2022 Mid-Year Budget Digest

Highlights of the 2022 Mid-Year Budget Review

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Commentary

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On 25 July 2022, the Minister for Finance, Mr. Ken Ofori Atta, presented the much anticipated Mid-year Fiscal Policy Review of the Budget Statement and Economic Policy of the Government of Ghana for 2022 (“the Budget”) to Parliament. The heightened interest in this particular mid-year review was in the context of Ghana’s difficult post-pandemic recovery and the recent announcement by the Government of Ghana of its decision to commence engagement with the International Monetary Fund (“IMF”) to support Ghana’s economic recovery programme. This announcement signalled to the business community that all was not well with the implementation of the measures set out in the 2022 Budget as presented by the Minister on 17 November 2021, and that the attainment of the key macroeconomic targets that were set as part of the Budget were perhaps at risk. Indeed, the trend of various economic indicators that were publicly available before the mid-year review, e.g., the rate of inflation, interest rates and the level of public debt, all suggested that Ghana’s economy was in some difficulty. The anticipation was therefore that the mid-year review would lay bare the current state of the economy and set out Government’s plans to stabilise and put the economy back on the path of sustainable growth.

Given that Government’s engagement with the IMF has only just commenced, it is perhaps too early to expect a detailed plan for the recovery of the economy in the medium term. It is therefore not surprising that the mid-year review does not provide such a plan; however, the review makes it clear that any eventual agreement with the IMF will be based on an Enhanced Domestic Programme that will complement the previously announced Ghana COVID-19 Alleviation and Revitalisation of Enterprises Support (CARES) “Obaatan Pa” programme. The mid-year review provides an updated plan for the rest of 2022 and an initial set of estimates of key macroeconomic indicators for the medium term, key aspects of which we comment on below.

In its 2022 Budget Statement, Government committed to fast-paced fiscal consolidation and sustainable growth through the implementation of revenue mobilisation initiatives. Government also set out to moderate the rate of debt accumulation as Ghana navigates its recovery from the COVID-19 pandemic. The mid-year budget review reaffirmed these commitments, although the challenges that have been faced in the first half of 2022, particularly with respect to revenue mobilisation, have necessitated a revision of various targets in order to moderate the planned pace of growth and fiscal consolidation.

The previous revenue and grants target of GH₵100.5 billion for 2022 has been revised to GH₵96.8 billion, a 3.7% reduction. This still translates into a growth target of 37% relative to the 2021 performance (GH₵70.9 billion). The revised target is expected to be achieved mainly as a result of the windfall in revenue from oil production and exports, a result of increased global oil prices. This will help to significantly offset shortfalls from other revenue sources, particularly tax revenues.

While the benefit of increased global oil prices has helped to support the Budget in the short term, the fundamental and perennial challenge around revenue mobilisation, and the need to significantly improve our tax to GDP ratio persists and still needs to be confronted. This, in our view, continues to be the driver for the additional revenue measures set out below, which Government has indicated it will pursue in the second half of 2022:

- introduction of the Electronic Invoicing System (e-VAT) towards enhancing revenue assurance and mobilisation; expected to be realised by 1 October 2022
- upfront payment of VAT by importers not registered with VAT; expected to commence by 1 October 2022
- implementation of the common platform for property rate collection and accountability expected to be realised by August 2022
- extension of Penalty and Interest Waiver to December 2022 for tax debts accrued to the 2020 calendar year
- amendment of the tax laws on e-commerce, betting and gaming to align them to current trends

The downward revision of the e-levy revenue target by over 91% (from GH₵6.9 billion to GH₵0.6 billion) indicates the need for a review of the policy and its implementation. We wish to remind Government of our call for the e-levy rate to not exceed the rates typically charged by resident platform operators of not more than 0.75%.

Commentary

We can learn from the results of improved reported volumes of gold exports, which Government attributes to the 50% reduction in the withholding tax rate for the purchase of minerals from small scale miners. For ease of reference we reproduce extract of paragraph 134 of the 2022 mid-year budget review below:

"The withholding tax on the sale of unprocessed gold by small-scale miners was reduced from 3 percent to 1.5 percent with effect from 1st January, 2022. The policy has led to an improvement in reported export volumes of 6,222.50kg as at end May, 2022 compared to 2,503.74kg as at end May 2021."

