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Tax Update
January 2020

Review of personal income tax bands and other tax updates

The Government of Ghana has passed various amendment Acts to revise the personal income tax bands for resident individuals among others. The amendment Acts were gazetted on 30 December, 2019 and therefore became fully operational from this date.

In this update, we provide highlights on the key issues in the various amendments and a recent High Court ruling on the upfront deductibility of mortgage interest.

1. Review of personal income tax rates

The personal income tax bands for resident individuals have been revised by the Income Tax (Amendment) Act, 2019 (Act 1007) to align the tax free income threshold to the current minimum wage of GHS 3,828 per annum (GHS 319 per month).

The new applicable graduated tax schedule for resident individuals is as follows:

Annual

	Chargeable Income (GHS)	Cumulative Chargeable Income (GHS)	Rate of Tax (%)
First	3,828	3,828	Nil
Next	1,200	5,028	5
Next	1,440	6,468	10
Next	36,000	42,468	17.5
Next	197,532	240,000	25
Exceeding	240,000		30

Monthly

	Chargeable Income (GHS)	Cumulative Chargeable Income (GHS)	Rate of Tax (%)
First	319	319	Nil
Next	100	419	5
Next	120	539	10
Next	3,000	3,539	17.5
Next	16,461	20,000	25
Exceeding	20,000		30

Note that the flat tax rate applicable to income derived by non-resident individuals remains unchanged at 25%.

2. Review of personal reliefs

In line with government's policy proposal to review tax reliefs granted to resident individuals, Act 1007 provides for an upward review of the personal reliefs provided for resident individuals under the Fifth Schedule of of the Income Tax Act, 2015 (Act 896).

The new personal reliefs available to resident individuals per annum are as follows:

Description	Old personal relief (GHS)	New personal relief (GHS)
Dependent spouse or at least 2 dependent children	200	1,200
Individual with a disability	25% of assessable income from business or employment	25% of assessable income from business or employment
Individual who is 60 years and above	200	1,500
Individual sponsoring education of child or ward	200	600
Dependent relative who is 60 years and above, other than a child or spouse	100	1,000
Training to update the professional, technical or vocational skills or knowledge	400	2,000

3. Tax exemptions for registered manufacturers and assemblers of automobiles

The Income Tax (Amendment) Act, 2019 (Act 1007) has amended the Sixth Schedule of Act 896 to provide for tax exemption on the income of registered manufacturers and assemblers of automobiles under the Ghana Automotive Development Programme (GAMDP).

Also, manufacturers and assemblers under GAMDP have been granted VAT exemption on imported plant and machinery under the Value Added Tax (Amendment) Act, 2019 (Act 1005).

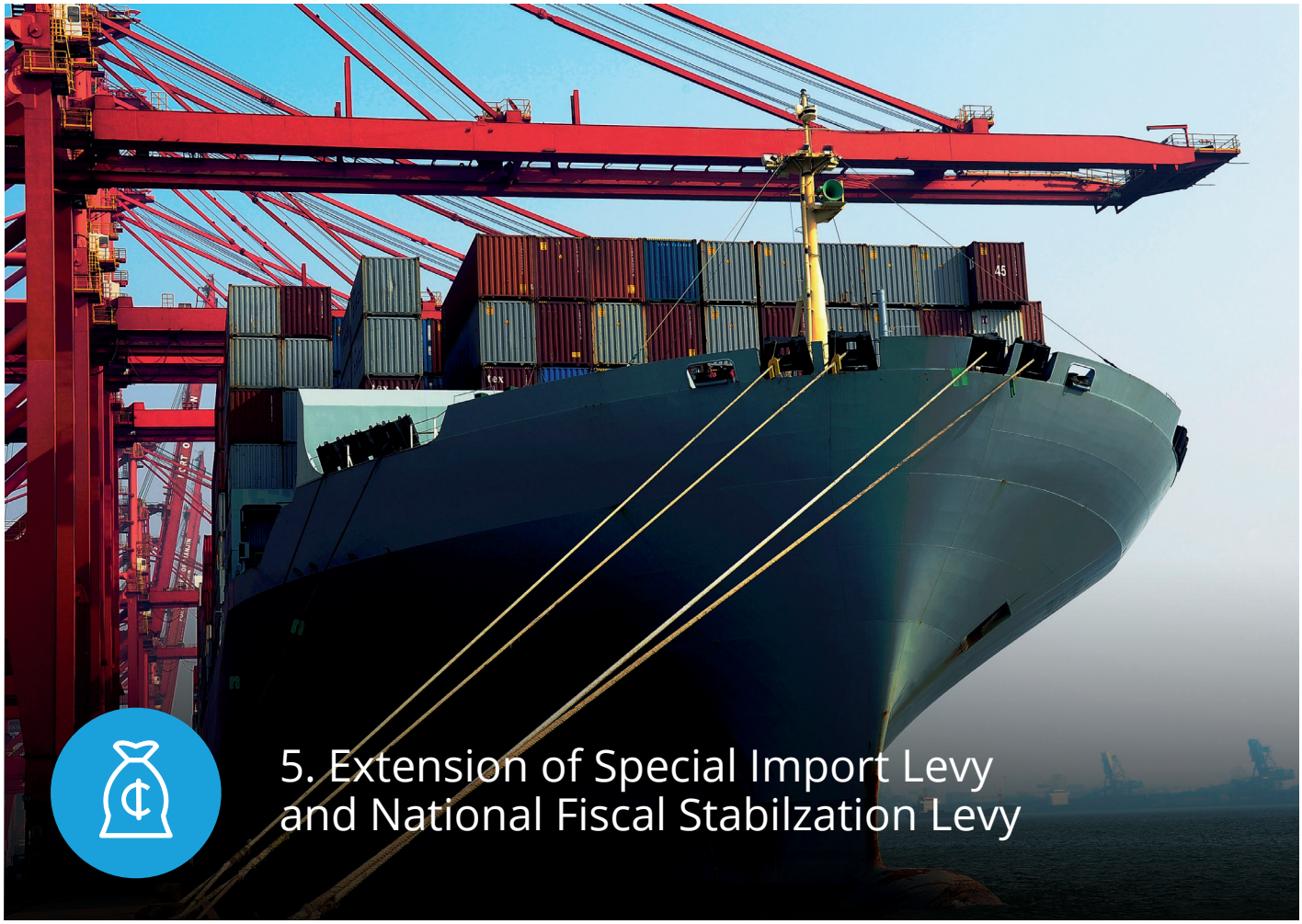
The specific exemptions are provided as follows:

