



CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE
End of Second Semester Examinations, 2021/2022 Academic Year
Level 500

MACM 514: Taxation and Fiscal Policy

January Admission

August, 2022

60 marks

Time: 2 Hours 30 Min.

GENERAL INSTRUCTIONS:

- i. Answer three questions in all.**
- ii. Question one is **compulsory** for all students
- iii. Question one carries **20 marks** and all others questions carry **25 marks**.
- iv. Candidates are expected to **show working** and **provide notes** to the solution.

Question 1.

Mr. Opea Mensa is an employee of Ghana Revenue Authority. His consolidated salary for 2016 year of assessment is Ghc 6,400. In the same year he received a gross business income from the United States of America amounting to Ghc4, 400 and tax deducted was Ghc 440. Mr. Mensa contributed 5% of his consolidated salary to the SSF. Apart from this he had no other relief. A double taxation agreement exists between Ghana and the United States of America.

Required:

- (a) Using the Tax credit Relief method, determine Mr. Mensa's net tax payable in Ghana.
- (b) Assuming the business transactions were carried out in France which uses the Exemption method in determining Double Taxation Relief, how much tax would Mr. Mensah pay in Ghana?
- (c) Assuming the tax paid by Mr. Mensa in the United Kingdom was Ghc650.00; determine his

Use the tax rates provided below:

Income Rate Tax

600 free

Next 522 5%

Next 1,080 10%

Next 6,480 15%

Next 7,600 25%

Exceeding 16,282 @ 35%

Question 2.

Juaben Oil Mills Limited commenced business on 1st January, 2016 and purchased the following assets to enable the company begin operations.

1. Two (2) Desktop Computers valued at Ghc2, 800.00 per one
2. Office Furniture valued at Ghc 15,000
3. Two Pick-ups valued at Ghc10, 000 each
4. An office accommodation worth Ghc20, 000

One of the vehicles was involved in accident 2017 and declared a wreck. In the circumstances, it was disposed of for an amount of Ghc3, 000.00

The company bought three brand new saloons in 2018 valued at Ghc9, 000 each for top management to facilitate their movement to and from office and a new warehouse valued at Ghc12, 000 to store their products.

REQUIRED:

- i. Calculate Capital Allowance relief due the company for the respective years under review
- ii. You are required to use Act 896 for the computation. **(20 marks)**

Question 3.

Jean Enterprise submitted their final accounts for the year ended 31/12/2016 to the Internal Revenue Service for tax purposes. As a tax official you are required to adjust the profit of the company and determine the tax liability for the year 2016 in accordance with Sections 9 – 15 of the Internal Revenue Act 2015, Act 896.

Ghc

Ghc

Sales		205,000
Opening Stock	15,000	
Purchases	<u>92,500</u>	
	107,500	
Less: Closing Stock	<u>22,500</u>	<u>85,000</u>
Gross Profit		120,000
Less: General Expenses		<u>91,600</u>
Net Profit for the year		<u>28,400</u>

Notes to the Accounts:

General Expenses comprise the following: -

	Ghc
(i) Bank Charges	1,300
(ii) Depreciation	3,650
(iii) Telephone	6,300
(iv) Scanning machine for use in the office	7,200
(v) Payment of Penalty for late payment of PAYE tax	5,000
(vi) Donation to Kambale Keep Fit Club	3,500
(vii) Bad Debt - Money loaned to MD's Girlfriend	2,500
(viii) Provision for Bad debt	6,120
(ix) Increase in value of imported vehicles at the time of delivery by	3,000
(x) Transport Cost for the funeral of the DCE	3,000
(xi) Auditors Fees	5,700
(xii) Electronic signboard	30,000
(xiii) The depleted portion of an Amortized loan in the P/L A/C	6,700

Note:

- (i) The business office is located in the private house of the Managing Director.
- (ii) For the purpose of adjusting the profit of the company for the year 2016, assume private element is 40%.
- (iii) He is not married but takes care of two kids in the senior high school in Canada
- (iv) He was knocked down by a vehicle in 2016 and had her right arm amputated.
- (v) He is schooling at the University of Education, Winneba – (20 marks)

Required: Compute the Chargeable Income of Jean Enterprise for the year 2016.

Question 4.

- a) Countries worldwide experience fluctuations in economic activity, which affects the consistency in government revenue generation. For example, when income levels are high, all other things being equal, tax revenue rises. Conversely, when income levels fall, tax revenue drops, requiring government policies to address the fluctuations. Governments, therefore, employ expansionary and contractionary fiscal policies to moderate the effects of such fluctuations.

Required:

Explain the following forms of fiscal policy:

- i) Automatic Stabilisers
ii) Discretionary fiscal policy (4 marks)
- b) In the circumstances specified in section 28 (3) of the Revenue Administration Act, 2016 (Act 915) the Commissioner-General may make a pre-emptive assessment of tax payable or to become payable by a person under a tax law whether or not the person is required to file tax returns.

