


2008 Tax Facts and Figures

A quick guide to Taxation in Ghana*



*connectedthinking

PRICEWATERHOUSECOOPERS 

Introduction

The Income Tax regime has seen a number of changes since the Internal Revenue Act, 2000 (Act 592) was introduced. However, in 2008 there were only minor changes with the focus on the reduction of corporate income tax rate on income derived from providing credit to agriculture and communication service tax on Communication Service usage. Like the previous year, no changes were proposed on personal income tax rates, and neither was the tax bands widened.

Although there are still a number of issues in the tax regime that need to be addressed, the last four tax budgets have overall been encouraging for the business community.

Effective 01 July 2007, the currency of Ghana- the Cedi- was re-denominated to Ghana Cedi (GH¢) by the Bank of Ghana. The Ghana Cedi (GH¢) was introduced after the denomination of the old Cedi by ten thousand Cedi. This means one Ghana Cedi (GH¢1) is equal to ten thousand of the Cedis (10,000).

In this publication all tables/illustrations and other currency references are based on the Ghana Cedi (GH¢).

This guide is prepared as a general overview. For more detailed planning please ensure professional advice is obtained.

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A brief profile of PricewaterhouseCoopers

Global Overview

PricewaterhouseCoopers (www.pwc.com) is the world's largest professional services organization. We provide industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

Our Core Values

Our core values of **excellence, teamwork and leadership** define how our people work. We strive to deliver what we promise, work together as a team and lead by example.

PricewaterhouseCoopers in Africa

With 57 offices employing more than 6,000 professional staff located in 29 countries, PricewaterhouseCoopers is able to offer the highest level of quality services in every country of Africa. Permanent offices can be found in:

Angola	Botswana	Cameroon
Chad	Congo	Côte D'Ivoire
Democratic Republic of Congo (DRC)	Egypt	Equatorial Guinea
Gabon	Ghana	Guinea Conakry
Kenya	Libya	Madagascar
Malawi	Mauritius	Morocco
Mozambique	Namibia	Nigeria
Senegal	South Africa	Swaziland
Tanzania	Tunisia	Uganda
Zambia	Zimbabwe	

PricewaterhouseCoopers Ghana

In Ghana, PricewaterhouseCoopers has seven Partners/Directors and over 180 employees.

The Ghana firm, which is a full member of the network of PricewaterhouseCoopers, has unrestrained access to the global network's vast resource base of proprietary knowledge, methodologies and experience.

Our clients include private sector businesses – both multinational and national; many government institutions – at national and local levels and financial institutions.

From Ghana, the firm services clients located in or with business and development interests in Sierra Leone, Liberia and The Gambia.

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General provisions under the law

Income liable to tax

Income tax is levied in each year of assessment on the total income of both resident and non-resident persons in Ghana.

With respect to resident persons, the income must be derived from, accrued in, brought into or received in Ghana.

For non-resident persons, the income must be derived from or accrued in Ghana.

Resident persons

An individual is resident for tax purposes if that individual is:

- a citizen of Ghana, other than a citizen who has a permanent home outside Ghana for the whole of the year
- present in Ghana for a period or periods equal in total to 183 days or more in any twelve-month period that commences or ends during the year
- an employee or official of the Government of Ghana posted abroad during the year
- a Ghanaian who is temporarily absent from Ghana for a period not exceeding 365 continuous days where that Ghanaian has a permanent home in Ghana.

A company is resident for tax purposes if that company:

- is incorporated under the laws of Ghana, or
- has its management and control exercised in Ghana at any time during the year.

General provisions under the law

A body of persons is a resident body of persons if that body of persons is:

- established in Ghana
- has a resident person as a manager at any time during the year of assessment or
- controlled directly or indirectly by a resident person or persons at any time during the year.

A partnership is resident for tax purposes if at any time during the year, any partner in the partnership is resident in Ghana.

Income sources

The chargeable income of a person for any year of assessment is the total of that person's income for the year from each business, employment, and investment less the total amount of deductions allowed to that person.

Taxation of individuals

Monthly tax rates

Tax rates, in the table below, are shown for purposes of effecting monthly deductions.

Year 2008	Chargeable Income GH¢	Rate %	Tax Payable GH¢	Cumulative Income GH¢	Cumulative Tax GH¢
First	20	Nil	Nil	20	Nil
Next	20	5	1	40	1
Next	100	10	10	140	11
Next	660	17.5	116	800	127
Exceeding	800	25			

Taxation of individuals

Income from employment

A person's income from an employment is that person's gains or profits from that employment including any allowances or benefits paid in cash or given in kind to, or on behalf of that person from that employment except where exempt.

Personal relief

The assessable income of a person for any year of assessment shall accordingly be reduced as follows;

	Conditions	2008 GH¢
(i)	An individual with a dependant spouse or an unmarried person with at least two dependant children	35
(ii)	Disabled	25% of Y*
(iii)	Aged 60 or more (income from employment or business)	Lesser of 35 or total income is exempt
(iv)	Dependant child or ward education (up to three children)	30
(v)	Aged dependants (over 60 years) up to a maximum of two dependants (per dependant)	25
(vi)	Professional, technical or vocational training cost not exceeding	100

** Y is assessable income from any business or employment (excluding income from investment.)*

Taxation of individuals

Contributions to retirement benefit schemes

Individual contribution to the Social Security Scheme of 5% of salary is tax exempt.

