

CHARTERED INSTITUTE OF TAXATION, GHANA

PROFESSIONAL EXAMINATIONS

FEBRUARY, 2020

PAPER 1 – PUBLIC SECTOR ECONOMICS & FINANCE

Marking Scheme

Question 1

- a. Zero-base budgeting is the system of budgeting in which the process of budgeting in each year begins afresh as such that the base is zero. It requires each manager to justify the need for each item of expenditure. The burden of proof is on the manager to prove into detail from the scratch why an item to be expended.

(4 marks)

- b. Advantages and Disadvantages

Advantages

- i. Prevent unnecessary expenditures to be continued without reconsideration
- ii. It enforces an annual a value for money approach for all expenditure items
- iii. Resource allocation is based on more rational and better management information.
- iv. Encourages greater participation by managers in decision making
- v. Develops a more critical and better motivated managers

(1 mark for each correct advantage stated up to 2 correct advantages and 3 marks for each advantage correctly explained = 8 marks)

Disadvantages

- vi. It consumes a considerable amount of staff time and organization to implement
- vii. It is difficult to produce suitable decision packages which are self-contained and understood by managers especially in complex multi-purpose organisations.
- viii. Problem of identifying suitable decision units

(1 mark for each correct disadvantage stated up to 2 correct disadvantages and 3 marks for each disadvantage correctly explained = 8 marks)

Question 2

a.

- i. Ad valorem tax is expressed as a percentage of the value of an item while a specific tax is expressed as a fixed sum of money on a unit of an item.

(4 marks)

- ii. A tax is regressive if the rate of tax falls as income rises. On the other hand a tax is progressive if the rate of tax increases as income increases

(4 marks)

b.

Merits include

- i. The payment and collection of tax is easy and convenience
- ii. Tax evasion is difficult
- iii. Can be used to control or discourage the consumption of harmful products
- iv. It is friendly to businesses since the incidence of tax is on the consumers

(1 mark for each correct merit stated up to 2 merits and 2 marks for each merit correctly explained = 6 marks)

Demerits include

- a. It is regressive
- ii. It is not equitable
- iii. Incidence of tax is not always easy to determine
- iv. Revenue may be uncertain when demand for the good is elastic

(1 mark for each correct demerit stated up to 2 correct demerits and 2 marks for each demerit correctly explained = 6 marks)

Question 3

a. Equity

Vertical equity is concerned with the equality of sacrifice in different circumstances. The Ghana tax system embraces this concept. For example, by providing exemption from tax through the use of progressive rates of taxation applied to different levels of income.

Horizontal equity is concerned with ensuring the same treatment for different taxpayers in the same economic circumstances. If incomes are the same but personal circumstances differ, allowances are granted in the Ghana tax system to compensate for this. For example, marriage allowance, children education allowance and etc.

- b. Economy
The direct cost of administering the Ghana tax system is generally low in relation to the tax collected. In Ghana many of the compliance costs for collecting employment tax are borne by employers.
 - c. Certainty
Under the Ghana income tax system all information about incomes liable to tax, tax rates, the manner of payment of tax, when to pay tax are published in the annual budget presented to and approved by parliament.
 - d. Convenience
Under the Ghana tax system of pay as you earn tax is deducted at source from workers' income before being paid to them. It makes it simple and convenience for the employees
- (1 mark for each correct principle stated and 4 marks for correctly relating each principle to the Ghana tax system = 20 marks)**
NOTE: Other principles may be accepted provided they are applied to the Ghana Tax System

Question 4

a.

Market failure occurs when free markets, without government intervention, fail to allocate resources efficiently. Market failure may be in the form of distributional inefficiency, allocative inefficiency and instability of the economy.

(4 marks)

b.

Causes of market failure

- a. The existence of externalities
 - b. Imperfect information leading to merit goods being under produced and demerit goods being over produced
 - c. Production of public goods and quasi-public goods cannot result in profit
 - d. Uncontrolled monopolistic power
 - e. Geographical and occupational immobility of labour may cause unemployment which may lead to inefficiency in productivity
- (1 mark for each correct cause stated up to 4 correct causes and 3 marks for each cause correctly explained = 16 marks)**

Question 5

These include the following

- i. Taxation
- ii. Fees and fines
- iii. Profit from state enterprises
- iv. Sale of government assets and businesses
- v. Rent and royalties
- vi. Aids and grants
- vii. Income from government investments abroad

(4 marks for each type of stated and explained up to 5 = 20 marks)

Question 6

The characteristics of pure public goods are the opposite of private goods:

- a. Non-excludability: The benefits derived from pure public goods cannot be confined solely to those who have paid for it. Indeed non-payers can enjoy the benefits of consumption at no financial cost – economists call this the '**free-rider**' problem. With private goods, consumption ultimately depends on the ability to pay
- b. Non-rival consumption: Consumption by one consumer does not restrict consumption by other consumers – in other words the marginal cost of supplying a public good to an extra person is zero. If it is supplied to one person, it is available to all.
- c. Non-rejectable: The collective supply of a public good for all means that it cannot be rejected by the people, a good example is a nuclear defense system or flood defense projects.

(4 marks)

The case for government intervention with public goods:

- a. Overcoming the Free-Rider
- b. Direct provision of a public good by the government can help to overcome the free-rider problem which leads to market failure
- c. The non-rival nature of consumption provides a strong case for the government rather than the market to provide and pay for public goods.
- d. Many public goods are provided more or less free at the point of use and then paid for out of general taxation or another general form of charge such as a licence fee.
- e. State provision may help to prevent the under-provision and under-consumption of public goods so that social welfare is improved.
- f. If the government provides public goods they may be able to do so more efficiently because of economies of scale.

(4 marks for each point explained up to maximum of 4 points = 16 marks)

Question 8

All public expenditure must be subject to parliamentary approval. This is done through the system of budgeting. The executive must lay the national budget in parliament for consideration by parliament. Parliamentarians debate the budget on the floor of parliament and pass the appropriation bill into law which must be signed by the President of the Republic before any expenditure can be made.

(10 marks)

The Annual Auditor – General’s Report are sent to parliament and laid before parliament for debate. Affected public institutions are summoned to appear before the Public Accounts Committee of parliament to respond to queries raised by the committee. Parliament makes recommendations to appropriate enforcement agencies to take appropriate action on any public officer who is involved in any inappropriate behavior.

(10 marks)