



REPUBLIC OF GHANA

**IMPLEMENTATION**

OF

**TAX POLICIES AND ADMINISTRATIVE  
MEASURES**

BASED ON THE

**BUDGET STATEMENT AND ECONOMIC  
POLICIES OF GOVERNMENT**

for

**2001-2006**

## **ACRONYMS AND ABBREVIATIONS**

AGI	Association of Ghana Industries
CEPS	Customs Excise and Preventive Service
CFL	Compact Fluorescent Lamps
ECOWAS	Economic Community of West African States
GCMS	Ghana Customs Management System
GCMS	Ghana Customs Management System
GC-Net	Ghana Community Network
GPRTU	Ghana Private Road Transport Union
HS	Harmonised System
IRS	Internal Revenue Service
KIA	Kotoka International Airport
LTU	Large Taxpayers Unit
MDAs	Ministries Departments and Agencies
NRL	National Reconstruction Levy
RAGB	Revenue Agencies Governing Board
TCC	Clearance Certificate
TCC	Tax Clearance Certificate
WTO	World Trade Organisation

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## **FOREWORD**

The 2006 Budget Statement and Economic Policy of the Government of Ghana emphasised the need to improve fiscal policy management. One of the most important aspects of fiscal policy is how to manage the tax environment, especially tax laws and tax information so that households and businesses can make their consumption, savings and investment decisions in the most efficient way possible.

This publication is the first in the attempt to disseminate information on tax laws and other measures government has undertaken to improve tax administration and also to encourage voluntary compliance. The publication puts together the series of year-by-year tax initiatives (new laws, amendments and improvement in tax education in Ghana) for the period 2001 to 2006.

Reforms of tax administration and tax collection have been major undertakings backed by legislative changes.

The tax measures also reflect the Government's desire to make taxation as a major policy instrument to accelerate growth and poverty reduction. To these ends, reforms have included outright reliefs and incentive signals to households and business sector.

Reforms have included the introduction of new taxes, increasing and decreasing tax rates on different tax units. There have been adjustments to correct possible loopholes in the tax regime and adjustments to ensure that there is equity in the structure of incentives, which are all in line with Ghana's growth and poverty reduction strategy.

This publication is also an opportunity to invite dialogue on the direction of tax reforms.

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Minister  
Finance and Economic  
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August 2006**

## **SECTION 1: TAX POLICIES AND MEASURES FOR 2001**

### **1.1 VALUE ADDED TAX SERVICE**

#### **Widening of VAT Tax Base**

1. As part of measures aimed at widening the tax base, a VAT law was passed to reduce the threshold from ₵200m to ₵100m for retailers of goods except retailers of pharmaceutical products which shall be exempted.

#### **Imposition of VAT on Imported Pharmaceutical Products**

2. In response to the plea of the Association of Ghana Industries (AGI) for conditions that create a uniform playing field for local industries, importers of finished pharmaceutical products as defined under Chapter 30 of the Harmonised System (HS) Code are now required to pay 12.5% VAT on the c.i.f value of their products. However, special drugs such as vaccines are exempted from this tax. Retailers of pharmaceutical products, continue to be exempted from VAT registration.

### **1.2 INTERNAL REVENUE SERVICE**

#### **Deepen Direct Tax Coverage**

3. An amount of ₵8.2 billion was released in 2005 to provide logistics to the Internal Revenue Service to enable them deepen the tax coverage, particularly in urban centres so as to rope in landlords, artisans and traders some of whom have not been paying taxes on incomes as required by Law.

#### **Taxes on Professional Practice**

4. Efforts have been made to rope into the tax net, private consultants and persons in professional practice such as lawyers, architects and engineers, some of whom have hitherto not been paying taxes on their income. In this regard, MDAs were requested to obtain Tax clearance certificate before awarding contracts to any professional or consultant. MDAs are also required to submit a list of all contracts awarded to consultants to the IRS and the Ministry of Finance.

