

**NOVEMBER 2017 PROFESSIONAL EXAMINATIONS  
TAXATION & FISCAL POLICY (PAPER 3.4)  
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

**STANDARD OF THE PAPER**

The questions followed the usual pattern in terms of standard, quality and coverage of the syllabus. It can be inferred that the standard of the questions was in line with what has been known over the years in the academic or professional community as far as ICAG final tax paper is concerned. The questions administered in the examination were very clear, unambiguous and relevant to contemporary issues. They were not error-ridden. The typing was quite clear and made reading easy.

I can say without any iota of contradiction that, the standard has been maintained and this should be sustained to help bring out the best in candidates. By and large, the paper was of the highest standard in recent times and should be maintained to compel students to sit up and be able to pass with distinction.

The marks allocated to each question and sub question were fashioned in accordance with the weighting in the syllabus known by students and in line with previous examinations.

**STRENGTHS & WEAKNESSES OF CANDIDATES**

Some students showed lack of preparation for the paper as most of them had no clue as to the requirement and the demands of the examiners.

The usual recall questions were missing in the paper. Others who prepared well were able to sail through. Notwithstanding the fact that students largely did not prepare for the paper as the trend showed, others did so well and gave good account of themselves. The Institute should continue to insist on quality from their examinations in terms of professional standard and broad coverage of the syllabus to make students read all the areas instead of doing selective reading.

## QUESTION ONE

- a) There has been misconceptions about the application of zero rated supply and exempt supplies under the VAT Act. In order to help clear this misconception, distinguish between *zero rated supply* and *exempt supplies* under the VAT Act 2013, (Act 870). **(5 marks)**
- b) Fiscal policy involves the use of government spending, taxation and borrowing to influence both the pattern of economic activity and also the level and growth of aggregate demand, output and employment.

**Required:**

Evaluate how taxation is used as a tool of fiscal policy **(6 marks)**

- c) Evaluate *the impact of government borrowing* (i.e. public debts) on: production capacity of the government, consumption, distribution of wealth and on the level of income in an economy. **(4 marks)**
- d) The Presidential Commission on Revenue Mobilization has indicated that tax evasion activities of some companies deny the state of its required revenue for development.

**Required:**

Explain what *tax evasion* is and identify **THREE** ways by which companies evade tax. **(5 marks)**

**(Total: 20 marks)**

## QUESTION TWO

Mr. Osei Bobie, an amputee, was the Senior Accountant of Soroku Mine Company Limited (a mining company) for many years with a basic salary of GH¢54,000 per annum. He was entitled to a company vehicle, fuel and Driver.

He acted for the Director of Finance in March, April and May 2016, during which month his salary was raised to GH¢5,000 per month.

Mr. Osei Bobie was housed in the company lavishly furnished accommodation on the mine.

He was also entitled to the following monthly allowances:

- Professional allowance GH¢400
- Responsibility allowance GH¢500

Mr Osei Bobie resigned from Soroku Mine Limited on 30 June, 2016. He received the following on his resignation:

- He was allowed to take home the Company's pick-up he was using valued at GH¢5,000.

- Cash Gifts from staff GH¢6,100.

On 1 August, 2016, he took up an appointment as Accounts Manager of Phinex Limited (a retailing company) on a salary of GH¢72,000 per annum. His other entitlements were agreed as follows:

Responsibility Allowance	-	GH¢150 per month
Cost of living Allowance	-	GH¢200 per month
Risk Allowance	-	GH¢100 per month
Overtime pay	-	GH¢250 per month
Bonus	-	GH¢1,500 in each December
Vehicle and fuel		
Accommodation only		

Mr. Osei Bobie finances the following insurance policies and also contributes to the Social Security and National Insurance Trust (SSNIT):

<b>Insured</b>	<b>Premium GH¢</b>	<b>Sum Assured GH¢</b>
Mrs. Gameli (sister)	500	4,000
Mr. Osei Bobie	3,600	35,000

Mr. Osei Bobie is not married but he is responsible for his three children who are all attending registered Senior High Schools. Mr. Osei Bobie supports his 72 year old grandmother with GH¢300 per month notwithstanding her immense wealth. His grandmother depends entirely on him.