Government has revised the initially projected expenditure for 2022 of GH₵135.6 billion to GH₵133.8 billion. This revision mainly impacts Government's Budget for Goods and Services as well as Grants to Other Government Units which are projected to reduce by 35% relative to the initial Budget (from GH₵9.1 billion to GH₵5.8 billion) and 12% (from GH₵26.8 billion to GH₵23.6 billion) respectively. Interest payments are however expected to increase from GH₵37.4 billion to GH₵41.3 billion, accounting for 31% of the total revised projected expenditure and absorbing 43% of revised budgeted revenue and grants for 2022. The higher interest cost is largely attributable to increases in the country's debt stock which has hit a concerning level, spurred by the depreciation of the Cedi against major global trading currencies.

Ghana's total debt stood at GH₵393.5 billion i.e.78.3% of GDP as at 30 June 2022, with about 51.7% of this position being financed by external debt. Despite the country's debt stock in dollar terms reducing by 7.2% from USD58.6 billion as at June 2021 to USD54.4 billion as at June 2022, the significant depreciation of the Cedi by about 16% over the period to June 2022 has contributed significantly to the rising debt position.

The Free SHS programme, which continues to generate debate with respect to its cost to the economy, has led to growth in enrolment and access to SHS education across the country. The programme does however face challenges with insufficient and inadequate infrastructure and related facilities, as well as more recent challenges with food supply to schools. The

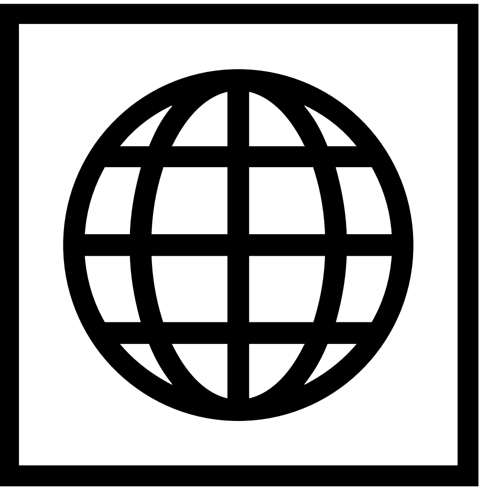
mid-year review affirms Government's commitment to continue to fund this programme in full, notwithstanding calls by a section of the public for a review of the programme to optimise its cost to taxpayers. While noting the commitment to continue to fund the programme as an investment in the development of Ghana's human capital, we urge Government to consider engaging in additional dialogue regarding the structure of the programme, for example around potential means of testing to identify beneficiaries and the level of support required, and/or the exclusion of student boarding fees from the programme, with a view to freeing up additional resources which may be deployed towards upgrading facilities to enhance the learning environment for greater impact.

In our commentary on the 2022 Budget Statement, we indicated that while we understood the reasons underpinning Government's decision to remove tolls on roads in Ghana, which included the lack of accountability over the tolls collected, the heavy traffic at the manual toll booths, its associated waste of manhours and adverse impact on the environment, we thought that an alternative approach to deal with these challenges should have been considered. We proposed automated toll booths/ tolling as an alternative, so that road infrastructure developed under the Public Private Partnership ("PPP") framework could be paid for in whole or in part through user charges. The reintroduction of tolling as a means of paying for economic infrastructure is appropriate in our view, and if properly implemented will help with the development of infrastructure at a quicker pace while being more affordable to Government.