### **Increase in Airport Tax**

5. Airport tax has increased from USD \$ 20 to USD \$ 50.

### **1.3 CUSTOMS EXCISE AND PREVENTIVE SERVICE**

#### **CEPS Processing Fee on some Exemptions**

6. All imports admitted exempt from import duty attracts a CEPS processing fee of 1% on c.i.f value except for goods imported by the office of the President, Diplomatic goods and personal effects.

#### **Import Duty on Materials for the Manufacture, Processing of or Prospecting for Timber and Natural Products.**

7. Materials for the manufacture, processing of or prospecting for timber products formerly exempted from import duty now attracts an import duty of 5% on c.i.f value. This was as a result of abuse arising from misapplication where formerly a large range of these items were used in areas other than the timber industry.

#### **Improving Tax Administration for Revenue Enhancement**

8. The following administrative measures have been undertaken by CEPS to improve revenue collection. They are:
  - Automation of CEPS warehousing facility to facilitate monitoring;
  - Regular, but unannounced physical inventory of warehouses;
  - Full automation of Customs Procedures, at the Kotoka International Airport;
  - Initiation of a Trade Agreement on Transit Trade with Togo, Burkina Faso and Cote d'Ivoire to ensure exchange of information so as to eliminate revenue leakages;
  - Intensification of patrols along the borders to reduce smuggling; and
  - Establishment of a more efficient operation of the revenue agencies which is expected to subsequently reduce tax evasion.

### **Limiting Exemptions to Health and Educational Materials**

9. Government had learnt with concern the gross misuse of exemptions by NGOs operating in the country. To forestall this level of corruption, evasion and misapplication of discretion, all exemptions have been limited to Health and Educational Materials.

### **1.4 TAX ADMINISTRATION MEASURES**

#### **Establishment of a Revenue Agencies Governing Board**

10. A Revenue Agencies Governing Board has been established and is now the central governing body replacing governing boards of the respective national revenue agencies existing previously.

## **SECTION 2: TAX POLICIES AND MEASURES FOR 2002**

### **2.1 VALUE ADDED TAX SERVICE**

#### **Waiver of V.A.T on Salt**

11. VAT on salt waived to promote the development of the salt industry and support its export within the West African Sub-Region.

#### **Tax on Professional Services**

12. The VAT Service turned its attention to taxable services provided within the finance and banking sector.

### **2.2 INTERNAL REVENUE SERVICE**

#### **Acquisition of Capital Assets**

13. It was observed in the past that although some businesses acquired capital assets almost every year, these acquisitions did not reflect in the incomes generated by them. They, however, were claiming capital allowances on these equipments. The IRS came out with appropriate procedures as contained in Act 622 to ensure that the proper provisions are adhered to.

#### **Collection of Vehicle Income Tax by GPRTU**

14. For some time now, Government used to rely on the GPRTU to collect income tax from commercial drivers on its behalf. It came to the notice of Government that the amounts collected by the GPRTU did not match the estimated revenues, based on the count of vehicles operating in the country. The IRS has now taken over the collection of income tax from commercial drivers.

### **Abuse of the Free Zone Concept**

15. Government has put in place a monitoring team on the abuses that have characterised the operations of some companies in the Free Zone and consequently denied the IRS of revenue.

### **Expatriates in the Free Zone**

16. The law on personal income tax exemptions for expatriate who work in the Free Zone Area were revised to minimise abuses.

### **Tax Exemptions for NGOs**

17. Employees of NGOs who were hitherto not paying taxes on their personal incomes are now required by law to do so.

### **Internal Revenue (Amendment) Bill, 2002 and Internal Revenue (Amendment) Regulations, 2002**

18. A few provisions inhibiting effective collection of taxes and also correcting certain errors and omissions were tabled in the Internal Revenue (Amendment) Bill, 2002 and Internal Revenue (Amendment) Regulations 2002. The Amendments include carry-over losses; foreign exchange gains and losses; withholding tax on rent; accumulated capital allowances; and vehicle income tax.

## **2.3 CUSTOMS EXCISE AND PREVENTIVE SERVICE**

### **Automation of Customs Procedures**

19. Government assisted CEPS in the automation of clearing procedures through the installation of the Ghana Customs Management System (GCMS) and the Ghana Community Network (GC-Net), which is computer based information systems at Tema and Kotoka International Airport (KIA) and at the CEPS headquarters.