The employer's contribution of 12.5% on behalf of the employee is tax exempt.

Retirement savings

The assessable income of an individual shall be reduced by any life insurance premium paid by that individual in Ghanaian currency to a Ghanaian insurance company within the year which does not exceed the lesser of 10% of the sum assured or 10% of the combined total of business, employment and investment income, less any contributions to a retirement fund is exempt.

Non-cash benefits

Non-cash benefits received from employment, except where specifically exempt, are taxable.

Benefits received from use of accommodation and vehicle provided by employer

Where the employer provides the following facilities to an employee the benefit of the use of these facilities is taxed as follows:

Taxation of individuals

Facility provided	2008
Provision of Accommodation	Value to be added for tax purposes
Accommodation with furnishing	10% of the person's total cash emoluments
Accommodation only	7.5% of the person's total cash emoluments
Furnishings only	2.5% of the person's total cash emoluments
Shared accommodation	2.5% of the person's total cash emoluments
Provision of Means of Transport	Value to be added for tax purposes
Driver and Vehicle with fuel	12.5% of the person's total cash emoluments up to a maximum of GH¢350 per month
Vehicle with fuel	10% of the person's total cash emoluments up to a maximum of GH¢300 per month
Vehicle only	5% of the person's total cash emoluments up to a maximum of GH¢150 per month
Fuel only	5% of the person's total cash emoluments up to a maximum of GH¢150 per month

Non-taxable benefits/income

The following benefits are not taxable:

- a) reimbursements of medical and dental cost or health insurance expenses where the benefit is available to all employees

Taxation of individuals

- b) passage costs of an employee who is
 1. recruited or engaged outside of Ghana,
 2. a non resident
 3. who is solely serving the employer in Ghana
- c) accommodation provided by employer to employee on a timber, mining, building, construction or farming business at site or place where field operation of the business is carried on
- d) reimbursement of cost incurred on behalf of employer
- e) severance pay
- f) night duty allowance (limited to 50% of monthly salary)
- g) pension or lump sum payment upon retirement on account of old age, sickness or other infirmity
- h) the dividend of a venture capital financing company that satisfies the eligibility requirements for funding under the Venture Capital Trust Fund Act, 2004 (Act 680) for a period of ten years of assessment commencing from the year the period in which operations commenced
- i) Interest or dividend paid or credited to a person who invested in a capital venture financing company
- j) interest, dividend or
 - a) any other income of an approved unit trust scheme or mutual fund
 - b) any other income payable under an approved unit trust scheme or mutual fund to a holder or member of that scheme.

Taxation of individuals

- k) gains arising from trading on the Ghana Stock Exchange (GSE) is exempt from tax for the period of twenty years of assessment commencing from the basis period in which operations commenced

Resident individuals

A resident individual is liable to tax on all income from his employment in Ghana regardless of where paid. A resident person or an expatriate who is paid both in Ghana Cedis and foreign currency is liable to tax in Ghana on both streams of income, in addition to any benefits derived from the exercise of the employment in Ghana.

Non-resident individuals

A non-resident individual is liable to tax at the rate of 15% on any income derived in Ghana or which accrues to him from an employment exercised in Ghana. This rate applies to income earned by a non-resident individual who has stayed in Ghana for a period or periods, which in total is less than 183 days in a twelve-month period.

Pay As You Earn (PAYE)

PAYE is a method of paying tax to the Internal Revenue Service (the Revenue) on incomes earned by employees. The tax is deducted at source on salaries and wages earned by the employee. It also applies to taxable benefits.

The employer deducts the tax and pays it to the Revenue by the 15th day of the month following the month in which the deduction was made.

Taxation of individuals

Year of assessment (individuals)

The tax year of assessment for individuals and partnerships is January 1 to December 31.

Method of calculating income tax payable

The example below demonstrates how an individual is assessed to tax.

Question

Calculate the income tax payable by a resident married individual whose annual income is GH¢5,000. The employee has use of a furnished accommodation and a fuelled car provided by his employer. He has two children attending approved educational institutions in Ghana.

Solution

Item	2008 GH¢
Salary	5,000
Add:	
Rent element (10% of GH¢5,000)	500
Car element(lesser of 10% of GH¢5,000 or GH¢3,600)	500
Total Emoluments	6,000
Less:	
Social Security Contribution (SSC)	(250)
Marriage Allowance*	(35)
Child Education (2 x 30)*	(60)
Total Deductions	(345)
Taxable Income	5,655
Tax Payable	828

* In the case of a married couple one individual only claims the Marriage or Child Education relief.

Taxation of individuals

Examples of income tax payable at various levels of taxable income

The table below shows the income tax payable by an individual for the 2008 year of assessment. The only relief granted is personal relief.

