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1.0 Introduction

3.1 Background

This “Tax Reform Study on Ghana’s Tax System” is the outcome of the Baseline Study on the Tax System which was commissioned by the Ghana Integrity Initiative (GII) partnering Oxfam Novib in Ghana to implement the “Capacity for Research and Advocacy for Fair Taxation (CRAFT)” project with the view to achieve accountable, fair and pro-poor tax systems in countries including Ghana. The overall objective is to contribute to more democratic, accountable and responsive states collecting more taxes that are due and using the revenues in a more transparent, accountable and redistributive way. Indeed, there is now the realization that every modern state needs to be effective in its mobilization of domestic resources and rationally spending collected revenues on public goods and services to attain macroeconomic goals such as economic growth, enhanced basic social service delivery and so on. In one breath, if the state is able to prevent malpractices such as the uncontrolled outflow of resources and widespread tax evasion, corruption, etc, and reinforce pro-poor policies, this would minimise unfair development and ultimately create more domestic budget space for progress towards achieving the Millennium Development goals (MDGs). In another breath, if the state fails in its obligations, and taxation and public expenditure are not well managed at the same time to ensure tax administration costs are controlled, there would be no growth to provide that adequate welfare services for the citizens as well as carry out state building and good governance.

In view of the above observations, this report on Tax Reform in Ghana has been studied in six sections: Section 1 is the Introduction and the context in which tax reform has been undertaken in Ghana; Section 2 spells out the objectives of tax system and examines the use of progressive taxation practices generally in Africa to accelerate economic growth as a comparative basis for Ghana. Section 3 is the full report on tax reform in Ghana from colonial rule to the present; Section 4 examines institutional stream gathering and compliance improvement as the way forward; Section 5 looks at the way forward in order to get the co-operation and involvement of the citizens, i.e. taxpayers, the general public as well as civil society, for the enhancement of revenue collection. Hence, the examination of Tax Authority’s managing a positive corporate image, using creative marketing and effective communication to achieve the ultimate goal of maximum revenue collection; Section 6 concludes the study with recommendations.
1.2 **Context: Mobilising Enough Domestic (Tax) Revenue**

Taxation is well known to be an important part of the “business climate” in all countries. In developing countries like Ghana, this climate has not been that congenial. In this situation, there is always the dilemma between needing to mobilize more resources and an adequate level of social services on the one hand, and holding down taxes to encourage private investment on the other. Also, while public service backlogs are greatest and fiscal capacity is weakest, public expenditures (current and investment) are growing rapidly. Since taxation and public expenditure form the process by which resources are transferred to public use and a large part of the saving for capital formation, the case has been made that the key to economic development in developing countries is an increase in the rate of private investment and saving (Hadjimichael and Ghura, 1996); The issue then is how taxes might be structured to promote (not retard) private sector decisions. This means that for any development plan or stabilization programme to undertake, the major question always is, how much tax revenue can be garnered and from what sources. The willingness and ability to respond to the need to increase tax revenue is an important development in the capacity of developing countries to carry forward development while maintaining stability.

Broadly speaking, for quite over two decades now, the national revenue systems of most developing countries such the tax system has undergone major reforms in three main areas: the adoption of current payment or “advanced” payment system which is conducive for more voluntary compliance and greater co-operation between taxpayers and tax collectors; the introduction of the value-added tax (VAT), though organizationally demanding but an effective instrument for raising revenue: and, the creation of a consolidated tax collecting agency with a degree of autonomy from political control.

The other side of tax reforms is the concern about what those reforms mean to developing countries in regard to the political situation and governance. It has been that revenue reforms have contributed only modestly to state building. The new semi-autonomous revenue agencies are in many respects impressive organizations, but revenue performance has not been so impressive. The synergic improvements in organizational capacity to formulate tax policy have not occurred and the much needed revenue spillovers have not been realized.

Additionally, current tax contribution of developing countries is still very low within, ranging of 6% to 15% of GNP compared to 25% to 30% of GNP in the developed countries. Thus, the
developing countries’ tax efforts fail to finance even the existing levels of their expanding current expenditures which are growing faster than the revenue generated. Of course, this means that if increased capital formation, and hence a higher growth rate, is to be achieved, it is essential that the level of existing tax efforts and government saving have to be stepped up (UN Secretariat). It is admitted that the assessment of actual and potential tax performance of any country is a matter of judgment based on the consideration of the stage of development, taking into account national traditions and relevant special circumstances. But that is why systematic comparison with other countries need to be done; broad surveys of the experiences of regional groups of developing countries have helped to highlight the major changes in the tax structures that have accompanied development efforts.

2. OBJECTIVES OF TAX REFORM AND PROGRESSIVE TAXATION PRACTICES TO ACCELERATE ECONOMIC GROWTH IN AFRICA

1.3 Objectives of tax reform
As indicated in the introduction to this study, taxation and public expenditure form the process by which resources are transferred to public use; therein the tax structure is expected to accomplish its part in an equitable and efficient fashion. Taxation of course has important bearing on other aspects of economic policy such as stability, growth, and the distribution of income and wealth and this broader role requires a review of the economic setting and objectives of tax reform before coming out with the reforms of the particular taxes.

2.1.2 Economic Growth and Tax Policy
The purpose of economic development is improvement in the welfare of the populace by raising material standard of living. This entails growth not only in total national income but also in per capital income.

There is no simple way to set forth the relationship between tax policy and growth but certain factors basic to this relationship may be noted.

2.1.2.1 Greater use of Resources
Economic growth may be achieved by greater use of resources, including labour, land and capital. This may be once for all gain but in the long run, growth requires increases in productivity which also requires capita formation, be it plant and equipment in the creation of infrastructure such as roads or in “human investment” such as education and health; capital
formation may take place in the private or the public sector; saving is required to finance it in either case.

The share of public Sector investment too depends on what kind of investment is needed at the particular stage of development. For example; if the primary need is for investment in infrastructure or in human resources such as education and health, the public share of expenditure will be relatively large with heavy emphasis upon investment such as in transportation, agriculture, electrification and increased investment in human capital in the form of an expanded programme in education, especially at the primary level. Although this expansion will largely involve increases in so-called current expenditures, it is nevertheless considered investment; for the resulting human investment constitutes capital formation. It raises productivity and hence contributes to raising per capita income.

So as the rate of public investment rises, public saving – the excess of public receipts over public consumption – also rises. Similarly, if there is to be an increase in private investment, private saving must increase to finance it so that measures must be taken to raise private saving or increase foreign saving i.e. capital inflow accordingly, otherwise private investment will come to exceed private saving. If stability has to be maintained, this excess has to be matched by a budget surplus, i.e. by substituting increased public for lacking private saving. The transfer of such saving from the public to the private sector may occur through public lending, or by expanding the amount of credit available to the private sector. Whichever way this transfer takes place, a higher level of taxation will be needed to provide the public saving. This explains how it is not at all evident that the need for taxation is correspondingly reduced as investment is transferred from the public to the private sector. Moreover, increasing private saving may be no less different than raising taxes.

2.1.2.2. Compatible Revenue Structure

The required tax reform in the light of the above examination must provide a revenue structure compatible with the financing of an adequate rate of growth. It is to be noted that as the target rate of growth increases, so must the necessary level of finance, and the problem is not one of total revenue only. For the way in which a given revenue total is obtained may influence;

(a) The savings rate; certain tax measures such as taxes on luxury consumption are more conducive to private savings than others, such as high marginal rates under the income
tax. This explains why reform favours heavier reliance upon luxury taxation rather than upon high marginal income tax rates. Similarly, the level and structure on business income may affect the rate of business saving which needs to be carefully designed on its own before any action can be taken.

(b) Taxation may also affect not only the rate of private saving but the rate and pattern of private investment. Although rates of return on investment in Ghana may be promising and the potential to invest available funds may not be lacking, the pattern of private investment presently is seriously distorted by tax factors arising because of certain unwarranted advantages resulting from operating in a particular legal form as well as from special incentive provisions. With the exception of export incentives in Ghana most others lack well defined objectives and have been arbitrary in operation. Tax reform should be designed to remove all such distorting effects limiting future use of incentives to situations where they are clearly desirable to correct prevailing deficiencies in the structure of investment.

(c) In general terms, reform must aim at minimizing the economic burden resulting from the transfer of resources to the public sector. This is to say that the tax structure should support, but not interfere, with the efficient operation of the private sector; distorting effects upon production techniques and relative prices should be avoided; Any proposal for tax reform therefore gives particular attention to the co-ordination of internal indirect taxes and customs duties, which would accomplish the distinct objectives of protection and luxury taxation without unintended and distorting effects upon relative prices and upon the efficiency of resource usage. At the same time, neutrality must not be given absolute priority. Tax policy may be non-neutral where non-neutrality will achieve specific objectives, as in the case of export incentives; and some degree of non-neutrality may be required where objectives other than efficiency, such interpersonal or inter-regional redistribution, are considered as of overriding importance.

2.1.3. Maintenance of Economic Stability
In addition to economic growth, public policy must maintain economic stability both internal and external.

2.1.3.1. Internal Stability
The objective here is usually interpreted to involve two aspects;
(d) A high level of employment and
(e) A reasonable degree of price-level stability; both depend to a considerable degree upon
the level of aggregate demand which is in turn influenced by the level of public expenditures
and receipts for which fiscal policy is an important factor in stabilization.

As the analysts put it, aggregate demand, i.e. total expenditures (public plus private) should
be held at a level that is sufficient to buy the product of a fully employed economy, and it
should be permitted to expand in line with economic growth. If demand is deficient, output
will fall short of its potential and resources will be wasted. On the other hand, excessive
demand under which shortages will occur and prices will rise leads to the distortions and
inequities of inflation.

This means that revenue requirements will depend upon the level of public expenditures
thereby making expenditures an important component of total demand; but this is not the only
factor to consider; if the economy is slack, it may be desirable to let receipts fall short of
public expenditures and if demand is excessive, it may be desirable to let revenues exceed
expenditures. The developed economics apply this principle of “compensatory finance” but it
could also be applicable in a developing country like Ghana.

The fiscal structure should be flexible enough to meet the needs of a dynamic economy, in
which conditions are subject to more or less continuous change. The tax structure should be
such that rates adjustments can be accomplished fairly promptly when the economic need
arises.

This aim will be served by broadly based income and sales taxes. Furthermore reform should
be geared to structure the tax system such that revenue responds promptly and automatically
to changes in the level of economic activity, especially in the price level. Particularly
important in this connection are measures that place income taxation (personal and corporate)
on a current basis, as we have now in Ghana, and allowing property valuation to be adjusted
currently to changes in price level.

Tax policy affects external stability through its effects on internal stability. If tax revenue is
deficient (with a given expenditure and monetary policy) and inflationary price rise results,
imports will rise and exports will fall with a resulting loss of foreign exchange and pressure
on the exchange rate. Devaluation in turn may temporarily restore balance, but probably at the
cost of worsened terms of trade and reduced availability of foreign capital. Although the exchange position has been strong recently, the pattern has not been so all the time. Even now Ghana still experiences payment deficits, and the cedi gets subjected to occasional depreciation.

Tax policy may have various additional structural effects on trade; if imported goods are taxed more heavily than domestic products, imports may be discouraged; and if exports are subsidized or taxed less heavily than domestic sales, exports may be encouraged. In the face of these possibilities it is more preferable that the role of restricting imports be assigned to import duties only and that excise and sales taxes should apply equally to imported and domestic products. At the same time, certain tax preference should be granted to exports which are not applicable to domestic sales. Tax policy can thus contribute to enlarging the size of the trade sector. Above all, by giving encouragement to new export products, dependence on cocoa can be reduced, exports can be diversified and foreign exchange proceeds can be stabilized.

2.1.4. Distribution of Income

The next objective for economic policy is distributional goals. In Ghana, as of all developing countries, the distribution of income is highly unequal as compared to the developed countries. About one-half of total income is estimated to accrue to the top 10% of all income recipients, it is important that reform keeps considering what gains may be made through redistribution measures at prevailing levels of national income, and also what public policies may be chosen that will contribute to a broad – based distribution of the gains of growth. More specially, policy should seek to improve the position of those sectors of the population which have lagged behind and whose standard of living has remained very low. In achieving these objectives through fiscal policy, both the revenue and the expenditure sides of the budget are involved.

With respect to revenue, tax reform would endeavor to secure an improved distribution of the tax burden, one which will reduce the share borne by the poorer part of the population. For, estimates often suggest that the tax system is more or less proportional and does little to adjust the distribution of income. Adjustments are not easily made being subject to the constraint that they must take into account the detrimental effects on incentives and growth which might arise from them. This again points to emphasis on the taxation of luxury
consumption and on measures to reduce income tax avoidance or evasion. Indeed, the scope for redistribution measures through tax policy is very much limited.

Looking at the expenditure side, transfer programmes may serve to improve the position of the poor, as may the rendering of public services that are of particular importance to this group. Expenditures on human investment such as education and health may also serve to increase the earning power of the poor, thereby effecting a more constructive and permanent solution. It is true that higher expenditure of this sort calls for higher tax receipts and taxation once again is related to the distributional objectives of public policy.

2.1.4.1. Location Distribution
Historically and geographically, Ghana is composed of relatively differentiated regions where average income levels differ but more sharply geographically between the north and south, as do prospects for economic development from purely the economic point of view. The diversity is not the subject of concern; the basic issue of income distribution should be regarded in terms of the individuals or families and not regions. Total economic development may be served by discouraging migration from poor and stagnant to richer and developing regions. But this is rather a simplistic view; labour mobility may be limited, and noneconomic goals of national policy may call for special efforts to secure faster development in the poorer regions. If such a pattern of development is to be achieved, tax incentives may be useful to attract economic activity into such regions.