### **Import Duty and Processing for Zero-Rated Goods**

20. In 2001 about 22% off all imports were admitted at 0%. The revenue implications for the country were considered very high. Therefore, Government decided to apply a 5% import duty rate to a set of major product lines that were zero-rated and the application of a 1% processing fee on all remaining zero-rated imports and on items attracting a 10% concessionary rate. Items for Educational, Health and Agricultural sectors, however, continue to be exempted from the fee.

### **Export Duty on Lumber**

21. Following intensive discussions with the timber industry and exports in the forestry sub-sector, the Government decided to reduce the export duty on lumber and use a new tax schedule as follows:
- Lumber-7%;
  - Rotary Veneer-3%;
  - Sliced & Curled Veneer-3%; and
  - Plywood-3%.

### **Intensifying Post Clearance Reviews**

22. One way to facilitate international trade is to ensure that intervention by customs personnel in the clearance process is kept to the minimum. However, to detect and plug revenue leakages that were arising from this intervention, post clearance review was intensified by the CEPS.

### **Bonded Warehousing Reforms**

23. All bonded warehouses have been grouped transparently into two: Category A and Category B based on the turnover of the warehouses. CEPS currently only accept bonds issued by banks on behalf of bonded warehouses. The fee charged for registration of bonded warehouses was increased to the cedi equivalent of \$2,000 for category A warehouses and the cedi equivalent of \$1,000 for category B warehouses. Renewal fees for bonded warehouses were revised upward to the cedi equivalent of \$600 for category A and to the cedi equivalent of \$300 for category B.

### **Improving Security at the Ports**

24. CEPS, Ghana Ports and Harbour Authority (GPHA) and the Ghana Police Service intensified security operations at the ports. CEPS is also collaborating with the Ghana Navy to co-ordinate its coastal patrols.

### **Revenue Losses through Smuggling**

25. One basic problem confronting revenue collection is smuggling especially at the points of entry into the Ghana. To correct this, all textile imports are now to be made through Gatorade

### **Waivers on Import Duty on Insecticide Treated Materials**

26. In order to assist with the fight against malaria in the country, the Government waived the import duty on Insecticide Treated Materials (I.T.M)

### **Fees and Charges**

27. Government has revised CEPS fess and charges, some of which were instituted over 10 years ago to be in line with current trends.

### **Dual Purpose Items**

28. To continue with the process of placing goods of dual nature under tariff of 5%, goods at zero-rate under chapter 98 of the Harmonised Systems (HS) Code now attracts a concessionary duty rate of 5%,except those falling under the codes listed: 9802.10B00, 9802.20W00, 9802.30R00, 9803.00K00, 9803.00K00, 9803.10B00, 9804.10W00, 9805.00B01, 9805.00B02, 9805.10N00, 9806.00W09.

## **SECTION 3: TAX POLICIES AND MEASURES FOR 2003**

### **3.1 VALUE ADDED TAX SERVICE**

#### **Removal of Value Added Tax on Computers**

29. As part of the Government's initiative to provide appropriate Information and Communication Technology environment for the development of education and to support the assembling of computers locally, government removed import duty on imported components for locally assembled computers. Assembled computers imported or procured locally by educational institutions recognised by the Ministry of Education were also VAT exempt.

#### **Removal of Value Added Tax on Essential Drugs**

30. There are diseases for which treatment and control are considered to be of public health importance and, therefore, must be seriously addressed. Drugs for the control of such diseases, therefore, have to be given special consideration and given tax exempt status. In selecting drugs for tax exemption, due consideration was given to those drugs that are widely used for treating the ten top causes of morbidity and mortality in Ghana. To this end, Government passed the law (Act 670) in 2004 expanding the Imported Special Drugs list to cater for drugs for diseases such as malaria, T.B. Guinea Worm, leprosy, HIV Aids, life-saving drugs such as anti-snake serum among other. It must be noted that imported special drugs for which same are produced locally will continue to attract VAT.

