

**CHARTERED INSTITUTE OF TAXATION (GHANA)**  
**PROFESSIONAL EXAMINATIONS**  
**PROFESSIONAL LEVEL – PAPER 2- INCOME TAXATION**  
**PROPOSED SCHEME**

**Question 1**

**a) Distinction between capital expenditure and revenue expenditure**

**Capital Expenditure**

- i. It is an expenditure incurred for the acquisition of a fixed asset or for the improvement of a fixed asset eg. Building; plant & machinery; vehicles; etc. **2 marks**
- ii. It also refers to an expenditure that gives rise to an advantage of an enduring nature for trade or business. **1 mark**
- iii. The full benefit of the expenditure is consumed in more than one accounting period. **1½ marks**

**Revenue Expenditure**

- i. It is an expenditure incurred for the day to day administration of a business eg. Rent, stationery, etc. **2 marks**
- ii. The full benefit is consumed in one accounting period. **1½ marks**

**Score 8 marks**

**b) Distinction between commercial vehicle and non-commercial vehicle**

**Commercial Vehicle**

- i. It refers to a road vehicle designed to carry loads of more than half a tonne or more than thirteen passengers. **or** **1½ marks**
- ii. A vehicle used in the transportation or vehicle rental business **1½ marks**
- iii. Capital allowance is computed on the full cost of the vehicle **1 marks**

**Non-Commercial Vehicle**

- i. It refers to a road vehicle designed to carry loads up to or below half a tonne or not more than thirteen passengers. **or** **1½ marks**
- ii. A vehicle not used in the transportation or vehicle not use for rental business **1½ marks**
- iii. For Capital allowance purpose, the cost base of the vehicle is restricted to GH¢75,000 **1 marks**

**Score 8 marks**

**c) Distinction Between Final Withholding Tax and Non-Final Withholding Tax**

**Final Withholding Tax**

- i. The tax withheld satisfies the liability of the person **1 marks**
- ii. The income on which the tax was imposed is not to be included in the person's assessable income. In other words, it is assessed separately **1 marks**

**Non-Final Withholding Tax**

- i. The tax withheld does not satisfy the liability of the person 1 marks
  - ii. The income on which the tax was imposed is to be grossed up and included in the person's assessable income. 1 marks
- Score 4 marks
- TOTAL 20 MARKS

**QUESTION 2**

**a) DETERMINATION OF THE ANNUAL BASIC SALARY OF MR. SETH MANU FOR 2019 YEAR OF ASSESSMENT**

|                                                     |    | GH¢       |           |   | GH¢              |                  |                |
|-----------------------------------------------------|----|-----------|-----------|---|------------------|------------------|----------------|
| 1/4/2016                                            | to | 31/3/2017 | 60,000.00 |   |                  | 1                | marks          |
| 1/4/2017                                            | to | 31/3/2018 | 64,800.00 |   |                  | 1                | marks          |
| 1/4/2018                                            | to | 31/3/2017 | 69,600.00 | x | 3/12             | 17,400.00        | 1½ marks       |
| 1/4/2016                                            | to | 31/3/2017 | 74,400.00 | x | 9/12             | <u>55,800.00</u> | 1½ marks       |
| <b>Consolidated Salary (1/1/2019 to 31/12/2019)</b> |    |           |           |   | <b>73,200.00</b> | <u>2</u>         | marks          |
|                                                     |    |           |           |   |                  |                  | <b>7 marks</b> |

**b) Quality of a good tax system**

- i. Equity
- ii. Certainty
- iii. Convenience
- iv. Economy
- v. Flexibility
- vi. Neutrality

**NB: Award 1 mark each for any 5 qualities correctly stated above to give a total score of 5 marks**

**c) ALLOWABLE DEDUCTIONS IN ASCERTAINMENT OF THE CHARGEABLE INCOME OF AN EMPLOYEE**

- i. Personal reliefs
- ii. Contributions to approved retirement funds
- iii. Mortgage interest
- iv. Donations to a worthwhile cause