2.2. Tax Reform and the African Economies
Tax policy options in Africa, as in most of the developing world, are severely constrained by limited capacity to mobilize revenue, macroeconomic instability and significant public expenditure needs. The outlook however has improved since the mid – 1990s for two reasons. For one, many African countries are undertaking policy reforms and secondly, the external environment has improved. With respect to the latter it is found that two – thirds of the countries involved in the IMF Enhanced Structural Adjustment Facility are Sub-Saharan African nations. With assistance from the fund and the World Bank, these countries are engaged in reformulating macroeconomic policies to redress external imbalances, mobilize resources and improve resource allocation.

i. Some other important problems cited to reckon with in considering the prospects for modernization of African tax systems are as follows;
Many of them are quite small in terms of population and/or income; this means that the fixed costs of setting up a modern tax administration system will be relatively large and there may be resistance to setting up such a system.

ii. Another problem is that the economies are still heavily concentrated in the hard-to-tax agricultural sector, where modern income and value added taxes do not easily reach – the rate of literacy is low, meaning that taxpayer education is especially difficult.

iii. Data in table 3 describe a long-term pattern of economic decline and provide a comparison with other regions. It would be found that during the decade ending 1987, African countries grew at only two-thirds the rate of all developing countries. Real growth remained below that of all developing countries in the early 1990’s and absolute losses in real per capita output continued during the 1990–1993 period – no other region of the world faced such a continued decline. Several reasons may be assigned for this relatively weak economic performance. Some put the blame on external forces, for African countries are heavily dependent on primary commodity exports; world prices were unfavourable in many cases and drought, civil war and political instability ravaged some economies. But others observers like the World Bank and IMF prefer to blame unsound macroeconomic policies as the major problem; Most often cited were exchange rate rigidities, fiscal imbalances, poorly managed public enterprises, price controls and legal – administrative encumbrances to the efficient functioning of markets. The result of these was an unfavorable external balance, and an unaffordable level of foreign debt. Furthermore, African countries share a position of competitive disadvantages with most low income countries: lower savings and investment rates, less efficient investment, more equity vs debt financed investment and a higher proportion of investment financed by domestic savings (World Economic Outlook, May 1993)

2.2.3. **Influences on Economic Growth**

It is important to state that investors consider much more than the tax regime in making their decisions to expand output. Various analysts including Green and Villanueva (1991), Bleuier and Khan (1984), Serven Solemano (1993) have pointed to the under mentioned positive influences on economic growth;

- Real GDP growth and a high level of GDP which makes for a positive business climate, a greater supply of savings and signals of a growing market.
A high rate of public sector investment which suggests improved infrastructure support.

Low real interest rates, a lower user cost of capital, will direct more internal funds to investment.

A low rate of inflation makes long – term investment less risky. It is also true that the rate of inflation is often taken as an indicator of the commitment of a country to control the macro economy.

A low debt service obligation implies less likelihood that private investment will be crowded out, and reduces the probability of higher taxes in the future.

Investors look for liberalization of economic policy and the severance of constraints to production and trade. Examples of changes that are hospitable to economic growth are the lifting of price controls, interest rate deregulation and restrictive arrangements for marketing agricultural produce.

Most investors are willing to accept a competitive level of taxation. In that the resistance to tax reform is much less when the government provides an adequate level of infrastructure in return for these taxes. Generally, however, most analysts believe that economic growth can best be served by a tax system with the following characteristics.

(f) The tax structure should be neutral rather than discriminating in favour of one kind of taxpayers as against another. Neutrality is noted to be a basic maxim in taxation. The tax system should raise the desired amount of revenue in such a way that the relative prices of consumption, investment, labour and production are not affected. In short, it means the market, not the tax system, should guide economic decisions. Of course, the neutrality rule is a good norm to aim for, but as a practical matter, it would be impossible to define a tax system that has no substitution effects. The modern and more practical restatement of the neutrality goal is to minimize the excess burdens associated with raising a given amount of revenue. This causes most tax policy analysts to recommend taxes with broader bases and lower rates.

(g) Taxes should be certain and stable over time. An investor desires some degree of certainty that taxes would not rise precipitously in the future and compromise the return on investment. There is no way to guarantee stability in the tax system, but there are a number of indicators that suggest that stability is a reasonable prospect. The degree of budget balance in recent years, serious deficit conditions and manageable
debt overhang are all indications that prospects for stability are good. There also is the history of the government in maintaining stability in the tax rates.

(h) Tax systems that are well administered are an attraction to economic growth. This means that there is a minimum of fraud and corruption to deal with and that the tax system is enforced in an even way, with all enterprises treated the same. It also means that compliance costs are lower. Finally, a well administered system will yield more revenue than one that is not, lessening the chances that tax rates will be increased in a later date on those whose investments have yielded a greater return.

(i) Investors would like to see their success rewarded rather than penalized in the future. Special surtaxes that are levied on the profitable sectors, hidden taxes on the inputs and outputs of produces, the restrictions on capital flows are all unwelcome features of a tax system. These said, what are the peculiarities that make African tax systems not so much attractive?

2.2.4. **Common Problems with African Tax Systems**

The economic systems of developing countries particularly in Africa, do not match up to the above ideal tax norms. It is known these countries spend heavily on consumption as against investment activity, chronic deficits do exist in some countries, and the debt overhang and inflation rates are high. Income level is very low, as well and income growth is relatively low. Reliance on primary exports raises concern about stability and there have long been questions about the efficiency of macroeconomic policy to stabilize the economies. However, the bright side to this situation is that macroeconomic policy in many African countries seems to be moving in a direction of growth and stability, and analysts forecast positive economic growth for the near future. But the question is whether this turnaround in the economic fortunes of some of the countries can be sustained and whether others can also come up the same way.

On the whole, African countries are noted to also depart significantly from ideal structures that promote economic development. The main issues of concern are that taxes are too high, tax structures are faulty and tax administration is deficient, thereby distorting economic choices.

2.2.4.1. **The Heavy Tax Burden**

It would be rare in a country for the public to feel it is not overtaxed, and it is the rare private investor that would not like to see lower taxes. But the complaint about taxes being too high
can mean many things. This can signal dissatisfaction with the quantity and quality of public services being provided. Another possibility is to argue that taxes are high by international standards which somehow make African countries less competitive in attracting investment. Of course, comparison among countries in the level of taxation is tricky; for complete data are not readily available, these are important definitional problems and countries are so different that it is hard to establish a benchmark for what is “normal” “high” or “low”. These problems notwithstanding, there is a technique that can be developed for such comparisons which can be followed to answer the question whether taxes in Africa are higher than in other countries.

2.2.4.2. The GDP Indicator
The most commonly used indicator of tax burden is the share of taxes in GDP. In this comparison IMF data (Government Finance Statistics, 1995) used 83 developing economies to compare this “tax ratio” among these countries. The results for the latest year for which there are available data are shown in Table 4. By this analysis the median tax ratio for 25 Sub-Saharan African countries in the sample is 19.7% of GDP. By comparison, the median for the other 58 countries in the sample is 15.1% of GDP. The conclusion from this cursory analysis is that taxes in African countries, on average, are higher than those in other developing countries. This analysis is very general to support the conclusion, for only 25 African countries were included in the sample.

Interestingly, African countries are established poorer countries than those in Asia and Latin American and their “expected” tax burden should be lower. Even though adjustments have been made to these tax burden estimates to account for income differences and for differences the size of the foreign trade sectors, the results of a comparative tax analysis presented in Table 5 shows much the same results. With the adjustments made the conclusions may be summarized in the following style:

(a) After accounting for differences in per capita income level, and differences in the size of the foreign trade sector, African countries tax at a significantly higher rate than do other developing economies.

(b) The median expected level of taxation in African countries is 15.02% but the median actual level of taxation is 19.7%. That is the burden of taxes in African countries is, on average, above what would have been expected by about 4% of GNP. Therefore on
average, African countries tax at a level about 1/3 higher than other developing countries.

(c) This result does not hold for all countries in the Sub-Saharan region of the 25 countries in the sample, only nine (9) taxed above the level that would have been expected based on their per capita GDP. Five (5) countries made tax efforts less than ½ that of the developing country average.

2.2.4.3. **Excessive High Tax Rates**

Another complaint about the level of taxation in African countries is that the nominal tax rates are too high. As may be seen in Table 6. (things have changed since then) individual income tax rates can be well above 50% and corporate tax rates exceeds 35% (Ghana’s rates are presently 25% for both individual highest and corporate income). A recurring theme in African tax reform is that the base of virtually every tax has been significantly narrowed by exemptions, preferential rate treatment and administrative practices. The result is that nominal or marginal rates must be set very high to satisfy revenue requirements. This is a problem because when marginal tax rates are high economic decision makers are often influenced to make investment choices that are inefficient.

Then, again, low income countries often attempt to fine tune their tax structures by adjusting the rate and base structures to favour one sector of the economy over others; such differentials can create distortions that are harmful to economic growth. Among the important areas that inefficient choices might be induced by high statutory tax rates are; Labour supply, capital – labour choices, Savings rates, consumption choices and tax compliance / evasion. It is difficult to generalize about all African countries, but present tax practices in much of the continent may create problems in each of these areas.

(a) **Labour Supply**

The impact of the tax rate on “work effort” may be of some consequence for two reasons: the first is that the combined income and payroll tax rates are high in many countries as in Table 6 and therefore reduction in the net wage rate attributable to the tax system may be quite large; secondly workers have options other than to accept the tax liability – They may remain within the PAYE sectors where evasion and avoidance is difficult or they may migrate from the formal to the informal sector of the economy. Of course, the common case is one where the self-employed are largely outside the tax net.
(b) Capital – Labour Choices

Taxation biases capital – labour choices and therefore may influence firms to behave in a less efficient way than they would have if driven purely by market forces; among the possibilities of biases are:

i. Tax structure incentives targeted often to stimulate new capital investments by favored firms.

ii. To the extent that the employer’s share of payroll taxes is borne by employers, the relative price of labour will be lowered.

iii. The price of capital may be raised or lowered depending on the taxation of interest, dividends and capital gains.

iv. Accelerated depreciation under the income tax may enhance capital investment, but taxation of capital inputs under a VAT may dampen it.

(c) Private Saving and Investment Choices

These are affected by the tax structure, though the magnitude and net direction of the effects are not so clearly seen. There is no clear strategy to use the tax system to increase the rate of private saving in African countries but the following “package of effects” may be considered.

i. Personal income tax rates are often graduated and reach high levels for those individuals with higher marginal propensities to save.

ii. Compulsory payroll savings programmes used in several African countries encourage savings.

iii. Interest and dividend income often are not fully taxed, encouraging savings. In some countries dividends are taxed under both the company and individual income taxes.

iv. A lax administration means that a large portion of the self-employed sector are outside the income tax net, and therefore pay a marginal tax rate of zero. The effect of this is to increase the rate of private saving.

v. Retained earnings of companies are sometimes taxed at a lower rate than are distributions.
(d) **Structure of Investment**

The tax system also can affect the structure of investment though it is not so clear that the effects are large. The familiar double – taxation of dividends coupled with the tax free status of interest income leads to thin capitalization for domestic companies. There is also a bias in favour of real estate investments because the annual property tax usually is levied at almost a nominal level and because capital gains from land sales are often untaxed.

(e) **Consumption Choices**

The system of indirect taxation has an effect on relative commodity prices in virtually all African countries. This is particularly an important issue for economic development and tax equity in three areas:

1. The relative price of imported as against domestically produced goods;
2. The differential tax treatment of domestically produced consumer goods; and
3. The price of sumptuary consumption relative to all other goods.

The indirect tax system in most African countries falls on taxation of sumptuary goods for a significant portion of revenues. The relative price distortions from higher tax rates on alcohol, tobacco and gasoline may not generate substantial inefficiencies because of the low price elasticity of demand and because of the social costs of drinking, smoking and driving. For other commodities designated for higher taxes, the reasons are less clear.

(f) **Tax Evasion, Avoidance and Voluntary Compliance**

The choice between tax evasion, tax avoidance and voluntary compliance is also affected by the tax structure and the evenness of its administration. The potential rewards for successful evasion or avoidance are greater when nominal tax rates are highest. The opportunities for tax evasion and avoidance are certainly present in African countries. The administration of the system is not strong and penalties are not vigorously enforced in many countries. Also, loopholes in the tax structure and preferences encourage avoidance. The costs of evasion and avoidance may be quite high but there are no hard estimates for African countries. These costs might be measured in terms of revenues foregone, or in terms of the higher nominal rates that must be imposed to protect revenues.
2.2.4.4. **Revenue Structure**

The structure of taxes, generally in developing countries, especially the African economies is questionable. As shown in Tables 7 and 8, African countries tax foreign trade more heavily than do other countries and they tax domestic transactions more heavily (VAT gross receipts and excise duties), respectively. The data in Table 7 show the effective rates (taxes as a percentage of GDP) while the data in Table 8 show the revenue shares of each major tax. Both comparisons are the same result – a heavy emphasis on taxing the international trade sector. This set of tax structure choices underscores the problems with tax administration; poorer African countries mobilize revenue where the tax handles are easiest to grab, i.e. imports, exports and domestic production of “controlled” goods (beer, liquor, cigarettes, soft drinks, gasoline, rubber tyres, etc).

The economic development goals of African nations would be better served by a movement away from international trade taxes. Tariff reform, which is an important economic policy reform area, is held back by a revenue constraint i.e. unification of the tariff rates, or reduction in the spread of tariff rates, is constrained by the need to maintain revenue from foreign trade taxes. Other problems with the heavy reliance on foreign trade taxes are well known; protection of domestic industry, the use of taxes as a surrogate for exchange rate adjustment, and the lag in revenue in periods of high inflation (Mitra 1989).

2.4.4.5. **Administrative Problems**

The tax system in African countries, as is the case in most low income countries, is plagued by administrative problems. The tax structure is very complex and therefore difficult to administer. There is shortage of skilled staff and assessment, collection and record keeping procedures are inadequate.

The complexity of the system makes the assessment and audit function of tax officials difficult, a problem that is compounded by the shortage of skilled staff in virtually all revenue departments. Complexity also raises compliance costs for taxpayers and in so doing either wastes important private sector manpower or gives an additional incentive for tax evasion and avoidance.