**Required:**

- Compute the *assessable income* and *tax payable* of Mr. Osei Bobie for the year 2016. **(17 marks)**
- Identify **THREE** circumstances under which tax revenue is said to be at risk. **(3 marks)**

**(Total: 20 marks)**

**QUESTION THREE**

- Following the government's commitment to build one factory in each district in Ghana, an investor from Mauritius intends to invest in ICT- Hardware manufacturing company to be located at Nsawam in the Eastern region of Ghana or start a Mango plantation company at Aburi in the Eastern region of Ghana in response to the investment drive of the government.

As part of the investment, he intends to incur the following cost and start operations in 2018 on either proposal (ICT Hardware or Mango plantation).

	<b>GH¢</b>
Building	4,000,000
Plant and Machinery	6,500,000

Furniture and Fittings	100,000
Computers	100,000

Additionally, he intends to recruit fresh graduates from the Islamic University College of Ghana. It is further projected that in the first 3 years that is years 2018, 2019 and 2020, it will make (GH¢ 20,000), (GH¢ 18,000) and (GH¢ 10,000) losses respectively.

The investor hopes to start making profits from year 2021. He intends to borrow a loan at 20% interest from his USA associate amounting to the equivalent of GH¢80,000,000. The equity he intends to start with is GH¢20,000,000.

**Required:**

As a tax adviser, evaluate the proposed investment by the Mauritius investor and the tax implication on the various activities highlighted in the scenario. **(10 marks)**

- b) Tax planning is the act of arranging one's tax affairs in ways that postpone or avoid taxes. By employing effective tax planning variables, one can have more positive cash flows to save and invest or more money to spend.

**Required:**

Explain what constitutes the variables of tax planning? **(4 marks)**

- c) In order to increase its stated capital, XYZ Ltd transferred an amount from Income surplus account. As a tax advisor, identify the types of taxes XYZ Ltd is exposed to on the above arrangement. **(4 marks)**

- d) Mango Company Ltd has written to you as a tax advisor to advise on the tax implication on withdrawal by its employees from contribution to the voluntary third (3<sup>rd</sup>) tier before its 10<sup>th</sup> anniversary.

**Required:**

State the tax implication on such withdrawals? **(2 marks)**

**(Total: 20 marks)**

**QUESTION FOUR**

- a) SwissCom Ltd, a Swiss based Information and Communication Technology Company is hopeful of investing in Ghana. The CEO of the company participated in a tax conference in Paris, in France and met Obodai of GoodLuck & Associates, a firm of Chartered Accountants in Ghana. He took the opportunity to discuss with Mr. Obodai, SwissCom's intention to invest in Ghana and contracted GoodLuck & Associates to brief him on the Communications Service Tax (CST) regime in Ghana. The CEO already understands what CST is and enterprises that charge CST.

You are a Tax Expert in the employment of GoodLuck & Associates and Mr. Obodai has requested you to draft a report to the CEO of SwissCom Ltd. on the Communication Tax regime in Ghana.

**Required:**

Draft the report in which you:

- i) Indicate the *procedures for submission of returns* and payment of tax. Also provide any *penalties or sanctions* if these are not done. (your answer should exclude the content of a return, recovery of tax and distraint of liability). **(6 marks)**
  - ii) Explain to the CEO any dispute *resolution procedures* available to him. **(4 marks)**
- b) Obiba JK Enterprise imports component parts from China and assemble them into various forms of office equipment. On 1 January 2016, components parts were imported with the following details:

Cost of containers containing the goods	\$2,200.00
Cost of packing for labour and materials in China	\$550.00
Cost of materials used in China in the production incurred by Obiba JK	\$15,600.00
Cost of Tools inserted in the components incurred by Obiba JK	\$3,750.00
Cost of Engineering development and Design paid by Obiba JK	\$630.00
Royalties and licences paid by the Obiba JK	\$330.00
Cost of labour and others in China (not included above)	\$7,400.00
Shipping and transport cost to the Tema Harbour	GH¢16,200.00
Loading, unloading and handling charges up to Tema harbour	GH¢5,400.00
Cost of marine insurance	GH¢2,958.30
Assembling overhead cost incurred at Obiba JK's factory	GH¢23,400.00
Fees for freight services by a shipping company up to Tema Harbour	GH¢3,700.00

**Additional information**

- The Chinese exporter allows trade discount of 2% on the cost of the goods. (yet to be accounted for)
- Excise duty paid in China is \$560.00 on the goods. (this is included in the cost of labour and others)
- Contingent discounts and rebates allowed by the Chinese company is 1% of the cost of the goods, before trade discount and excise duty. (this has been accounted for in the above figures)
- Technical assistance from the Chinese company for the assembly of the goods amounted to GH¢3,000.00 after the goods have arrived at Obiba JK's factory.
- Average exchange rate during the entry for the import was \$1= GH¢3.11
- Import duty is 20%