### **3.2 INTERNAL REVENUE SERVICE**

#### **Revision of First Schedule of Stamp Act 1965 (Act 311)**

31. The charges and rates for stamp duty under the stamp Duty Act 1965 (Act 311) has been revised with the coming into force of Stamp Duty Act 2005 (Act 689).

### **Treatment of Bad Debt by Financial Institutions**

32. All organizations are now to comply with provisions of Section 18 of Act 592 (2000), which limits bad debt provisions. This is to streamline the assessment of tax liability.

### **Introduction of Sticker System**

33. The Internal Revenue Service (IRS) has introduced a sticker system for the commercial transport sector that is based on standard assessment. These stickers are procured quarterly.

### **Returns in Foreign Currency**

34. The IRS, with the prior approval of the Bank of Ghana, now allows companies desirous of submitting their financial statements in the denomination of their parent companies to do so. In this connection, Section 123 of the Internal Revenue Act 2000 (Act 592) has been amended to incorporate the requisite guidelines for companies who wish to submit returns in foreign currency.

### **Exchange of Information with the MDAs**

35. The IRS in corroboration with the various MDAs has been able to capture data on consultants, to ensure access to information regarding potential tax payers and to promote the TIN programme. In addition, Tax Clearance Certificates are being demanded for most contracts.

## **3.3 CUSTOMS EXCISE AND PREVENTIVE SERVICE**

### **Service Charge on Re-export of Warehoused Goods**

36. A service charge of 1% will be levied by Customs Excise and Preventive Service (CEPS) for the processing of warehoused goods to be re-exported.

### **Monitoring of Temporary Importation of Vehicles**

37. A number of vehicles, particularly of ECOWAS origin, are brought into the country under temporary license but such vehicles sometime get registered under fake licenses. To check this fraud in vehicle registration, CEPS formed a task force for the monitoring of temporary importation of vehicles to ensure that such vehicles some of which eventually get registered in the country pay the required duties and taxes.

### **Installation of GCNet Service for Warehoused Goods**

38. CEPS has disengaged itself from warehousing activities and are in the process to link the GCNet Service to warehouses.

### **Refund Account for Duty Drawback**

39. Duty drawback procedures were slow and cumbersome. To speed up the processing of claims, a refund account has been established by CEPS to finance refunds for duty drawbacks in order to eliminate long delays.

### **Computerised Clearance System**

40. **Efforts have been made by CEPS in the** implementation of the automation programme to enhance clearance of goods and revenue collection at the Kotoka International Airport, Tema, Takoradi, Aflao, ELubu and Paga

### **Import Duty on Finished Goods**

41. In 2002, import duty on inputs for manufactured items admissible at a zero concessionary duty rate under Part A Chapter 98 of the Harmonised Systems (HS) Code was revised upwards to 5% concessionary duty rate with the exception of a selected number of materials. However, this was to the disadvantage of certain local industries whose raw materials were affected by this upward revision without a corresponding increase in import duty on finished goods. To enhance the competitiveness of local industry, the duty was raised from 10% to 15% on imported finished products similar to those affected by the 5% upward adjustments in 2002.

### **Rice Production**

42. To support and make domestic production more competitive, it was proposed that the duty on rice imports be increased by 5.0 per cent to 25.0 per cent. Although the Act was passed, it was repealed in 2005 following concerns from WTO and violations of some protocols.

### **Poultry Products**

43. The Act for an additional duty of 20 per cent which was slated to be charged on imports of finished poultry products into the country was repealed in 2006.

### **Textiles**

44. To make local production of textiles more competitive compared to imported products, duty on the inputs for textile production such as dyestuff, chemicals, grey baft has been reduced from 10% to 5%.

### **Elimination of Duties and VAT on Compact Fluorescent Lamps (CFL)**

45. The Government notes and appreciates the significant reduction in electricity consumption that could be achieved with the use of Compact Fluorescent Lamps (CFL). More importantly, for the electricity consumer, the use of the lamps will reduce the electricity bills that he/she pays. In this regard Government has passed into law (Act 639) to waive duty on imported fluorescent lamps.

