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Ghana 2017 budget commentary and tax highlights

March 2017

Preamble

Ghana's Minister for Finance, Ken Ofori-Atta, presented the 2017 budget statement and economic policy to Parliament on Thursday, 2 March, 2017. The Government emphasized its intention to boost production through tax reductions while also improving revenue streams by various tax administration initiatives.

The tax proposals are however subject to parliamentary approval and subsequent amendment/enactment of legislation to become effective.

In this publication, we provide a snapshot of the 2016 macroeconomic performance presented by the Minister and commentary on key policy initiatives for 2017 and beyond. We also highlight the main tax proposals of the 2017 budget statement.

Contents

2016 economic performance

Macroeconomic performance

Provisional data on the performance of the economy in 2016 show that except for the targets for the Gross Foreign Assets and the Current Account Deficit, all the programmed macroeconomic targets were missed.

Key macro-economic performance-2016

Description	Target*	Actual**
Overall real GDP	4.1	3.6
Non-Oil real GDP	4.6	4.6
End-period inflation	10.1	15.4
Overall budget deficit on cash basis as percentage of GDP	5.3	8.7
Budget deficit, excluding discrepancy as percentage of GDP		8.9
Budget deficit On commitment basis as percentage of GDP		10.3
Primary balance	1.2	-1.4
Current account deficit	7.4	6.5
Gross Foreign Assets (Import Cover)	3	3.5

*Revised **Provisional

Highlights

- The Bank of Ghana's Monetary Policy Committee (MPC) maintained a tight policy stance throughout 2016 with the objective of anchoring inflation expectations and ensuring the stability of the domestic currency. The policy rate was kept at 26% and reduced by 50 basis points to 25.5%.
- Total public debt stock to GDP, increased from 72.2% at end-2015 to 72.5% at end-2016. Domestic and external debt stood at 31.7% and 40.8% of GDP respectively.
- Headline inflation increased from 17.7% at end-December 2015 and peaked at 19.2% in March 2016 and later declined to 15.4% in December 2016.
- Private sector credit growth was 14.4% at end 2016, against 24.5% recorded in 2015. In real terms, private sector credit contracted by 0.8% in 2016, compared with a growth of 5.8% recorded in 2015.
- The trade balance improved from a deficit of USD3.1bn in 2015 to a deficit of USD1.7bn in 2016 due to increased exports receipts by 7.2% and a 5.3% decline in imports. Consequently, the provisional estimates of the current account deficit improved to USD2.6bn in 2016 compared with USD2.8bn in 2015.
- Gross International Reserves increased by USD459.01m to USD4,862.07m in 2016. This was sufficient to provide 2.8 months of imports cover, compared with 2.6 at end-December 2015.
- The Ghana cedi recorded a cumulative depreciation of 9.6% and 5.3% against the US dollar and the euro, respectively, but appreciated by 10.0% against the pound sterling in the interbank market in 2016.
- Based on the provisional outturn for revenue and expenditure for the period, the overall fiscal balance on commitment basis amounted to GHS17,447m equivalent to 10.3% of GDP.
- Total petroleum receipts for 2016 recorded US$247,175 million as compared to the 2016 Budget estimate of USD348.42 million.
- Total amount of GH¢3,191.15m was programmed to be collected as Energy Sector Levies (ESL) for 2016. Actual collections at the end of the year was GH¢3,284.75m, exceeding the programmed target by GH¢93.60m or 2.3%.

Economy and sectoral outlook for 2017

Economy

The budget projects a fiscal deficit of 6.5% and total revenue is expected to increase significantly in 2017 to GHS44.9billion up from the 2016 outturn of GHS33.7billion. Analysts are sceptical about the Government's ability to meet this target because of the significant tax cuts announced in the 2017 budget. This is also because the Government missed its projected 2016 total revenue of GHS37.9billion by 11% with an economic structure that has not changed significantly.

Ministry of Food and Agriculture

The main highlight for the 2017 budget of the Ministry is the "Planting for Food and Jobs" campaign envisioned to encourage all citizens (both urban and rural) to take up farming as a full or part-time activity. This is expected to create 750,000 jobs in both direct and indirect employment.

- This policy is reminiscent of 'Operation Feed Yourself' from the Acheampong era. While the intent of the policy is laudable it is unclear how the 750,000 jobs will be created.

Ministry of Trade and Industry

In order to improve competitiveness of industry domestically and globally, Health and Export Certificates will be issued to cover export from 2017. Locally manufactured products and management systems will also be certified with relevant standards.

- This policy will ensure that local standards on health, manufacturing and management are compliant with international standards

The Ministry will initiate the "One District One Factory" initiative to ensure an even spatial spread of industries. This is intended to promote rapid industrialization at the district level driven by strong linkages to agriculture and other natural resource endowments to create job and wealth.