Monthly Taxable Income GH¢	Tax Payable 2008 GH¢
30	1
60	3
100	7
450	65
760	120
900	152

Personal non-taxable income for a resident person, the threshold is:

Item	2008 GH¢ Per Annum
Taxable individual	240
Individual whose income does not exceed the minimum wage	594

Corporate tax

Rates of tax

The income tax rate applicable to companies is as follows:

Entity	2008 %
Companies (listed on GSE)	22
Companies (not listed)	25
Rural Banks – first 10 years	0
Rural Banks after first 10 years	8
Free Zone Enterprise / Developers – first 10 years in operation	0
Free Zone Enterprise/Developers – after first 10 years	Not exceeding 8
Manufacturing companies located:	
i. In Accra/Tema	25
ii. In all other regional capitals	18.75
iii. Elsewhere	12.5
Hotels	25
Banks – income derived from loans granted to farming enterprises	20
Banks – income derived from loans granted to leasing companies	20
Companies engaged in non-traditional exports	8

Corporate tax

Entity	2008 %
Real estate companies	
Income derived from construction for sale or letting of residential premises:	
i. first 5 years	0
ii. after first 5 years	25
Agro-processing companies	
i first 5 years (from 2004)	0
ii. after first 5 years and located in Accra/Tema	20
iii after 5 years and located in other Regional Capitals, excluding Tamale, Wa and Bolgatanga	10
iv. after 5 years and located outside Regional Capitals	0
v located in Northern, Upper East and Upper West	0
Companies engaged in:	
Farming tree crops – first 10 years	0
Livestock farming (other than cattle) fish or cash crops – first 5 years	0
Cattle farming – first 10 years	0
Income from non traditional exports	8
Waste management companies – first 7 years	0
Companies that process cocoa waste – first 5 years	0

Corporate tax

Year of assessment (companies)

The year of assessment covers the period January 1 to December 31.

Basis period

Basis period is defined as:

- In the case of an individual or partnership the period January 1 to December 31.
- In the case of a company or body of persons, the accounting year of the company or body of persons.

A company can choose its accounting year and once a particular accounting year is chosen it must be consistently followed unless a prior approval in writing is obtained from the Commissioner of the Internal Revenue Service for a change.

Deductions allowed

All outgoings and expenses are generally allowed for tax purposes. These expenses however, must be wholly, exclusively and necessarily incurred in the production of the income that is the subject of tax. The following expenses are generally allowed:

- Capital allowance
- Specific bad debts

Corporate tax

- Tax losses brought forward from previous years (limited to five years and applies only to mining, farming or a manufacturing business that mainly exports)
- Tax losses incurred by a qualifying small or medium enterprise (SME) from disposal of shares in any venture investment shall be carried forward for a period of five years after the date of disposal
- Realised foreign currency exchange losses
- Contribution to a retirement fund on behalf of an employee where such contribution is disclosed in the taxable income of the employee and the contribution would not again be deducted as an expense in the year the fund is retired
- Research and development expenditure
- As an incentive to hire recent graduates, an additional deduction is between 10%-50% of the recent graduates salary is allowed dependent on the percentage of recent graduates employed by the company
- In ascertaining the income of any person who invests in a venture capital financing company, there shall be deducted the full amount of the investment in a year of assessment.

Deductions not allowed

Expenditure of a capital nature is not allowed. Expenditure not wholly, exclusively and necessarily incurred in the production of income is also not allowed. The following expenditure is generally not allowed:

- Personal or domestic expenditure

Corporate tax

- Interest payment and foreign exchange losses in excess of the debt: equity ratio of 2:1 in a thinly capitalised company
- Depreciation
- Any income tax or profit tax or similar tax
- Cost recoverable under an insurance contract
- Non-arm's length cost transfer between related parties.

Capital allowances

Capital allowances are granted to persons who own depreciable assets and use such assets in the production of the income that is the subject of taxation.

The Commissioner should be notified within one month after purchasing and putting a new asset to use.

Capital allowance granted to a person is not transferable either separately or together with any depreciable asset.

Corporate tax

Depreciable assets have been grouped in classes as below and the following rates apply.

Class	Assets included	Rate
1	Computers and data handling equipment	40%
2	i) Automobiles, trailers, construction equipment, plant and machinery used in manufacturing ii) Plantation expenditure	30%
3	i) Mineral and petroleum exploration rights, locomotives, water transportation equipment in respect of mineral and petroleum in year of operations. ii) Buildings, structures and works of permanent nature used in respect of mineral and petroleum exploration iii) Plant and machinery used in mining or petroleum operations	80% of cost in year of purchase, 50% of written down value (WDV)* annually thereafter.
4	Locomotives, water transportation equipment, aircraft Office furniture and fixtures Equipment not included in other class	20%
5	Buildings, structures and works of a permanent nature Other than those mentioned in class 3 above	10%
6	Intangible assets e.g. Goodwill	Useful life

Note that exchange losses arising out of the acquisition of a depreciable asset is capitalised separately but is depreciated at 10% as distinct from the asset that gave rise to the loss.