**Required:**

- i) Compute the Cost, Insurance and Freight, clearly showing workings of each component. **(9 marks)**
  - ii) Compute the VAT/NHIL **(1 mark)**
- (Total: 20 marks)**

## QUESTION FIVE

- a) In recent times, there has been agitation among the youth about foreigners taking over the jobs specifically reserved for indigenes in line with the Ghana Investment Promotion Centre Act, 2013 Act 865.

The Minister for Trade and Industry has invited you to present a seasoned paper on activities which are reserved for Ghanaians in accordance with the Ghana Investment Promotion Centre Act, 2013 Act 865 for consideration at the next cabinet meeting aimed at creating employment for the teeming youth.

**Required:**

Draft a report for the Minister in this regard.

**(10 marks)**

- b) Kofas Ltd is a mining company incorporated in Ghana. In 2016 year of assessment, the company furnished the Ghana Revenue Authority with the following.

	<b>GH¢</b>
Revenue	10,000,000
Cost	<u>2,500,000</u>
Gross profit	7,500,000
Less operating expenses	<u>8,100,000</u>
Net profit	<u><b>(600,000)</b></u>

**The following additional information is relevant**

- Foopo Ltd paid a dividend of GH¢50,000 to Kofas Ltd which was added to revenue. Upon scrutiny, it was revealed that Kofas Ltd has 25% shares in Foopo Ltd.
- The operating expenses of GH¢8,100,000 include the following:

Filing penalties	GH¢1,000
Capital work in progress	GH¢200,000
Depreciation	GH¢100,000
- It was agreed with Ghana Revenue Authority to grant capital allowance of GH¢300,000 for 2016 year of assessment. The capital allowance is yet to be factored into the computation of returns.

**Required:**

- i) Compute the loss to be carried forward. **(5 marks)**
- ii) Comment on the tax treatment of the dividend paid by Foopo Ltd. **(2 marks)**
- iii) How is unrelieved loss in the mining sector treated? **(1 mark)**
- iv) Under what circumstances will dividend from petroleum operations be paid to Ghana Government? **(2 marks)**

**(Total: 20 marks)**

## SOLUTION TO QUESTIONS

### QUESTION ONE

#### a) Exempt supply

The supply of goods and services specified in the First Schedule is an exempt supply and not subject to the tax. Some supplies specified in the First Schedule are “**commercial rental establishment**”, “**dwelling**”, “**estate developer**”, “**education services**”, “**financial services**”, “**medical services**”, and “**medical supplies**”. A supply of goods or services is not an exempt supply if that supply is subject to tax at the rate of zero percent under section 36, **Zero-rated supply 36**.

(3 marks)

A **zero rated supply** is taxable at a zero rate if the supply is specified in the Second Schedule. Some supplies specified in the Second schedule are “**Exports from this country**”, “**Foreign-going aircraft**”, “**Free zone**”, “**Free zone enterprise**”, “**Conveyance**”, Where a taxable person has applied the rate of zero percent to a supply under this section, the taxable person is required to obtain and retain the documentary proof that is acceptable to the Commissioner-General and that substantiates the person’s entitlement to apply the zero rate to the supply.

(3 marks)

#### b) Fiscal Policy and Taxation

- There are two main types of taxes: direct taxes and indirect taxes. A tax cut **increases disposable income**, and leads to **added consumption spending**. Income will increase by a multiple of the decrease in taxes. Taxation has been an important fiscal policy throughout history and will stay a crucial aspect in future politics since it creates the basis for the state to work.
- The primary function of a tax system is to **raise revenue for the government** for its public expenditure. So the first goal in the development strategy as regards taxation policy is to ensure that this function is discharged adequately
- Taxes are used to **reduce inequalities** through a policy of redistribution of income and wealth. Higher rates of income taxes, capital transfer taxes and wealth taxes are some means adopted for achieving these ends.
- For social purposes such as **discouraging certain activities** which are considered undesirable. The excise taxes on liquor and tobacco, the special excise duties on luxury goods, betting and Gaming Levy are examples of such taxes, which apart from being lucrative revenue sources have also goals.
- Taxes affect **growth and development** in two ways. First, by influencing the **aggregate supply of the main factors of production** by raising or lowering their net (after tax) returns; and
- Second, by influencing **the efficiency of resource utilisation** factor (total productivity).

