



Putting Ghana back to work
Ghana 2018 budget commentary and
Tax highlights
November 2017

Preamble

Ghana's Minister of Finance, Ken Ofori-Atta, presented the 2018 budget statement and economic policy to Parliament on Wednesday, 15 November, 2017.

On the back of the previous year's budget which emphasized improvement in production and revenue generation, the 2018 budget has been themed "Putting Ghana Back to Work". Accordingly, the common theme across the various proposals of the 2018 budget is reviving businesses with an aim to "energize entrepreneurial spirit in every Ghanaian".

The budget statement also includes a number of tax policy proposals expected to enhance tax revenue generation which remains a key objective of government. These proposals are expected to be submitted to Parliament in 2018 for approval and subsequent amendment/enactment of legislations to make them effective.

In this publication, we provide commentary on key policy initiatives for 2018 and highlights of the main tax proposals in the budget statement.

Contents

4 **2018 Budget at a glance**

5 **Economy and sectoral outlook for 2018**

9 **A.A.P.E.T.**

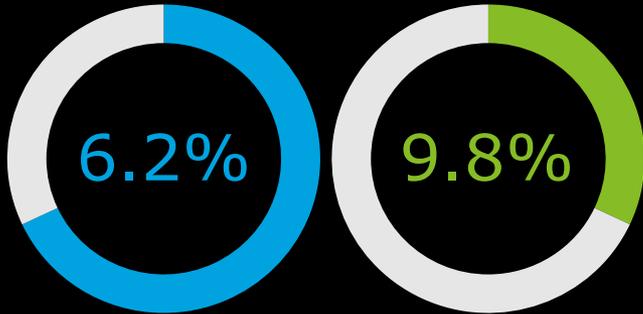
10 **Tax policy proposals**

17 **Quick guide on the tax proposals**

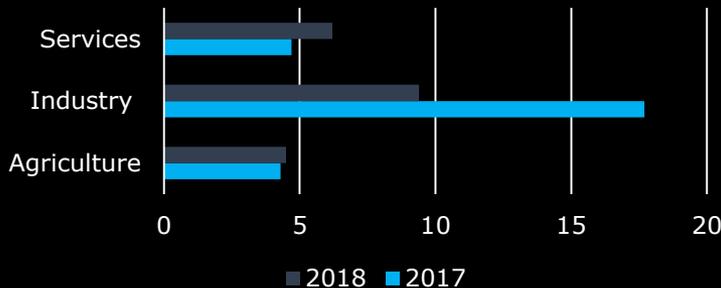
Budget at a glance

2018 Highlights

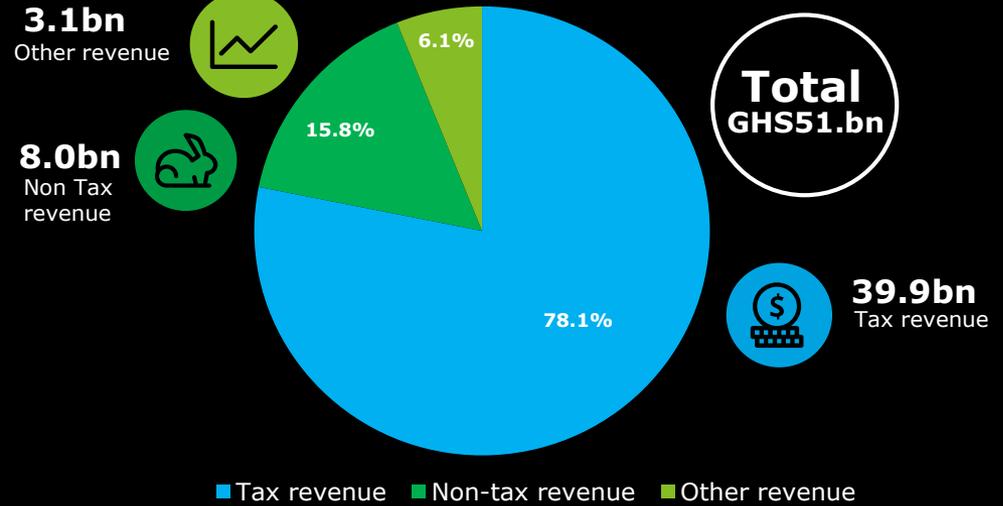
Macroeconomic targets for 2018



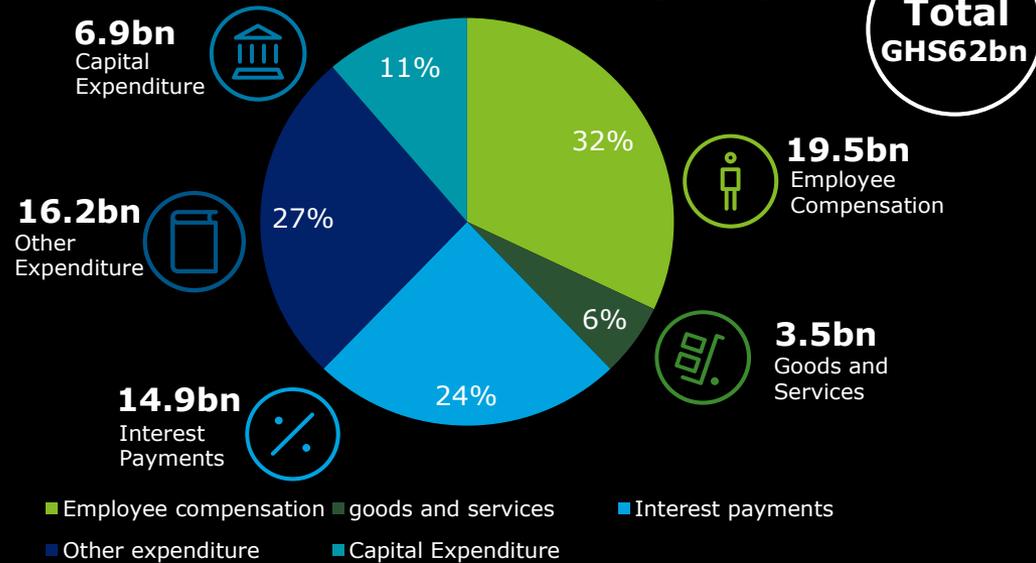
Key Growth sectors 2017/2018



Revenue – 2018 (GHS)



Expenditure – 2018 (GHS)



Economy and sectoral outlook for 2018

Electricity tariff reductions



Residential 13%



Non- Residential 13%



Low Voltage 13%



Medium Voltage 11%



High Voltage 14%



High Voltage Mines 14%

Energy

One of the main highlights of the 2018 budget was the proposal of an electricity tariff reform over a two-year period, subject to PURC's acceptance. Once accepted, various categories of customers are to benefit from average tariff reductions of 11% to 21%.