### **Removal of Import Duty on Cash Registers**

46. To encourage the use of cash registers by traders to improve the recording and accounting of transactions, the duty of 10% on cash registers was removed.

### **Removal of Import Duty on Buses**

47. In support of the mass transportation programme of the NPP Government, the import duty of 5% on buses with capacity in excess of 30 passengers was removed.

### **3.4 ADMINISTRATIVE MEASURES**

#### **Improving efficiencies of the Revenue Agencies**

48. Government recognised the importance of resource flows to the Revenue Agencies to ensure that they are able to collect more revenues for development. In this regard all revenue agencies are currently being paid 2.5% of their collections to cover personal emoluments, administration, services and investment expenditures.

#### **Establishment of A Large Taxpayers Unit**

49. A Large Taxpayers Unit (LTU) has been established and is in operation. In support of the LTU and other initiatives, a Taxpayers Identification Number (TIN) Law was passed in 2002.

## **SECTION4: TAX POLICIES AND MEASURES FOR 2004**

### **4.1 VALUE ADDED TAX SERVICE**

#### **VAT on Imported Raw Material Inputs**

50. In pursuit of Government's vision of a Golden Age of Business, payment of VAT on imported industrial raw materials should be deferred and zero-rated with the coming into force of Act 671. This should mitigate the upfront cash flow problems faced by manufacturers associated with the VAT component of large imports of industrial raw materials.
51. Since some raw materials also double as finished products, the list of imported industrial raw materials qualified to be zero-rated under the Import VAT regime and the companies eligible for this special tax treatment shall be gazetted quarterly by the Ministry of Finance & Economic Planning in collaboration with the Ministry of Trade, Industry and President's Special Initiative to ensure transparency and to curtail abuse.

#### **Removal of VAT on Irrigation Pumps**

52. Government removed VAT on irrigation pumps into the country. This is to ensure that the country can increase its international market share of non-traditional crops on a sustainable basis, and also to increase local rice production and in line with Government's priority of modernising agriculture.

### **4.2 INTERNAL REVENUE SERVICE**

#### **Special Income Tax Rates for Agro and Waste Processing Firms**

53. To expand the market for locally produced agricultural products and also to encourage and promote value addition to these products through agro-processing, Government granted a tax holiday of 5 years for new industries that will engage in such ventures.
54. After the 5 years tax holiday, the corporate income tax of agro-processing industries will be fixed according to their locations as follows:
  - Accra and Tema - 20%;

- Other Regional Capitals - 10%; and
  - Outside Regional Capitals - Zero.
55. The new rates are substantially lower than the old reliefs granted to such companies on the basis of location. In the case of the three northern regions namely, Northern, Upper East and Upper West, corporate tax for such companies shall be zero irrespective of whether the industry is located in the regional capital or otherwise. The new rates schedule will now be applicable to all existing agro-processing industries that use local raw agricultural products as their main inputs. This tax regime shall, however, not be applicable to companies which process raw cocoa beans which already enjoy some reliefs.
56. To encourage companies to invest in activities that will assist in our efforts to introduce efficient waste management systems in our country, companies which establish factories whose principal activity is processing waste including re-cycling of plastic and polythene material will pay no corporate tax for the first 7 years of their operations irrespective of location. Other additional incentives can also be considered on a case-by-case basis by the Ghana Investment Promotion Centre (GIPC) for such companies.

### **Vehicle Income Tax**

57. In consultation with the Ghana Road Transport Coordinating Council, the Internal Revenue Service started implementing the Vehicle Income Tax through the introduction of stickers in July 2003 to improve tax collection in the transport sector.
58. Government reduced Vehicle Income Tax for articulated trucks from ₵1.2 million to ₵900,000 per annum. Taxes on all other categories of commercial vehicles however remain at their current rates.

### **Use of Tax Clearance Certificate to Clear Goods**

59. As part of Government's efforts to promote efficiency at the ports and to reduce the cost of doing business in the country as a whole, the regime of special dispensation to taxpayers in good standing to clear goods with a single Tax Clearance Certificate (TCC) within a single calendar year has been enforced. Currently companies on self assessment can clear their goods without TCC.