** WDV is sum total of 5% of cost of previous year's additions to class 3 assets + additions for year + WDV b/f from previous year to current year less disposal proceeds in the year.*

Corporate tax

Carry over of tax losses

Tax losses incurred by a qualifying small or medium enterprise (SME) from disposal of shares in any venture investment shall be carried forward for a period of five years after the date of disposal

Tax losses can be carried forward for five years after which if not utilised the privilege is lost. This provision now applies only to farming, mining, agro processing, tourism, Information and Communication Technology (ICT) or manufacturing business. Manufacturing business is defined as manufacturing for export. Any other business therefore forfeits the right to deduct any unutilised loss carry forward to 2002 and thereafter.

National Reconstruction Levy

The National Reconstruction Levy (NRL) Act, 2001 (Act 597) has been repealed for all companies. Effective January 2007 and beyond companies which hitherto were liable to NRL would no longer be subject to NRL.

Corporate tax

Specimen tax computation for a listed company

Following is an example of an investment company. The dividend income included in the profit before tax has incurred a final dividend tax. The tax calculation has been made on the assumption that the financial figures apply for the year ended December 31 2008.

Item	2008 GH¢
Trading Profit	18,000
Other Income (Rent Received investment income)	<u>500</u>
Profit before Tax	<u>18,500</u>
Included in profit before tax is:	
Gross Dividend income	600
Trading Profit is arrived at after	
Depreciation	3,000
Donation to unapproved charity	100
5% withholding tax paid deducted at source	160
Capital allowance granted for year	3,600

Corporate tax

Computation

Item	2008 GH¢
	¢
Trading Profit	18,500
Deduct: Dividend income	(600)
Rent Income	(500)
	17,400
Add back Depreciation	3,000
Donation	100
Adjusted Profits	20,500
Less : Capital allowance	3,600
Chargeable Income	16,900
Tax on chargeable income at 25%	4,225
Less tax already paid 5% withholding tax	160
Tax due	4,065
Add Tax on Rent Income:	
Rent Income 500	
Chargeable to tax 500	
Tax due on rent income 8% of 500	40
Total Tax due	4,105

Dividends

Dividends received from an investment in Ghana by a resident and a non-resident person is subject to a withholding tax at 8%. This is a final tax.

Capitalisation of profits is deemed to be a distribution of dividends but does not apply to a company during the first five years of commencement of business.

Corporate tax

Free Zone developers/enterprises

Companies registered to operate, as Free Zone Developers/Enterprises do not pay corporate tax for the first 10 years of operation. Thereafter the corporate tax rate is not to exceed 8%.

Subject to the existence of a double tax agreement between the Government of Ghana and the Government of the foreign employee engaged by a free zone enterprise or developer, the foreign employee shall be liable to tax in accordance with the laws of Ghana

Lease transactions

The law currently recognizes both operating and finance leases. Under an operating lease arrangement, the lessor qualifies for capital allowances while paying tax on the lease payments. In the case of a finance lease, the lessor is liable to tax on the lease rentals (excluding capital repayments) and does not qualify for capital allowances.

Under both arrangements, however, the lessee qualifies for a full deduction of payments made under the lease agreement. Note that in a finance lease agreement, neither the lessee nor the lessor qualifies for capital allowances if the lessor does not report for tax purposes the capital payments by the lessee.

Telecommunications

A non-resident person who has his apparatus established in Ghana and who carries on a business of transmitting messages by cable, radio, optical fibre, or satellite communication from an apparatus established in Ghana, is liable to tax on his Ghana gross receipts.

Corporate tax

Change in control

Where there is a change of 50% or more in the underlying ownership of an entity as compared with its ownership in the previous year, the company would not be allowed to take advantage of bad debts and losses incurred prior to the change in control.

Profit or dividend stripping

No deduction is allowed for a loss incurred on the disposal of shares or an interest in shares of a company or interest in a body of persons where the disposal forms part of a profit or dividend stripping arrangement.

Taxation of insurance companies

General business

The general business of an Insurance Company is taxed as follows:

- Ascertain net premium (gross premium less returns)
- Investment income (excluding dividend income)
- Commissions received and reinsurance income
- Previous year statutory reserve

Deduct

- Net claims admitted
- Operating expenses
- Current year statutory reserve

Premiums paid to a registered insurance company under an insurance contract are exempted from withholding tax.

Premiums paid to a non-resident short-term insurer attract 5% withholding tax on the gross premium.

Life business

A person carrying on life insurance business is taxed on investment income derived from its investment activities. Deductions include management expenses and commissions paid out to agents.

International transactions

Geographic source of income

Income from any employment exercised in Ghana is treated as derived from or accrued in Ghana and therefore taxable in Ghana whether paid in Ghana or elsewhere.

The income of a non-resident person is treated as accruing in or derived in Ghana if the income is attributable to a permanent establishment of the non-resident person in Ghana.

A dividend is treated as accruing in or derived from Ghana where a resident company pays it.

Interest is treated as accruing in or derived from Ghana where:

- The debt obligation giving rise to the interest is secured by real estate located in Ghana
- The interest is paid by a resident person or
- The interest is borne by a permanent establishment of a non-resident company.

Any charge, annuity management and technical service fee, proceeds of a life insurance policy, or pension or other payment from a retirement fund is treated as accruing in or derived from Ghana where it is paid by a resident person or is borne by a permanent establishment of a non-resident person in Ghana.

