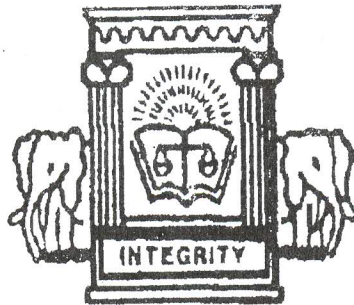


**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**NOVEMBER 2009 EXAMINATIONS
(PROFESSIONAL)**

PART 3

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

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

- a) Accruing in, derived from, brought into or received in Ghana are the fundamental principles to be observed in the assessment of income for tax purposes.

Required:

Briefly determine the relevance of this statement in the assessment of income chargeable to tax.

(8 marks)

- b) "The term "Market Value" is an essential tool in the assessment of a number of taxes".

Required:

Briefly explain and comment on this statement giving relevant examples.

(12 marks)

(Total: 20 marks)

QUESTION 2

Dr Jones Quartey is a Ghanaian aged 55. He has been resident in U. S. A. for the past 30 years.

After qualifying as a physician specialist, he worked with some private hospitals for some time before setting up his own practice which he has managed for 15 years.

Following the death of his father sometime in 2008, he decided to relocate to Ghana. In July 2008, he came home and registered a clinic as a private limited liability company.

In October 2008, he went to the U. S. A. to arrange for the shipment of equipment and drugs for the clinic.

Earlier in 2009, he went to the local office of the I. R. S. for a Tax clearance Certificate (TCC) to enable him clear his drugs and equipment from the ports.

He indicated during the documented interview that he was yet to commence operations at the clinic. He mentioned that he has brought the equipment of GH¢50,000 into Ghana from his savings abroad. He is using this amount as his capital to start the clinic. His clinic is located in a building bequeathed to him by his late father.

He was assessed to a provisional tax on an estimated income of GH¢500 each year for 2008 and 2009 respectively. He was asked to pay at least 50% deposit before the T. C. C. would be issued.

He approaches you as a Tax Consultant for assistance.

Required:

Outline the steps you would take to resolve the impasse and comment on the relevant tax issues.

(20 marks)

QUESTION 3

Alice Cane and Julie Whip, who are cousins, have been in partnership for several years trading in cosmetics. Their accounts are prepared to 31st December, each year.

Their partnership agreement is varied each year according to the prevailing economic circumstances. Details of the 2007 agreement are as follows:-

		<u>Alice</u>	<u>Julie</u>
Profit sharing ratio		<u>3</u>	<u>2</u>
		GH¢	GH¢
Salaries	per month	1,000	700
Transport allowance	" "	300	200
Rent allowance	" "	600	400
House help allowance	" "	300	200

These were charged in the accounts in arriving at a net profit of GH¢24,000.

The following expenses were also charged in the accounts:-

(a)	Entertainments	GH¢3,500
(b)	Miscellaneous	1,300
(c)	Donations	1,000
(d)	Medical	4,200
(e)	Depreciation	1,100

Breakdown is as follows:

(a)	<u>Entertainment (GH¢3,500)</u>	(b)	<u>Miscellaneous (GH¢1,300)</u>		
i.	Visitors at the shop	1,100	i.	Sanitation (Shop)	900
ii.	Lunch (Partners-Occasional)	1,500	ii.	Letter Box, Postages etc	400
iii.	Business Associates	<u>900</u>			<u>1,300</u>
		<u>3,500</u>			

(c) <u>Donations (GH¢1,000)</u>		(d) <u>Medical (GH¢4,200)</u>	
i. Alma-Mater	500	i. Partners	1,200
ii. Anglican Church	<u>500</u>	ii. Children	<u>3,000</u>
	<u>1,000</u>		<u>4,200</u>

Alice and Julie are both married and have a child each at Bishop's Girls School.

Residual values of assets used in the business as at 1st January, 2007 were as follows:-

		GH¢
(a) Nissan Pick-up	-	26,000
(b) Furniture and fixtures	-	8,000

A car was purchased in April, 2007 valued at GH¢23,000.

Required:

To compute the chargeable income of the partners for the year 2007.

(20 marks)

QUESTION 4

Multi-national companies use Tax Planning to minimize their tax liabilities. This can consist of shifting the tax base from high to low tax jurisdictions. Some strategies used by these companies are:

- Transfer Pricing Policies
- Debt Restructuring/Thin Capitalization
- Income splitting etc.

Required:

- (a) Briefly explain what you understand by
- (i) Transfer pricing
 - (ii) Income Splitting

(10 marks)

- (b) What remedies are available to the Commissioner to counteract the effects of these strategies?
(4 marks)
- (c) Briefly outline **two (2)** areas of transfer pricing that may be of concern to the Ghanaian taxman.
(4 marks)
- (d) What are the consequences for an exempt controlled entity with a Debt to Exempt Equity ratio in excess of 2:1?
(2 marks)
- (Total 20 marks)**

QUESTION 5

- a) Madam Okailey Armah, a prominent market queen and philanthropist, was nominated 'Asafoianye' of Namoale Traditional Area in Accra in January 2008.

On her out-dooring in August, 2008, as Naa Okailey Tsofatse I, she sat in state and received homage and gifts from her people, friends and business associates. The following were the quantifiable gifts she received:-

	GH¢
i. Market Queens Association	1,000
ii. Commercial Bank (Pick-up)	5,000
iii. Namoale Traditional Council	500
iv. Father-in-law	500
v. Anonymous Admirer	1,000

A week after her out-dooring, she made the following donations:-

i. Osu Children's Home	Pick-up
ii. Children's Hospital (Accra)	1,000
iii. Weija Leprosarium	500
iv. Children's ward, Korle Bu (Assorted Biscuits, fruits etc)	500
v. Thanks Offering (Freeman Memorial Church -- Bukom)	200

Required:

Determine any tax payable and briefly comment on the relevant tax implications.

(10 marks)

- b) It cannot be disputed that the Customs Excise and Preventive Service is one of the major revenue collecting agencies for government. Apart from this, the service also helps in promoting good social and moral standards.

Required:

Comment on how far these standards have been achieved giving reasons.

(10 marks)

(Total: 20 marks)