## **Tax Reliefs under the Long-Term Saving Scheme**

60. The Act on the Long-Term Savings has been passed with the establishment of a tax-exempt savings plan with the following features to, among others, encourage long-term savings commitments and enhance our efforts to mobilise capital to generate growth: -
- contributions to a Plan not exceeding 17.5% of a contributor's monthly income shall be tax-exempt;
  - contributions made by an employer to a Plan on behalf of a contributor, shall not be treated as part of the assessable income of that contributor for any tax year, and will, therefore, be tax-exempt;
  - the income, including investment income, accruing to a Plan shall be exempt from tax; and
  - incomes of individuals that are invested in venture capital funds will qualify as contributions towards long-term savings and will, therefore, be tax-exempt.

## **4.3 CUSTOMS EXCISE AND PREVENTIVE SERVICE**

### **Reduction Of Import Duties And Removal Of VAT On Selected Imported Inputs**

- **Duties on Aluminium Ingots:** Following consultation with companies which use aluminium ingots as raw materials, Government has reduced import duty on aluminium ingots from 10% to 5%.

### **Removal of Duties on Imported Lumber**

61. In 2001, the Government removed import duties on round logs to facilitate the importation of logs into the country in a bid to save our forests. To broaden the scope and expand the impact of this initiative, Government extended this tax relief to include imports of lumber for domestic processing.

### **Removal of Duty and VAT on Imported Inputs for Fishing Nets and Fishing Ropes**

62. The import duty and import VAT on inputs for the production of fishing nets and fishing ropes were removed. This should go a long way to

reduce the cost of operations of our fishermen to make the fishing industry competitive.

### **Removal of Taxes on Musical Instruments**

- 63.** To help boost the development of local musicians and the music industry towards the promotion of culture and tourism as well as social life, Government removed the import taxes on musical instruments classified under Chapter 92 of the Harmonised Code and recording instruments as contained in Act 671.

### **Automation**

- 64.** In fulfilment of our commitment to facilitate trade by modernizing operations and clearance procedures at our ports and harbours, all CEPS offices at the airports and harbours have been automated and are currently operating and processing all imports and some exports through the Ghana Customs Management System (GCMS).
- 65.** To stamp out the incidence of illegal clearance of vehicles from the ports and subsequent fraudulent registration of such vehicles, the Driver and Vehicle Licensing Authority (DVLA) and other revenue collecting agencies have been connected to the GCNET system to facilitate the effective monitoring and registration of imported motor vehicles.

## **SECTION 5: TAX POLICIES AND MEASURES FOR 2005**

### **5.1 VALUE ADDED TAX SERVICE**

#### **VAT Refunds**

66. Refund under Section 25 (1) of the VAT Law Act 456 confines the facility to businesses that export more than 70% of their output. This means that when a business exports below 70% of its output, it ends up accumulating credit without qualifying for refund on account of the 70% clause. This locks up capital, which was needed for re-investment and growth. The Act has currently been amended to correct this anomaly and enhance growth.

### **5.2 INTERNAL REVENUE SERVICE**

#### **Corporate Tax**

67. Ghana's progress towards strengthening the role of the private sector in economic development is important. Government hopes to reduce the tax burden on the private sector to spur investors to expand their activities and invest in new ventures like ICT.
68. There are significant benefits to be derived from predictability of the tax regime in order to help medium to long term planning by all our investors. To this end, the corporate income tax rate – scheduled to be reduced from 32.5% to 30% in 2005 – was lowered further to 28% effective 2005 and to 25% in 2007.
69. These reductions in the corporate tax burden will also position Ghana with the other strong destinations for foreign direct investment such as Botswana and Mauritius. Overall, larger investment, both foreign and domestic will enhance further domestic growth that will provide a sustainable base for reducing poverty.