A royalty is treated as accruing in or derived from Ghana where the royalty arises from the use of or right to use a copy-right or any right in Ghana including the use of or right to use any industrial, commercial, or scientific equipment in Ghana.

Premiums and reinsurance premiums in respect of insurance business undertaken in Ghana are treated as accruing in or derived from Ghana.

International transactions

Income attributable to a permanent establishment

In ascertaining the income of a permanent establishment of a non-resident person, charges or fees billed by the non-resident to the permanent establishment is excluded. Actual reimbursement of cost between them is however allowed.

Branch profit tax

Repatriated branch profit attracts tax at 10%. This is in addition to the corporate tax that the branch entity pays.

Relief from double taxation

In ascertaining the income of a person accruing in or derived from outside Ghana any foreign tax paid is a credit towards the tax liability on that income. Professional advice is required in order to understand the process involved in the calculation and claim for the credit.

Double tax treaties (DTA)

Ghana has, for the relief from double taxation on income arising in Ghana, double tax treaties with France, Germany, the United Kingdom, South Africa, Italy, Belgium and the Netherlands.

The double tax treaties with The Netherlands and Belgium have been signed but are not yet in force. The DTA with The Netherlands would become effective 01 January 2009.

Double tax treaties with Sweden and Switzerland (signed but not ratified by Parliament) have been initiated by the Government of Ghana and it is also pursuing double tax treaties with Syria, UAE, USA and the Czech Republic.

International transactions

Tax rates

Tax rates applicable under the terms of these treaties are as follows:

Type of income	France %	United Kingdom %	Germany %	South Africa %	Belgium %	Italy %	The Netherlands
Dividends (Where recipient holds at least 10% shares)	7.5	7.5	5	5	5	5	5
Dividends (In any other case)	15	15	15	15	15	15	10
Royalties	10	12.5	8	10	10	10	8
Technical /Management service fees	10	10	8	10	10	10	8
Interest	10	12.5	10	10 (5% for non-resident banks)	10	10	8

In a circumstance where the applicable rate is higher than that allowable under the laws of Ghana, the lower of the two rates would apply.

Anti-avoidance rules

Income splitting

Income splitting is not allowable and includes transfers of income and or property to associates with a view to reducing the tax liability.

Transfer pricing

The Commissioner is allowed to adjust non-arms-length transfers between associates.

A permanent establishment of a non-resident company may be assessed tax based on:

- The total consolidated income of the non-resident or
- The proportion its income bears to the non-resident's income or
- Any other appropriate formula where the Commissioner is satisfied that some transactions have not been conducted at arms length between the non-resident and the permanent establishment.

Thin capitalisation

The recommended interest bearing debt to equity contribution ratio by a non-resident in its permanent establishment is 2:1. A company is deemed as thinly capitalised if the ratio of its interest bearing debt to its equity contribution is greater than the ratio of 2:1.

Any interest charges or exchange losses arising on the debt in excess of the ratio are disallowed in assessing tax to the permanent establishment.

Withholding taxes

The following are currently the applicable rates of withholding taxes.

Income	Rate %	Remarks
Resident persons		
Interest (excluding individuals & resident financial institutions)	8	Not final tax
Dividend	8	Final Tax
Rent (for individuals and as investment income)	8	Final Tax
Fees to lecturers, invigilators, examiners, part-time teachers and endorsement fees	10	Final Tax
Commissions to insurance agents, sales persons, and fees to directors, board members etc	10	Not final tax
Commissions to lotto agents	5	Not final tax
Supply of goods and services exceeding GH¢50	5	Not final tax
Non-Resident persons		
Dividend	8	Final Tax
Royalties, natural resources payments and rents	10	Final Tax
Management, consulting and technical service fees and endorsement fees	15	Final Tax
Repatriated Branch after tax profits	10	Final Tax
Interest income	8	Final Tax
Short term insurance premium	5	Final Tax

Income tax exempt

The following incomes are exempt:

- a) Proceeds from a life insurance policy where the policy premiums were paid in Ghana.
- b) The income of a non-resident person from any business of operating ships or aircraft if the Commissioner is satisfied that an equivalent exemption is granted by that person's country of residence to persons resident in Ghana.
- c) The interest, dividend or
 - i) any other income of an approved unit trust scheme or mutual fund
 - ii) any other income payable under an approved unit trust scheme or mutual fund to a holder or member of that scheme
 - iii) Interest and dividend paid or credited to a person who has invested in a capital venture financing company.
- d) Capital sums paid to a person as compensation or gratuity for injuries or death of a person.
- e) The income of an individual to the extent provided for in an agreement with the Government of Ghana and a foreign government or public international organisation for the provision of technical service to Ghana under specified conditions.
- f) Severance pay
- g) Night duty allowance (limited to 50% of monthly basic salary)
- h) Interest income paid to individuals by a resident financial institution or received on bonds issued by the Government of Ghana.

Administrative procedures

Furnishing of returns of income

A return on income should be filed with the Internal Revenue Service within 4 months after the end of the person's accounting year. The return should include a separate statement of income and expenditure and a statement of assets and liabilities for each business undertaking carried on within that business by that person.