- The task of industrialization will not be easy during a single term in office, but a strong foundation can be laid. Although Ghana underwent massive industrialization after independence, the manufacturing capabilities of the country have not witnessed any significant development over the last six decades

Ministry of Energy

A total of 880MW of power capacity was added to the Country's installed generation capacity as at year end 2016 to bring the installed capacity to 4,132MW. In 2017, Government will continue to

increase the installed generation capacity of the country to meet the growing demand for electricity

- Solving the perennial 'dumsor' crisis will be a lasting legacy of the NPP government. Access to efficient, reliable and affordable electricity will lay the foundation for Ghana's socio economic transformation and recovery. Additionally, reliable energy will serve as the basis for the 'one district, one factory' industrialization plan-there can be no meaningful industrialization without a reliable energy base'.

In 2017, the Ministry will work with the Jubilee Partners to address the shortfall in oil and gas production resulting from the 2016 damage on the turret bearing on FPSO Kwame Nkrumah.

- Increased oil revenue will provide the needed resources to facilitate the achievement of Government's vision for the country as well as bridge the funding gap that the tax cuts will create.

Ministry of Education

Free secondary education will commence when the 2017/18 academic year starts in September. Adequate provisions have been made for the funding of this monumental social intervention programme from the ABFA and other domestic revenue sources

- The free secondary education is one of the major electoral promises of the new administration. There is significant debate about how the government will fund this initiative. After much public outcry, the government confirmed that it does not plan to use funds from the Heritage Fund for this policy. Nonetheless, policy experts like IMANI and ACEP have indicated that the policy does not seem to have a firm footing. They have called upon government to outline their strategy for funding this policy. The success of this program will be a notable legacy of the current NPP government.

Ministry of Health

Government will review and strengthen the NHIS to ensure it is fit for purpose.

- The NHIS is yet to live up to its full potential of ensuring that through government support, health care costs do not put a burden on poor families. The scheme has suffered a major lack of funding with many service providers complaining about debts owed them by the insurance authority.

Government will re-introduce training allowances for nurses in the next academic year. We are hopeful that this will provide some relief to students in the training institutions.

- Reintroducing training allowances will be met with much delight especially since the elimination of the allowances was a major reason that made the Mahama government very unpopular. The sustainability of the training allowances over the next four years will signal the commitment of the NPP administration to a new fiscal policy.

Railway infrastructure

The Government has allocated a total of GHS320m to the Ministry of Railways as part of its commitment to improving and regulating the rail sector. Out of the GHS320m, 33% is donor funded, 10% has been allocated for goods and services and 8.2% is to be spent on capital expenditure. The Government has also indicated its commitment to invite private sector participation in the sector, particularly the eastern, central and urban railways.

- Private sector participation will be critical to the long-term sustainability of railway projects in Ghana. Government therefore ought to expedite the passage of the PPP law which will provide the legal framework to guide the PPP process of financing railway projects

Banking Sector and Capital Market Development Initiatives

Government will streamline the Energy Sector Levy Act, 2015 (Act 899,) (ESLA) to accommodate existing legacy debts to improve liquidity in the banking system and the private sector.
Government will encourage a capital market local content policy that enjoins companies operating in the energy, oil and gas, financial services, telecommunications, and mining sectors to list a minimum percentage of their shares on the Ghana Stock Exchange within 5 years of commencement of operations.

- It is yet not clear how the Government intends to incentivize companies in the above-mentioned sectors to float shares on the Ghana Stock Exchange as part of efforts to develop Ghana's capital markets.

Fiscal and Expenditure Control Initiatives

Government will in 2017, establish a Fiscal Council responsible for setting up medium-term fiscal policy anchors to guide fiscal policy as well as monitor compliance and ensure fiscal accountability.
Government will optimize salary administration and deal with the perennial problem of "ghost workers" Government intends to pay public sector wages and salaries using the GhIPPS e-zwich platform as a pass-through filter.

- Sanitizing Ghana's public sector wage administration will save the country quite substantial revenue losses which can be channelled to funding public projects.

Zongo Development Fund

As part of efforts to develop Zongo communities, government will set up a Zongo Development Fund (ZDF) with seed money of GH" 219.5 million. The Fund will support the provision of critical infrastructure in education and training; health and sanitation; local businesses and centres of culture, as well as improve security in the Zongo communities.

- This is the first time that the ZDF would be a line item in the budget and the source of this fund is yet to be known. It is believed that this is a way for the new Government to debunk rumours of marginalization against Muslim community development.