Under this reform, Ghanaians will not only benefit from a reduction in utility costs but a reduction in prices of manufactured products since industries stand to benefit from reduction in their cost of production. However, it is unclear how the Government plans to fund this initiative since it is already indebted to power producers due to subsidies on electricity tariffs.

As part of the Government's solution to the growing demand for electricity in Ghana, Government will increase the installed generation capacity by about 487MW in 2018. In addition,

Government will embark on the Ministries, Departments and other Agencies Solar Rooftop Programme to reduce expenditure on utilities and also the demand on the National Power Grid.

Even though solar power results in cost savings, it is unclear how long it will take for these cost savings to make up for the expensive installation cost. Also the successful implementation of the Rural Electrification Programme will result in increased pressure on the national grid.

Agriculture



The Government launched the 'Planting for Food and Jobs Programme' in 2017 with the aim of increasing food security and job creation for the youth. The 2018 budget highlights that the programme will register 500,000 farmers as well as 2,700 extension agents to support the programme. In a bid to encourage large scale farming, Government will also distribute 400 tractors and 1000 power tillers and walking tractors in 2018.

An additional benefit of this policy is to reduce the reliance on importation of food and improve the balance of trade. However, this programme is dependent on the successful implementation of the 'One-Village-One-Dam' initiative which is to reduce and ultimately end the practice of rain fed agriculture in the country and the 'One-District-One-Warehouse' programme under which modern storage facilities will be developed.

