>ADDITIONS</u>	<u>DISPOSAL</u>	<u>TOTAL</u>	<u>DEP. ALLOWCE.</u>	<u>WDU C/F</u>
Pool 1	40%	3,296,000	19,500,000	-	22,996,000	9,118,400	13,677,000
Pool 2	30%	96,631,500	300,000,000	(8,000,000)	388,631,500	116,589,450	272,042,050
Pool 4	20%	1,160,600	60,000,000	(250,000)	60,910,500	12,182,120	48,728,480
Class 5 (i)	(10%)	66,542,000	56,000,000		122,542,000	12,254,200	110,287,802
		<u>65,942,000</u>		-	<u>12,942,000</u>	12,194,200	797,800
5 (ii)			56,000			5,600	

QUESTION 4

(a)

APPORTIONMENT OF CONSIDERATION

<u>ASSETS</u>	<u>MARKET VALUE</u>	<u>CONSIDERATION</u>
Building	620,000,000	3,491,578,947
Toyota Land cruiser	75,000,000	422,368,421
Set of Furniture	15,000,000	84,473,684
Land	<u>240,000,000</u>	<u>1,351,578,948</u>
	<u>950,000,000</u>	<u>5,350,000,000</u>

COMPUTATION OF CAPITAL GAIN

<u>Chargeable Assets</u>	<u>Building</u>	<u>Land</u>
Consideration	3,491,578,947	1,351,578,948
Cost base	<u>450,000,000</u>	<u>167,800,000</u>
Capital Gain	3,041,578,947	1,183,778,948
Total Gain	4,225,357,895	
Less	<u>500,000</u>	
	4,224,857,895	
Tax thereon @ 5%	<u>211,242,895</u>	

(b) (a) The amount is subject to tax in accordance with section 106 of Act 592 as commended by Section (3d) of Act 644 which provide inter alia “a favour in money or money’s worth or a consideration for an act or omission or the forbearance of an act or omission that accrues for or for the benefit of a resident person constitute a taxable gift.

a. Alhaji Musah is required to file gift tax return within 30 days of the receipt of gift. (Payment of school fees)

b. COMPUTATION OF GIFT TAX
ALHAJI MUSAH ABEDI

Taxable Gift	GH¢ 10,000
Less	<u>50</u>
	9,950
Tax thereon @ 5%	<u>497.50</u>

QUESTION 5

Benefits of Withholding Tax

- (1) It helps in mobilizing tax revenue quickly/faster. The upfront payments of taxes by taxpayers before the statutory period under which returns are filed enables the government realize tax revenue in advance.
- (2) The requirement that a withholding agent should provide the commissioner of IRS the names withheld is a means to expand the tax net. The information provided gives the commissioner taxpayers who hitherto may not be in the tax bracket.
- (3) It helps in determining a person's turnover and thus ascertaining the correct income for tax purposes.
- (4) The self accounting nature of the system makes cost of collection very small.
- (5) It saves time for officers of IRS to concentrate on other equally important assignments.

Effects of Withholding Tax

- (i) The cashflow of most businesses will be affected since they receive monies less than what they have estimated in the invoices.
- (ii) A high rate in withholding tax is likely to affect the operational performance of most businesses.
- (iii) The system leads to the locking up of capital of businesses.
- (iv) If the system continues and it becomes efficient it will lead to laxity in the Revenue Agencies.

A withholding tax is deemed a final tax if the tax withheld satisfies the liability of the taxpayer and the income should not be included in ascertaining the person's assessable income.