The shortage of skilled staff is a major bottleneck to improved tax administration in most developing countries. The reasons for inadequate staffing include low salaries; new entrants to the tax service often have little training in accounting and many countries do not have well
functioning training academies. Due (1996, P. 25) makes the interesting point that the major problem in introducing the value added tax in Namibia is “……… the lack of persons to hire at beginning levels who have some knowledge of accounting and the inadequate salary levels”.

Finally, the methods used to assess and collect taxes are inadequate to support a modern tax structure. Often times, there is not a unique taxpayer numbering system for either businesses or individuals hence there usually is no up – to – date master file of taxpayers under the sales or the income tax. The system is often completely manual. i.e. there is little if any use of the computer other than to print bills. This effectively rules out the use of third – party information, the cross – checking of sales and income tax returns, etc.

Only a fraction of property tax liability is collected and the cost of property tax administration is equivalent to a significant share of property tax revenues. The income tax is essentially a PAYE levy and there is little if any use of presumptive assessments on the hard – to – tax sectors, such as the self – employed professionals.

3 TAX REFORM IN GHANA

Tax reform is a segment in public finance not performed in isolation but within the context of the economic direction and development of a country. One would thus agree that many wide-ranging conditions would have to be satisfied before tax reform can be effective or meaningful. This section of the study on Ghana’s tax system is to describe the socio-economic situation into which tax reform fitted and review present and future problems. Although much of the data in the presentation include those of local as well as central government, most issues concern Central government because of its key role in policy formulation that determines the direction of economic reform including taxation. The socio-economic situation of Ghana into which tax reform is examined may be divided into three phases:

1. The period of Colonial Rule through Post-Independence to Economic Decline (about the 1920s to the early part of the 1980s)
3. Growth Stimulation Towards Middle Income Status(from 2005 till now)

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3.1 Colonial Rule, Independence and Economic Decline

This is the first period of colonial construction foundation, reconstruction on attaining independence and decline with military rule interventions.

3.1.1 Colonial Foundation (1920s to Independence)

Before independence, post-war Gold Coast was a model colony of the British Empire endowed with a relatively advanced network of infrastructure and social service institutions in health and education. Mr. J.H. Mensah (2005), onetime chairman of Ghana’s National Planning Commission under the Kufuor administration, attributed these facilities to have been financed with proceeds of a previous cocoa boom in the 1920s. Taxation during Colonial rule was just beginning with the introduction of modern day taxation principles imposing income tax by the Income Tax Ordinance, 1943 which commenced on 1st April 1944. With it, the Income Tax Department was also started. The income tax was imposed on the aggregate of income of each individual with a basic exemption and progressive rates for calculation of tax. Customs collection, the oldest tax instrument in independent Ghana was already in existence dating back to 1939, though limited to enforcing the payment of local duty from shipping at sub-ports and other duties of financial nature.

With the independence background, the beginning of tax reforms was:

(i) the introduction of PAYE for employees and
(ii) the introduction of provisional assessment for the self-employed

Both introductions took effect from July 1 1961 in amendments to the Income Tax Ordinance, 1943. However, it was not until 1963 that withholding rules for employers were made under the Income Tax (withholding Tax) Rules, 1963(L.I. 307). The regulations gave instructions as to what action employers must take to deduct tax from salaries and wages including taxable allowances such as fees, overtime, bonus, commission, etc. as well as rent allowance, rent element, car allowance and car element. At the same time, the extract from Fourth Schedule to the Income Tax Ordinance, 1943 was directed to be used with respect to increasing chargeable incomes of employees given motor vehicle or accommodation for their private use.


(iv) Finally, the Income Tax Department was reorganized to the Central Revenue Department to cope with the then expanded duties of tax collection.


**Needed Tax Reform**

In the period of economic decline from the 1966 to the early 1980s, some major tax reforms were made. The National Redemption Council government decreed the Capital Gains and Gift Taxes by NRCD 347 and NRCD 348 both respectively of 1975 to widen income taxation. The Supreme Military Council also promulgated the Income Tax Decree 1975 (SMCD 5) succeeding the income Tax Decree, 1966 (NRCD 78) which was a landmark development in the history of taxation in Ghana. In the same year 1975, the Central Revenue Department’s responsibilities further expanded as a tax collection organ and domestic indirect taxation additions were made by way of the Hotel and Restaurant Tax.

Against the backdrop of complete economic chaos and near bankruptcy, the PNDC (second government of Jerry Rawlings) launched the Economic Recovery Programme (ERP) in 1983 in its first phase to halt the decline in the industrial and export commodity-producing sector.

### 3.2.4 Necessary Tax Reforms

The needed fitting tax reforms undertaken during the period of economic recovery and stabilization started showing in 1983 touching all the tax terrain.

#### 3.2.4.1 Change from Preceding year to Current year of Assessment

The first was the making of new rules relating to the basis of computing assessable income and changing the year of assessment from 1st July to 30th June to 1st January to 31st December, i.e. the change from preceding year basis of assessment (when the income assessed in the year of assessment was the income of the accounting year which ended within the preceding year of assessment) to the current year of assessment (when the income assessed in the year of assessment was the income of an accounting year ending within the same year of assessment). This was done under the Income Tax (Amendment) Law, 1983 (PNDCL 61).

#### 3.2.4.2 Restructuring of Major Collecting Agencies

In 1986, the government began a programme aimed at restructuring and rationalizing the major revenue collecting agencies to make them more effective by pulling them out of the civil service and giving them some degree of autonomy in being self-accounting. Accordingly, the Internal Revenue Service (IRS) and the Customs, Excise and Preventive Service (CEPS) were created by the Internal Revenue Service Law, 1986 (PNDCL 143) and the Customs, Excise and Preventive Law 1986 (PNDCL 144), respectively.
3.2.4.3 *Tax Authority Powers Increased*

Following the restructuring, by the Income Tax (Amendment) Law, 1986 (PNDCL 166) attachment and garnishment provisions were introduced to strengthen Tax Authority’s powers of collection and recovery, while legal backing was given to the Tax Authority with respect to field audit in conformity with the corresponding restructuring into semi-autonomous service.

3.2.4.4 *Rationalization of Customs Operations*

By 1993, it became necessary to rationalize customs’ operations with the current legislation, the Customs, Excise and Preventive (Management) Law, 1993 (PNDCL 330) which consolidated all existing laws relating to the operations as well as administration of Customs. Thus, all legislations including the Customs, Excise and Preventive Law, 1986 (PNDCL 144), the Sales Tax Act, 1965(Act 257) and the Vehicle Purchase Tax Decree, 1973 (NRCD 149) were brought under the current principal legislation. The Sales Tax was removed in 1994 as basis for the Value Added Tax Service (VATS), Act 1994 (Act 546) a third semi-autonomous service defined in value added operations.

3.2.4.5 *Industry Concessions*

The other development of importance in 1994 was the granting of incentives of industry concessions to businesses by the Income Tax (Amendment) Act 1994(Act 494). These were given as follow:

**(a). Farming concerns**

Their exemption periods were revised with extension in number of years as follows:

- Tree crops: from 5 to 10 years
- Fish farming and poultry: from 3 to 5 years
- Cash crops: from 3 to 5 years
- Cattle remained at 10 years
- Other livestock too remained at 5 years

Further, provision was made for losses incurred by farming concerns during the period of exemption to be carried forward for the next 2 years after the period of exemption. Also, a loss incurred after the exemption period could be carried forward for the next 2 years following the year in which the loss was incurred. This meant there was no distinction between the tax exemption period and the post-tax exemption period.
(b). Carry-Forward Losses
Manufacturing companies engaged in manufacturing were allowed to carry-forward losses for 2 years but this was extended to 5 years.

(c). Real Estate
Companies engaged in real estate development, which were also allowed to carry-forward losses incurred during the period of exemption for 2 years after the period of exemption, had this concession cancelled, and instead, losses incurred at any time could be carried-forward for 5 years.

(d). All Enterprises
Generally, under the amendment, all enterprises were allowed to carry-forward losses for a period of 5 years. In spite of this, insurance companies have no time limitations for carrying-forward losses.

(e). Exports- Rebates
Under the 1994 Amendment, exporters of manufactured and agricultural products who were allowed rebates on the quantities of goods exported had these arrangements cancelled, and instead, companies engaged in non-traditional exports were given the concessionary tax rate of 8%. Non-traditional exports meant exports other than cocoa beans, coffee beans, timber logs, electricity, unprocessed gold and other minerals in its natural state. However, these concessions on export rebates were applicable to companies only and the rate of tax was applicable to income from non-traditional exports only.

(f). Management/technical Services fees
With regard to Management or Technical Services Fees, the amendment was intended to bring to charge management or technical service fees earned by non-residents in Ghana to pay a withholding tax of 15% on these fees to be treated as “final” tax. Resident persons who form businesses solely to offer management, technical or consultancy services would continue to pay tax at 5% withholding as payments on account.

(g). Location Tax Incentives
Tax incentives which were formally granted by the Capital Investment Board were transferred by the new amendment to the Internal Revenue Service. This was part of a move to ensure that all tax matters were embodied in one legislation. Among the incentives granted were
location Tax Incentives, a form of rebates granted to manufacturing companies located outside Accra /Tema and other towns. The idea no doubt was to encourage investment in the rural areas and thereby stem the tide of migration to the cities and towns. Accordingly, the following rebates were applicable to manufacturing companies from January 1995 depending on the location of the business:

- Accra and Tema: no rebates
- All other regional capitals: 25% of tax liability
- All other places: 50% of tax liability

Of course, the amendment gave the rebate on the tax rate and not the actual tax payable.

(h). Capital Allowances

These were improvements to granting of capital allowances: two methods for calculation were adopted with the method applied depending on the type of business or enterprise in question.

The first method was new and applied to businesses in banking, finance, insurance and commerce. Under the old arrangements an Initial Allowance was granted when an asset was used for the first time in the business; the new arrangement had the same principle but instead of “initial allowance”, “depreciation allowance” was used. Accordingly, when an asset was used the first time in business, the asset qualified for “depreciation” allowance. In addition “annual allowance” would continue to be granted. The rates of capital allowances, however, remained the same as before.

The second method applied to businesses not listed under the first method and included Construction, Manufacturing Industry, Printing, Real Estate, Farming, Transportation, Tourism and the Hotel Industry. Under this method the straight line method was used. In other words, each asset was written off over a specified number of years in equal proportions. Qualifying Plant Expenditure was depreciated over a two year period, while Qualifying Building Expenditure was depreciated over a five year period. In context, a year was taken to mean a calendar year, hence where the need arose, an apportionment had to be made. The allowance granted under this method was “depreciation allowance”.

Thus, under the capital allowance package the following are worth noting.

i) With respect to the two methods “investment allowance” and “Additional Annual Allowance” or “Sinking Fund” were cancelled.
ii) Formerly, a used building did not qualify for “Initial Allowance” (a term dropped) which was no longer applicable.

iii) Concerns in the first category would continue to enjoy annual allowances on existing assets as before. However, new assets acquired from 1995 would enjoy depreciation allowances instead of initial allowance.

iv) With the new arrangements taking effect from January, 1995, it meant that those concerns in the second category which were to enjoy accelerated depreciation could do so only in respect of assets acquired from January 1995. All old assets in use before 1995 would continue to enjoy annual allowance on their residue values.

v) Under the old arrangement any unutilized capital allowance was allowed to be carried forward. This rule continued as of now, under the new arrangements.

vi) Under the Mining Law (PNDCL 70), revaluation of residue was intended to be applicable to Qualifying Mining Expenditure and Qualifying Plant Expenditure in the mining sector only but other concerns which had incurred Qualifying Plant Expenditure made attempts to take advantage of these provisions. Act 494 cleared the doubt and expressly provided that the concession applied to only mining concerns. This meant that Qualifying Plant Expenditure in other concerns could not be revalued.

vii) Petroleum and Mining concerns were guided by separate legislations and did not fall under any of the categories mentioned for capital allowance computation.

3.2.4.6 Value Added Tax (VAT)

   a. Introduction Rationale

   In 1998, the Value Added Tax Act, 1998 (Act 546) was passed as a more fiscal tool under the Economic Recovery Programme. This tax was aimed at rectifying the weaknesses of the Sales Tax and Service Tax regimes and provide an additional mechanism for equity in the payment of taxes on income and customs duties. The Sales and Service Taxes were operating on regimes mainly reliant on physical surveillance. For example, the Sales Tax was so limited in scope that the duty of all beneficiaries of amenities to pay taxes was being borne by relatively a few people in the society. VAT was, therefore, a major initiative in Ghana at this time to modernize the domestic indirect tax system. It was introduced first in 1995 but almost immediately withdrawn due to civic resistance. However, it was reintroduced three years later
and proved to be the most effective taxation system, (probably because it is easy to collect and politically expedient.

\textbf{b. Central Issues}

Unlike the previous Sales Tax regime which was confined to only import manufacturing and a narrow range of services, leaving untaxed wholesale and retail goods and a vast range of services, VAT was designed to ensure that all goods and services are roped into the tax net except those exempted. Again, VAT does not discriminate between import and domestic supplies like its forerunners. Collection of the tax is also easy, relying on registered traders to do the collection on behalf of Tax Authority on a set-off basis.

VAT registered traders are entitled to deduct from the VAT they charge on their sales (the output tax) the VAT they pay on their purchases (the input tax) relating to their taxable supplies and accounting for the difference to the tax authority on a monthly basis. The system of tax credit on purchases against supplies must be backed with satisfactory evidence by the taxable person. This is the innovative self-policing feature introduced which is superior to the repealed Sales and Service Taxes which were prone to revenue leakages through diversion of tax deferred inputs. The Sales and Service Taxes had no mechanism for input tax relief, so that taxes paid on input sneak into and bloat the output value on which tax was levied resulting in cascading of tax.

\textbf{c. Increased Collection}

Since the passing of VAT it has increased the effectiveness of tax collection, reduced the loss of revenue through tax evasion and eliminated the non-transparency and economic distortions associated with cascading of consumption taxes. Currently, VAT grants complete and automatic input tax relief for taxable and non-traditional export.