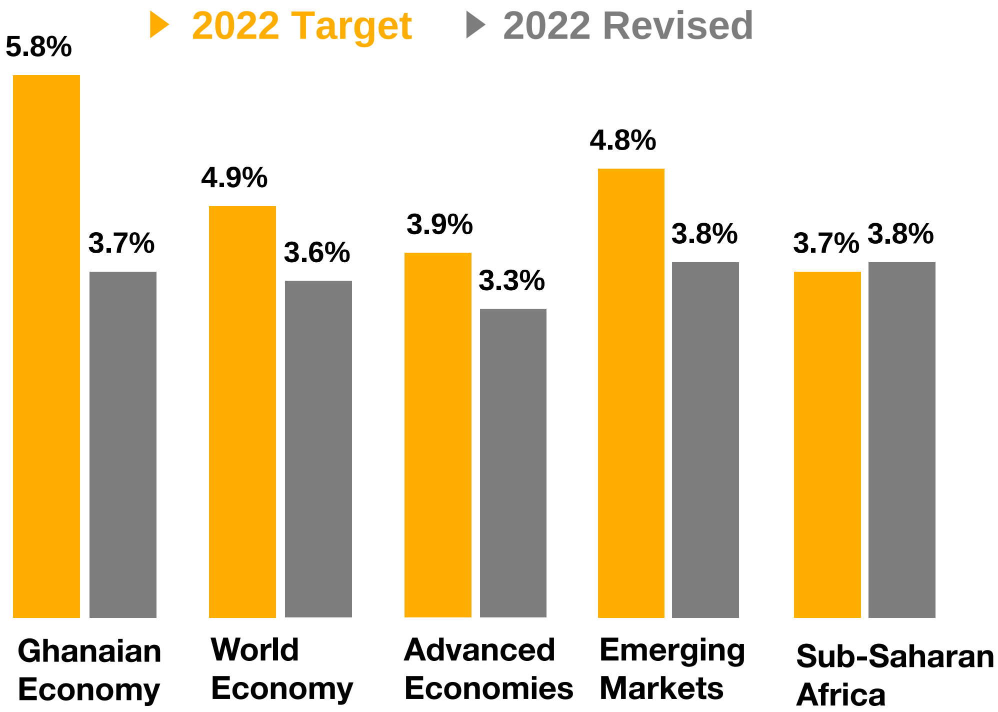
Overall, the mid-year review indicates clearly where the current challenges lie for the Ghanaian economy. These are not new challenges - revenue generation continues to require additional impetus as does an overall rebalancing of our expenditure prolife, which has resulted in the current debt burden. For 2022, thanks mainly to increased global oil prices, the measures and revised budgets outlined in the mid-year review look achievable. The real question is what the medium to long term plan is to deal with the fundamental challenges we need to confront. The Ghana CARES programme sets out Government's plan for the transformation of the economy. An Enhanced Domestic Programme, which we understand that Government is currently developing, will complement the Ghana CARES Programme. These will form the basis of discussion and ultimately, agreement with the IMF on a medium-term road map and the IMF's support to Ghana's economy. While we await the details of the plan and the outcome of discussions with the IMF, we encourage Government to maintain its resolve on the implementation of the expenditure cuts that it has identified and to the implementations of the revenue measures that have been approved as part of the 2022 Budget. We take the opportunity to reaffirm our availability to assist wherever we can, in the interest of the national effort to stabilise and grow our economy in a sustainable manner.

