

On point

Ghana Tax News in a snapshot

This edition of **On Point** focuses on the amendment to the legislative instrument (L.I.) 1675 by L.I. 1997, which introduces changes to the taxation of employee overtime and bonuses. Also to be discussed is L.I. 1996 which introduces revised income tax bands for resident individuals. The gazette date of both L.I. 1997 and L.I. 1996 is 22 July 2011 with 25 November 2011 being the date of entry into force.

Revision of income tax bands

The Government of Ghana proposed new personal income tax bands in the 2011 Budget Statement for resident individuals to replace the income tax bands that came into effect in June 2010.

The 2011 proposals have now been enacted into law, effective 25 November 2011. Any employer paying salaries after this date are encouraged to take these changes into account.

The tax bands are as follows:

	Old tax band GH¢	New tax band GH¢	Rates remain the same
First	1,008	1,200	Nil
Next	240	420	5%
Next	720	1,104	10%
Next	14,232	23,196	17.50%
Exceeding	16,200	25,920	25%

The new bands results in tax savings of up to GHS78 (USD 50 approx) per month for individual tax payers whose earnings attract a marginal rate of 25%.

Similar amendments announced in the Government's 2012 budget have yet to be enacted.

Taxation of overtime

Overtime payments are qualifying cash payments made to qualifying junior employees. With this amendment, the definition for junior employees has not changed, hence the cap of GHS 9,600 per year being the qualifying employment income for the qualifying junior employee remains the same.

However in place of the 2.5% tax to be withheld on overtime payments not exceeding 50% of the junior employee's salary for the month, the withholding tax rate has been increased to 5%. Further, where the overtime payment exceeds 50% of the salary of the junior employee for the month, the tax on the payment will be at a rate of 10%.

The new L.I. has however not provided any further clarity on the treatment of the portion of income to which the higher tax rate relates: i.e. in terms of whether upon the payment exceeding 50%, 10% tax is applicable *only* on the excess or on the full amount of the overtime payment.

Recently, amendments to personal income taxes have been in favour of individual tax payers. This however deviates slightly from the trend with the additional 2.5% increase in the overtime tax rate which benefits only employees with overtime payments exceeding 50% of their salary. Employees with overtime payments less than 50% of their basic salaries are adversely affected.



Taxation of bonuses

In line with the L.I. 1997, all bonus payments made by employers to their employees in a year of assessment should be taxable at 5% *if* the payment does not exceed 15% of the annual basic salary of the employee. The Internal Revenue Act, 2000 (Act 592), "the IRA" defines monthly basic salary as the income

December 2011

represented by the monthly salary paid to an employee and applicable to the grade, rank or position of that employee without the addition of any allowance or benefit paid in cash or given in kind to that employee or applicable to the grade, rank or position of that employee.

Where the payment exceeds 15% of the annual basic salary of the employee, the **excess** will be added to the employment income of the employee and taxed at the employee's graduated tax rate.

This effectively increases the tax band for bonuses which was previously capped at the lower of GHS1,620 and 15% of the employee's qualifying employment income. Beyond this amount, the payment was added to the individual's employment income and taxed at the appropriate rate. It also fits into government's plan of widening the personal income tax thresholds and brackets.

Quarterly tax payable by specified small scale enterprises

Small scale enterprises which were previously categorised by type and taxed on that basis have now been re-grouped by categories with each of the categories having four sub-groups.

As per L.I. 1997, the scope of enterprises regarded as small scale now includes other small scale enterprises such as estate and accommodation agents, sand and stone winners and contractors, artisans, freelance photographers, traditional healers etc. Conspicuously omitted in the new amendment however is the Co-operative Distillers Association of Ghana – manufacturers and retailers of alcoholic beverages. There is the need for government to provide guidance on the taxation of this particular group which was included in the groupings for L.I. 1675.

The taxes on these enterprises as stated in the new L.I. 1997 are slightly higher than those in L.I. 1675. Previously, the taxes ranged from GHS3 to GHS15. With the L.I. 1997 amendment however, there is a significant leap in the tax range from GHS3 to GHS 45 payable quarterly.

The provisions of this L.I. will bring the Government closer to its goal of mobilising higher tax revenues. The success of this will however be influenced by the efficiency and effectiveness of the tax administration system designed to capture these enterprises who primarily operate in the informal sector.

Quarterly tax payable by owners of commercial vehicles

Also in L.I. 1997 is a revision of the taxes payable by persons who own commercial vehicles. The scope here has also been widened to include vehicles which were not previously listed in the L.I. 1675 and also to provide more detailed specifications on existing vehicles. The classifications appear to be based on those utilised by the Driver and Vehicle Licensing Authority (DVLA).

The annual taxes which translate into quarterly rates previously ranged from GHS19.2 for taxis and cars on hire within town to GHS486 for long distance cargo trucks and articulated vehicles. With the new amendments, the taxes now range from GHS 24 for taxis and private taxis to

GHS800 for articulated trucks and trailers with capacities of 18 cubic meters and timber trucks.

Historically, the commercial vehicles sector has always been particularly sensitive to changes in government policies that impact their business, for example fuel prices. Against this background, there is a risk of increased transport fares which would mean that the increased taxes would ultimately be passed on to the public.



Available publications

Copies of the following publications are available to be sent to you upon request:

- 2011 Ghana Tax Facts and Figures
- 2012 Ghana Budget Highlights
- Top Ten Tax issues in Ghana's Oil and Gas Sector
- Oil and Gas Matters Newsletter
- Ghana Tax Compliance Due Dates 2011
- Quick Guide to Setting up in Ghana.
- PwC Ghana's Oil and Gas capability statement
- PwC Ghana's Mining capability statement

Please contact us further in relation to this or any of the issues discussed in this newsletter via our contact details below:

Tax Leader

Darcy White
+233 (302) 761576
+233 (243) 171453
Darcy.white@gh.pwc.com

Tax Partner

George Kwatia
+233 (302) 761500
+233 (244) 603798
George.kwatia@gh.pwc.com

Tax Senior Managers

Ayesha Bedwei
+233 (302) 761500
+233 (244) 813956
Ayesha.a.bedwei@gh.pwc.com

Company Secretarial Services

Francis Adiasani (Director)
+233 (302) 761500
+233 (244) 667350
Francis.adiasani@gh.pwc.com

Nana Afua Okoh
+233 (302) 761500
+233 (207) 619191
Nana.a.okoh@gh.pwc.com

Michael Klobodu (Manager)
+233 (302) 761500
+233 (208) 256507
Michael.klobodu@gh.pwc.com

Lydia Pwadura
+233 (302) 761500
+233 (244) 603 276
Lydia.pwadura@gh.pwc.com

OFFICE LOCATION:

No. 12 Airport City
Una Home 3rd Floor
Accra, Ghana

Plot No. 51
Airport Ridge
Takoradi

MAILING ADDRESS:

PMB CT42, Cantonments
Accra, Ghana

TELEPHONE:

+233 302761500

FASCIMILE:

+233 302761544

E-MAIL:

pwc.ghana@gh.pwc.com

WEBSITE:

www.pwc.com/gh

© 2011 PricewaterhouseCoopers. All rights reserved. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except with prior express written permission of PricewaterhouseCoopers Ghana. EP6-2011-12-21-16 06-AC