\textbf{3.2.5 Major Income Tax Reforms as contained in the Internal Revenue Act, 2000\textit{(Act 592)}}

\textbf{3.2.5.1 Current Legislation}

With a near collapsed economy striving for recovery and stabilization, the structure of income taxation was not suitable and reforms were long overdue. While by 2000 other taxes had undergone substantial changes, including institutional reforms, the Income Tax Decree 1975 (SMCD 5), as the principal legislation regulating income taxation in Ghana, was not easy to
change. The Decree had over the years been subjected to numerous amendments with the result that the Law on income tax was scattered in as many as about twenty-five legislations.

Besides, a complete overhaul was needed for income taxation to be in conformity with modern-day, internationally accepted principles put into such a code as for dealing with the now challenging and sophisticated world of business. In view of these, it was clear that the Decree was out of tune with the times and an enactment consolidating revision, additions and laws relating to Income Tax, Capital Gains Tax and Gift Tax was necessary. Thanks to the IMF, the bill for such an enactment was put together and the Internal Revenue Act, 2000 (Act 592) became a reality.

The Internal Revenue Act 2000 (Act 592) now the principal legislation regulating the assessment and collection of income tax in Ghana is that consolidation and a rationalization of the Decree re-enacted substantially including the Capital Gains Tax and the Gift Tax. Policy changes in the areas of self-assessment, provisional assessment, employee tax withholding, taxation of foreign income of residents, measures to deal with new schemes of tax avoidance and capital allowances are notably incorporated. In doing so, a variety of challenges confronting tax administrators and tax payers have also been addressed.

On account of the consolidation, the reforms of Act 494 as examined in (f) have been re-enacted. With regards to contemporary business practices and the need for modernization in certain respects for the law to combat highly developed tax avoidance schemes of today’s business world, the new reforms examined are very much of great importance.

3.2.5.2 Foreign Exchange Gains and Losses (Section 64)

Foreign Exchange Gains and Losses are now specifically provided for in calculating a persons’ income from a business especially with a loss incurred in respect of a debt claim, debt obligation or foreign currency holding. The deduction is not available for a foreign currency loss of a capital nature, e.g. where the debt claim, obligation or foreign currency holding is held on capital account. Also, foreign currency exchange losses incurred in conducting an investment is not deductible because it is of a capital nature. Foreign currency exchange losses are fully deductible to the extent that foreign currency exchange gains are included in calculating the person’s income from the same business where they are of the character of revenue. However, only two thirds (2/3) of any excess loss is deductible, i.e. 2/3 of the amount by which foreign currency exchange losses exceed foreign currency exchange gains. The rationale for this rule is based on the substitutability of foreign currency exchange
losses for the payment of interest. The interest paid with respect to a currency which is appreciating against the cedi is likely to be lower than that with respect to the currency which is weaker. However, a person holding a debt obligation in a strong currency will also realize a foreign currency exchange loss on the realization of the obligation. The lesser amount of interest paid under a strong currency to a non-resident would be subject to a final interest withholding tax of 10%. By denying a deduction for 1/3 of a foreign currency exchange loss, the income of the person incurring the loss is thereby increased. Assuming that the person is taxed at the rate of 25% on this extra amount, the effective tax levied is approximately the same as if the foreign currency exchange loss were a payment of interest to a non-resident.

By procedure, in order to claim a foreign currency exchange loss, the person must have notified the Tax Authority in writing as to the existence of the debt claim, debt obligation or foreign currency holding during or by the return date of the year in which it was acquired or incurred. This is to prevent the selective reporting of foreign currency exchange gains and losses. This, however, does not include financial institutions such as banks and insurance companies.

3.2.5.3 Individual as a Tax Unit (Section 38)
The distinction of the individual as a tax unit has been made against other persons or entities such as bodies of persons, companies or partnerships providing the fact that chargeable income is calculated separately for each individual. This makes it clear that the individual is a tax unit for the purpose of income taxation. Subject to the application of income splitting rules, this means that each family member (spouse and child) is required to calculate their own chargeable income for a year of assessment.

3.2.5.4 Taxation of Partnerships (Section 42)
Revision is made to the taxation of partnerships. The basic principles for taxing the income of a partnership are reshaped to address worldwide dimensions just as companies and other entities. The Act provides that a partnership is not liable for tax on the income of the partnership. The income of the partnership is taxed in the hands of the partners. Thus, a partnership is not treated as a separate person under the Act for purposes of the income tax levied by assessment. Rather, the income of the partnership is taxed to the partners filing their appropriate returns.
However, a partnership is treated as separate tax accounting entity and is required to calculate partnership income for each basis period.

(i) The partnership income for the basis period of a partnership is the assessable income of the partnership calculated as if the partnership were a resident person. This is important in applying the jurisdictional rules in calculating the partnership’s assessable income on which chargeable income is based. For example, it means that remitted foreign income will be included in partnership income irrespective of the residence of the partnership.

(ii) The partnership income is attributed to the partners. However, this attribution is not the amount that will be taxable to the partners – but is only a calculation of how much will be included by the partners in calculating their income from the partnership. The partners’ income from the partnership may be less because of deductions claimed at the partners level and because of the jurisdictional rules applied in section 6 of the Act at that level regarding assessable income. However, in ascertaining the partnership income for the basis period all outgoings and expenses wholly, exclusively and necessarily incurred shall be allowed.

(iii) Losses of a partnership for a basis period are not allocated to the partners but are carried forward and taken into account in ascertaining the “partnership income” in subsequent basis periods.

(iv) In the event of a change in the constitution of a partnership, the reconstituted partnership may claim a deduction for losses of the former partnership as if the reconstituted partnership and former partnership were the same.

(v) Properties held on behalf of the partners in common are treated as if the partnership and not the partners own them. In view of this, capital allowance is computed and applied to the partnership and not allocated to the partners. In the same vein, amounts, which are accrued, derived or incurred on behalf of the partners in common, are treated as if they were so done by the partnership and not the partners.

(vi) Finally, on taxing the partners, to ascertain the income of each partner, the “partnership income” is first determined by taking into account all in-comings and outgoings attributable to the partnership and also applying capital allowance computed
in accordance with the Third Schedule in arriving at the assessable income of the partnership, which is then appropriated to the partners in accordance with the partnership agreement or the partners’ contribution to the partnership capital in the absence of a partnership agreement.

3.2.5.5 Taxation of Bodies of persons and their Beneficiaries (Section 49)

Previously, bodies of persons were not assessed to tax but for the enactment of the Internal Revenue Act 2000 (Act 592). It is with the coming into force of Act 592 that bodies of persons are liable to tax as well as their beneficiaries. However, the basic principle is that a body of persons is liable to tax separately from its beneficiaries. This means that a body of persons is liable for tax on its chargeable income for a year of assessment calculated in accordance with section 5 and 6 of the Act.

(i) The broad definition given for the term means anybody of persons whether corporate or incorporated and includes a trust (including a deceased’s estate and an incapacitated person’s trust but not a unit trust) a co-operative and governments and international organisations but does not include a company or partnership. Body of persons is, therefore, the residual category of entity, taxable at the corporate rate of 25% in respect of its own income. The “attributable income” of a body of persons may be attributed to and taxed in the hands of the body’s beneficiaries subject to section 49 of the Act and this could be through withholding that may result in double taxation i.e. in the case of the income of bodies of persons, first in the hands of the body of persons and, secondly on attribution to the beneficiaries. To avoid this double taxation is by crediting the beneficiaries with any tax paid by the body of persons on the income attributed.

(ii) Separate calculations of the chargeable incomes are made for each body of persons should they be two or more bodies of persons having the same managers (one participating in the managerial decisions of a body of persons including a trustee of a trust). Many bodies of persons such as trusts do not have a separate legal personality from their managers or beneficiaries and this is meant not to mix or aggregate with the chargeable income of persons who may be deriving it or holding its property at law. This confirms the independent status of the body of persons as a person under the Act. Furthermore, income derived by a body of persons, even if desired on behalf of another person or another person is entitled to the income, is treated as the income of the body and not of any other person. The only exception is where the body derives the income
as a bare agent for another person, i.e. the other person has an immediate and unqualified right to call for the income.

(iii) Property held by a body of persons is treated as owned by the body. The body is therefore entitled to capital allowances with respect to depreciable assets held by the body.

(iv) Losses incurred by the body of persons are not allocated to the beneficiaries but carried forward and may be deducted in calculating chargeable income and attributed income of the body in future basis periods in accordance with section 22 of the Act.

(v) Taxation of Beneficiaries of Bodies of Persons is the “attributed income” of a body of persons, ascertained under section 47 of the Act, which may be allocated to the beneficiaries under the provisions of section 49. This income does not cease to be the income of the body; however, it may be attributed to and included in calculating the income of a beneficiary. In a broad sense, therefore, the income may be the income of both the body and the beneficiary with relief for any double taxation. The inclusion is in “income” rather than chargeable income. A beneficiary may therefore claim deductions for expenses incurred in deriving such income, e.g. interest on a loan used to fund the purchase of the interest in the body. In allowing such deductions the limitations under section, 6 of the Act are applicable.

3.2.5.6 Long-Term Savings (Sections 56 – 62)
Under these sections of the Act, the Decree was re-enacted and provide amongst others exemption of benefit from life insurance policies and retirement benefits as well as deductibility of life insurance premiums. This is designed to encourage long-term savings.

3.2.5.7 Geographic Source of Income (Section 63)
The geographic source of income in the current legislation is comprehensive for determining when income and other amounts are considered to accrue in or be derived from Ghana, i.e. whether they have a source in Ghana in accordance with internationally accepted practices for the taxation of non-residents.

Comparatively, the resident taxpayer is subject to tax on income derived from sources within Ghana and on income derived from foreign sources paid in Ghana or remitted to Ghana, the non-resident is subject to tax solely upon income from sources within Ghana.
(a) Aggregate Income Taxation

In taxing income from sources within Ghana income under the law, a non-resident is subject to “aggregate income taxation” or “assessable income” calculation, i.e. taxation at the normal rates of tax on the basis of net income from sources within Ghana. If the non-resident carries on business through a permanent establishment in Ghana, this principle holds and is taxed on total income and on such part of income as is attributable to the business carried on through a Permanent Establishment.

(b) Separate Income Taxation

Such part of income not attributable to the permanent establishment is subject only to the concept of “separate income taxation” or tax withholding at the flat rate of 15% of gross revenue as final tax.

(c) Special Computations

First, the principle in computing taxable income and tax thereon for the purpose of “aggregate income taxation” of the non-resident is generally the same as is applicable to such computation for the resident. That is to say the provisions for computation of tax base and amount of income tax applicable to a resident are the very provisions applied to the non-resident. In the second place, the only difference is in the non-resident not allowed deductions, exemptions or tax credits in “separate income taxation” where he is subject to a flat rate of 15% applicable to gross revenue of income items subject to “separate income taxation, i.e. final tax withholding. In exceptional cases, a non-resident may be required to file a return and pay tax at the same rate as a resident in respect of remuneration for personal services performed in Ghana, when such remuneration is not subject to withholding tax at source. Also, in case a tax convention is in existence special reduced rates or exemption might be applied.

But the question is which receipts of the non-resident should be subject to “assessable income” calculation and which to undergo “separate income” taxation or final tax withholding, the first depending on a net concept after allowance for deductions in determining tax liability and the second not permitting deductions and using gross receipts to determine tax.

(d) Income sources within Ghana

Generally, the following are treated as income sources within Ghana:

   a) Income from business carried on in Ghana, the use, holding, sale or disposal of an asset situated in Ghana, and occasional income arising in Ghana.
b) Payments for personal services, employment income, rents, interest dividends or surpluses, royalties, awards, annuities etc.

c) Distribution of profits on a sleeping partnership contract and of profits from securities investment trusts.

(e) Allocating Incomes from Business Carried on in Ghana should be neutral

In allocating profits from business carried on concurrently both within and outside Ghana, the scope of income within Ghana may be determined according to the following criteria:

(i) In the case of sale of goods or merchandise with no manufacturing abroad, the total income from such sale is treated as arising in the country where such sales are made. The sale or disposal of goods or merchandise is deemed to be made in Ghana if such goods are actually in Ghana or under the control of the Permanent Establishment in Ghana.

(ii) Income from the sale within or outside Ghana of goods or merchandise manufactured abroad or within Ghana, in whole or in part, is allocated among the countries concerned on the basis of normal transactions at “arm’s length”.

(iii) In the case of construction, installation or assembly projects undertaken in Ghana, the total income derived from such activities is treated as arising in Ghana, even though the contract thereof is concluded or labour or materials are procured outside Ghana.

(iv) With respect to international maritime transportation, income from the business allocated on the basis of the ratio that the revenue from outgoing passengers and cargos from Ghana bears to the worldwide revenue, it is treated as arising in Ghana. And with respect to international air-transportation, the allocation will be made on the basis of the revenue obtained, expenses incurred in connection with works executed in Ghana, the value of assets situated in Ghana or other reasonable factors.

(v) In the case of advertising activities carried on by a publishing or broadcasting enterprise for or on behalf of others, income derived from such activities is treated as arising in Ghana to the extent that such advertising etc. is performed in Ghana.

(vi) In all other cases not mentioned, the scope of income from sources in Ghana is determined on the basis of the rule of normal transactions at “arm’s length” or of a reasonable apportionment of the worldwide business income according to such factors
as revenue or expenses incurred in connection with occupation carried on in Ghana or the value of assets situated in Ghana.

(vii) Income accrued from overseas investment through a place of business located in Ghana is treated, as income from business carried on within Ghana is such a business is not taxed outside Ghana.