(1 mark for each relevant point for a maximum of 6 points =6 marks)

**c) Impact of Government Borrowing**

- **Effects on Production**

Public debts are raised to finance productive enterprises of various kinds, e.g., steel works, cement, multipurpose projects, construction of ships, railway lines and highways, heavy electrical and engineering works, mining, oil refining,

- **Effects on Consumption**

When people subscribe to government loans, they generally have to curtail consumption. Since investment of funds raised by borrowing raises the level of employment and as a result raises the level of consumption

- **Effects on Distribution of wealth**

Public loans transfer money from rich to government. The fiscal operations of the government are to benefit the poor primarily. The incomes of the poor increase directly through increased employment or it benefit them in directly through the enlargement of social services.

- **Effects on the Level of Income and Employment**

In modern times, public borrowing is resorted to in order to raise funds for financing agriculture, industry, mining, transportation, communication, etc. It increases employment opportunities, the level of income and standard of living.

**(1 mark for each point= 4 marks)**

**d) Tax Evasion**

**Unlawful attempt** to minimize tax liability through fraudulent techniques to circumvent or frustrate tax laws, such as **deliberate under-statement of taxable income** or wilful non-payment of due taxes. Tax evasion schemes are plentiful, but all involve the misrepresentation of an individual's or business' income and/or assets when reporting to the Ghana Revenue Authority (GRA), in order to reduce the amount of taxes they owe.

**(2 marks)**

**Ways by which companies evade tax include:**

- Underreporting income
- Inflating deductions or expenses
- Hiding money
- Hiding interest in offshore accounts

**(Any 3 points for 3 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

The question had A, B C and D. Some students had difficulty distinguishing between zero rated supplies and exempt supplies. In some of these questions, the examples help bring out the differences but some did not cite any examples at all and were unable to clearly distinguish them.



Part of the question required students to evaluate taxation as a fiscal tool. Some students had difficulty commenting on the pros and cons of the subject matter. They commented on only one side. The question also wanted students to evaluate the impact of borrowing in respect of production capacity of government, consumption, distribution of wealth and on the level of income in an economy. Some students answered the question generally without linking it to the variables stated.

Students should know that as part of the syllabus, they are required to read on fiscal policy. It is an area some students unfortunately do not show much interest hence not demonstrating adequate knowledge.

The part of the question that required tax evasion was well answered by students.

It is recommended that tuition centres and providers would pay attention to the fiscal policy issue which is key to understanding the concept of public debt which is an alternative to taxation as part of fiscal arrangement of the syllabus.

Additionally, students should put in a little more in their studies to have mastery over this topic.

On the average, some candidates who attempted this question generally did well.

## QUESTION TWO

a)

<b>Osei Bobie</b>			
<b>Computation of chargeable income for the Year of Assessment 2016</b>			
	GH¢	GH¢	GH¢
<b>Soroku Mines:</b>			
Basic Salary $6/12 \times 54,000$		27,000	
Add benefits in cash:			
Acting allowance $(54,000/12 - 5,000) \times 3$		1,500	
Professional allowance $(6 \times 400)$		2,400	
Responsibility allowance $(6 \times 500)$		3,000	
Cash gifts		<u>6,100</u>	
<b>Total Cash Emoluments from Soroku Mines</b>			40,000
Add Benefits in Kind:			
Pick-Up		5,000	
Driver, Vehicle and Fuel $(12.5\% \times 40,000)$	5,000		
Restricted $(6 \times 600)$	<u>3,600</u>	<u>3,600</u>	<u>8,600</u>
Total Employment Income from Soroku Mines			48,600
<b>Phinex Limited</b>			
Basic Salary $(5/12 \times 72,000)$		30,000	
Add Benefits in Cash:			
Responsibility allowance $(5 \times 150)$		750	
Cost of living allowance $(5 \times 200)$		1,000	
Risk allowance $(5 \times 100)$		500	
Overtime pay $(5 \times 250)$		<u>1,250</u>	
<b>Total Cash emolument from Phinex Limited</b>		<b>33,500</b>	
Add benefits in Kind:			
Vehicle with fuel $(10\% \times 33,500)$	3,350		
Restricted $(5 \times 500)$	<u>2,500</u>	2,500	
Accommodation only $(7.5\% \times 33,500)$		<u>2,513</u>	
Total employment income from Phinex Limited			<u>38,513</u>
Total employment income			87,113
<b>Less reliefs:</b>			
Social security contribution 5.5% $(27,000 + 30,000)$		3,135.00	
Disability relief $(25\% \times 87,113)$		21,777.25	
Responsibility allowance		200.00	
Child Education $(2 \times 200)$		600.00	