An employer should by the end of March 31st every year submit a return on all employees who were in his employment the previous year.

Cases where a return is not required

In the following cases, unless the Commissioner requests in writing a return shall not be filed by:

- A non-resident person who has no income accruing in or derived from Ghana during the year
- A non-resident person who suffers a final withholding tax on income derived in Ghana
- A resident who has no chargeable income or a taxable person whose chargeable income is only up to GH¢240 or does not exceed the annual minimum wage of GH¢594
- A resident employee whose only income is employment income and on whose behalf an employer has furnished a return

Administrative procedures

Provisional Assessment

The Commissioner may after the commencement of each year raise an assessment on a taxpayer.

Self-Assessment

The Commissioner may require specified persons to submit self assessed provisional tax liability for the year. Such self -assessed tax estimate may later on be revised but the taxpayer will have to justify why there is the need to revise the estimate.

Payment of tax

Provisional assessments are due on the last day of every quarter of the year for persons whose accounting year begins on January 1. In any other case, assessments are due at the end of each three-month period beginning at the commencement of the person's accounting year.

Withholding tax is due on the 15th day after the month in which the deduction was made.

Tax dates fixed by the Commissioner should be paid on the date established.

In any other case tax is due 30 days after the service of the notice of assessment.

Offences and penalties

The following penalties and in some cases criminal liability apply for the under listed offences.

Administrative procedures

Offence	Penalty
Failure to keep books of account	5% of the amount of tax payable
Failure to furnish a return	Individuals pay GH¢1 and companies pay GH¢2 per day for each day of default.
Failure to pay tax on due date	Where default is not more than 3 months, 10% of tax payable and where default exceeds 3 months 20%. If it is withholding tax the penalty for offences less than 3 months and more than 3 months is 20% and 30% respectively.
Understating estimated tax payable by instalment (self-assessment)	30% where estimate is less than 90% of chargeable income
Making false or misleading statements	Double or three times of the amount of the underpayment of the tax which may result if not detected
Aiding and abetting	Three times of the amount of the underpayment of the tax which may result if the offence went unnoticed
Failure to comply with the Act.	Where resulting underpayment is more than GH¢500 to between 50 and 300 penalty units in any other case between 10 and 100 penalty units.
Failure to withhold tax	Personal liability to pay to the Commissioner the tax due but not withheld.

Administrative procedures

Penalties have been prescribed for offences committed by authorized and unauthorized persons, and entities. The Commissioner may at any time prior to the commencement of court proceedings compound the offence.

Under the Fines (Penalty Units) Act, 2000 (Act 572) as amended by L.I. 1813, a penalty unit is equal to GH¢12.

Value Added Tax/National Health Insurance Levy

Scope

Other than exempt good and services, Value Added Tax (VAT) and the National Health Insurance Levy (“NHIL”) are charged on the following:

- (a) Every supply of goods and services made in Ghana
- (b) Every importation of goods
- (c) Supply of any imported service.

The tax shall be charged on supply of goods and services where the supply is a taxable supply and made by a taxable person in the course of his business. The tax shall be paid:

- (a) In the case of taxable supply by the taxable person making the supply
- (b) In the case of imported goods, by the importer
- (c) In the case of imported service, by the receiver of the service.

Except for export that is zero-rated, the rates of the taxes are 12.5% for VAT and 2.5% NHIL and are calculated on the value of the taxable supply of the goods, services or import. The value is defined to be inclusive of cost, insurance, freight and import duty.

A standard VAT rate of 3% has been introduced for the informal sector of the economy which has no recourse to input VAT claims.

A taxable person is a person registered by the Commissioner and issued a certificate of registration that shall be exhibited at the principal place of business of the taxable person. The effective date of registration as a taxable person shall be such date as shall be specified in the certificate of registration issued by the Commissioner.

Value Added Tax/National Health Insurance Levy

Turnover threshold for supplies relating to taxable goods is GH¢10,000. There is no turnover threshold for supplies relating to services. There is the possibility for group registration. Upon application the Commissioner shall cancel the registration of a taxable person where he is satisfied that the registered person no longer exists.

VAT clearance certificate

VAT Clearance Certificates (VCC) have been introduced with effect from January 2007 and will be issued to businesses in good standing by The Commissioner of the VAT Service of Ghana. These certificates will be issued upon application from the first quarter of 2007. The VCC will have a six-month validity period and will be necessary for competitive tendering and clearing of goods from the ports, for example.

VAT flat rate scheme

The VAT Service has introduced a flat VAT rate scheme for the informal sector. Registration of traders in this category is underway and the scheme is expected to be implemented at the beginning September 2007. Under this scheme, retailers are expected to pay 3 percent (3%) of their annual turnover as VAT without recourse to input VAT claims.