3.2.5.8 Income Attributable to a Permanent Establishment (Sect.65)

This section is in correlation with the geographic source income principle and prescribes the rules that ensure transparency of transactions involving Permanent Establishments and their associated taxpayers. A broad definition for “permanent establishment” is any place where a person carries on business. There is a minimum period which a person(an individual, company or body of persons) must carry on business at a place for that place to be a permanent establishment, except where a person is engaged in a construction, assembly, or installation project for 90 days or more being a permanent establishment, or, where a person is conducting supervisory activities in relation to such projects as the construction of buildings, roads, bridges, dams, the laying of pipelines and excavating or dredging.

The basic rule is that where a person, who is the “principal”, carries on business through an agent, the latter is a permanent of the principal. An agent would not ordinarily be regarded as being of independent status if the agent’s commercial activities for the principal are subject to detailed instructions or to comprehensive control by the principal. Even if an agent is independent, the work that the agent performs for the principal must be within the ordinary course of the agent’s business for the exception to apply.

In the above context, a Permanent Establishment is therefore considered a separate business from any other business of a non-resident person. Two issues are of concern here – whether an amount is to be included or deducted in calculating income for taxation, if so, how is that amount to be quantified. It is not whether an inclusion has a Ghanaian source or whether or not a deduction is attributable to an inclusion amount.

The general source rule of income is that the gains or profits attributable to a permanent establishment of a non-resident person are to be calculated as though the permanent establishment were a separate person dealing independently with the non-resident person. This is consistent with the United Nations Model Treaty incorporating the arm’s length standard whereby inclusions and deductions in calculating the income of the Permanent
Establishment will be quantified as though they were from dealings with independent third parties.

The source of income rule is only concerned with non-resident persons; the usual inclusion and deduction rules apply to determine the income of a resident, for example, from a foreign permanent establishment; certain amounts are also ruled not to be taken into consideration in calculating the gains or profits attributable to a Ghanaian permanent establishment of a non-resident person taking into account the dealings between the permanent establishment and its head office.

3.3.3.9 Branch Profits Tax (Sect. 66)

Another reform measure is the introduction of branch profits tax as far as international transactions are concerned. This is a tax imposed on non-resident persons through a permanent establishment additional to the normal corporate tax on the chargeable income of the non-resident. The branch profit tax is meant to equalize the tax treatment of noble residents doing business in Ghana through a permanent establishment with that applicable to a non-resident doing business through a subsidiary in Ghana.

The rational of the tax is that right now,

(i) Where the non-resident conducts business in Ghana through a subsidiary (a resident company) first, the subsidiary is liable for Ghanaian corporate tax of 25% on its chargeable income for a year of assessment; second, any dividends paid by the subsidiary to the non-resident are subject, also, to withholding tax at 10%.

(ii) In the absence of the branch profits tax, the non-resident is only liable to the corporate tax of 25% on the permanent establishment without the second tier tax of 10% if repatriation of profits is made, because the permanent establishment is not a legal entity like the subsidiary whereby the repatriation of profits is a separate taxable event just as the payment of a dividend.

(i) The purpose of the branch profits tax is to impose a tax on repatriated profits of a permanent establishment at the rate of dividend withholding on the subsidiary, which is 10% for equity.

Thus, the tax is on the permanent establishment that has repatriated profit for the basis period. Even though repatriation is not defined, it is possible to calculate repatriated profits as the
difference between the value of assets of a permanent establishment between two dates, plus adjustments for profits made during the period and adjustments to capital contributed to the permanent establishment and applying the tax rate, which is 10%.

3.3.3.10 Anti-Avoidance Rules (Sects 69 – 71)

Another area of reform very much of importance is the comprehensive provision of rules against tax avoidance practices through income splitting, transfer pricing and thin capitalization.

(a) Income splitting

The purposes for which a person attempts to split income is to lower the total tax payable upon the incomes of both transferor and transferee. The circumstances under which income may be split is where a person intentionally transfers income, including money and property, to another person who is an associate to result in the latter enjoying the benefits. On noticing this, tax authority is given the power to adjust the chargeable incomes of both transferor and transferee to forestall the reduction in tax. It is important to note that an indirect transfer of income or property could also be made through the interposition of one or more entities.

(b) Transfer Pricing

This is also practiced to shift tax liabilities among associated persons to obtain the best overall tax outcome through transactions between them. In these circumstances, Tax Authority reserves the power to distribute, apportion or allocate any income deductions or credits between the associated persons to reflect the chargeable incomes the persons would have realized in the normal transactions of “arm’s length”.

The practice of transfer pricing is common with non-resident controlled situations on the basis of turnover involving permanent establishments. Tax Authority can make adjustments in chargeable income by reference to the consolidated income of the non-resident and all associates, i.e. the group income. The proportion of the consolidated income allocated to the resident entity will be determined in proportion to its share of the turnover of the group. Also, as transfer pricing often involves the re-characterization of income or manipulation of source rules, Tax Authority is empowered to also re-characterize the source and nature of any income or loss for adjustment.
(c) Thin Capitalization

This is an introduction applicable to non-resident and exempt investment in Ghana to prevent the excessive use of in-house debt investment to reduce overall Ghanaian tax paid on investment. This practice takes advantage of the different tax treatment of dividends and interest. The difference is not with respect to the taxation of dividends or interest in the hands of a non-resident or exempt person but on account that payment of interest is often deductible to taxpayers whereas the payment of dividends is not deductible. The law denies the deduction for interest where a certain associate controlled debt to equity ratio is exceeded. The deduction is only denied to the extent that the ratio is exceeded and in proportion to that excess. This provision also covers a deduction for a foreign currency exchange loss on the disposal of a debt interest which is appropriate in the sense that in many respects, the deduction for such a loss has an equivalence with the deduction for interest. This aspect applies to permanent establishments of non-residents as well as resident partnerships, companies and bodies of persons that are 50% or more controlled by exempt or non-resident persons.

3.3.3.11 Self-Assessment (Sect. 78)

A significant reform introduced by Act 592 is introduction of “self-assessment”. Under the system, taxpayers calculate their chargeable income, the tax payable thereon and pay for a year of assessment, based on income estimation return filed. In contrast, this is different from the official or provisional assessment that Tax Authority raises on the commencement of a year of assessment to everyone liable to tax. Here, the taxpayer’s estimated return is accepted at face value as effectively an assessment generated even though it is on his own. The payment of own-estimated tax is also by four quarterly installments consistent with requirement of the official provisional assessment.

However, Tax Authority specifies taxpayers eligible to do self-assessment before using it. Apart from the estimated tax filed at the beginning of the taxpayers accounting year, self-assessment taxpayers are also required to file annual returns and remit any balance of tax outstanding when all four quarterly installments have been credited. All the functions of self-assessment are performed under a system of binding rules.

3.3.3.12 Withholding of Tax by Employers (Sect. 81)

With the obligation to withhold tax from payments on employers, the innovation brought into employee tax withholding is the authority granted employers to finalize assessments on
behalf of their employees. By Regulations, employers are made to allow the granting of upfront of personal reliefs such as marriage and children’s education to simplify employees’ taxation and induce individual compliance to file for other income earned.

3.3.3.13 Capital Gains and Gift Taxes (Sects 95 and 105)
With the trend towards self-assessment, the decrees on Capital Gains and Gift-Taxes are re-enacted on self-assessment reporting with tax rate at 10% within 30 days in the case of capital gain from the date of realization, and with gifts, after the total of taxable gifts received exceeds GH¢ 500.00 in any year of assessment.

3.3.3.14 Regulations, Practice Notes and Private Rulings (Sects 114 – 116)
(i) Administratively, the current legislation provides for the minister making regulations by legislative instrument, relating to matters authorized or prescribed under the Act, amending the various schedules and monetary amounts including who should be a withholding agent.

(ii) Also, the Commissioner-General of Tax Authority is empowered to issue Practice Notes to achieve consistency in administration of the Act and provide guidance to persons affected by the Act and officers of the tax administration. A practice note is binding on Tax Authority until revoked, but it is not binding on persons affected by the Act.

(iii) Furthermore, the Act permits Tax Authority’s Commissioner-general to issue a private ruling setting out Tax Authority’s position with respect to a transaction proposed or entered into by a person.

Both practice notes and private rulings are generally made public, but the directives on interpretations do not bind courts of justice as a source of law as the interpretation of laws are finally determined by judgments of the courts.

3.3.3.15 Residency (Sect. 160)
Finally, to make it difficult for most Ghanaians avoiding payment of tax on the income and properties they repatriate, interpretations on the status of residency provide for the easy adoption of worldwide taxation. By a comprehensive set of residence rules, a citizen of Ghana is a resident unless he has a permanent home abroad for the whole year.
3.3.4.3.  **Oil and Gas Development**

The discoveries of oil and gas in Ghana in 2007 and its exploration in 2010 actually opened up an array of opportunities to influence the pace of national development. But the industry is not yet fully integrated into the local industry for which one can fathom the potential for oil and gas to drive the economy positively for the well-being of Ghanaians.

3.3.5.  **Tax Reform Measures**

Since 2005, within the context of aspiring to a middle income country, some important tax reforms are noted to have been effected in the whole field of taxation.

3.3.5.1.  **Amendments to Act 592, 2000**

(a) The amendment Act 669, 2004 gave out further industry concessions.

i. The tax holiday of five years on income of a company from a processing business in Ghana was misleading and therefore was amended and intended for companies into agro-processing established in Ghana in or after 2004;

ii. The income of a company which produces on commercial basis cocoa by-products also gets the five–year exemption period on income;

iii. A company whose main business is processing of waste is exempted to tax on income for seven years.

(b) A very important aspect is the introduction of venture capital financing. In 2004 the Venture Capital Trust Fund was set up with the objective of providing low cost, long term equity financing (not loans) to SMEs through intermediary companies, Venture Capital Finance Companies which are given open – ended full exemption from tax; under Act 700, 2006. Venture Capital Companies were established and areas of investment included agriculture, finance and manufacturing.

(e) Act 700, 2006 also gave the same extent of time as for agro – processing companies to companies into tourism and Information and Communication Technology (ICT).
(d) The same amendment act extended the exemption period on income of the Ghana Stock Exchange from 15 years to 20 years and presently, further extended by another five years in total 25 years from the date of commencement.

(e) Again, (by Act 700, 2006) the 20 years tax holiday from capital gains tax on the securities of a company listed on the Ghana Stock Exchange in like manner with the Stock Exchange, has been extended and would not be subject to capital gains tax in total for 25 years after establishment of the Stock Exchange.

(f) More recently, Act 814, 2010 abolished general tax holidays for Real Estate Developers. Experience showed that in the field of real estate development, the houses are either not available or affordable. Apart from government basically being the biggest patron and a few estate developers, most landlords are not registered to care about making a contribution for achieving developmental goals after enjoying general tax incentives, hence the abolition.

(g) And by Act 813, 2010 Airport Tax has been revised on the basis of domestic travel, regional travel and international travel in accordance with economy class, business class and first class.

3.3.5.2. **Amendments to Value Added Tax Act, 1998 (Act 546)**

Since the inception of VAT in Ghana in 1998, the law has undergone ten amendments so far:

(a) The first amendment Act 579, 2000 increased the rate of tax from 10% to 12 ½% and provided additional list for exemptions specifying the active ingredients for essential drugs.

(b) Act 595, 2001 revised the threshold for VAT registrable persons based on turnover whichever is achieved earliest.

   i. GH¢ 100 million over a twelve – month period
   
   ii. GH¢ 75 million over a nine – month period
   
   iii. GH¢ 50 million over a six – month period
   
   iv. GH¢ 25 million over a three – month period

It also removed from the exemption list imported finished pharmaceutical production to make them taxable except sale at retail level.
(c) Act 629, 2002 provided specific descriptions for exempt supplies with respect to live animals; livestock, poultry and fish imported for breeding purposes; edible fruits, nuts, cereals tubers and vegetables specifying the exclusion of hotel accommodation warehousing, storage and similar occupancy incidental to the provision of the relevant services under item 16 of the schedule (Exempt Supplies); and including “salt” and “mosquito net” to exempt supplies.

(d) Act 639, 2003 exempted from VAT Compact Fluorescent Lamps (CFL) and fully assembled computers imported or procured locally by educational establishments approved by the Ministry of Education.

(e) Act 670, 2004 amended further and expanded the lists of Medical Services and Pharmaceuticals now embodying schedules 1A and 1B lists of exemptions, the latter being a new introduction of selected imported special drugs.

(f) Act 671, 2004 amended an amendment, (i.e. Amendment No. 2) came about to remove VAT on import for VAT registered manufacturers on inputs for fishing nets, twines and musical instruments.

(g) Act 696, 2006 amended to zero – rate locally produced textbooks, exercise books, locally manufactured agricultural machinery and implements or tools. These inclusions into zero – rated supplies meant where the amount of input tax which is deductible exceeds the amount of output tax due in respect of the accounting period, the excess amount shall be credited to the taxable person except in the case of where the excess credit may be refunded to the taxable person where that person’s exports exceed 25% of the total supplies within the accounting period and the total export proceeds have been repatriated by the importer’s banks to the exporter’s authorized dealer banks in Ghana.

Act 734, 2007 introduced the VAT, Flat Rate Scheme facilitating VAT output collection in the informal retail distribution trade sector, where the retailer of goods accounts for VAT at a marginal 3% rate chargeable on the value of taxable supply. Taxpayers who operate the flat rate scheme are not entitled to input tax credit on the interpretation that “VAT Flat Rate Scheme” means a Value Added Tax collection and accounting mechanism that applies a marginal tax percentage representing net VAT payable on the value of taxable goods supplied.”
(h) Act 752, 2008 is an amendment exempting telephone sets including mobile or cellular phones and satellite phones from VAT.

(i) Act 810, 2010

i. Revises and expands the coverage of the threshold for registration, of VAT, and

ii. Re-classifies locally produced pharmaceuticals locally produced, text – books and locally manufactured agricultural machinery and tools as exempt supplies. The threshold turnovers for registrable taxable persons now stand as follows whichever is achieved earliest:

- GH¢ 90,000 over a twelve – month period
- GH¢ 67,500 over a nine – month period
- GH¢ 45, 000 over a three – month period
- GH¢ 22,500 over a three – month period

A third aspect to this act is that the Ghana Investment Promotion Centre (Promotion of Tourism) Instrument 2005 (L.I. 1817) has been revoked. This means that part C of chapter 98 of the Harmonized System and Customs Tariff Schedule, 2007 version, no longer applies.