Aged dependence	<u>100.00</u>	
	<u>25,813.25</u>	
<b>Total chargeable income</b>		<b>61,299.75</b>
(0.46 mark for each tick for a maximum of 35 ticks= 16 marks)		

	Income	Rate	Tax
<b>Tax</b>			
First	2,592	Nil -	
	1,296	5%	64.80
	1,812	10%	181.20
	33,180	17.5%	5806.5
	<u>22,419.75</u>	25%	<u>5604.94</u>
	<u>61,299.75</u>		<u>11,657.44</u>
	Bonus tax 1,500@5%		<u>75.00</u>
<b>Total Tax Payable</b>			<u><b>11,732.44</b></u>

(1 mark)

**Note: The solution was based on the GRA's practice notes. Others who factored the employer's contribution as part of the Total Cash Emolument were considered in the scheme used.**

b) **The circumstances in which revenue is at risk are:**

- The person becomes bankrupt, is wound-up or goes into liquidation;
- The Commissioner-General believes on reasonable grounds that the person is about to leave Ghana indefinitely;
- The Commissioner-General believes on reasonable grounds that the person is otherwise about to cease activity in Ghana;
- The Commissioner-General believes on reasonable grounds that the person has committed an offence under a tax law; or
- The Commissioner-General otherwise considers it appropriate, including but not limited to where the person fails to maintain adequate documentation.

(Any 3 points for 3 marks)

(Total: 20 marks)

### EXAMINER'S COMMENTS

This question required a knowledge of computation of assessable income and chargeable income of an employee from two employments within the same basis period. Some candidates did well.

Many candidates had challenges in the computation of the chargeable income of the employee. Students should apply a little more effort to the understanding of employment income computation noting carefully the various reliefs. Life assurance policy is no longer a relief in the new tax laws but some students granted it hence got the chargeable income wrong.

It was also observed that some reproduced the question as the solution to the examiner. That was sad for a final level candidates.

It is recommended that Tuition Providers would take note of this simple blunder and teach students what to add or not add in the determination of chargeable income of an employee.

Additionally, students should acquire the tax laws and read them carefully to gain some understanding of some of these simple issues.

### QUESTION THREE

#### a) **Evaluation of investment on ICT-hard ware manufacturing versus mango plantation**

##### Introduction

Following your request for evaluation of the above for an investment decision, I furnish as below to enable you take a decision on the type of investment you want to undertake and the consequent tax implication.

For clarity I would proceed to analyze the various activities and their tax implication under the heading as follows:

##### **Locational Advantage**

The laws of Ghana grant locational tax incentive for manufacturing companies operating in Ghana. Tax rates are: Accra/Tema 25%, Regional Capitals 18.75% with a rebate of 25% and any other area 12.50%, a rebate of 50%. The Nsawam in the Eastern Region of Ghana falls under any other area hence will enjoy a tax rebate of 50% on a corporate rate of 25%. In effect, the company will pay tax at the rate of 12.50%.

This will be available to the ICT-Hard Manufacturing but this will not be available to the Mango Plantation option.

##### **Carry over of losses**

Both ICT-Hard Ware Manufacturing and the Mango plantation shall be allowed to carry over their losses (tax losses) for a period of 5 years. The proposed losses of (GH¢20,000), (GH¢18,000) and (GH¢10,000) in the years 2018, 2019 and 2020 respectively shall be carried over and deducted in the years that profits are made. They are, however, granted in the order in which they occur but limited to 5 years upon occurrence.

That is the proposed loss of (GH¢20,000) in 2018 shall not go beyond 2023. If all is not recouped, it shall not be carried forward in year 2024.

Both fall under the priority area and are treated the same for tax purposes.

### **Capital Allowance**

The proposed capital assets to be acquired shall be granted capital allowance which is a relief to the proposed company. This is granted to enable companies recoup cost incurred in the acquisition of capital assets and also using same in the generation of income. This is available to either investment decisions.