2022 Revised Budget At a Glance

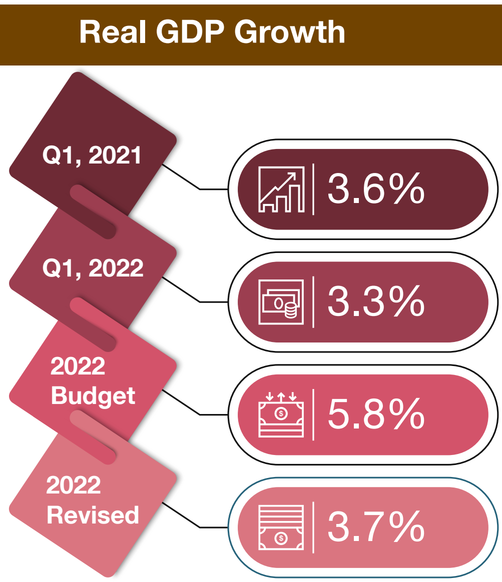
Global GDP Growth



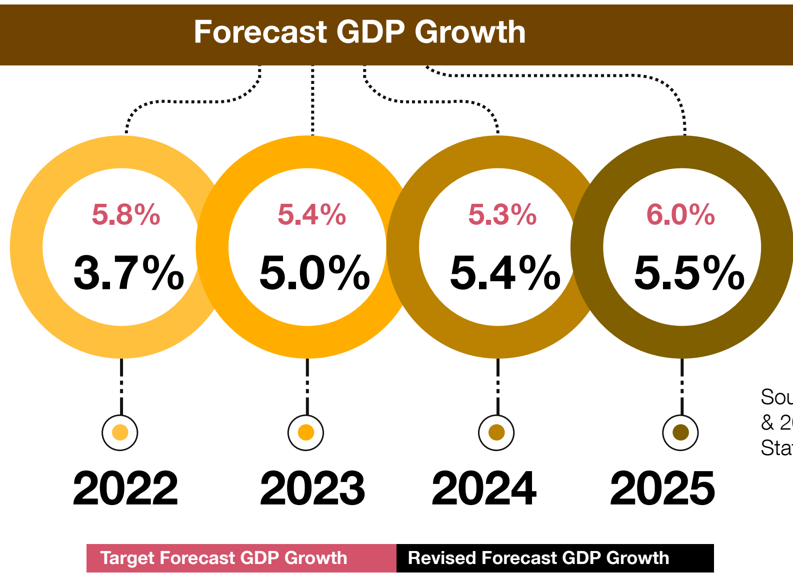
Source: IMF World Economic Outlook,
January 2022; April 2022
2022 Mid-Year Budget Statement



Domestic Economy



Source: GSS Newsletter, Quarterly GDP,
First Quarter 2022;
MPC-Press-Release-July-2022;
2022 Budget Statement;
2022 Mid-Year Budget Statement



Source: 2022 Budget Statement
& 2022 Mid-year Budget
Statement

2022 Revised Budget At a Glance

Sectoral Growth Analysis

Sector	2022 Budget	2022 Revised
Agriculture	5.3%	2.1%
Industry	6.3%	4.2%
Services	5.6%	3.8%

Source: 2022 Mid-Year Budget Statement

Headline Inflation
1st Quarter 2022 - 19.4%
2nd Quarter 2022 - 29.8%
2022 Target - 8%
2022 Revised Target - 28.5%

Fiscal Deficit
2022 Target - 7.4%
2022 Revised Target - 6.6%

Public Debt (GH¢)
External debt
31 December 2021 - 170bn
2nd Quarter 2022 - 203.4bn

Domestic debt
31 December 2021 - 181.8bn
2nd Quarter 2022 - 190.1bn

Total Public Debt
as at 30 June 2022 - 393.5bn

Exchange Rate

	Q2 2021	Q2 2022
GH¢/USD	5.8	7.2
GH¢/EUR	6.8	7.6
GH¢/GBP	8.0	8.8

Source: Bank of Ghana

	Interest Rate: Q2 2021	Interest Rate: Q2 2022
Monetary policy rate	13.5%	19.0%
91-Day Treasury Bill interest rate equivalent (%)	12.7%	24.2%
182-Day Treasury Bill interest rate equivalent (%)	13.4%	25.6%
Commercial Bank's lending rate	20.9%	22.5%

Source: Bank of Ghana

2022 Revised Budget At a Glance

Where is the money coming from?

Non-Tax Revenue

- GH¢15.9 billion
- GH¢13.8 billion

Taxes on Income and Property

- GH¢38.9 billion
- GH¢38.3 billion

Taxes on Domestic Goods and Services

- GH¢30.0 billion
- GH¢36.0 billion

Refunds

- (GH¢3.2 billion)
- (GH¢3.2 billion)

Grants

- GH¢1.2 billion
- GH¢1.0 billion

Others

- GH¢5.4 billion
- GH¢5.6 billion

International Trade Taxes (Import Duties)

- GH¢8.6 billion
- GH¢9.0 billion

GH¢96.8 billion

GH¢100.5 billion

Revised Budget | 2022 Initial Budget

2022 Revised Budget At a Glance

Where is the money going?