(j) The Communications Service Act, 2008 (Act 754)

The Communications Service Tax (CST) is a tax levied on charges for the use of communications services that are provided by communications service operators. It is paid by the consumers to the communications service providers who in turn pay all CST collected to the tax authority on monthly basis. It has been amended currently, 2013 and extended to include public / corporate data operators, providers of radio (FM) broadcasting services and providers of free – to – air television services. The CST Act 754 is not an amendment to the VAT Act, but stands on its own.

3.3.5.3. Amendments to Customs and Preventive Service (Management) Law, 1993 (PNDC 330)

Not much co-operation was forthcoming in this area. It has therefore not been possible to establish intended changes in certain areas as responses have not been returned at the time of. Thus, the following are not concluded.

(a) The determination of the value of vehicles including used ones based on statutory rules of depreciation causing anomalies and distortions in their computation for both importers of wholly new vehicles and importers of used vehicles with their attendant social, economic
and environmental consequences as well as the application of overage penalties on used vehicles leading to non-compliance to clear and eventually presenting disposal difficulties when forfeited to the state.

(b) Ad valorem vs Specific rates of excise duty on goods, and if ad valorem duty rates eligible on excisable goods are to be retained what are the new excise duty rates?

(c) Also, not confirmed is the scanty information on Act 809, 2010 which was not readily available to the effect that import duty on light emitting diode lamps (LED) for domestic use and public lighting are zero – rated as well as an environmental excise tax of 20% on polythene bags and other plastic packaging materials.

3.3.5.4. Establishment of a New Semi – Autonomous Revenue Agency

The Ghana Revenue Authority Act, 2009 (Act 791) was passed to establish the Ghana Revenue Authority (GRA) to focus on functional revenue administration and improve customer service delivery. GRA came as a replacement of former separate revenue agencies i.e. the Customs Excise and Preventive Service (CEPS) the Internal Revenue Service (IRS) the Value Added Tax Service (VATS) and the Revenue Agencies Governing Board (RAGB). The GRA’s project which is being implemented entails integrating IRS and VAT Service into domestic tax operations on functional lines, integrating the management of domestic tax and customs and modernizing domestic tax and customs operations through review of processes and procedures aimed at administrative efficiency and better compliance. The establishment of GRA is about the crowning of tax reform in Ghana presently.

4.0 INSTITUTIONAL STRENGTHENING AND COMPLIANCE IMPROVEMENT

There is the need for significant change in processes now that the tax collection agency in Ghana, the Ghana Revenue Authority (GRA), is a standard integrated government tax institution, in order that it achieves improved performance in a sustainable manner.

Admittedly, change processes may not be successful in an acceptable short period of time if based solely on the existing financial and human resources. Support sought from varied sources through bilateral agreements with other countries for technical and financial cooperation, other than government’s meager direct financing, would be welcomed. The necessary change process calls for a complementary intervention for the Ghana Revenue Authority (GRA) and its human resources on the one hand and the strengthening of its
technical and physical infrastructure and facilities, particularly Information Technology, on the other hand.

The (GRA) has indicated sixteen (16) project teams are set up to execute various aspects of the integration which have completed and submitted their work for implementation (GRA 2011 Annual Report) but these are kept close to their bosom for anybody to know what catalogue of themes are being developed and the country cannot be satisfied with the slight change in improvement while much more better could have been done. Importantly, direct and indirect tax compliance and enforcement must increase significantly, and in a cost-effective manner, specifically through human resource improvement, management for compliance improvement and installation of an appropriate IT system with modules to manage all taxes, licenses and all aspects of tax administration. Expectedly, the project teams must design how these are to tackled before further assistance can be sought. Suggestions are hereby made for tackling these issues for strengthening the institution and improving compliance.

4.1 Human Resource Improvement

4.1.1 Staff Professionalism

In order that staff perform tasks with a high degree of professionalism, it is important to ensure that training needs assessment is regular, training programmes cover both technical and management topics, and that a specialized training school is created for the GRA and not for the institution to depend on outsourcing. Also, adequate training must be carried out at various levels, and a system of regular retraining as well as a pool of well trained trainees established. It is also necessary to review, clarify and adapt job descriptions. Above all, it is necessary to put in place a staff appraisal system to monitor staff performance and motivate the good performers while sanctioning the bad ones.

4.1.2 Efficient and Effective Procedures

To put in place efficient and effective procedures, all old procedures should be reviewed to identify weaknesses and revise to make them user-friendly. And, it is important to establish guidelines for all divisions as well as designing efficient and effective manuals for all functions within the system. Staff must be educated on the content of procedure manuals and
there is need to elaborate job descriptions so they are unambiguous. Above all, it is important to establish and implement simple but efficient monitoring and evaluation systems.

4.1.3 Timely available Required Data

The data needs of the various divisions and offices must be identified together with the sources of information for a design of information flow to be made. Data management systems need to be developed based on defined data needs and the data collection system adapted to computerized processing. It is important to determine equipment requirements and provide adequate hardware. Also, it is necessary to establish a local area network at the head office and the LTO, the MTOs and the major STOs to facilitate internal communication, information sharing and transparency in tax administration.

4.1.4 Taxpayer’s Compliance

This starts by studying the attitudes of taxpayers, analyzing their information needs and educating them on the benefits derived from payment of taxes. It is also important to develop appropriate tax educational materials and design specific strategies for tax education. Taxpayers generally need to know their rights and obligations under the tax laws. Lawyers, accountants and judges all need tax education. Very importantly, there is the need to identify the impediments to tax compliance. Generally, it would be necessary to simplify procedures and improve tax services rendered by the tax administration as well as establish tax enquiry points. Finally, the GRA should be in a position to apply sanctions to tax evaders in a transparent manner and enforce laws religiously on due date.

4.2 Management for Compliance Improvement

In the 2012-2014 GRA three-year strategic plan, “GRA is responsible for the assessment, collection and remittance to the government of public revenues due.” And, one of the six corporate goals outlined in the corporate plan is “maximum voluntary tax compliance” which is in the light of improved taxpayer compliance through the right mix of help and enforcement. These identify GRA’s central role to be “improving compliance carried out as a circle of firstly understanding taxpayers needs and behavior and the reasons for compliance or non-compliance, and secondly, determining on the basis of that understanding, whether the appropriate strategy for improving compliance is in the form of help, enforcement; or changes to the law to improve collection systems, or a mix of these.
Thus, it can be seen that the purpose (the aim or objective) of having a Taxation Office, is to collect revenue but the role (the specific task or function) of the Taxation Office, is to improve compliance with the laws it administers. In other words, the task of the tax office is to improve compliance so that it can achieve the objective of collecting revenue.

4.2.1 What Compliance Means

There is considerable debate about the definition of compliance, non-compliance and compliance improvement, and how each of these are measured. But most people make the connection between compliance, tax revenue and audit. In its broadest sense, compliance is about taxpayers acting in accordance with the requirements of the tax law in the manner set out under the provisions of the law. For example, in the context of income tax, the law requires taxpayers to pay the right amount of tax and that they assess their own taxable income, lodge returns and pay their liability on time. The “right amount of tax” is the amount of tax calculated by reference to the provisions of the law, but having regard to interpretations of those provisions by the courts (what is or is not included in assessable income or allowable deductions). The concept of “the right amount of tax” also allows for taxpayers to take advantage of incentives and concessions established within those provisions and court interpretations.

The second component of compliance refers to the administrative requirements of the legislation. This means such things as filing of tax returns by the due date for filing paying tax assessed by the due date for payment, maintaining appropriate books and records or fulfilling substantiation rules and so on.

Non-compliance covers both failure to pay the right amount of tax and failure to meet the administrative provisions of the law. It is any combination of not accurately calculating taxable income by underestimating (or for that matter overstating) taxable income, deliberately or through negligence, misunderstanding or misinformation, and/ or failing to meet filing and payment or similar requirements. Self-assessing the correct amount of taxable income but filing a return late represents a form of non-compliance, just as does deliberately understating taxable income in order to evade tax, or not filing a return at all.

4.2.2 Compliance Improvement

The concept of compliance applies to all the tax laws administered by the GRA. In all of them, compliance consists of two components: fulfilling the requirements of the law, and in
the manner set out under the law. Both components require actions by taxpayers, actions which are related to their “needs and behavior”. Taxpayer’s needs and behavior are a function of the environment in which they operate. Understanding taxpayers needs and behavior and the way these are affected by the environment will provide tax authority with the means to determine the appropriate mix of strategies to maintain existing compliance and increase the overall level of compliance.

To sum up, events that impact on the taxpayer affect the taxpayer’s behavior and impact on the level of compliance. Compliance improvement therefore depends on the tax authority’s ability to influence and respond to taxpayers needs and behavior in order to: (i) maintain compliant behavior by assisting those taxpayers who are complying to continue to do so (at a reasonable cost to both them and tax authority), and (ii) shift non-compliant behavior by encouraging more taxpayers to meet the requirements of the law in the manner set out in those laws. Compliance improvement is therefore a” behavioral” issue, both in terms of how taxpayers behave and how tax authority behaves in dealing with taxpayers. This means that tax authority’s own behavior must change in order to influence taxpayers’ behavior. This relationship must spur the GRA to actively seek to shift community or locality behavior towards voluntary compliance in order to enhance revenue collection, and the need for constant review to develop structural arrangements that better support the authority’s ability to improve compliance.

Thus, changes will be achieved for the better by GRA constantly looking at their responsiveness and the way tax officers approach taxpayers; how they work together; how they share learning and support innovation and initiative; how they undertake their business and how they manage their resources. In all that they do, tax authority must focus on compliance improvement as an outcome. Maximizing voluntary compliance has become the only realistic means of administering any law in the modern complex society.

4.2.3 Managing the GRA in the Twenty-Tens

As the central role for GRA, Compliance Improvement needs to be the focus of all facets of its activity. For managing in the twenty-tens (2010s), after integration, compliance improvement as the foundation link between the six themes and modules of its programme should be the next phase to develop. In fulfilling the central role, GRA needs to manage with the flexibility and the opportunity offered by the dynamics of a learning organization, of
people who know and understand their role and responsibilities, and are able to contribute to the outcomes of the organization in a climate of industrial democracy.

4.2.3.1 Setting the Context

The purpose of GRA is to collect revenue properly payable to fund services and support for the people of Ghana. The task of tax administration therefore in fulfilling this purpose is to improve compliance with the tax laws administered. For all along, compliance has always been the key to tax administrations ability to collect revenue and GRA must seek to achieve shifts in people’s behavior towards voluntary compliance. The emphasis on voluntary compliance recognizes that the tax administration will never have the resources to rigidly enforce compliance and it will rightfully never have the social or political endorsement for such an approach. This is why the entire administration of taxation in countries is changing to a system of self-assessment.

(a) The Way of Doing Business

In managing the task of compliance improvement GRA’s whole approach needs to be considered. It has already undertaken steps to build business structures which should help rather than hinder the administration’s delivery of compliance improvement. But the answers to the problems of the organization do not lie solely in structures; a significant shift is required in the way of doing business in order to develop a much greater understanding of taxpayers so that the central role of compliance improvement can be fulfilled. As a body, they all need to understand the business they are in for and their own particular role in that context.

All the while, focus had been on tasks associated with “administering” the tax system. The change that is needed is to focus on “managing” the tax system. The transition is on but things must be done at a much faster pace and in a much broader fashion across the organization. Indeed, the focus needs to change from tasks to compliance improvement as an outcome.

(b) Managing the Tax System

Managing the tax system also entails being better at managing risk. Risks are inherent in the organization’s business activity. They range from the direct risks that a non-compliant activity is impacting on revenue, to the risks involved in allocating resources across business activities. Risks can be managed and understanding taxpayers is the first step.
Managing risk is a process that needs to be undertaken across the whole organization. It involves firstly, establishing what the risk is, and secondly, developing an appropriate response. The elements of the process are identifying just what the risk is, undertaking research to assess the likely impact of the risk and quantifying that impact. Based on this assessment, a priority is allocated to addressing risk in the context of all the risks and tasks faced. In accordance with that priority, strategies to deal with the risk need to be developed and implemented. The effect of these strategies must then be evaluated and measured.

Essentially, for the GRA, this process should be about understanding taxpayer behavior, determining the causes of compliance and non-compliance, then developing a response that will encourage and assist taxpayers to comply or continue to comply. These are the elements of a risk management process.

The risk management process as mentioned is a continuous cycle that needs to take place across the whole organization. It is not a process that is exclusive to considering high level corporate risk, but should be used in managing risk at any level. Business and service lines will need to develop their understanding of risk management and the techniques they will use.

**4.2.3.2 Team Work**

“Teamwork” is a watchword for GRA as one of its core values for good governance. This is to be encouraged. People working together in teams offers the greatest potential to be client-focused and deliver continuous improvement for compliance.

(a) First, it is to the staff that taxpayers tell their needs; show their behavior and why they have not complied. Taxpayers tell staff why they have not been able to make payments or did not return certain amounts, that they could not understand forms or did not know who to talk to for help. The same staff who are being given this information are also dealing with the systems and processes and know what these can or can’t do. These officers often have sound ideas on how to overcome the problems and what will or would not work with their clients.

(b) This knowledge and understanding means that people in teams have a major role to play in analyzing and managing the risks to compliance impacting on their clients. Significant gains to compliance are possible through releasing the skills of staff and enabling them in their teams to exercise judgment in responding to and dealing with compliance issues.
But it is not just the staff with client contact that has a role to play. Officers throughout the whole organization can assist in all aspects: supporting staff that do have client contact; identifying and eliminating non-value adding activity; or identifying information that contributes to the understanding of taxpayers and compliance.