### **Fresh graduate incentives**

The tax laws allow companies which recruit fresh graduates from Ghanaian universities are granted incentives. The following is the categorization of the incentives:

Percentage of fresh graduates in workforce	Additional deduction
Up to 1%	10% of wages and salaries
Between 1% and 5%	30% of wages and salaries
Above 5%	50% of wages and salaries

The percent of wages and salaries shall be granted as additional allowable deduction for tax purposes. This would help reduce the chargeable income or increase the tax loss as the case may be.

This incentive is available to both investment decisions.

### **Thin capitalization**

Section 33 of Act 2015 Act 896 provides that a resident entity which is not a financial institution in which 50% or more underlying ownership or control is held by an exempt person either directly or indirectly, the interest on loan that exceeds 3:1 shall be disallowed for tax purpose.

The loan from the associate shall be looked at from an angle of control of 50% or more either alone or together with other persons. And if that is met, the interest above the ratio shall be disallowed.

The percentage equity in the resident person by the USA Associate is critical in the determination of whether thin capitalization should apply or not. The facts and circumstances are not too clear for a definite position to be drawn on its applicability or non-applicability.

Additionally, interest payment shall be subject to withholding tax at the rate of 8% final. This exposure is the same to either option.

### **Temporary Concession**

The tax laws allow persons in certain category to enjoy temporary concession that is pay tax at the rate of 1%. In the case of Mango plantation, it has 10 years after

commencement of operations, temporary concession during which it will pay tax at the rate of 1%.

This incentive is not available to the ICT hard Ware Manufacturing option.

### **Recommendation/conclusion**

It is hoped that the above would help you in your investment decision making on the best investment decision to make as either proposal has been looked at or analysed in the light of the activity intended to be undertaken.

**(5 points @ 2 marks each =10 marks)**

b)

### **The following are the variables of Tax Planning:**

- **Location:** Tax planning is possible for some persons on account of jurisdiction/location. Manufacturing companies have the following tax rates on the basis of the location at the following areas

Accra/Tema	25%
Regional Capitals	18.75%
Any other area	12.5%

The above rates and location serve as incentive to tax planning regarding where a manufacturing company should be situated.

- **Activity**

The various activities do not have the same or uniform tax exposure and benefits and therefore some activities can help create tax planning.

Example of activities and the years of temporary concessions.

Cattle business	10years
Tree Crops	10 years
Cash crops/other live stocks	5 years
Agro -processing	5 years
Rural Banks	10 years

- **Time Horizon**

Time horizon for persons is not uniform and therefore can act to engender tax planning. The number of years that a person is interested in to have a tax benefit is largely dependent on the type of activity that is engaged. The time ranges from 5 years to 10 years. This allows persons that want to plan to determine the temporary concessions available and the number of years the person is interested. The number of years in effect dictates the activity.

- **Entities**

Benefits of tax planning is not available to all persons evenly ie tax benefit to an individual is different from that available to a company. Individual running farming activities have friendly tax exposure during their temporary concessions as opposed to other areas like a company that is into farming activities.

**(4 points for 4 marks)**

c) A transfer from income surplus account to stated capital is an arrangement that is termed deemed dividend in taxation.

The tax exposure on this arrangement are as follows:

- Withholding tax on dividend at the rate of 8%
- Stamp duty payment at the rate of 0.5%

**(2 points for 4 marks)**

**d) Tax Implication on withdrawal of 3<sup>rd</sup> Tier**

The Pension Act 2008 Act 766 allows the employees or and employers to contribute towards the 3<sup>rd</sup> tier with an approved fund managers as approved by National Pension Regulatory Authority which contribution should not go beyond 16.5%. This could be contributed by both the employer and the employee or either

The law allows for withdrawal by the employee only after 10 years of savings.

**Conclusion:**

Any withdrawal before 10 years shall be subject to tax at the rate of 15% on both the principal and earnings (interest).

**(2 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

The question required the understanding of investment proposals. This was a clear case of tax planning. Most students were computing capital allowance. Some computed tax payable when the question never provided income and cost and did not directly ask for computation of any sort. Students were to look at the two scenarios but some only looked at only one part and left the other part unanswered.

Students were required to discuss the proposal in the light of locational advantage, carryover of losses, capital allowance, fresh graduates, thin capitalization and temporary concession.