Description	Tax exemption	Commencement of exemption
Manufacturer or assembler of semi-knocked down vehicles	3 years income tax exemption	Date of commencement of business
Manufacturer or assembler of complete-knocked down vehicles	10 years income tax exemption	Date of commencement of business
Importation of plant and machinery and knocked down components for use in the automobile industry	Exemption from import VAT	Upon importation

The tax holidays provided to the manufacturers or assemblers of vehicles are cumulative. Thus, a manufacturer or assembler who starts with semi-knocked down vehicles and converts to complete-knocked down vehicles will be entitled to an aggregate tax holiday period of up to 10 years.

4. VAT exemption for fund manager fees

Act 1005 further provides exemption from VAT for management fees charged by local fund managers for the management of licensed private equity funds, venture capital funds or mutual funds.



5. Extension of Special Import Levy and National Fiscal Stabilzation Levy

The Special Import Levy (Amendment) Act, 2019 (Act 1004) and National Fiscal Stabilization (Amendment) Levy Act, 2019 (Act 1011) have been passed to extend imposition of the Special Import Levy (SIL) and National Fiscal Stabilization Levy (NFSL) for five more years up to the end of 2024.

The SIL of 2% applies on the CIF value of all imported goods into Ghana other than petroleum and fertilizer, and machinery and equipment imports listed under Chapters 84 and 85 of Harmonized System and Customs Tariff Schedules. Knocked down components for the manufacture of automobiles imported by registered automobile manufacturers and assemblers are also exempted from SIL.

The NFSL will continue to apply at a rate of 5% on the accounting profit before tax of specific businesses up to the end of 2024.

6. Court ruling on upfront mortgage interest deduction

An Accra High Court (Commercial Division) on 20 December, 2019 ruled on the timing of deductibility of mortgage interest in a case between a taxpayer (as Appellant) and the Commissioner-General of the Ghana Revenue Authority (GRA).

Under Act 896, an individual may deduct mortgage interest incurred during the year in determining the individual's chargeable income for the year. The main issue for determination by the Court was whether or not an employee could claim an upfront deduction of mortgage interest incurred in respect of a residential premise on a monthly basis.

The defendant argued that the assessment of income of an individual from employment, business or investment can only be determined at the end of the year when personal income tax returns have been filed. Thus, deduction of mortgage interest incurred during the year of assessment should be claimed at the end of the year when the appellant files his/her income tax returns.

In the view of the Court, deduction of mortgage interest was not dependent on the ascertainment of the annual income of an employee- noting that it is rather based on the fact that the mortgage interest has been paid by the employee. Moreover, mortgage interest is not a tax relief but a tax concession granted on a temporary basis until the payment of the mortgage is complete.

Consequently, the Court, finding in favour of the appellant, ruled that the appellant was entitled to make upfront deduction of mortgage interest paid by him at any time that his employer makes a qualifying cash payment to him.

This ruling provides a timely clarity on the issue of the timing of deduction of mortgage interest by individuals when determining their income chargeable to tax. Employers will also have a sound basis to allow such deductions when calculating monthly employee personal income tax liability. It is however imperative that employers obtain and retain adequate evidence of employee mortgage interest payments to support the deduction in the event of a tax audit. Relevant documentation in this respect will include employee mortgage agreement and statements showing mortgage payment with interest.

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