Economy and sectoral outlook for 2018

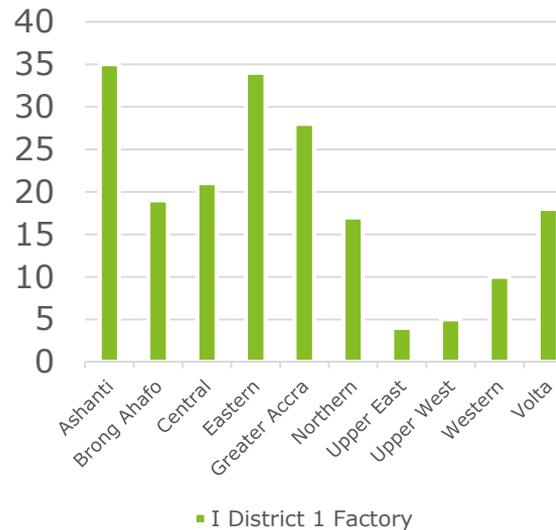
Industrialisation

Under the 'one district, one factory' programme (1D 1F), 191 district enterprise projects covering 102 districts have been selected for implementation. The Government will allocate a minimum of GHS 2million to each district assembly for the implementation of 1D1F, which is expected to generate about 250,000 direct and indirect jobs in 2018.



This policy of the Government under this programme has been lauded by many analysts since industrialisation is seen as the engine of growth and development. However, Post-Independence Ghana also had a number of industries, many of which have collapsed due to various factors including management inefficiencies, lack of raw materials and foreign competition. For this programme to be a complete success, there should be a conscious effort to promote the consumption of "made in Ghana goods" to create demand for these factories.

1D 1F Regional spread for 2018



Business Development

Major activities undertaken in 2017 comprises the commencement of the construction of the largest Greenhouse estate in West Africa at Dawhenya made up of 75 units; launch of the National Entrepreneurship and Innovation Plan (NEIP) and the National Business Plan Competition and the establishment of four zonal NEIP operational offices in Tamale, Kumasi, Takoradi, and Accra. In 2018, Government expects to develop and implement a comprehensive National

Entrepreneurship Policy and continue to facilitate and support private sector business entrepreneurial development.

Entrepreneurship has been identified as a major tool to help create jobs in the private sector. Whereas the plan for 2018 is expected to boost confidence among local entrepreneurs and startups; and create avenues for job creation which is fundamental to the 2018 budget, it is unclear the extent to which this will impact on job creation. A robust plan is therefore needed to address entrepreneurial issues beyond trainings and financing to sustainability and expansion of business operations.

Education

The education sector grew by 9.1% (provisional) up from 8.3% in 2016 following a slowdown in 2015. Growth in 2018 is projected to slow to 8.1% largely due to stability in Government programmes.

In line with the goal to provide equitable access and quality education in the Sustainable Development Goals (SDG) 4, Government performed the following in 2017:

Economy and sectoral outlook for 2018

- Doubling the Capitation Grant from GHS4.50 to GHS9.00;
- Implementation of the Complementary Basic Education (CBE) programme. The programme is in the fourth cycle and runs across 43 districts in three regions – Northern, Brong Ahafo and Ashanti regions;
- Commencement of the free SHS programme for public senior high schools, technical and vocational institutions. An estimated 353,053 students benefited from the programme; and
- Restoration of the teachers' trainee allowances to cover over 49,000 trainees in 41 public colleges of education.

In 2018, Government expects to broaden the CBE to cover an additional 40,000 out-of-school children in 14 districts, run the free SHS programme into its second year and broaden the Teacher Trainee allowance to cover 52,000 trainees in the next academic year. Further, Government plans to absorb 100% of BECE registration fees among students in public schools.



Access to free and quality education is globally regarded as a major contributor to growth and development. The move by Government is expected to reduce the cost of education, increase patronage of education especially across the primary and secondary levels and contribute to meeting the SDG4. However, sustainable finance remains a baffling issue as Government relies on oil revenue which still remains below USD100 per barrel. Financing for these projects will mostly likely double as most of these projects enter the second year. Government needs to therefore establish alternative and sustainable sources of financing for these programmes.