In fact, the question was a straight forward one in my opinion and one would have expected everyone to excel in it but that was never the case. However, some bagged a lot of marks from this question.

It was also observed that some students do not read questions carefully before answering them. Candidates should be encouraged to read questions carefully before they proceed to answer questions.

## QUESTION FOUR

a)

NOVEMBER 8, 2017

### REPORT BY MASTER XXX TO CEO SWISSCOM LTD ON PROCEDURE FOR SUBMISSION OF RETURNS AND PAYMENT OF TAX (INCLUDING PENALTY) AND DISPUTE RESOLUTION PROCEDURES

#### i) Procedure for submission of returns and payment of tax including penalties

- The tax return shall be submitted to the Commissioner-General not later than the last working day of the month immediately following the month to which the return relates, whether or not tax is payable for the tax period.
- The payment of the tax due for a tax period shall be made to the Commissioner-General not later than the date the return prescribed is required to be submitted.
- The Commissioner-General may require a person, to submit to the Commissioner-General, whether on that person's own behalf or as agent or trustee of another person, a further or other returns in the prescribed form as and when required by the Commissioner-General.
- Late filing of returns attracts a pecuniary penalty of two thousand Ghana cedis (GH¢2,000) and a further penalty of five hundred Ghana cedis (GH¢500.00) each day the return is not submitted.
- A service provider who fails to pay the tax due by the due date shall pay monthly interest on the tax due at 125% of Bank of Ghana statutory rate compounded, monthly.

**(1 mark for each point = 6 marks)**

#### ii) Dispute resolution procedures

- A person who is dissatisfied with the Commissioner-General (CG) with a decision of the Commissioner-General may object in writing within thirty (30) days of being notified of the decision
- The objection shall be in writing stating the grounds of the objection
- Commissioner-General may grant the application for extension
- An objection shall not be entertained unless a payment of 30% of the tax in dispute and paid all other taxes are made
- The 30% could be waived by the Commissioner-General
- The objection could be disallowed in whole or in part
- The Commissioner-General shall within 60 days serve the objector with a notice of the decision including the reason for the decision
- Where the CG does not serve notice within 60 days, it should be interpreted to mean the objection has been disallowed
- A person who is dissatisfied with the decision of the CG could appeal against the decision to the Court within thirty days of the decision
- An appeal against an objection decision does not operate as a suspension of the objection decision

**(Any 4 points for 4 marks and 1 mark for structure of report = 5 marks)**



<b>b) i) Computation of Cost, Insurance and Freight</b>	<b>GH¢</b>	<b>GH¢</b>
Cost of Containers (\$2,200 x GH¢3.11)		6,842.00
Cost of packing for labour and material (\$550 x GH¢3.11)		1,710.50
Cost of materials used (\$15,600 x GH¢3.11)		48,516.00
Cost of tools (\$3,750 x GH¢3.11)		11,662.50
Development and design cost (\$630 x GH¢3.11)		1,959.30
Royalty and licence (\$330 x GH¢ 3.11)		1,026.30
Labour and others (\$7,400 x GH¢3.11)		<u>23,014.00</u>
		94,730.60
Less : trade discount 2% x GH¢94,730.60	(1,894.61)	
Excise duty paid in China (\$560 x GH¢3.11)	(1,741.60)	
Add: Contingent discount (1% x GH¢94,730.60)	<u>947.31</u>	<u>(2,688.9)</u>
<b>COST (C)</b>		92,041.70
Insurance		<u>2,958.30</u>
<b>COST AND INSURANCE (CI)</b>		95,000.00
Shipping and transport cost	16,200.00	
Loading, unloading and handling charges	5,400.00	
Freight services	<u>3,700.00</u>	
<b>FREIGHT</b>		<u>25,300.00</u>
<b>COST INSURANCE AND FREIGHT</b>		<u><u>120,300.00</u></u>

**(0.6 mark for each tick of 15 ticks=9 marks)**

**b)**  
ii)

Import duty	20% x GH¢120,300	=	GH¢24,060
VAT/NHIL	17.5% x (GH¢120,300 + GH¢24,060)	=	GH¢25,263
<b>Import duty =</b>	<b>0.5 mark</b>		
<b>VAT/NHIL =</b>	<b>0.5 mark</b>		

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

This question required for procedures for submission of returns on Communication Service Tax (CST). This was a straight forward one but created problems for most students. The second part had to do with dispute resolution on Communication, Service Tax. This was not too popular an area for a lot of students. It was observed that most students did not do well in that area. Others who attempted it performed beyond average though as they linked it to VAT returns submission.

