

*The Institute of Chartered Accountants [Ghana]*



**MAY 2005  
EXAMINATIONS**

**Part 3**

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

**Attempt All Questions**

**Time Allowed: 3 Hrs.**

## QUESTION 1

Zack Twum is a self employed who has paid all his taxes raised on him by the Internal Revenue Services without submitting any accounts. Zack applied for a tax clearance certificate in the month of April 2005 but the District Head of IRS insisted that before the certificate will be issued he should submit his accounts for 2004 assessment year for proper assessment.

To this request he obliged and had the following details from his Auditors for the year ended 31 December 2004.

	€'000	€'000
Gross Profit		1,229,040
<b>Expenses:</b>		
Depreciation	38,080	
Light & Heat	12,200	
Motor Expenses	37,740	
Rent & Rates	31,200	
Repair & Renewals	45,280	
Sundry Expenses	23,920	
Donations	49,000	
Bad Debts	256,000	
Other Allowable Expenses	<u>300,220</u>	<u>793,640</u>
Net Profit		<u>325,400</u>

The following additional information were obtained from Zack Twum in response to queries raised on him by the Inspector handling his file.

- i. Zack and his wife live in a flat that is situated above his shop. Of the expenditure included in the profit and loss for light & heat, rent and rates, 40% relates to the flat.
- ii. During the year ended 31 December 2004 Zack drove a total of 120,000 km of which 90,000 km were for private journeys.

iii. The figure of ₵45,280,000 for repairs and renewals includes ₵17,600,000 being cost of new fittings for the shop during the year under review and ₵8,400,000 for decorating the private flat during the same period.

iv. Bad debts are as follows:

	₵
Increase in general provision for Bad debts	120,000,000
Specific provision	96,000,000
Loan to Zack Twum's wife written off	<u>40,000,000</u>
	<u>256,000,000</u>

v. **Donation**

Donations are made up as follows:

	₵
Donation to National Charity	23,000,000
Donation to Old Students Association	9,000,000
Donation to Farmers Day celebration	<u>17,000,000</u>
	<u>49,000,000</u>

vi. During the year under review, Zack Twum took goods out of his shop for his personal use without paying for them. The cost of these goods was ₵16,560,000 and they had a selling price of ₵19,500,000.

vii. Zack Twum received dividend of ₵5,400,000 (net) from his investment with Ghana Commercial Bank. The amount was included in arriving at his Gross profit.

viii. The following assets were purchased during the year. (Prior to this, the business had no fixed assets).

	₵
Computers	120,000,000
Motor Vehicle	112,000,000
Fixtures & Fittings	105,200,000

The computers and fittings qualify as depreciable assets for capital allowance purposes. The motor vehicle is used by Mr. Zack Twum for both office and private purposes.

**Required:**

- a. Calculate the chargeable income of Mr. Zack Twum for the assessment year ending 31 December 2004.
- b. Assuming he has no other source of income, compute his tax liability for 2004 assessment year.

(26 marks)

**Tax Rate for 2004:**

First	1,500,000	Free
Next	1,500,000	5%
“	3,000,000	10%
“	21,000,000	15%
“	33,000,000	20%
Exceeding	60,000,000	30%

**Capital Allowance Rates:**

Class 1 - 40%	Class 4 - 20%
Class 2 - 30%	Class 5 - 10%
Class 3 - 80% - 50%	Class 6 - 10%

**QUESTION 2**

Alhaji Prophet located in Ghana in 2003 after attending the home summit seminar organized in 2001. He secured employment with one of the multinational companies on 1 January 2004 with an annual salary of ₵108,000,000.

In addition Alhaji enjoys the following benefits:

- A soft furnished apartment for which he pays nothing by way of rent. Percentage of rent element to be based on annual gross salary.
- Annual Bonus of ₵30,000,000.

Alhaji is married with a child aged 4 years and attends God is My Help nursery school. During the year under review Alhaji received dividend (equivalent in cedis) ₵45,000,000 from his investment with a company in France where he stayed for about 20 years. Tax deducted from the dividend was (equivalent in cedis) ₵5,000,000.

**Required:**

Compute the net tax payable for the year 2004 on the basis that double Taxation Agreement exists between Ghana and France and that Alhaji has availed himself of all the relief and personal allowances that he is entitled to. He contributes 5% social security.

**(14 marks)**

### QUESTION 3

a. Outline the circumstances under which excise duty becomes chargeable under the CEPS Management Law, 1993 PNDC Law 330.

(6 marks)

b. In reference to Act 546, (VAT Act 1998) briefly explain what constitutes a taxable supply.

(9 marks)

c. You are provided with the following information for the month ended 31 March 2005 relating to your client Agya Anomaa Enterprise.

		¢
Input tax on taxable supplies	-	116,250,000
Sales (excluding VAT) of taxable supplies	-	1,260,000,000
Sales of exempt supplies	-	500,000,000

Calculate the deductible input tax allowable to Agya Anomaa for the quarter ended 31 March 2005.

(5 marks)

**(Total: 20 marks)**

### QUESTION 4

Capital gain tax is charged on gains arising on the realization of a chargeable asset accruing to or derived by a person who owned the asset.

**State briefly:**

a. The meaning of a Chargeable Asset. (5 marks)

b. Assets that are excluded from the above definition. (3 marks)

c. Gains from realization of a chargeable asset that are exempted from capital gains tax.

(7 marks)

**(Total: 15 marks)**



## QUESTION 5

- a) The Commissioner of the Internal Revenue Service may authorize any person within or outside Ghana to perform or to assist in the performance of a function imposed under the Internal Revenue Service Act, 2000 Act 592.
- i. State the functions of the Commissioner of IRS which can be delegated. (4 marks)
  - ii. State briefly which powers cannot be delegated. (6 marks)
  - iii. List the persons who are not required to file a return, unless the commissioner requests. (5 marks)
- (Total: 15 marks)**

A person who receives a taxable gift is expected to furnish the commissioner of Internal Revenue Service with a return.

List the contents of such a return. (4 marks)

- b) Below are gifts received by some individuals during 2004 assessment year.

You are required to compute the appropriate gift tax payable on each.

- i. Peekay bought a car valued at ¢150,000,000 and donated it to the chief of his village (Nana Patapaa) on his return from UK. (2 marks)
  - ii. As part of the unification between Agama and his wife, he transferred the ownership of one of his buildings in Kumasi valued at ¢300 million to her. (2 marks)
  - iii. On the return submitted by Agyengo in 2004 assessment the total value of gift received amounted to ¢450,000. (3 marks)
- (Total: 10 marks)**