Improving compliance by either shifting non-compliant behavior or maintaining compliant behavior is the ultimate outcome for all the tasks of the organization. Consequently, all officers have the opportunity to improve compliance. Everything done can impact on the willingness of taxpayers to comply and all staff should be conscious that their behavior can affect compliance.

It is essential that the GRA is perceived as carrying out its role in a professional manner and that it meets the highest administrative standards in all that it does. It is only in this way and in being equitable and fair in its dealings with taxpayers as professed in its vision statement, that it will get area support for what it must achieve.

4.2.3.3 A Client-Focused Approach

Clients or taxpayers react to situations and events that occur in their environment. These situations and events determine the needs and behavior of taxpayers. The best opportunity to improve compliance is through developing an understanding of what events/factors impact on taxpayer behavior, and how and why taxpayers respond in the way they do. This calls for GRA as an organization to have a client focus.

A client focus is much more than client service. It is about developing an understanding of client’s needs and behavior and the reasons for compliance or non-compliance.

This understanding is central to tax administration’s ability to improve compliance. Developing this understanding is the challenge faced in managing the risks inherent in a voluntary compliance strategy. The task to develop this understanding of the needs and behavior of clients requires tax authority to first change their own behavior. The behavior change need to undertake is to develop a client-focus.

The start of this is to develop working arrangements that facilitate focusing on how to deal with groups or segments of clients with similar interests, needs and behavior. But this also means changing official work practices, approach and attitudes. Officialdom
must learn from past client behavior in order to anticipate and influence future client behavior.

(c) By just doing their job, the tax office can find out what affects clients; why they paid late or did not file, etc; learning from this information is how tax authority will develop the understanding needed. It is through this understanding that the tax office can:

i. Begin to fully identify and assess compliance risks, and thus the best allocation of resources;

ii. Become more attuned to providing the service and products that enable and assist clients and their intermediaries at the time they need those services and products

iii. Understand what clients will respond to in order to develop the right mix of compliance strategies.

iv. Focus on improving the administration’s own systems and procedures to respond to client needs

v. Know what behavior the tax office can influence and how to do so.

vi. Have an impact on the cost of compliance through the combination of all the above.

(d) A client focus is therefore a lot more than providing a help service or enforcing the law. It is about knowing why help is needed, who needs it when they will need it and what type of help will work best. It is about knowing when help won’t work and what type of enforcement is required, for which clients and at what time in order for those clients to be encouraged to comply, both now and into the future. It is about knowing what areas of the law are causing problems for people complying and what areas make it difficult to administer in practice. It also means knowing what areas of the law are being abused.

This type of understanding doesn’t come from just processing, no matter how good at that that organization may be; it comes from investing in getting to know about the people who have the obligations under the law (the clients).
4.2.3.4 Financial Management

Being more aware of clients needs and behavior and how they react to tax authority’s activities will enable the tax office make more appropriate decisions in relation to the allocation of financial resources. This helps to improve the task of managing the budgets and linking costs to the outcomes to be achieved.

What the Tax Authority does in business activity absorbs resources, and compliance improvement is affected by costs just as much as anything else. There is often a conflict between compliance improvement outcomes and costs. Some aspects of compliance improvement are extremely expensive to achieve and may not produce significant improvement. This conflict needs to be considered in terms of equity and allocation of resources. Should Tax Authority allow non-compliant behavior to continue merely because of the costs involved; can it legally/ethically make such a choice; does it have any choice; what is the appropriate breakeven point?

There is a range of options available to use in improving tax compliance. A significant part of making risk management decisions about what strategies or mix of strategies to use for any particular client group will be to understand the costs and impact of the strategies used. Some strategies are relatively inexpensive and have an impact across a wide range of clients (e.g changes to legislation, improving administrative procedures, increasing clients’ knowledge), whilst other strategies are expensive and impact on narrow ranges of clients (e.g audit activity, debt collection).

The “inexpensive” strategies with wide impact tend to reduce the cost of compliance, while the more “expensive” strategies with narrower impact, tend to increase the cost of compliance. In the overall compliance focus, neither type of strategy can be ignored. Financial Management in the GRA needs to be focused on finding the best tradeoff between costs and compliance. Again, this is an exercise of analyzing and managing risks.

Being able to respond with the right strategy at the right time has as much to do with understanding the financial resources as understanding the clients. The government invests a vast amount of public money in the GRA, this investment does not come without obligations; GRA thus has to be fully conscious of these obligations and how daily activities impact on the financial resources available.
A further aspect of financial management the GRA needs to be aware of its own compliance with the Audit Service Act and Financial Administration Regulations. As an organization it is open to public scrutiny on its activities and behavior. If it is unable to meet its own compliance obligation, this is likely to impact on taxpayers’ willingness to comply. Its professionalism in managing public money and maintaining the integrity of data and records are directly relevant to perceptions of taxpayers and the ability to gain support of the people.

It has an obligation to provide leadership to the community in complying with the various aspects of legislation and administrative standards that govern the way it operates like any public institution.

4.3 Procuring the Appropriate IT System

The GRA was established to upgrade and modernize tax and customs administration since 2009. It’s three-year strategic plan (2012-2014) shows peripheral automation to be effected in the customs and some limited areas; but there is still nothing said about domestic direct taxes which have no peripherals and need urgently to be automated. Full automation is long overdue and without it all the beautiful plans for modernization are naught. It is a contradiction to tax reform in Ghana that despite the measures so far instituted for better performance in revenue generation, in the 21st century, the GRA is not IT current. It is important that a completely standard integrated system that provides tax departments with the tool to manage all aspects of tax administration is procured for the GRA, either by government or through technical assistance on bilateral basis.

4.3.1 Installing an Automated Tax Administration Software

4.3.1.1 Benefits

Installing automated tax administration software will generally benefit government and the GRA as an organization.

(a) To government, a standard integrated system will improve the efficiency of the tax department, simplify administration of tax laws and provide better control over compliance. Because the system would be fully integrated, government can easily compare the taxes assessed and the taxes collected. It would also provide a detailed tax roll along with each taxpayer’s assessment and payments and, above all, it would provide many management and statistical reports to keep government fully informed on the state of tax administration.
(b) To the GRA, it would provide a complete system to manage all aspects of system administration automatically including the tracking of late filers, late-payers, exemption periods, etc. It would also provide an overall view of all taxpayer liabilities and payments and eliminate manual calculation of penalties and interest. It would also ensure that data collected is accurate and valid.

4.3.1.2 General Features

The most appropriate system is that which is completely integrated in that all modules use and communicate with each other and contain the following:

(a) **Centralized Tax roll:** for tracking taxpayer information whether they are individuals, companies, partnerships, trusts, government departments or sole proprietorships.

i. For Individuals, it should provide both home/business address, spouses and dependents information, phone numbers and contact names, store up to three other identification numbers such as social security number and drivers license, special screens allowing lookup of taxpayers using the same particulars and identification numbers when the taxpayer number is not known, and tracking current and historical employer information.

ii. With enterprises, any type of enterprise, that is, companies, trusts, partnerships, other legal entities and sole proprietorships as well as multiple establishments for companies with many locations, managing exemption periods, tracking ownership (including history and tracking current and historical employee information is vital and is enhanced by an integrated system.

(b) **Tax Account Management**

All types of taxes that a taxpayer is liable for should also be able to be tracked. There should be a tax account for each taxpayer/tax type contribution. It should be possible to track a tax account to an individual/enterprise or an establishment. The major features should be: start and end dates of the tax account which can be used to determine if a taxpayer is liable for a given tax period; fiscal year start and end dates; allowing for any taxes such as income taxes, VAT, withholding taxes, PAYE, fees and licenses. Representatives should be able to stored at many levels (taxpayer and tax account) to allow tax information (declarations and letters) to be sent to these
representatives (accountants, legal guardians, etc) on behalf of the taxpayer; provision for balances accumulated (arrears)-not only can you enter previous balances but will continue to update penalties and interest on these balances (as well as register any monetary transactions against them).

(c) **Declarations and Assessments**

The system should be able to produce individualized declaration forms for the tax base and produce declarations for all taxpayers (in one batch) or for a particular one. After taxpayers have filed their returns, the information entered and assessments calculated, the system should be able to produce assessment notices.

i. With Declarations the system should automatically determine who should receive a declaration for a given period based on tax account start/end dates and exemption periods; each declaration is personalized with the taxpayers name, mailing address, taxpayer number, due dates, tax period and tax account; the system should work with pre-printed or produce forms; if the taxpayer has a representative, the mailing address of the representative can be used; Name and address should be laid out so windowed envelopes can be used.

ii. With Assessments, reassessments and estimated assessments, declaration information should easily be entered into the system; assessments are automatically calculated after the taxpayer’s declaration has been entered. Assessment calculations can be scheduled (for later in the day or at night) or can be run immediately; penalties and interest are calculated automatically based on user-defined rules; minor write-offs are automatically handled such as if the taxpayer owes less than the user-defined amount, the tax owing becomes zero; personalized assessment notices, showing the tax to pay, penalties, interest; and differences between system calculations and taxpayer calculation; assessment notices can be printed one at a time or in batches; the system should allow as many reassessments as necessary; new assessment notices can be printed; tax officers can create estimated assessments if the taxpayer does not file; estimated assessments can be based on tax returns from previous years. Full refund handling is supported with a report that lists all refunds and other taxpayer accounts that the refund can be applied.
(d) **Other Details**

For other details the system should provide for sending reminders for late-filers and late-payers; letters allowing for form letters that can be sent to one or many taxpayers; document numbering for each outgoing and incoming document; files control and tracking; installments for prepayments; withholding tax with automatic transfers made to the taxpayers account; P.A.Y.E with all the features of withholding taxes (plus screen to allow year end salary and tax withheld summary per employee); end of year reconciliation reports to compare amounts declared by taxpayer against amounts declared by employer; penalty and interest management; cashing functions with regard to post-dated cheques and refund vouchers and other; tax transactions automatic creation with screens and reports to monitor, add and reverse (but never delete) transactions; and objection handling.

(e) **Audit**

An important task of a tax department, especially in the self assessment system, is auditing. The system should provide auditors with tools for the job. That is to say, it should be able to help auditors find taxpayers to audit by offering reports which search for taxpayers based on user-defined criteria; track audit cases, audit officers, dates, etc; provide the ability to track the performance of audits (extra money brought in etc) based on certain criteria including by taxtype and auditor; allow auditors to organize audits into groups; track all auditors involved: general auditor, supervisor, etc.

(f) **Collection**

i. For taxpayers who don’t pay, the system should provide the collection module which section contains all reports and screens to help collection officers find late payers and collect outstanding taxes. Thus, the system should produce reports to help collection officers identify delinquent accounts; track collection cases by dates opened/closed, collection officers involved and assessments to be collected; will track collection cases on assessments tracked by the system as well as those on opening balances; store contacts made with the taxpayer or other persons as well as the outcome of such contacts; and provide collection statistics - how much was collected, what tax-type, by which tax officer.
ii. Payment Agreements: This section in the system should allow the tax officer to set-up a pay-back agreement with the taxpayer. It means that this module should provide a “what if” capability so that the collection officer and taxpayer can re-examine the payment schedule; allows payment to be weekly, monthly or bi-weekly, whatever payment arrangement; automatically prints payment agreement remittance forms indicating the amount and date the payment is to be made; automatic reminders for taxpayers not paying; reports listing the states of payment agreements
MANAGING A POSITIVE CORPORATE IMAGE, CREATIVE MARKETING AND EFFECTIVE COMMUNICATION FOR ENHANCED REVENUE COLLECTION

5.1 Vision and Mission Statements

It is said that “charity begins at home”, so it is most important for the revenue collecting agency to meet the public or present itself to the outside world (especially taxpayers) by first creating a positive corporate image of itself, if revenue collection is to be enhanced. This would be the reflection of its “vision” and “mission” statements. These two represent the clear and concise statements on the basic and fundamental purpose for the existence of the institution. The “mission” is the scope of services to be rendered, and the “vision” normally is in a planning horizon.

Very often, these statements are verbose, too clumsy and confusing. Somewhere, it may even be put that the “vision” is derived from the “mission” but from the corporate image creation view, such a position is found to be faulty. For example, the GRA was set up by law to perform specific functions which will largely not change in a planning horizon. If anything at all, the functions will be enhanced and the mode of collection and administration of taxes modernized. In this regard, as a corporate body, it is the stated vision that will determine the mission to be undertaken and not the other way round. Thus, it is the “vision” of GRA that will dictate the kind of corporate image that the institution wants for itself.

The vision in a typical manner will reflect the ingredients of effectiveness, dependability efficiency and customer friendliness for tax collection and a highly respected revenue agency in the international community. With this long-term vision in perspective, the stated mission then falls into place to ensure the effective assessment and optimum collection of tax revenues due to the state under the relevant laws and to promote voluntary compliance through tax education.

5.1.1 Medium-Term Target Objectives

What passes as the vision of the institution appearing in the official documentation becomes appropriately the medium-term operational target objectives of the GRA, i.e.

i. Professional and friendly client services
ii. Promotion of voluntary compliance
   iii. Application of modern technology
   iv. Effective border protection
   v. Well trained, disciplined and highly motivated staff
5.1.2 Corporate Policy Goals

Once clear on the vision and mission statements the corporate policy goals (which are long-term) should precede the medium-term target objectives enumerated above. The corporate policy goals therefore remain the same as follows:

i. Optional Revenue Collection
ii. Maximum Voluntary Tax Compliance
iii. Fair and Transparent Tax Environment
iv. Strong, Professional and Credible Organization
v. Compliance with Statutory Non-Revenue Obligations
vi. Integrity and Good Governance

5.1.3 Image Creation

From the foregoing, one may ask what has all this got to do with image-building. The GRA may be achieving its targets but that does not necessarily mean creating a positive corporate image. Image-building is a conscious effort; it is designed to give a human face to a clearly defined vision and mission of a corporation. Image-building creates relationships through appropriate communication devices. The objective is to win the understanding and acceptance and commitment of your employees, your clients, the media, the government and the general public. It would not be possible to optimize the collection of taxes without the understanding, acceptance and the commitment of the various publics mentioned. Equally, it would not be possible to achieve any of the long-term corporate goals of the tax authority without addressing itself to the various publics identified.