#### **Personal Income Tax**

70. Government also reduced personal income tax burden on individuals, including the self-employed. The minimum tax-free threshold increased

from ₵1,500,000 to ₵1,800,000 which means that the first ₵1.8 million of everybody's annual income shall be tax-free.

- The next portion of income which attracts 5% tax rate increased from the current ₵1.5 Million to ₵1.8 Million.
- The next ₵4.8 million instead of ₵3 million as in 2004 will be taxed at 10%.
- The next ₵27.6 million instead of ₵18.6 Million in 2004 will be taxed at 15%
- The next band of ₵36 million instead of ₵33 million will be taxed at 20%.
- The maximum tax rate will be reduced from 30% to 28% and will be applicable to incomes exceeding ₵72 million instead of ₵60 million.
- To further free up working capital of firms and improve their cash flows, the withholding tax rate on the supply of goods and services was reduced from 7.5% to 5%.

### **National Reconstruction Levy**

71. As part of the Government's determination to free additional resources for businesses to grow, the National Reconstruction Levy was reduced as follows:
  - Part A Companies from 10% to 7.5%;
  - Part B companies 7.5% to 5%; and
  - Part C Companies 5% to 3.5%.
  - All Other companies from 2.5% to 1.5%.
72. This will be followed by further reductions in 2006 and eventually eliminated by 2007.

### **Ghana Stock Exchange**

73. Government is committed to ensuring that the private sector has access to long-term capital. Towards this end, companies listing for the first time on the Ghana Stock Exchange still continue to enjoy a reduced corporate tax rate of 25 percent. Companies already listed on the Stock Exchange will pay a corporate tax rate of 28%.

## **Tax Reliefs**

74. Government gave personal tax relief measures which were intended to cushion the impact of higher petroleum prices on persons with relatively lower income levels.

## **5.3 CUSTOMS EXCISE AND PREVENTIVE SERVICE**

### **Extension of GCNeT**

75. GCNeT was extended to Elubo and Paga to reduce revenue leakages, enhance revenue collection, and improve data on trade statistics.

## **SECTION 6: TAX POLICIES AND MEASURES FOR 2006**

### **6.1 VALUE ADDED TAX SERVICE**

#### **Locally Printed Books**

76. All locally printed textbooks and exercise books are now rated zero for VAT.

#### **The Pharmaceutical Industry and Textile Industries**

77. The textile industry has been effected by Act 705 to promote the textile industry. The inputs and packaging materials for the pharmaceutical industry will be tackled in 2007.

#### **VAT Refunds**

78. The VAT Service has adopted a fast track system for VAT refunds. Under this system, the first two claims within a quarter are refunded automatically without audit. The third claim, however, triggers an audit of the entire period.

### **6.2 INTERNAL REVENUE SERVICE**

#### **Tax Incentives for Venture Capital Firms**

79. The following tax incentives have been passed by Parliament for venture capital firms which meet the eligibility requirements in the Act. They are:
- Upfront relief from stamp duty in each year on subscriptions for new equity shares in venture capital funds;
  - Full tax exemption from corporate income tax, dividend tax and capital gains for 5 years;
  - Losses from disposal of the shares during the tax exempt period may be carried forward to the post-exempt period up to 5 years; and

- Financial institutions, which invest in venture capital subsidiaries, will receive a chargeable income tax deduction equal to 100% of their investment.

### **National Reconstruction Levy (NRL)**

80. The National Reconstruction Levy rates have further been reduced as follows:
  - Part A Companies 7.5% to 5.50%
  - Part B Companies 5.0% to 2.50%.
81. The NRL for Part C Companies and all other companies have been abolished with effect from January 1, 2006.

### **Corporate Tax Reduction:**

82. The Corporate Tax rate has been reduced from 28% to 25% with effect from January 1, 2006. This in conjunction with the reduction in National Reconstruction Levy Rates is expected to release more resources to the private sector for expansion and creation of jobs.

### **Loss Carry Forward – Agro-Processing, Tourism and ICT –**

83. To improve the environment for private sector investment, the loss carry forward regime has been extended to cover agro-processing, tourism and ICT industries as contained in Act 700. For the tourism industry, the policy covers only those operators registered with the Ghana Tourist Board and for ICT the policy will cover software development.