Value Added Tax/National Health Insurance Levy

Exempt supplies

Supplies that are specifically exempt are listed below as:

Item	Description
1. Animals, livestock and poultry	All live animals
2. Animals, livestock and poultry imported for breeding purposes	Live asses, mules, and hinnies; live bovine animals; live swine; live sheep and goats; live poultry
3. Animal product in its raw state Produced in Ghana	Edible meat and offal of the animals listed in item 1, provided any processing is restricted to salting, smoking or similar process, but excluding pate, fatty livers of geese and ducks and similar products
4. Agricultural and aquatic food product in its raw state. Produced in Ghana	Fish crustaceans, molluscs, (but excluding ornamental fish); Vegetables and fruits, nuts, coffee, cocoa, shea butter, maize sorghum millet, tubers, guinea corn and rise.
5. Seeds, bulbs rootings, and other forms or propagation	Of edible fruits, nuts and vegetables
6. Agricultural inputs	Chemicals including all forms of fertilisers, acaricides, fungicides, nematicides, growth regulations pesticides, veterinary drugs and vaccines, feed and feed ingredient.
7. Fishing equipment:	Boats, nets, floats, twines, hooks and other fishing gear.

Value Added Tax/National Health Insurance Levy

Item	Description
8. Water	Supply of water excluding bottled and distilled waters.
9. Electricity	Domestic use of electricity up to a minimum consumption level prescribed in regulations by the Minister
10. Printed matter – (Books and Newspapers)	Fully printed or produced by any duplicating process, including atlases, books, charts, maps, music, but excluding newspapers (imported), plans and drawings, scientific and technical works, periodicals, magazines, trade catalogues, price lists, greeting cards, almanacs, calendars and stationery
11. Education	The supply of educational services at any level by an educational establishment approved by the Minister of Education. Laboratory equipment for educational purposes and library equipment

Value Added Tax/National Health Insurance Levy

Item	Description
12. Medical supplies and service - Pharmaceuticals:	Essential drug list and medical supplies determined by the Minister for Health and approved by Parliament. VAT on raw materials and packaging materials used in manufacturing of drugs for treatment of HIV/AIDS, malaria and tuberculosis. All other locally produced pharmaceutical products are zero-rated
13. Transportation	Includes transportation by bus and similar vehicles, train, boat and air.
14. Machinery	Machinery, apparatus, appliances and parts thereof, designed for use in – a) Agriculture, veterinary, fishing and horticulture; b) Industry; c) Mining as specified in the mining list and dredging; and d) Railway and tramway.
15. Crude oil and hydrocarbon Products	Petrol, diesel, liquefied petroleum gas, kerosene and residual fuel oil

Value Added Tax/National Health Insurance Levy

Item	Description
16. Land, buildings and Construction	<p>(a) Land and buildings; the granting assignment or surrender of an interest in land or building; the right to occupy land or buildings</p> <p>(b) Civil engineering work</p> <p>(c) Services supplied in the course of construction, demolition, alteration, maintenance, to buildings or other works under (a) or (b) above, including the provision of labour, but excluding professional services such as architectural or surveying.</p>
17. Financial services	<p>Provision of insurance; issue, transfer, receipt or, or dealing with money (including foreign exchange) or any note or order of payment of any bank (or similar institutions) account; but excluding professional advise such as accountancy, investment and legal.</p>

Value Added Tax/National Health Insurance Levy

Item	Description
18. Goods for the disabled	Articles designed exclusively for use by the disabled.
19. Transfer of going concern	The supply of goods as part of the transfer of a business as a going concern by one taxable person to another taxable person
20. Postal services	Supply of postage stamps.
21. Telephone Sets	Telephone sets including mobile or cellular phones and satellite phones specified under the customs, Excise and Preventive Service (Duties and Other Taxes) Act.

Reverse charge

Importation of taxable services is subject to VAT and NHIL at the standard rates of 12.5% and 2.5% respectively. The recipient of the service is required to account for VAT and NHIL by means of a “reverse charge”. A registered recipient would be entitled to reclaim the amount of VAT and NHIL paid, subject to certain restrictions.

VAT and NHIL incurred

A registered business, which makes only taxable supplies, can recover all the VAT and NHIL incurred on goods or services purchased for the business except certain disallowed items (e.g. cars and entertainment).

If a registered person makes both taxable and exempt supplies a proportion of VAT and NHIL incurred may be recoverable.

Value Added Tax/National Health Insurance Levy

Businesses, which make only exempt supplies, are not eligible to register and all VAT and NHIL incurred, represent a cost.

There is a time limit of 36 months from the date of the invoice for claiming relief for VAT and NHIL incurred on goods and services received.

Returns

Registered businesses make monthly returns showing VAT and NHIL charged on sales, VAT and NHIL incurred on purchase of goods and services and net VAT and NHIL payable or reclaimable. VAT and NHIL on imported goods are paid at time of entry. VAT and NHIL returns are due for submission and VAT and NHIL on supply of goods and services is payable, by the last working day of the month following the month in which the VAT and NHIL became due and payable.

Businesses entitled to regular repayments, such as exporters, are required to submit returns monthly and duly completed VAT and NHIL refunds claim forms (VAT 35). VAT and NHIL refund claims are required to be audited before any remissions are made.