National Identification Programme

Government has commenced stakeholder consultations to revive and roll-out the National Identification Scheme in 2017. All registered persons will be provided with a Unique Identification Number, and an ID card free of charge, which will be required to facilitate the efficient delivery of public and private services, including financial services, mobile banking, m-commerce, social safety nets, health insurance, and revenue collection among others.

National Digital Addressing System

As part of plans to enhance economic development and growth, Government has commenced stakeholder consultation to develop and implement a National Digital Property Addressing System for the country in 2017 aimed at having digital addresses for parcels of land and properties in the country.

- The national identification programme and national digital addressing system has been the all awaited grand scheme that will provide the platform for effective planning, security, commerce, health care, financial service delivery purposes. Attention must be given to the full implementation of these systems, as previous attempts to implement the National Identification System failed.

Other initiatives

The other initiatives are aimed at supporting the vision which is to boost the national economy. The strengthening of the businesses through these other initiatives will allow small business, distressed and start- ups to take advantage of the new tax incentives. Also, certain marginalized groups in terms of standard of living will be able to enjoy a higher standard of living. The following are programs that Government will roll out to support SME and industrial sector:

- National Entrepreneurship and Innovation Plan (NEIP) will be the primary vehicle to provide integrated, support for early-stage (start-ups and small) businesses, focusing on the provision of business development services, business incubators, and funding for youth-owned businesses
- National Industrial Revitalization Programme will be established to provide technical and financial support to existing companies that are deemed viable but are currently distressed or facing operational challenges.
- Government will under the Infrastructure for Poverty Eradication Programme (IPEP) direct capital expenditure towards local, constituency level development. In this regard all the 275 constituencies will be allocated the equivalent of US$1 million annually.
- To ensure that IPEP and other local initiatives are implemented in a well-coordinated manner, Government will set up three (3) Development Authorities, namely, Northern Development Authority (NDA), Middle Belt Development Authority (MBA), and Coastal Development Authority (CDA).

Tax policy proposals

Direct taxes

Tax exemption for gains on GSE listed securities

The budget proposes to exempt from tax gains derived from disposal of securities listed the Ghana Stock Exchange (GSE) and other publicly held securities approved by the Securities and Exchange Commission (SEC).

- The proposal will restore the exemption that was available to investors who realize capital gains from GSE listed securities until 2015. With this exemption and other proposed initiatives, the Government aims to strengthen the capital markets and encourage more companies in the country to list on the GSE.

Tax incentives for hiring young graduates

The Minister also proposed that tax credits and other incentives will be granted business entities that hire young graduates.

- The current Income Tax Act (Act 896) has a provision that allows companies to take additional tax deductions of up to 50% of wages and salaries for employing fresh graduates. This proposal may therefore seek to provide further incentives to businesses hiring fresh graduates from the country's tertiary institutions.

Stamp duty on the capitalisation in the financial service industry

Government, as part of measures to deepen the capital market, has also proposed to exempt the financial services industry from stamp duty on capital financing required to meet the SEC's

capitalization requirements. The proposal is for a two (2) year exemption window within which the industry players are expected to meet the equity capitalization requirements.

- Equity financing currently attracts a stamp duty of 0.5% of the value, which comes as an additional cost to shareholders. The exemption would facilitate current recapitalisation efforts in the financial industry.

Indirect taxes

Removal of VAT on financial services

Government has proposed to abolish VAT on financial services.

- The VAT Act of 2013 made fees and charges on various financial services, which were hitherto exempt from VAT, subject to the 17.5% VAT. If the proposal is approved and an amendment passed to the VAT Act, banks and other financial institutions will no longer be required to charge VAT on their service fees. This should support government efforts on deepening financial inclusion in the country.

Removal of VAT on for real estate sales

The budget also proposes to remove the VAT flat rate of 5% on sale of immovable property by real estate developers.

- The removal of VAT on immovable property sales would represent a cost reduction for property buyers and also promote efforts to bridge the country's housing deficit.

Removal of VAT on domestic airline fares

Government has proposed to abolish the 17.5% VAT charged on domestic airline tickets.

- Domestic air transportation was exempted from VAT until 2014 when the VAT Act brought it into the scope of VAT. The removal of VAT on domestic airline fares would reduce the cost to travelers and encourage local air travel.

Reintroduction of 3% VAT flat rate

The budget proposes to reintroduce the 3% flat rate VAT for traders.

- Prior to 2014, the flat rate scheme was in force for traders operating in the retail sector to charge 3% rate on gross turnover without claim to input VAT. Under the current VAT Act however, only traders making annual turnover of GHS 200,000 qualify for VAT registration under the standard 17.5%.

The reintroduction of the flat rate scheme will mean that traders below the current turnover threshold can be roped into VAT collection.