Health

Health & social work slowed down in 2017 growing by 5.3% (provisional) compared to 16.8% in 2016. The sector is projected to recover in 2018 with an estimated growth of 5.7%. As part of activities in 2017, Government lived up to its promise of restoring the health trainee allowance to cover over 54,000 trainees in 77 public health training institutions across the country. Additionally, Mental Health Coordinators were deployed at regional and district levels to help decongest the national

psychiatric hospitals and half of health commodities were decentralized to Regional Medical stores to minimize risk associated with centralizing the bulk of health commodities at the Central Medical Stores.

In 2018, Government will focus on activities directed at reducing mortality, especially maternal and neonatal, disability and improve the quality of life through increasing access to quality health services and improving efficiency in governance and management of the health system.



Health is a critical sector to the economy. Continually improving the sector to boost human capital therefore remains a major priority of the Government. Government's plan to focus on activities to reduce maternal mortality is in line with SDG3 which will in the long term ensure a healthy population. Further, reintroducing the health trainee allowance was met with delight by students in public health training institutions.

Economy and sectoral outlook for 2018

Financial Sector



As part of the government's plan to expand access to housing, the Ministry of Finance will partner with financial institutions to develop local mortgage and housing finance markets to offer affordable mortgages at subsidised interest rates beginning with public sector workers. This is expected to contribute to the reduction of the housing deficit which stands at about 1.7 million.

Prices of houses are extremely high and this has contributed largely to the housing deficit. This problem has been worsened by the dollarization of the real estate industry and it is not yet clear how the government intends to resolve this. Even though this initiative targets housing finance, it is worth noting that Ghana is yet to see the successful rollout of any of the affordable housing projects under the two previous government.

As part of the government's plan to strengthen the financial sector, the following policies were announced:

- The Launch of a National Development Bank, with the capacity to mobilise private capital towards agricultural and industrial transformation;
- Restructure the Ghana Infrastructure Investment Fund (GIIF) with the capability to mobilise foreign private capital for critical infrastructure development using a private sector model; and
- Enhance the capacity of Ghana Exim Bank to support agriculture and industrialisation for export.

It is not yet clear how the mandate of this bank would be different from the already established Agricultural Development Bank (ADB) and the National Investment Bank (NIB), which are also state-owned and set up for a similar purpose.

Nation Builders Corps (NBC)

As part of efforts to address the unemployment problem in the country, the Government proposed a new jobs programme, the Nation Builders Corps, as a major government initiative to address livelihood empowerment and graduate unemployment.

This programme will create at least 100,000 public sector jobs in public works projects, afforestation, sanitation and community policing in 2018.

This initiative will create a win-win situation for the Government and graduates as the programme aims to improve skills and employability of graduates, to work on projects such as national identification, revenue mobilisation, 'planting for food and jobs' and 'free SHS'. Attention must be given to this programme since similar modules ran by the "YEA" has failed due to payroll fraud and alleged corruption.



The Akufo-Addo Programme for Economic Transformation (AAPET)

The 2018 budget set a three-pronged economic development programme that will focus on, integrate and accelerate investment in agriculture, infrastructure development and industrialization as the primary vehicles to fundamentally transform the economy.

01

Ramp up investments under the Planting for Food and Jobs

02

Abolish duties on some agricultural produce processing equipment and machinery

03

Support the development of agribusiness start-ups through the establishment of a grant funding facility

04

Establish a GH¢400 million fund to de-risk the agriculture and agribusiness sector through sustainable agriculture financing and crop insurance schemes

05

Increase the pace of mechanization

06

Provide specific technical assistance and tax incentives to support agro-processing, packaging, and market access

07

Launch a major pension scheme for cocoa farmers

08

Develop modern storage facilities through the "One District, One Warehouse" programme