The second part of the question had to do computation of Cost, Insurance and Freight. The trick with it had to do students being able to translate the items from foreign currency into local currency.

On the whole, a lot of students did so well.

Tuition Centres should take note of this and prepare students adequately for the tax paper

## QUESTION FIVE

a)

Delax Happy Consult  
PMB 12  
Accra  
9<sup>th</sup> November, 2017

MINISTER OF TRADE  
MINISTRY OF TRADE AND INDUSTRY  
ACCRA

### REPORT ON JOBS SPECIFICALLY RESERVED FOR INDIGENES

#### Introduction

Following our conversation on the need to identify employment opportunities reserved for only Ghanaians, I forward to you the dictates of the GIPC Act 2013 Act 865 on jobs specifically reserved for indigenes for your study and further action.

#### **Activities reserved for the locals:**

- The sale of goods or provision of services in a market, petty trading or hawking or selling of goods in a stall at any place
- The operation of taxi or car hire service with a fleet of less than 25 vehicles
- The operation of a beauty salon or a barber shop
- Printing of scratch cards for the use of subscribers of telecommunication services
- The production of exercise books and other basic stationery
- The retail of finished pharmaceutical products
- The production, supply and retail of sachet waters; and
- All aspects of pool betting business and lotteries, except football pool

**(Any 4 points @ 2 marks = 8 marks)**

### Foreign dominance

The above unfortunately have seen fierce competition from foreign investors either resulting from lack of knowledge of our laws by our foreign investors or lack of proper advisory services in this regard from Tax Professionals.

(1 mark)

### Conclusion

It is hoped that the above report would help you in your decision making.

Thank you.

Yours faithfully,

JOMBO SUCCESS  
PARTNER

(1 mark for structure of report)

b) KOFAS LTD

### i) COMPUTATION OF LOSS TO BE CARRIED FORWARD

#### YEAR OF ASSESSMENT 2016

BASIS PERIOD:

	GH¢	GH¢
Net Profit as per accounts		(600,000)
Deduct the following:		
Dividend		<u>50,000</u>
		(650,000)
Add back the following:		
Filing Penalties	1,000	
Capital Work in Progress	200,000	
Depreciation	100,000	
		<u>301,000</u>
Adjusted Profit		(349,000)
Deduct Capital Allowance		300,000
<b>Tax Loss</b>		<b>(649,000)</b>

(5 marks evenly spread using Ticks)

ii) Dividend paid to a resident company by another resident company is exempt from tax where the company receiving the dividend controls directly or indirectly, at least 25% of the voting power of the company which paid the dividend. In this case, the dividend paid by Foopo Ltd is exempt from tax in the hands of Foopo Ltd and Kofas Ltd.  
(2 marks)

iii) Unrelieved loss is loss that has occurred which is carried forward for 5 years in the case of mining against income in subsequent five (5) years. The loss shall be used against income in future years for only 5 years. **(1 mark)**

iv) Dividend shall be paid to Ghana Government under the following circumstances:

- Payment of dividend by National Oil Companies established by Government of Ghana to operate in the upstream.
- Government of Ghana holding shares in any company in petroleum operations.

**(2 points for 2 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

This question on activities reserved for Ghanaians created some challenges for some students. This was a topical issue that was discussed by Ghana Union of Traders Association (GUTA) which was in the news for weeks and months and one would have thought that students would perform well.

The second part had to do with the computation of tax loss on mining. Most students were okay with the computation of the tax loss and got high marks.

The last part of the question had to do with dividend payment by a resident entity to another resident entity that held 25%. This was a straight forward one and did not seem to pose problems for many students. Some few students had no clue at all what the question wanted and fired wrongly.

The pathetic part of the question was the circumstances under which government could receive dividend from the upstream companies.

### **CONCLUSION**

English language continues to be a challenge especially with spelling mistakes, wrong tenses and wrong constructions. Candidates should be encouraged to read novels, newspapers and journals with the view of broadening their vocabulary range otherwise the Institute risks producing chartered accountants who cannot communicate their numbers to management coherently.

The paper also revealed the fact that preparation for the examination was inadequate hence students could not do their best and consequently produced terrible solutions. Students equally would find this report useful in their bid to improve comprehension of the examiners demands and consequently improve their pass rate.