SOLUTION ADVANCED TAXATION AND FISCAL POLICY NOV 2010

SOLUTION 1

(a) The IRS would value the stock at cost i.e GHS120,000. On transfer to company B, any gain arising would be taxed in the hands of company A. The above treatment would apply if the following conditions are satisfied concurrently:

(i) Tht the stock would be treated as business assets of the transferee (i.e. company B);

(ii) That both companies are resident in Ghana;

(iii) That company 'B' (the transferee) if not exempt from tax;

(iv) That company A (the transferor) continues to have at least 25% underlying ownership in the stock transferrred;

(v) That both companies have concurred to the above terms.

If any of the above conditions are not met, IRS would value the stock at GHS150,000 (i.e the market value).

(b) Under the VAT, the transfer would be deemed as supply of taxable goods at a consideration.

The consideration is the market value of the supply. Transfers between associates are also deemed as taxable supply exempt under group registration arrangement. Where the Commissioner approves for one entity to file returns on behalf of the whole group in which case transfers between the group compnies or associates would not be taxable.

I R S – i. Arms Length Transaction – ok
ii. Non-Arms Length – Best of judgement

SOLUTION 2

(a) Adoboe Manufacturing Co. Ltd.
Period ended 30th June, 2009
1st January, 2009 – 30th June, 2009 (Year of Assessment 2009)

	GHS	GHS
Profit or Loss per accounts		(250,000)
Deduct: Depreciation	40,000	
Loss on sale of asset	2,450	42,450
		(207,550)

Less: Add income from sale of fixed assets:			
Pool 2		25,800	
Pool 4		9,200	
Warehouse		16,800	
Building		60,000	111,800
Adjusted Loss			(95,750)
Tax at 25%	NIL		

Capital Gains Tax Computation

		Warehouse	Factory Building
Sum realised		70,000	160,000
Less: Cost Base		42,000	150,000
		28,000	10,000
Exemption		50	50
Chargeable gain		27,950	9,950
Tax at 5%	GHS	139,750	49,750

Notes

1. Class 5 (Warehouse): The rules require that in the case of class 5, the lower of proceeds or cost base is compared to the YWDV to determine profit or loss and the difference becomes either a deductible or taxable profit in the income tax computation.

2. The warehouse will also be liable to Capital Gains Tax.

3. The building will also be liable to income tax as follows:-

	GHS
TWDV b/f	90,000
Cost Base	150,000
Profit	60,000

Workings:

Class	TWDV	Proceeds	Profit/Loss
Pool 1	6,540	4,000	(2,450)
Pool 2	19,200	45,000	25,800
Pool 4	14,300	23,500	9,200
Warehouse	25,200	42,000	16,800

SOLUTION 3

Answers will include but not limited to:-

i. Capitalization of mining rights and cost of prospecting for capital allowance purposes;

ii. Accelerated depreciation particularly with mining (i.e. 80/50 rate);

iii. Exemption in respect of accommodation on mining sites;

iv. Transfer or Remittance of funds by staff who are expatriates;

v. Loss carried forwards for 5 years;

vi. Exemption from payment of customs duties on plant and machinery etc;

vii. Tax incentives in Agriculture;

viii. Manufacturing for export – (8% corporate tax);

ix. Tax incentives in real Estate;

x. Location tax incentives

xi. Tourism.

1. Name any Sector and indicate any 5 incentives available in the Sector.

2. Give reasons.

SOLUTION 4

A. For customs purposes the value of imported goods shall be the transaction value, that is, the price actually paid or payable for the goods when sold in the country of origin for export into Ghana.

It includes the following:-

i. Commissions and brokerages except buying commission;

ii. The cost of containers

iii. The cost of package whether for labour or materials;

iv. Materials, components, parts and similar items incorporated in the imported goods;

v. Engineering, development, artwork, design work, plans and sketches undertaken elsewhere other than in the country of importation and necessary for the production of the imported goods;

vi. Royalties and fees

vii. The cost of the transport of the imported goods to the port or place of importation;

viii. Loading, unloading and handling charges together with cost of transportation to the place of importation;

ix. The cost of insurance.

B. Specific Duty Rate:
Is the rate of duty payable on imported goods where the rate is on a characteristic or feature of the goods invovled. For example, GHS200.00 per bag of rice or GHS50 per metre of cloth.

This has no retation to the value.

Ad Valorem Rate:
Is the rate of duty which is a rate in percentage terms applied on the value of the item being imported. For example, 20% of value.

SOLUTION 5

1. Deductions Allowed:
   a. Rent payable in respect of business premises;

   b. Mineral royalties paid or payable during the year;

   c. Interest on borrowed capital;

   d. Bad debts proved to have become bad during the year of assessment;

   e. Expenses incurred on business premises, plant and machinery, and for the renewal, repairs or alteration of any implement, utensil or articles employed in the business;

   f. Sums paid as local rates to any local, urban or city council in respect of residential or commercial accommodation etc;

   g. Any contribution to a pension or provident fund or other similar fund which is approved by the Commissioner;

   h. Any sums actually expanded by that person in the education or training of citizens and nationals of Ghana in approved educational and technical institutions including attachement with such persons) in any aspects of petroleum explorations or in the provision of scientific and educational materials and equipment pursuant to the terms of a petroleum agreement;

i. Special carried interest allowance;

j. Any loss incurred in the previous year may be deducted;

k. Any capital allowance computed on the fixed assets may also be deducted.

2. <u>Deductions not Allowed</u>:

a. Dometic or private expenses;

b. Any disbursement or expense not being money wholly, exclusively and necessarily laid out or expended for the purpose of acquiring the income;

c. Any capital withdrawn or any sum employed or intended to be employed as capital;

d. Any capital employed in improvements;

e. Any sum recoverable under insurance or contract of indemnity;

f. Rent of or any expense in coneection with any premises or part of premises not occupied or used for the porpose of producing the income;

g. Any amounts paid or payable in respect of any income tax, profits tax or other similar taxes whether charged within or outside Ghana;

h. Any payment to any pension, provident fund or other similar fund except such payments that are allowed under Act 592.

i. The depreciation of any fixed assets including premises, building, strucures or works of a permanent nature.