09

Launch the commodities exchange

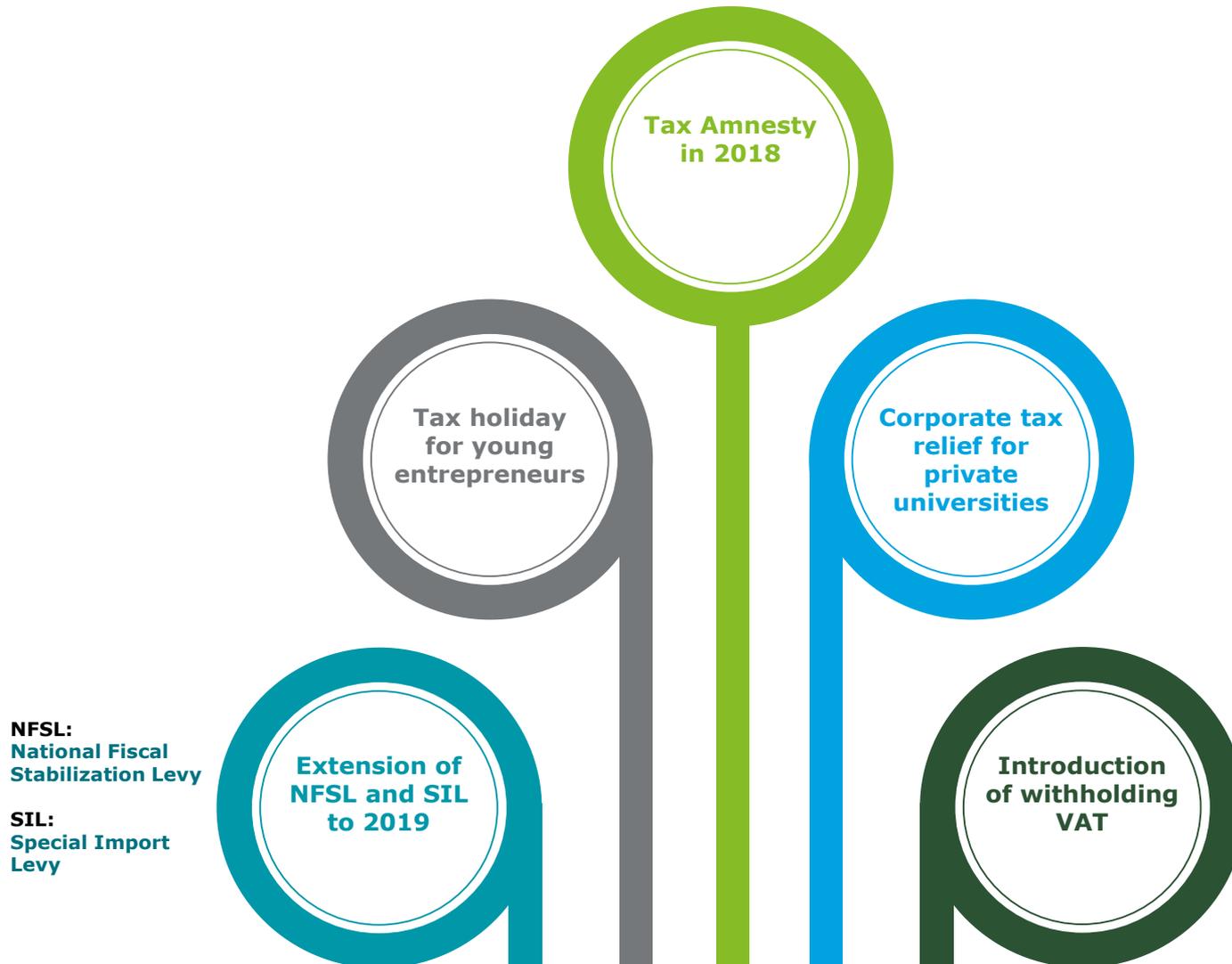
10

Open up key food basket zones through road construction and irrigation projects

Tax Policy Proposals

Tax Policy Proposals

Major tax introductions for 2018



Tax Policy Proposals

Business tax

Extension of National Fiscal Stabilization Levy (NFSL)

The Minister has proposed to extend the application of NFSL to the end of 2019 to support government revenue generation.