Key expenditure areas

Total Expenditure
excluding arrears and amortisation
GH¢133.8 billion

2022 Revised

Interest Payment	GH¢41.3 billion
Compensation to Employees	GH¢37.9 billion
Grants to Other Government Units	GH¢23.7 billion
Capital Expenditure	GH¢13.7 billion
Goods and Services	GH¢5.9 billion
Other Expenditure	GH¢10.8 billion
Social Benefits	GH¢0.2 billion
Subsidies	GH¢0.3 billion

2022 Budget

Interest Payment	GH¢37.4 billion
Compensation to Employees	GH¢35.9 billion
Grants to Other Government Units	GH¢26.8 billion
Capital Expenditure	GH¢16.4 billion
Goods and Services	GH¢9.2 billion
Other Expenditure	GH¢9.4 billion
Social Benefits	GH¢0.2 billion
Subsidies	GH¢0.3 billion

Total Expenditure
excluding arrears and amortisation
GH¢135.6 billion

Tax Measures

Tax Measures announced in 2022 Budget

- √ Reduction in the withholding tax (WHT) rate for the purchase of unprocessed gold from small-scale gold miners from 3% to 1.5%
- √ Increase in the turnover limit for the Modified Taxation System from GH₵200,000 to GH₵500,000
- √ Restriction of the VAT flat rate scheme to small retailers only
- √ Extension of the zero-rating of locally manufactured textiles
- √ Introduction of electronic transaction levy
- √ Review of benchmark (discount) policy for imported vehicles and selected general goods
- √ Passage of the Tax Exemptions Bill into law
- √ Automatic review of Government's Fees and Charges
- √ Taxation of High Net Worth Individuals

- ● Establishment of the AfCFTA Customs Procedures Code (CPC)
- ● Increased sensitisation of the ECOWAS Common External Tariff (CET)
- ● Intensification of Revenue Assurance and Compliance Enforcement (RACE) initiative
- ● Implementation of a common platform for the administration of property rate

√ Implemented ● Ongoing/ Yet to be implemented

Mid-Year Proposed Measures	Budget extract and PwC Commentary
Extension of suspension of quarterly income tax and vehicle income tax on specified persons	Please refer to our commentary in the Direct tax section of our **2021 Budget Highlights document** where this measure was mentioned.
Re-introduction of tax exemptions on capital gains made on the Ghana Stock Exchange	To deepen the capital market and to attract more investors onto the Ghana Stock Exchange, Government intends to exempt capital gains on listed securities from income tax for an additional five years. The Parliament of Ghana has rejected this proposal. In their view this measure is at variance with the current posture on tax exemptions following the passage of the Exemptions Bill.
Extension of Penalty and Interest Waiver regime to December 2022	The Government proposes to extend the Penalty and Interest Waiver regime which expired on 30 June 2022 to December 2022. This is expected to lessen the burden on taxpayers and improve voluntary compliance to increase government revenues. We however recommend that Government considers: (i) extending the scope of the amnesty to cover the 2021 year of assessment since this will facilitate the prompt resolution of tax disputes; and (ii) appoint the members of the Independent Tax Appeals Board since this will achieve a better channel to resolve tax disputes rather than periodic extensions of tax amnesty which may have the effect of supporting non-compliance if implemented over an extended period of time.

Mid-Year Proposed Measures

Budget extract and PwC Commentary

Amendment of tax laws on e-commerce, betting and gaming

To raise additional revenue, Government has reviewed the various laws relating to the taxation of e-commerce, betting and gaming, to align with current trends. These reviews will have to be approved by Parliament to take effect.

Considering the delays in implementing key laws such as the VAT Act for the taxation of e-commerce, betting and gaming, we welcome the reviews to align the taxation of those sectors with current trends. The results of the review should provide increased certainty to relevant taxpayers and increased revenues to Government provided that the views of key stakeholders have been incorporated in the reviews.