Penalties

There is a comprehensive and rather punitive system of fixed penalties and interest payable for mis-declaration of VAT, late submission of returns, late payment and other infringements of the provision of the VAT Act. The penalty on late filing is GH¢100 and for each day of default in respect of non-submission or late submission of returns (including NHIL returns) it is GH¢1. VAT interest and penalties are not allowable deductions for income tax purposes.

Value Added Tax/National Health Insurance Levy

Where a person formally admits to the Commissioner of an offence, the Commissioner may at any time before proceedings are commenced in court, compound the offence and order for the payment of an amount not exceeding three times the amount of tax or revenue involved.

Monetary penalties are as illustrated on the table below and are supplemented with possible jail terms in many cases:

Offence	Penalty
Failure to register	GH¢500 – GH¢ 1,000
Failure to issue tax invoice	GH¢1,000
False or misleading statement	GH¢500 – GH¢1,000
Falsification and alteration of documents	GH¢200 – GH¢ 1,000
Evasion of tax payment	Three times amount of tax involved
General penalty for unspecified offences	Three times amount of tax involved
Failure to maintain proper records	GH¢500 – GH¢1,000
Obstruction of officer of the Service	GH ¢50 – GH¢ 500
Unauthorised collection of tax	Ten times amount of tax involved
Offences relating to officers	Three times amount of tax involved

Gift tax

Taxable gift

Any of the following assets situated in Ghana, if given out as a gift attracts gift tax:

- a) Buildings of a permanent or temporary nature
- b) Land
- c) Shares, bonds, and other securities
- d) Money, including foreign currency
- e) Business and business assets
- f) Part of, or any right or interest in, to, or over any of the above assets.

Valuation

The value of a taxable gift is the market value of the gift at the time of the receipt.

Imposition of tax

Gift is taxed at a rate of 5% of a value in excess of GH ¢50. It is payable by a person on the total value of taxable gifts received by that person by way of gift within a year of assessment.

Taxable gift - exceptions

The total value of taxable gift does not include the value of a taxable gift received:

- a) by that person under a will or upon intestacy
- b) by that person from that person's spouse, child, parent, aunt, uncle, nephew, or niece
- c) by a religious body which uses the gift for the benefit of the public or a section of the public or
- d) for charitable or educational purposes.

Capital gains tax

Capital gains tax is payable by a person at the rate of 5% of capital gains accruing to or derived by that person from the realisation of a chargeable asset owned by that person.

Chargeable asset

Chargeable asset means any of the following assets:

- (i) Buildings of a permanent or temporary nature situated in Ghana
- (ii) Business and business assets, including goodwill, of a permanent establishment situated in Ghana
- (iii) Land situated in Ghana
- (iv) Shares of a resident company
- (v) Part of, or any right or interest in, to or over any of the assets referred to above

Exclusions from chargeable asset

1. Securities of a company listed on the Ghana Stock Exchange during the twenty years after the establishment of the Ghana Stock Exchange
2. Agricultural land situated in Ghana
3. Trading stock or a Class 1, 2, 3, or 4 depreciable assets, (as referred to under capital allowances on page 12).

Calculation of capital gain

The amount of a capital gain is the excess of the consideration received by that person from the realisation over the cost base at the time of realisation.

Capital gains tax

Exemption from capital gains tax

The following capital gains are exempt:

1. Capital gains of a person up to a total of GH¢50 per year of assessment
2. Capital gains accruing to or derived by a company arising out of a merger, amalgamation, or re-organisation of the company where there is continuity underlying ownership in the asset of at least twenty five per cent
3. Capital gains resulting from a transfer of ownership of the asset by a person to that person's spouse, child, parent, brother, sister, aunt, uncle, nephew or niece
4. Capital gains resulting from a transfer of ownership of the asset between former spouses as part of a divorce settlement or a genuine separation agreement
5. Capital gains where the amount received on realisation is, within one year of realisation, used to acquire a replacement asset
6. Where part only of the amount received on realisation is within one year used to acquire a replacement asset, any part of the capital gain represented by the amount used to acquire the replacement asset less the cost base of the asset realized at the time of realisation.
7. Capital gains accruing to or derived by an investor from an eligible venture capital financing company.

Capital gains tax

Example

Kofi Mensah put up a building at a cost of GH¢20,000. He made extensions costing GH¢10,000 to the building. He sold the building for GH¢40,000. Incidental expenses including legal fees, valuation fees and commissions on the sale amounted to GH¢250.

Solution

Item	2008 GH¢
Cost	20,000
Additions	10,000
Specified expenditure	250
Cost Base	30,250
Capital Gain:	
Realised Sum	40,000
Less: the cost base	30,250
Capital Gain	9,750
Capital Gain Tax @5% in excess of ¢50	485

Communication Service Tax

The Government of Ghana in its 2008 Budget Statements introduced a new tax on Communication Service usage by consumers.

Communication Service users beginning June 2008 are liable to a 6% communication service tax on the charges made by the service providers for the use of the communication service. The communication services providers in Ghana are required by the Communication Service Tax Act, 2008 (Act 754) to collect the tax and account to the VAT Service of Ghana on monthly basis. The due date for filing this monthly return is the last working day of the month immediately after the month to which the tax return and payment relates.

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