The NFSL is a 5% levy on the profit before tax of specific businesses- banks and non-bank financial institutions, insurance companies, telecommunication companies, breweries, inspection and valuation companies, mining support service providers, shipping lines, maritime and airport terminals.

Application of the NFSL was scheduled to expire at the end of 2017 after an earlier extension in 2015. The Minister has however now proposed to extend the levy to apply until end of 2019. While it is clear that the government intends to support revenue generation with the NFSL for at least two more years, the continuous extension of the levy, which was initially intended to be temporary, is likely to continue to place additional tax burden on the few specified businesses. A downward review of the rate for NFSL and widening of the coverage could therefore be considered to reduce the fiscal burden on the current specified businesses.

Personal tax

Review of personal income tax threshold

The Minister has disclosed that there will be a review of the current income tax threshold to peg the tax-free threshold to the current minimum wage in order to preclude minimum wage income earners from paying personal income tax.

The current tax-free threshold on the individual graduated income tax schedule is GHS 2,592 annual income (GHS 216 per month). The proposed increase in the tax-free threshold will lead to an increase in the income tax bands across the graduated income tax schedule thereby increasing the net income in the hands of employees.

Indirect tax

Review of suspension regimes

The Government proposes to review the customs duty suspension regimes which allow importers to import goods without immediately paying duties until the goods are finally removed for domestic use. The proposal is for importers to be required to submit Letters of Credit (LC), guarantees or insurance cover from participating

financial institutions before their goods are warehoused. Related to this, the Minister also announced that modalities will be developed to require transit importers to pay import duties in Ghana on goods consigned for other countries and then the duties subsequently transferred to the destination countries.

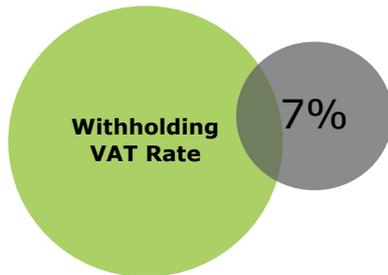
The proposals for bond guarantees are not new as under current customs procedures importers using bonded warehouses or transiting imported goods are already required to provide bond guarantee usually in the form of insurance bond. It is therefore not clear the specific aspects the Government intends to review in this regard. It would however appear that Government is seeking a more secured guarantee in the form of LCs other than the insurance bond guarantees importers traditionally provide.

In terms of the transit regime, the Government is likely to be finding gaps in the tracking of transit regime where goods supposed to be in transit and therefore are not required to pay duties

Tax Policy Proposals

end up in the domestic market. While there is still no significant detail on the modalities to be used, this initiative will obviously require close collaboration with the authorities of neighbouring countries and should also be balanced with the need to keep Ghanaian ports attractive as the trade gateway to the sub-region.

Introduction of withholding VAT on taxable supplies



To improve compliance in the VAT accounting and collection process, the Minister has proposed the introduction of a withholding VAT regime where designated persons/entities will be appointed as “withholding VAT agents” to deduct VAT on payments for taxable supplies. The Minister has proposed a withholding VAT rate 7% to be withheld on taxable supplies made to zero-rated VAT suppliers, selected government agencies and other VAT

registered entities that are yet to be determined.

The withholding VAT will be a novel VAT collection system which will extend the underlying principles of withholding tax under income tax to VAT. If implemented, the system will assist the Ghana Revenue Authority (GRA) to curb VAT evasion and improve cash inflow by directly collecting VAT from the customer in a VAT transaction compared to the customer paying the supplier before the supplier remits to the GRA.

Businesses are however likely to be wary of the potential adverse cash flow impact this may have on their business operations especially where withholding VAT results in the business not having enough cash output VAT against which to offset input VAT claims.

Extension of Special Import Levy (SIL)



Similar to the NFSL, the Minister announced plans to extend application of the SIL to the end of 2019.

The SIL currently applies at 2% on all imports other than petroleum, fertilizer and machinery and equipment listed under chapters 84 and 85 of the Harmonized System and Customs Tariff Schedule. The levy was also scheduled to expire at the end of 2017 after an earlier extension in 2015. The SIL will now be levied on most imported goods for at least two more years to 2019.