We are aware that Parliament is considering the changes for broadening the scope for the taxation of e-commerce with a special sanction of restricting access in Ghana to non-compliant providers of e-commerce. In addition, it appears that the amendment considered by Parliament will cover both Business-to-Business and Business-to-Consumer transactions but may allow for deduction of input tax which is currently restricted by the principal VAT Act. No provisions have been made for dealing with withholding VAT for e-commerce services provided by non-residents.

We recommend that taxpayers should consider the additional risks that arise from these amendments. We also recommend to Government to initially restrict the amendment to Business-to-Consumer transactions only.

Introduction of electronic invoicing system (e-VAT)

By the end of 4th quarter of 2022, an electronic invoicing system (e-VAT) will be rolled out to enable GRA have a real-time view of VAT-related transactions for the collection of the tax.

We support the digitalisation of our tax processes since that may improve tax compliance and increase Government revenues.

However, if not properly implemented, such measures may negatively affect the operations of taxpayers. For instance, if the Ghana Revenue Authority is required to authenticate documents (including invoices, debit and credit notes) before issuance to customers, such may delay the process of doing business.

The amendments before Parliament is for invoices to be issued using a Certified Invoicing System as default and not the invoices from the Commissioner-General booklet as currently done.

We hope this proposed measure would consider the size and complexities of taxpayers and their ability to install infrastructure that would enable improved compliance. We recommend implementation in phases where phase 1 for instance does not require GRA to authenticate documents but only gather real-time information.

Mid-Year Proposed Measures

Introduction of VAT penalty on unregistered importers

Budget extract and PwC Commentary

To promote compliance, Government will impose a "recoverable penalty" equivalent to the VAT non-registered persons are required to charge on their goods, payable at the ports of entry. The implementation start date for this policy is 1 October 2022.

This measure is intended to compel importers to register for VAT by imposing a "penalty" equivalent to the amount of VAT they are required to charge on their goods. The payment, determined by reference to the customs value, can however be recovered once such persons register for VAT and file their VAT returns. The Government foresees that this measure will boost VAT revenues by scoping in VAT-registrable importers. We, therefore, expect to see an increase in the number of taxpayers registering for VAT.

We encourage persons that supply non-exempt goods and/or services in their business to apply to register for and comply with the VAT laws if the value of their supplies exceeds the applicable VAT registration threshold (generally, GH¢200,000 per annum or its quarterly equivalent). Doing this will minimise adverse effects on their activities as a result of this proposed measure.

This measure may be easy to implement and its objectives achieved if VAT unregistered importers import to sell without significant transformation of the items imported. Where this is not the case, several issues may arise. We therefore recommend that Government carefully reconsiders this proposal and address questions including the following before implementation:

- Who is an unregistered importer for this purpose? Will this include, for example, an individual or a religious body that imports for their own use and not for resale?
- What if the items imported are taxable but used in the making exempt supplies?
- Would an importer that pays the upfront amount be allowed a full deduction of the VAT paid even where the importer makes both taxable and non-taxable supplies?
- Would the 6-month default rule for making VAT claims for input VAT credit apply in recovering the "penalty" paid?
- Where the amount of VAT charged is less than the VAT incurred would the upfront amount be refunded or only a credit granted?
- Will the upfront payment be offset against the penalty charged for non-registration?
- Will VAT and the associated health, education and recovery levies already payable at the port also apply on the upfront payment considering the GRA's view that these taxes should be applied on other imposts?
- Would the penalty be deductible for income tax purposes assuming that the associated expense is a revenue expense wholly, exclusively and necessarily incurred for business?

In our view, there are tax laws that provide adequate procedures in ensuring VAT registration and compliance with the charging of VAT. If this measure is introduced, prices of goods and services may further increase since unregistered traders may pass the cost on to customers.

We propose an urgent review of our VAT regime as it has become extremely burdensome and not supportive of businesses.

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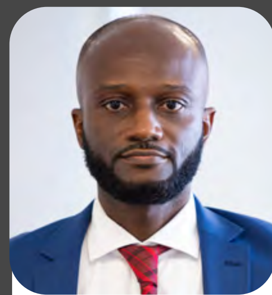

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