

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



**NOVEMBER 2008 EXAMINATIONS
(PROFESSIONAL)**

PART 3

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

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

Nii Allotey Stephens has been a field officer of the Grains Development Board for several years up to 31st July, 2006 when he resigned. At the time of his resignation, he was on a salary of GH¢7,200 per annum and field allowance of GH¢50 per month. He contributed 5% of his salary to the Social Security Scheme.

On 1st August, 2006, he took up an appointment as farm manager of Fresh Fields Limited on a salary of GH¢14,400 per annum. His other entitlements were agreed as follows:

- | | | |
|------|--------------------------------|------------------|
| i. | Responsibility Allowance | GH¢150 per month |
| ii. | Inconvenience Allowance | GH¢50 “ “ |
| iii. | Children’s Education Allowance | GH¢100 “ “ |
| iv. | Risk Allowance | GH¢100 “ “ |

Mr. Stephens was provided with a double cabin pick-up with a driver and fuel. He was also provided with a furnished accommodation at the farm. He contributes 5% of his salary to the Social Security Scheme.

Mr. Stephens has two wives and six children but lives at the farm with a house help. Two of the children are at Kindergarten while the other four are at Junior High Schools in Accra. He has full responsibility over his family and his aged mother. He also has a life policy with a capital sum of GH¢4,000 and a premium of GH¢15 per month.

Required:

Compute his tax liability for the year 2006 of assessment.

Rates of Tax:-

GH¢240	at	Free
Next GH¢240	at	5%
Next GH¢1,200	at	10%
Next GH¢7,920	at	17.5%
Exceeding GH¢9,600	at	25%

20 marks

QUESTION 2

Discuss the following cases.

- (a) Baba Nelson, a professional boxer, engaged in a non-title fight with Jeff Fighter in Australia in June 2008. Baba indicated that he will use his share of the prize money to set up a foundation to help poor and needy children. The fight took place in Australia and Baba remitted his share of the proceeds to Ghana for the purpose he has intended. Is he liable to pay tax on this amount, and why?
- (b) A Ghanaian, Ruby Dove, took part in a short story competition organised by the B. B. C. Ruby is a teacher by profession. Her story titled 'Poison' was selected among 90 other entries from 17 countries. She received a cash prize of £20,000 which was remitted to her in Ghana. Is she liable to tax on this amount, and why?
- (c) Kofi Mensah inherited a 3-storey building situated at Dzorwulu upon his father's death. The building cost GH¢1,000 to build in 1975. At the time of his father's death in 2003 the market value was GH¢10,000. He spent another GH¢10,000 to renovate and expand it for use as a hotel. The hotel business commenced in January 2008. Can he claim any capital allowances? Give reasons.
- (d) Ataa Ama, the proprietor of Lucky Bar at Osu, invested part of her profits in 182-day Treasury Bills in January 2007. The rate of interest was 12½% and the amount he invested was GH¢10,000. In April 2007 he was cash strapped and decided to withdraw the money. The Bank charged a rediscount fee of GH¢300. He charged this amount as expense in his income statement. Is it allowable? Give reasons.
- (e) A company decided to set up a Special Provident Fund for its workers. The company contributed 10% of each worker's salary into a special fund which was then invested. The company paid the full amount and the workers did not contribute anything.

Those who worked for 10 years or more are entitled to collect the amount with all accrued interests. The company charged the amount so contributed in its accounts. What are the tax implications for the company and the employees?

20 marks

QUESTION 3

Acumen Manufacturing Co Ltd has been in business for several years. The company manufactures iodated salt wholly for export to the Sahelian countries. The company prepares accounts to 31st March every year. The residue of the company's assets as at 31st March 2005 was as follows:

Class 2	=	GH¢1,500
Class 4	=	GH¢500

The company obtained a loan in order to expand the business and invested in the following areas:

Additional machinery costing GH¢5,000 was purchased on 1/1/06

New delivery trucks costing GH¢2,000 were purchased on 1/1/07

New factory building was completed on 28/2/07, at a cost of GH¢1,000

The interest on the loan was to be paid in one year and this affected the business.

The results of operations were as follows:

<u>Year ended</u>	<u>Results</u>
31/3/06	(GH¢3,000)
31/3/07	GH¢200,000

Required:

Calculate the tax liabilities of the company for 2006 and 2007 Assessment Years.

20 marks

QUESTION 4

Kassum Yahaya who has worked with BPK Bank Limited for the past twenty years was declared redundant at the recent reorganization exercise. He has decided to enter into Real Estate business with the money he got from his employers.

His business plans and projections that were sent to his bankers have been approved. He has approached you for tax advice on his business venture.

You are required to prepare a document on the taxation of rent income for his perusal.

20 marks

QUESTION 5

- (a) Bapaka Limited is to enter into a transaction whose tax implication is not clearly stated in the Internal Revenue Act, 2000 Act 592. Neither had there been any practice notes on how the transaction would be treated by the Commissioner. At a recent taxpayers' workshop the Managing Director attended, he was made to understand that in such a situation one can apply to the Commissioner for direction.

Required:

You have been approached by the director of the company for advice. What advice will you give?

(10 marks)

- (b) At a tax consultants' workshop, the Commissioner of Internal Revenue Service complained about the low level of compliance with respect to filing of Returns.

Required: Advise your clients on;

- (i) When they are expected to file returns stating clearly the consequences of any default.
- (ii) Situations where those requirement may not be needed.

(10 marks)

Total: 20 marks