Tax incentives

Introduction of tax relief for private universities

The Government has proposed to provide relief to privately-owned and managed universities from corporate income tax to the extent that their profits are re-invested to expand or maintain their facilities. The stated objective of this proposal is to make Ghana the premier hub of higher education in the sub-region as well as contributing to the long-term development of Ghana’s human capital base.

Tax Policy Proposals

If implemented, this proposal should encourage more investments into the private tertiary education sector which will go a long way to enhance the status of higher education and research in the country. It however remains to be seen how the condition of profits being ploughed back for re-investment will be monitored as the proposal does not provide much detail in this regard.

Introduction of tax incentives for young entrepreneurs

As part of efforts to enhance economic growth and to provide a system that supports young Ghanaian entrepreneurs, the Government proposes to introduce a tax incentive program for young Ghanaian entrepreneurs of age 35 and below. The proposal is for such entrepreneurs in start-up or early-stage businesses to enjoy tax holidays for periods determined based on the number of persons employed and preferential tax rates for 3 to 5 years after the tax holiday.



The proposal is aimed towards supporting local business owners to grow their business ventures by removing the burden of corporate taxes in the early years of start-up businesses. It should also help to address the high unemployment levels among the youth in the country. It is however important that the modalities for implementation provide clear guidelines for qualification and also target priority sectors such as ICT, agribusiness, farming and manufacturing. The capping of the age limit of young entrepreneurs to age 35 may also automatically discourage certain enthusiastic young entrepreneurs who are above the age of 35 to take advantage of initiative.

Tax administration

Introduction of tax amnesty

The Minister has proposed to introduce a tax amnesty scheme for taxpayers in 2018. The scheme will provide defaulting taxpayers a window of opportunity to voluntarily regularize their tax compliance status with waiver of penalties and interests for late payments or non-submission of returns. The waiver will also cover exemption from prosecution for breaches of the tax laws.

Given the Minister's note of a low registered taxpayer population compared to the estimated taxable population, it is obvious that many business operations including individuals in business continue to elude the tax system which is inimical to government's goal of boosting domestic revenue generation.

Accordingly, we view the proposal for a tax amnesty as a good policy which has the potential to help rope in taxpayers operating outside the radar of the GRA as well encourage voluntary disclosure by registered taxpayers.

The amnesty will also provide a golden opportunity to taxpayers who may have defaulted in tax compliance to take advantage to file outstanding returns and/or pay overdue taxes without the added burden of interest and penalties.

It is our recommendation that once the scheme is introduced, the GRA should undertake comprehensive education of taxpayers to ensure full dissemination of information on the scheme to small and medium enterprises and informal sector operators in particular so that the full benefits of the program would be realized. Again, the GRA and Ministry of Finance should consider carrying out a post-implementation assessment of the effectiveness of the program to inform similar policy decisions in the future.

Tax Policy Proposals

Introduction of Voluntary Disclosure Procedures

The Minister proposed to introduce Voluntary Disclosure Procedures (VDP) under the Revenue Administration Act, 2016 (Act 915) to waive penalties for taxpayers who voluntarily disclose and pay unreported or understated taxes. Taxpayers will also have the opportunity to arrange payment terms with the Commissioner-General of the Ghana Revenue Authority to settle outstanding taxes.

Under the Revenue Administration Act, the Commissioner-General of the GRA has the power to waive penalties or to extend penalty payment period if a taxpayer "shows good cause". While this provided a good avenue for taxpayers, the provision remained arbitrary as conditions for showing "good cause" were not clear. Introduction of the VDP should clearly spell out the conditions and provide qualification guidelines for penalty waivers. This should enhance confidence and certainty around the application of this provision for the business community.

Deployment of Fiscal Electronic Device

The Minister also announced that government will deploy the use of

Fiscal Electronic Devices (FED) to VAT registered businesses in 2018 to monitor VAT declaration of businesses. Although this proposal featured in the 2017 budget, the draft bill has now been laid in Parliament after stakeholder consultations and is expected to be passed into law for implementation in 2018.