Removal of 1% Special Import Levy
It is proposed that the 1% Special Import Levy (SIL) on certain imported goods will be removed.

- The 1% SIL, which currently has an ending period of December 2017, applies to machinery and equipment imports listed under Chapters 84 and 85 of Harmonized System and Customs Tariff Schedules.

  It is understood that the 2% SIL counterpart of the 1% levy, which applies to all other imports other than petroleum and fertilizer, will continue to be levied on imports. Also, no mention was made on the possibility of extension beyond 2017 so we can assume that the current end of 2017 sunset clause of the SIL will apply.

Reduction in Special Petroleum Tax
The Minister proposed to reduce the Special Petroleum Tax levied on specified petroleum products from 17.5% to 15%.

- The reduction, if approved and passed into law, will apply to the ex-depot prices of petrol, diesel, liquefied petroleum gas, natural petroleum gas and kerosene.

Removal of VAT on selected imported medicines
Government proposes to abolish VAT charged on selected imported medicines that are not produced locally.

- At current, the VAT Act exempts a list of imported pharmaceutical products determined by the Minister for Health from VAT. This proposal is understood to be an expansion or review of the existing list of pharmaceutical products that enjoy VAT exemption.

Removal of import duty on raw materials and machinery and spare parts
The Minister proposes to initiate steps to remove duties on imported raw materials and production machinery. Also, it is proposed that duties applicable on "spare part" imports will be removed.

- Under the ECOWAS Common External Tariff (CET), raw materials and machinery generally fall under the 5% import duty band. The proposal for "spare parts" remains unclear so will require further guidelines to define the category of spare parts intended for the exemption.

  As acknowledged by the Minister for Finance, the implementation of these proposals will have to be within the CET Protocol since ECOWAS Member States are allowed to deviate from the CET rates for a maximum of 3% of total tariff lines.

Revenue mobilization initiatives

Extension of self-assessment system

The Minister proposes to extend the self-assessment system of provisional corporate tax payments to taxpayers at Small Taxpayer Offices (STO) of the Ghana Revenue Authority (GRA).

- The self-assessment system is currently operated for taxpayers with the Large and Medium Taxpayers offices. The extension to STO taxpayers will initially be piloted in five (5) STO offices in 2017 to roll out system. Taxpayers registered with these offices should have more control over their provisional corporate tax assessments based on actual business performance.

Strengthen transfer pricing unit and undertaking audits
The Minister also mentioned plans to strengthen the transfer pricing unit of the GRA to undertake "rigorous" audit of companies. The Minister specifically highlighted alleged transfer pricing abuses in the extractive sector and also noted that "integrated" audits of free zone companies and other specialized sectors will be carried out.

- We expect the GRA to continue its transfer pricing audits of taxpayers, with increased focus on free zone companies and the extractive sector companies. Companies, especially multinationals, should therefore ensure that inter-company pricing of transactions are based on robust transfer pricing analysis and documentation to mitigate transfer pricing exposure.

Review of tax exemptions
The 2017 budget reiterates government's intention to review various import duty exemption and tax relief regimes to eliminate abuses in the administration and improve efficiency in the application these exemptions.

- As a transitional arrangement, the Minister proposes that applicants for tax exemptions and reliefs will be required to pay the applicable duties and taxes upfront and apply subsequently apply for refund. The Minister of Finance may grant exceptions to this application in exceptional circumstances determined by the Minister.

Policies to review tax exemption regimes have been a regular feature of government's budget for the past couple of years. We anticipate that more upfront tax exemption regimes will be replaced by refund systems going forward.

Introduction of electronic point of sale devices
The budget also mentioned government's intention to deploy electronic point of sales devices by the third quarter of 2017. This is aimed at facilitating monitoring of VAT collections on a real-time basis.

- This proposal is likely to make it obligatory for wholesalers and retailers to use GRA approved point of sale devices. While this proposal has featured in previous budget statements, implementation has not be carried through in the past. We look forward to the modalities and the administrative procedures that will be instituted to facilitate compliance with this initiative.

Quick guide on the tax proposals

Tax / Levy type	Current rate/levy	Proposal
Gains from realization of securities listed on GSE	25%	Exempt
Stamp duty on equity capital	0.5%	Exempt for 2 years for financial institutions
VAT on financial services	17.5%	Abolish
VAT on real estate sales	5%	Abolish
VAT on domestic airline ticket	17.5%	Abolish
VAT for retailers	17.5%	3%
Special Import Levy	1%	Abolish
Special petroleum tax	17.5%	15%
VAT on selected imported medicines, that are not produced locally (list yet to be determined)	17.5%	Abolish
Import duty on raw materials and production machinery	5%	Abolish
Import duty on spare parts	Specific spare parts not yet known	Abolish

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