### **Mortgage Market Development-**

84. Government has amended the tax code with LI 1821 to enable deduction of mortgage interest for home owners; and Enactment of a Collateral Security Act to provide the appropriate legal framework for the creation, registration, perfection and enforcement of collateral.

Tax bands for all other income earners have been expanded and modified as follow:

### **Personal Income Tax**

85. Personal income tax at the current minimum wage has been abolished with effect from January 2006. Taxes to be paid by those whose incomes are marginally above the minimum wage are now capped at levels, which will ensure that they earn disposable incomes above the minimum wage. The following are the new thresholds:

- The minimum tax-free threshold is to be increased from ₪1.8 million to ₪2.4 million. This means that everybody's income of ₪2.4 million shall be tax-free.
- The next ₪1.8 million has been raised to ₪2.4 million, and will attract a 5 per cent tax rate
- The next ₪4.8 million has been raised to ₪12.0 million, and will attract a tax rate of 10% in 2005.
- The next two bands of ₪27.6 million and ₪36.0 million have been combined and raised to a single band of ₪79.2 million, and will attract a tax rate of 17.5% instead of 15% and 20%, respectively, in 2005.
- Incomes in excess ₪96.0 million as opposed to ₪72.0 million in 2005 will attract a marginal rate of 25% down from 28%, in 2005.

### **Taxation of Overtime Income:**

86. Government amended the taxation of overtime income as follows:  
Raise the qualifying annual employment income four-fold from 2,400 currency points to 9,600 currency points. The qualifying monthly overtime earnings are now to be taxed as indicated below:

- The first ₪1.2 million 2.5%;
- Between ₪1.2 million - ₪4.0 million 10.0%;
- Overtime earnings in excess of ₪4.0 million will be added to the beneficiary's income and taxed at the prevailing personal income tax rates.

- For those earning above ₵8.0 million, no concessionary rates will be granted.

### **Tax Credits for Employers:**

87. Government has established an Employment Tax Credit scheme to provide incentives for companies employing fresh graduates from our tertiary institutions to improve their access to the job market. The credit is allowed for all enterprises irrespective of their size of operations, as follows:

Percentage of Fresh Graduates in Workforce	Proposed Incentive
Up to 1%	10% of salaries/wages of such employees
1-5%	30%
above 5%	50%

### **Tax Amnesty**

88. Government granted a general one-off amnesty on penalties and sanctions for self-disclosure of un-reported and/or under-reported corporate and personal income taxes, VAT, duties, withholding and other taxes.

## **6.3 CUSTOMS EXCISE AND PREVENTIVE SERVICE**

### **Tobacco:**

89. To minimise the level of smuggling of cigarettes and the consequent loss of tax revenue, all cigarettes to be sold in Ghana (imported or domestically produced) will from January 2007 carry the Ministry of Health (Ghana) warning label. All traders have been given up to December 31, 2006 to dispose of old stock.

### **Light Aviation Industry:**

90. To promote the light aviation industry Government proposes that aircraft parts and accessories for approved commercial, health and security related operations in the Light Aviation Industry are exempted from import duties on a parity with the current exemption for commercial airlines.

## **Bonded Warehousing**

91. To prevent abuses of the bonded warehousing system, Government has given up to September 30, 2006 for the warehouses to be linked to the GC-net system to ensure the tracking of the movement of goods and payment of associated tax obligations.

## **6.4 ADMINISTRATIVE MEASURES**

### **Revenue Protection**

92. To minimize the revenue leakages in the tax administration system Government has set up a Revenue Protection Unit at the Revenue Agencies Governing Board (RAGB). The Unit comprises of officers from the revenue agencies, National Security Council and the Ghana Police Service. As part of its mandate, the unit will monitor the operations of all the revenue agencies and in particular, the operation of the transit goods system, valuation of imported goods at all ports of entry and the auction of seized goods. The Unit will identify the various sources of revenue leakages and make appropriate recommendations to the Minister of Finance & Economic Planning for implementation.