5.1.4 Corporate Public Relations Policy

Having said these, one would not be wrong to suggest that the public relations policy of the GRA should be “to create a positive corporate image for the GRA to attain the goals set by the Authority in accordance with its Vision and stated Mission.” With such a policy, it would not be out of place to redefine the Authority’s strategies according to the various publics that it has to deal with.

(a) The Employees: It is important that the Board, Management and all staff understand and, accept and commit themselves to the corporate public relations policy of the Authority. There should be a general agreement or understanding that all employees have a responsibility to build a positive image.
(b) **Clients/Customers**: Since the vision is that of an organization which is effective, dependable, efficient and customer-friendly so to put it, there is the need to build a relationship with the clients that should show the Authority as “efficient” and at the same time “customer friendly.” If this is done well, definitely, tax collection and tax administration stand to be enhanced.

(c) **The Media**: An important ally to the image building process is the media. The media always feeds on information; it is the relationship built with the media that will determine how helpful they can be in the enhancement of the objectives and the attainment of the goals.

(d) **The Government**: A good image is always pleasing to every stakeholder. The government would be proud of GRA to find that it is innovative, efficient and effective not only in operations, but even more importantly, in dealings with the public.

(e) **The General Public**: Potential taxpayers are always watching; they read the media; they observe; they pick up the images and signals portrayed about the GRA. What strategies are there to communicate with them in a way for them to want to volunteer payment of taxes when they get there?

### 5.2 Public Affairs Department

What the GRA needs as a reorganized institution for modernization is a “Public Affairs Department” and not a unit as the former agencies used to have (“Public Relations and Tax Education Unit”). The GRA organizational structure indicates a “Communications and Public Affairs” Department is in place. This is a step in the right direction but it is important to caution that the new set up does not fall into the old fashioned approach of a Public Relations Unit.

To buttress the caution, it is important to have a look at a typical written functions of a public relations and tax education unit in a former revenue service agency:

1. To raise taxpayer consciousness and voluntary compliance through a sustained programme of tax education.
2. Provide information and guidance to taxpayers through the preparation and publication of tax literature.
iii. Undertake a planned programme and sustain tax education countrywide to heighten tax awareness.

iv. Honour invitations from the public for talks, lectures and seminars on taxation.

v. Perform protocol duties for officers travelling outside Ghana and on official duties.

vi. Serve as link between the Service and the Mass Media, monitoring publications and enhancing the corporate image of the service in the mass media and advising Management accordingly.

vii. Prepare the House Journal “Review”

ix. Organization of official functions.

These are obvious functions of a public relations set-up. In the light of the reshaping, restructuring of vision, mission, corporate goals and corporate public relations policy, it is proper to have a more largely “Public Affairs Department”; more so because it is a major plank on which hangs the credibility, focus and the corporate image of the GRA. Secondly, the major function of the Department should be “To assist Management to create and manage a positive corporate image for the Ghana Revenue Authority”. Other functions should be restructured and categorized according to the specific publics it is addressing.

What was missing in the Former Public Relations and Tax Education Unit was the “Evaluation/Assessment” responsibility. It is not enough looking at the final figures at the end of the year. A full-scale market research to assess public opinion and attitudes is necessary to be part of the responsibility of the Public Affairs Department. This is the only way through which GRA’s communication patterns and messages can be improved upon.

5.3 Components of a Corporate Image

(a) Corporate Obligations/Responsibilities

These are derived from the vision and mission statements of the Ghana Revenue Authority

(b) Corporate Reputation

This is related to the way in which social responsibility of the organization is exercised. It shows in the professionalism and humanity of the executives. A good reputation enhances
revenue collection, gives confidence and pride to employees and new employees, encourages government to invest more in the organization and fosters growth and security of the organization.

(c) **Corporate Culture**

The GRA needs to develop a culture that supports creative, strategic and market driven changes. The culture must allow the employees to understand the larger corporate vision and enable them to contribute their own experiences in effecting change in the way things are done.

(d) **Corporate Ethics**

Code of ethics must be rigidly enforced and unethical behavior must not be tolerated.

(e) **Corporate Identity**

This is a combination of the visual and non-visual “personality of the organization communicated to the public. The visual contact includes logo type, emblem or symbol, house colours, the characteristic common look of facilities (offices, vehicles, equipment, etc); uniforms/flags etc; and signs/signing systems (indoors and outdoors); printed matter (stationery, office forms, publications, souvenirs); displays/exhibitions/stands; and audio-visual aids/films etc. The non-visual contact includes: personal contact (service, correspondence, telephone), impersonal contact by verbal communication (advertising, publicity, information through all media), direct or hearsay experience with GRA manner of doing things (e.g. speed of operation, integrity, flexibility, helpfulness, etc) and type and behavior of personnel historical success (or otherwise) of GRA.

(f) **Corporate Personality**

This is the totality of the principles, background, values, experiences and beliefs that influence and impact on decision-making in the organization, enabling it to “speak with one voice.” In all these creating and managing a positive image for the GRA is a collective responsibility which all employees must play their role. A positive image will surely enhance revenue generation.

5.4 **Creative Marketing and Effective Communication**

In examining this aspect, it is important to review the vision and mission statements of GRA.
i. **Vision:** To be a world class revenue administration recognized for professionalism, integrity and excellence;”

ii. **Mission:** To mobilize revenue for national development in a transparent, fair, effective and efficient manner.” There is no indication how the promotion of voluntary compliance one of the ways mentioned for achieving the objectives, is reflected as if the client or taxpayer does not matter. In the absence of that, it is important to frame a marketing vision for the GRA, and it should be “to develop a tax collection practice which provides a service that fills the needs and solve the problems of the client or taxpayer.”

### 5.4.1 Creative Marketing

This is developing and realizing a true marketing vision and plan to back the corporation’s vision. This requires developing the working assumptions:

- Laws passed by parliament are known by the people.
- Tax payment is a well-known obligation.
- Taxpayers must know the tax office
- Simplification of tax laws is an obvious advantage to the tax authority
- Tax courts or Tribunals can solve the problem
- GRA is doing well because targets are met.

It would also necessary to have a “**Know your Taxpayer**” approach:

The working assumptions may be there, but the taxman or woman will be successful if he/she

i. Knows the taxpayers

ii. Knows and informs the taxpayer of the benefits he/she gets from paying taxes; and

iii. Knows how to communicate effectively with the taxpayer.

There is no need to give the excuses that your clients are too many. One must just learn to add warmth to the way you relate to the clients. The clients want value for the service you are providing (you are not doing them a favour). Indeed, it is important to talk to the clients/customers to add a personal touch.

(c) **Segmentation:** This is necessary for public relations as well as tax education. Here, it calls for analyses of the different sub-markets within the overall market to define the
overall market, classify the segments, do some research on all the segments, plan strategies to get them to accept the message and address each segment separately.

5.4.2 Components of Creative Marketing

(a) **Market Research**: helps the organization to understand its clients better. How do the various publics view the organization, and in the opinion of clients, how easily can taxes be collected?

(b) **Advertising**: through appropriate channels (FM Stations, theatre halls, television, etc) to get the GRA message across, e.g. billboards, posters, banners, etc.

(c) **Direct Marketing**: That is targeting specific publics and sending educational messages (noting that communication is a two-way process).

(d) **Promotion**: That is trying various creative ways of pushing the GRA message, e.g. through newspaper pull-outs; dramatic sketches (concert party, etc), exhibitions, “Tax Week” etc.

(e) **Educational Material Distribution**: That is in respect that strategies must be developed to get the materials into the hands of targeted clients.

(f) **Corporate Image**: That is communicating the image of GRA through the organization’s mission, professionalism of its managers and tax administrators, the caliber of its employees and its role in the economic/governance landscape.

5.5. Communication Skills

It is important first of all to establish and maintain interactive two-way communications with taxpayers including an active feedback mechanism. Secondly, create open, honest and cross-departmental communications channels within the GRA. Thirdly, it is important to resist the temptation to hide bad news or to tell partial truths about any situation. This said, what communication skills can be used for effective communication?

(a) **Communication with Taxpayers/Publics**

Here, tax officers must keep the under mentioned in mind:

- Think before talking
• Know the message
• Get to the point quickly. It is easier for the listener to remember what is said;
• Know the outcome of what is needed from the talk (or conversation)
• Attempt at all times to persuade people communicated with;
• Allow the taxpayer to speak;
• Respect his/her point of view; and
• Help individuals to solve their own problems.

(b) **Believe in your Message**: in the sense that you speak with passion and conviction, allowing your feelings to flow naturally and showing enthusiasm. But, avoid lying or risk losing the organization’s credibility.

(c) **Speaking for Easy Listening**: This is very important and the following practices are worth noting:

- Establish a contract that the listener wants to hear what is to be said; do not assume it, e.g. “I want to tell you about……….”
- Connect with existing knowledge, e.g. “I hope you all know that a lot of development projects have been undertaken from taxes collected…….”
- Headline the main point of the message: don’t delay the point of the message)
- Keep the message simple
- Talk in specifics (rather than generalities)
- Give examples that are relevant
- Make statements rather than ask questions.

(d) **Dealing with Hostile Customers**:

- Acknowledge your mistake: don’t blame it on your computer or your branch office staff.
- Empathize with the taxpayer-Get the feel for the impact a mistake could have on him or his business.
- Ask how you can correct some mistakes made and
- Learn how to repair and keep your relationship.
6.0. CONCLUSION

The conclusion to this tax reform study on Ghana is that the country, as a development country, has come a long way in the development of a tax system. Ghana has been left far behind by the “Eastern Tigers” with whom it started at independence due to political instability. However, for it now being considered a middle income status is an indication of serious efforts that have been made to check malpractices such as uncontrolled outflow of resources, widespread tax evasion and corruption. It may also mean that Ghana is reinforcing pro-poor policies and meeting the goals of MDGs. However, since it is not yet considered at middle income level, it means so much is still not in tune with the business climate necessary for accelerated economic growth.

6.1. Weak Fiscal Capacity

Fiscal capacity is still very weak in the face of huge backlogs of public services, and there is continuously the need to mobilize more resources domestically to meet that adequate level of services for the people. There is also the need to encourage private investment by providing tax incentives, so the question remains which taxes to garner to meet developmental projects. Although quite recently the semi-autonomous tax administration (the Ghana Revenue Authority) has been re-organised to integrate the functions of domestic direct and indirect taxes as well as customs operations, the take-off is rather too slow and the much needed revenue spillovers are not forthcoming. Appropriate tax reforms too have been undertaken to meet the conditions of the micro-economic variables. All these are an indication of the country’s willingness and ability to respond to the need to increase tax revenue determining its capacity to carry forward development which maintains stability.

6.4. Major Tax Reform Areas

The major tax reforms in Ghana since independence typical of developing countries have been made in three main components of taxation; the adoption of current payment system; introduction of VAT; and giving the tax collecting agency a degree of autonomy from political control. Using a case study of African countries, Ghana inclusive, comparatively with other developing countries, the African countries have very low per capita income and have more tax structural problems trying to effect reforms.

Within the periods of all the varying programmes for accelerated economic growth, tax reforms kept pace with development: from the introduction of PAYE, provisional assessment, self – assessment by way of domestic direct taxes to VAT (indirect taxation) and customs
operations. The main income tax legislation was re-legislated with much modernization and further amendments made in VAT and Customs legislations which were pro-poor as well as the creation of the current tax administration (GRA), which integrates all the component areas of taxation for smooth operation.

6.5. **The Way Forward**

The crowning point of tax reform today is upgrading the semi-autonomous revenue agency into a standard integrated tax administration for achieving maximum voluntary tax compliance in a sustainable manner. Suggestions are proffered for the tax administration to move at the expected rate, i.e. more financial and technical support for upgrading human resources, continuous compliance and acquisition of the appropriate automation system needed. It is also important for the GRA on its own to put out a positive corporate image and be creative and communicating with effectiveness, all to enhance revenue generation.

6.5.1. **Governance**

6.5.1.1. **Civil Society Organizations**

Having noted government’s long term programme in achieving middle income status, civil society organizations (CSOs) are key stakeholders/partners in the development process to cultivate transparency and accountability. However, in Ghana, CSOs have not been actively involved in the decision-making process for various reasons—either lack of interest or that they are not well informed on the democratic process. Government has to create the situation to enable them participate. It is time that CSOs got involved with the governance process to enhance grass-root participation as well as what is normally referred to as the “bottom up” approach to governance.

As a matter of fact, CSOs are located within communities and they can help to articulate the views of local citizenry on governance issues including taxation. Their involvement will also ensure accountability and transparency in the governance processes. Capacitating CSOs to become participatory means the legal and institutional framework for management and operations of CSOs must be reviewed and the need for co-ordination amongst them enhanced. It is also very important to identify the clear and specific roles of civil society groups.
6.5.1.2. **Ownership of Development Process**

It is important for government to promote co-ordination, harmonization and ownership of the development process with regard to the general public or the ordinary citizens participating in policy formulation and dialogue processes which are central to the issue of ownership.

To ensure effective participation of all stakeholders, there should be a deliberate effort on the part of government to improve the participation of all interested groups in policy-making processes, particularly taxation. For example, there should be a sustained organization and expansion of public policy fairs to engage the citizenry in policy formulation, implementation and evaluation, the main focus being to identify, institutionalize and entrench the participation of all institutions and stakeholders, both state and non-state, in the governance process.

6.6 **Fighting Corruption**

Corruption continues to remain a challenge to good governance and government must enforce existing laws on bribery and corruption. There is the need to strengthen and empower anti-corruption institutions like CHRAJ, EOCO (formerly SFO) and the Audit Service to check malpractices, corruption and economic crimes in public administration, including the tax agency. Indeed government should generally enforce legal and operational standards and ensure the Right to Information Bill is passed before the end of 2013.