From a tax administration perspective, this is a good initiative which leverages technology to maximise revenue collection, minimise the incidence of revenue suppression and obtain accurate records for VAT transactions. Upon implementation, VAT registered businesses (for both goods and services) will be mandated to use an approved FED at a conspicuous position at each sales location on their premises.

Although application of the FED is not expected to alter the accounting system of taxpayers, the Government should ensure that the technology is robust to prevent disruptions in the accounting system of businesses and also prevent manipulation.



Improvement in collection of property tax

The Minister also mentioned plans to improve the assessment and collection of property taxes by local authorities by requesting the Ghana Revenue Authority to support the Metropolitan, Municipal, and District Assemblies (MMDAs) in the assessment and collection of property taxes.



The success with collection of property taxes has generally been low, a situation the Minister attributed to insufficient valuation capacity and high cost of valuation. Collaboration between the GRA and the MMDAs may help improve the collection efforts of the MMDA collection task forces but we believe that a more technologically inclined solution will be the most effective means of shoring up property tax revenue. The recently introduced digital addressing system should ultimately be a platform the MMDAs leverage to achieve this goal.

Tax Policy Proposals

Removal of taxes on lotteries

Government proposes to abolish VAT 7.5% lotto stakes. It is also proposed that the 17.5% withholding tax on payments of commission to lotto agents be abolished.

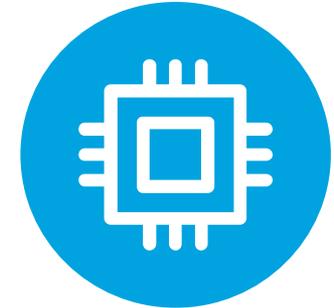
Currently, commissions paid to lotto agents attract a final withholding tax of 7.5%. The proposal will exempt the commissions of lotto agents from this withholding tax as well as remove VAT on bet staking.

Key legislations expected to be reviewed or introduced

The Minister has hinted that the Government will undertake a comprehensive review of the investment environment in Ghana, with particular mention of review of the Ghana Investment Promotion Centre Act in 2018. The Minister also revealed that the current Transfer Pricing Regulations, which regulates pricing of transactions among related parties, will be updated to reflect current international best practices.

Other key legislations that are expected to be reviewed or introduced in 2018 include the following:

- Income Tax Act, 2015 (Act 896)/ Income Tax Regulations, 2016 (L.I. 2244)
- Revenue Administration Act, 2016 (Act 915)
- Value Added Tax Act, 2013 (Act 870)/ Value Added Tax Regulations, 2016 (L.I.2243)
- Regulations to the Revenue Administration Act
- Fiscal Electronic Device Bill
- Tax Amnesty Bill



Quick guide on the tax proposals

Tax /policy	Proposal
Tax amnesty & voluntary disclosure	Limited tax amnesty period in 2018 and waiver of penalty/interest for voluntary disclosure of unpaid taxes
Corporate tax for young entrepreneurs	Tax holiday and preferential tax rate for 3 to 5 years after holiday period
Corporate tax for private universities	Relief from corporate tax for private universities if profits are ploughed back
Personal income tax	Tax-free threshold to be pegged to minimum wage
Withholding VAT on taxable Supplies	7% of VAT on taxable supplies to be withheld by specified withholding VAT agents
Withholding tax (7.5%) on lotto commission and VAT (17.5%) on lotto stakes	To be abolished
National Fiscal Stabilisation Levy (NFSL)	Extension of period to 2019
Special Import Levy (SIL)	Extension of period to 2019

Contacts

For more information and request for assistance, please contact:

Charles Larbi-Odam

Country Managing Executive
clarbi-odam@deloitte.com.gh
+233 202519894

George Ankomah

Partner, Tax
gankomah@deloitte.com.gh
+233 501320895

Ellen Fayorsey

Partner, Financial Advisory
efayorsey@deloitte.com.gh
+233 501320900



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (DTTL), its network of member firms and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. The more than 264 000 professionals of Deloitte are committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.