Executive summary

On 2 March 2017, the Minister for Finance and Economic Planning, Mr. Ken Ofori-Atta presented the 2017 Budget Statement and Economic Policy of the Government of Ghana (the Budget) to Parliament. This was the first budget presented by the Minister since the current Government assumed power on 7 January 2017. Prior to the Budget, the President had, on 21 February 2017, presented to Parliament the State of the Nation address outlining the broad vision of the current Government to promote a vision of hope, jobs and wealth creation, and a robust economy that supports a thriving private sector. In the light of this, the Minister presented various strategies, policies and actions to be undertaken to achieve the vision of the current Government.

According to the Minister, the budget sets forth a clear roadmap on how the Ghanaian economy will be moved from its current state into a full-fledged middle income economy. He further stated that the goal was to build the most business-friendly and people-centered economy in Africa, which translates into job creation and prosperity for all Ghanaians. The Government also plans to shift the focus on growing the economy from taxation to production. The Minister stated that this will be achieved by reviewing certain taxes which impede growth with the view to either reduce or abolish them. The Minister branded such taxes as “nuisance taxes.”
Detailed Discussion
This Alert highlights some major policy initiatives and actions to be introduced by the Government of Ghana as follows:

A. To increase revenue streams, the Minister indicated that various measures will be introduced to strengthen tax administration, reduce tax exemptions and address revenue loopholes and combat tax evasion. The Minister also stated that there are plans to use the National Identification Scheme as well as the National Digital Address System to include economically active but undocumented citizens.

B. Ghana is one of the countries in the Economic Community of West African States (ECOWAS) sub-region which has implemented the ECOWAS Common External Tariff (CET) Protocol. According to the Minister, various actions will be initiated to remove import duties on raw materials and machinery for production within the context of CET.

C. The Self-Assessment System – currently operational in the Large and the Medium Tax Offices – will be rolled out in five Small Tax Offices in 2017 on a pilot basis. The system assists taxpayers to prepare estimates of their taxes.

D. The Government intends to curb tax evasion and improve revenue collection under the value added tax (VAT) system by introducing Electronic Point of Sale devices which will be deployed by the third quarter of 2017. The device helps to monitor VAT collections on a real-time basis by the Ghana Revenue Authority (GRA).

E. The Government also intends to fully implement the Excise Tax Stamp Act, 2013 (Act 873) to boost revenue collection and also curtail under-invoicing and smuggling.

F. According to the Minister, Ghana Statistical Service data provides over three million as persons employed against the one million captured on the GRA register. To bridge this gap, measures will be introduced including ensuring that all employers file Annual Income Tax Returns as well as Annual Employee Returns, reconciling Social Security and National Insurance Trust (SSNIT) and GRA Pay As You Earn (PAYE) data, and also identifying practicing professionals including self-employed persons to ensure that they pay PAYE for themselves and for persons working for them.

G. The Transfer Pricing Unit of the GRA will be strengthened to undertake rigorous audit of companies in the Mining and Extractive Sectors. According to the Minister, research indicated that the country lost about GHS2 billion due to transfer pricing abuses by these companies. These audits will be extended to Free Zones Companies and specialized companies.

H. According to the Minister, some taxes have low yielding potential and impose significant burdens on the private sector and on the average Ghanaian. The Government has therefore decided to review these taxes to provide some relief for businesses. Some of the measures to be introduced in the short term include:

- Taxes or levies to be abolished:
  - 1% Special Import Levy
  - 17.5% VAT/NHIL on financial services, selected imported medicines that are not produced locally, and domestic airline tickets
  - 5% VAT/NHIL on real estate sales
  - Excise duty on petroleum
  - Duty on the importation of spare parts

- Taxes or levies to be reduced:
  - Special petroleum tax rate from 17.5% to 15%
  - National Electrification Scheme Levy from 5% to 3%
  - Public Lighting Levy from 5% to 2%

- Other measures:
  - Initiate steps to remove import duties on raw materials and machinery for production within the context of the ECOWAS CET Protocol
  - Exempt from taxation, the gains from realization of securities listed on the Ghana Stock Exchange or publicly held securities approved by the Securities and Exchange Commission
  - Replace the 17.5 VAT/NHIL rate with a flat rate of 3% for traders
  - Implement tax credits and other incentives for businesses that hire young graduates
I. The Government also plans to promote a capital market local content policy which will ensure that companies operating in the energy, oil and gas, financial services, telecommunications, and mining sectors list a minimum percentage of their shares on the Ghana Stock Exchange within five years of commencement of operations.

J. The Minister also stated that a comprehensive review of import duty exemptions and tax reliefs will be carried out to curb abuses and improve efficiency in the application of the incentives. In that regard, the following tax exemptions and reliefs, among others, shall be reviewed as a matter of urgency:

- Import duties, taxes and levies payable by government Ministries, Departments and Agencies and other government departments
- Import duties and all forms of taxes and levies payable by both domestic and foreign companies, suppliers and contractors executing projects and contracts in the country
- Import duties and all forms of taxes and levies payable by employees, directors and senior officials of both domestic and foreign companies, suppliers and contractors executing projects in the country
- Import duties and all forms of taxes and levies payable by both domestic and foreign companies and investors doing business in the country
- Import duties and all forms of taxes and levies payable by non-governmental and charity organizations

As a transition arrangement, the Minister stated that, henceforth, applicants for these duty exemptions and relief shall be required to pay the tax in full (except in exceptional circumstances determined by the Minister) and apply for a refund.

Endnote

For additional information with respect to this Alert, please contact the following:

**Ernst & Young Ghana, Accra**
- Robin McCone  +233 302 778 279  robin.mccone@gh.ey.com
- Isaac Sarpong +233 302 779 868  isaac.sarpong@gh.ey.com

**Ernst & Young Advisory Services (Pty) Ltd., Africa ITS Leader, Johannesburg**
- Justin Liebenberg +27 11 772 3907  justin.liebenberg@za.ey.com

**Ernst & Young LLP (United Kingdom), Pan African Tax Desk, London**
- Leon Steenkamp +44 20 7951 1976  lsteenkamp@uk.ey.com
- Byron Thomas +44 20 7951 4144  bthomas4@uk.ey.com
- Gonçalo Dorotea Cevada +44 20 7951 2162  gcevada@uk.ey.com

**Ernst & Young LLP, Pan African Tax Desk, New York**
- Silke Mattern  +1 212 360 9707  silke.mattern@ey.com
- Dele A. Olaogun +1 212 773 2546  dele.olaogun@ey.com
- Jacob Shipalane +1 212 773 2587  jacob.shipalane1@ey.com

**Ernst & Young LLP, Pan African Tax Desk, Houston**
- Elvis Ngwa  +1 713 750 5941  elvis.ngwa@ey.com
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