Required:

Under what circumstances would the Commissioner-General make a pre-emptive assessment? (3 marks)

- c) State **TWO (2)** advantages each of self-assessment to the government and the taxpayer. (4 marks)
- d) There are circumstances that a taxable supply by a taxable person will require adjustment so that the trader pays the required taxes to the Ghana Revenue Authority.

Required:

State **TWO (2)** of such circumstances. (4 marks)

- e) One of the innovations by Ghana Revenue Authority is the introduction of the withholding VAT Scheme. The scheme is aimed at promoting tax compliance.

Required:

Explain **FOUR (4)** objectives of the scheme. (5 marks)

(Total: 20 marks)

Question 5.

Agnes Animapau (Agiliki), aged 59, is a foreign languages teacher at Oxford Senior High, a private boarding school in Sunyani. Agiliki has been in the teaching profession for the past 35 years. On 1 January 2020, the school promoted Agiliki to head the languages department, which is a management position. She could also be subcontracted to other schools, institutions, and foreign language associations to assist their teachers and candidates during her free time. Agiliki also holds a contract with the Ministry of Foreign Affairs and Regional Integration as an interpreter on a consultancy services basis.

On 5 January 2020, Agiliki entered into a consultancy agreement with the Ministry of Education to translate some local textbooks. The project is for three years ending on 31 December 2022. Payment is only effected on completion of the translation of the textbooks, and the agreed amount is GH¢30,000 per translated textbook.

Details of Agiliki's income for the year ended 31 December 2020 are as follows:

Employment income and benefits

- i) Agiliki receives a gross monthly salary of GH¢4,000 and an annual bonus of GH¢12,000, payable in December.
- ii) Responsibility allowance of GH¢6,960 per annum.
- iii) Agiliki makes use of a fully furnished house in the school's staff residential area. The school deducts a monthly rent of GH¢100 from Agiliki's salary.
- iv) Upon Agiliki's appointment as the languages department head, the school provided her with a new motor vehicle with fuel for her official use.
- v) Agiliki contributes 2.5% of her monthly salary to a registered pension fund. The school contributes 2.5% to a provident fund on behalf of Agiliki.
- vi) The school deducts her statutory social security contributions at source.
- vii) Agiliki received a total of GH¢12,000 inconvenience allowances from the Oxford Senior High during the year.
- viii) The school deducts the following amounts monthly from Agiliki's salary upon her instruction and pays the appropriate amounts to the institutions concerned:

	GH¢
Subscriptions to the Ghana National Association of Teachers	15
Life insurance policy to Royal Life Insurance Services	50

Other non-employment income

- i) Agiliki successfully translated four textbooks under the terms of her contract with the Ministry of Education during 2020.
- ii) Agiliki's bank account was credited with a total of GH¢15,000, representing rental income collected by an estate agent regarding residential property owned by Agiliki in Takoradi.
- iii) Agiliki's services amounted to a gross of GH¢30,000 for her subcontract work with other schools and foreign languages associations. Agiliki paid Oxford Senior High 10% of this amount under the terms of a standing arrangement for the use of the school's resources.
- iv) The Ministry of Foreign Affairs and Regional Integration paid Agiliki GH¢9,250 net for her services as an interpreter during the year.

Required:

- a) Calculate Agiliki's taxable income for the year 2020 year of assessment. **(11 marks)**
- b) Explain **FOUR (4)** possible individual gains and profits from an employment for a year of assessment. **(4 marks)**

- c) Obiagele Ltd intends to increase its capital requirement. Therefore, it applied to the Registrar General with the following:

Retained Earnings Account	GH¢
Balance b/fwd	100,000
Transfer from income statement	1,200,000
Transfer to stated capital	<u>(600,000)</u>
Balance c/fwd	<u>700,000</u>

Required:

Assess with explanation the tax payable under this circumstance.

(5 marks)

(20 marks)

Question 6

- a. The characteristics of public goods and services make it hard to measure precisely how their benefits are apportioned among individuals and institutions. The situation is a bit different on the taxation side of the picture. Studies reveal, with somewhat greater clarity, the way the overall tax burden is apportioned. The average citizen is concerned with the overall level of taxes. Chances are that he or she is even more interested in exactly how the tax burden is allocated among individual taxpayers.

Required:

Discuss **three** theories of taxation indicating the practicalities of their application by the Government of Ghana.

10 marks

- b. Kofi Nsiah has stayed in the United Kingdom for several years and has decided to return home by the end of 2019. He intends to go into cattle rearing and eventually produce corned beef and other meat products.

Required: Advise Kofi Nsiah on the available tax incentives

10 marks

(20 marks)

Appendix:

NB: Use the under listed information for your calculations

1. Marriage / Responsibility Relief

The relief is GH¢1,200 per Year

Child Education Relief

The relief is GH¢600 per Child per Year.

Disability Relief

The relief is 25% of the disabled person's income from business or employment

Old Age Relief

The relief is GH¢1,500 per Year.

Aged Dependent Relative Relief

The relief is GH¢1,000 per Year

Educational Relief

The relief is GH¢2000 per year.