**NB: Award 2 mark each for each correctly answer as stated above to give a total score of 8 marks**

TOTAL 20 MARKS

**QUESTION 3**

**CAPITAL ALLOWANCE COMPUTATION FOR LADY BELL**

| <b>Y/A<br/>RATE</b>                      | <b>POOL1<br/>40%</b> | <b>POOL2<br/>30%</b> | <b>POOL3<br/>20%</b> | <b>POOL4<br/>10%</b> | <b>TOTAL</b>        |           |              |
|------------------------------------------|----------------------|----------------------|----------------------|----------------------|---------------------|-----------|--------------|
| 2017                                     |                      |                      |                      |                      |                     |           |              |
| 1/3/2017 TO<br>31/12/2017                |                      |                      |                      |                      |                     |           | 1 1/4        |
| Cost Base                                | 48,000.00            | 120,000.00           | 75,000.00            | 650,000.00           |                     |           | marks        |
| Capital Allowance restricted to 306 days | (16,096.44)          | (30,180.82)          | (12,575.34)          | (54,493.15)          | <b>(113,345.75)</b> | 2 1/4     | marks        |
| WDV C/F                                  | <b>31,903.56</b>     | <b>89,819.18</b>     | <b>62,424.66</b>     | <b>595,506.85</b>    |                     | 2         | marks        |
| 2018                                     |                      |                      |                      |                      |                     |           |              |
| 1/1/2018 TO<br>31/12/2018                |                      |                      |                      |                      |                     |           | 1/4          |
| WDV B/F                                  | 31,903.56            | 89,819.18            | 62,424.66            | 595,506.85           |                     |           | marks        |
| Capital Allowance                        | (12,761.42)          | (26,945.75)          | (12,484.93)          | (65,000.00)          | <b>(117,192.11)</b> | 2 1/4     | marks        |
| WDV C/F                                  | <b>19,142.14</b>     | <b>62,873.42</b>     | <b>49,939.73</b>     | <b>530,506.85</b>    |                     | 2         | marks        |
| 2019                                     |                      |                      |                      |                      |                     |           |              |
| 1/1/2019 TO<br>31/12/2019                |                      |                      |                      |                      |                     |           | 1/4          |
| WDV B/F                                  | 19,142.14            | 62,873.42            | 49,939.73            | 530,506.85           |                     |           | marks        |
| Addition                                 | 0.00                 | 0.00                 | 40,000.00            | 0.00                 |                     | 1/4       | marks        |
|                                          | <b>19,142.14</b>     | <b>62,873.42</b>     | <b>89,939.73</b>     | <b>530,506.85</b>    |                     | 1/4       | marks        |
| Capital Allowance                        | (7,656.85)           | (18,862.03)          | (17,987.95)          | (65,000.00)          | <b>(109,506.83)</b> | 2 1/4     | marks        |
|                                          | <b>11,485.28</b>     | <b>44,011.40</b>     | <b>71,951.78</b>     | <b>465,506.85</b>    |                     | 2         | marks        |
|                                          |                      |                      |                      |                      |                     | <b>15</b> | <b>Marks</b> |

**b) BADGES OR INDICATORS OF TRADE**

- |                                                |   |                             |
|------------------------------------------------|---|-----------------------------|
| 1. Profit seeking motive                       | - | CIR V Frazer                |
| 2. The way in which the asset was acquired     | - | Hudson Bay Co V Stevens     |
| 3. The nature of asset                         | - | Wisdom V Chamberlain        |
| 4. The quantity acquired                       | - | Rutledge V CIR              |
| 5. Modification made to the asset before sales | - | CIR V Livingston & Others   |
| 6. The time interval between purchase and sale | - | Torner V Last               |
| 7. The number of transactions                  | - | Pickford V Quirke           |
| 8. The manner in which sales was effected      | - | Martin V Lonry              |
| 9. The method of financing the transaction     | - | Johnston V Heath            |
| 10. Other Interest in the same field           | - | Cape Brandy Syndicate V CIR |

**NB: Accept any 5 badges and decided cases. For each badge award ½ marks each to give 2½ marks. Similarly, for each decided case stated award ½ marks each to give 2½ marks. Overall score 5 marks**

**TOTAL 20 MARKS**

**QUESTION 4**

ASSESSMENT OF MR. JOE ABOKYI-2018 Y/A

|                                 | GH¢       | GH¢                     |           |
|---------------------------------|-----------|-------------------------|-----------|
| Net Profit per Accounts         |           | 53,760.00               | ½ Marks   |
| Add Back:                       |           |                         |           |
| Understated profit              | 10,000.00 |                         | 2 Marks   |
| Loss on sales of fixed assets   | 4,500.00  |                         | 1 Marks   |
| private telephone exp           | 3,033.00  |                         | ½ Marks   |
| Birthday exp                    | 2,780.00  |                         | ½ Marks   |
| Income tax Paid on Account      | 7,300.00  |                         | 1 Marks   |
| Children's School fees          | 3,200.00  |                         | ½ Marks   |
| Construction of Metal Neon Sign | 6,200.00  |                         | 1 Marks   |
| Advertisement Tax               | 600.00    |                         | 1 Marks   |
| Donation to Church Harvest      | 1,000.00  |                         | ½ Marks   |
| Additional Income               | 4,700.00  | <u>43,313.00</u>        | 1 ½ Marks |
|                                 |           | <b>97,073.00</b>        | 1 Marks   |
| Deduct:                         |           |                         | Marks     |
| Interest on Savings Accounts    | 2,000.00  |                         | 1 Marks   |
| Profit on sales of fixed assets | 8,000.00  |                         | 1 Marks   |
| Dividend                        | 1,840.00  | <u>- 11,840.00</u>      | 1 Marks   |
|                                 |           |                         | Marks     |
|                                 |           | <b>85,233.00</b>        | 1 Marks   |
| Deduct:                         |           |                         | Marks     |
| Capital Allowance               |           | <u>- 2,896.00</u>       | 2 Marks   |
|                                 |           |                         | Marks     |
| <b>Chargeable Income</b>        |           | <u><b>82,337.00</b></u> | 3 Marks   |

TOTAL 20 MARKS

QUESTION 5

ASSESSMENT OF MR. JOE ABOKYI-2018 Y/A

|                          |           |                   |     |       |
|--------------------------|-----------|-------------------|-----|-------|
| Consolidated Slary       | -         | 90,000.00         | ½   | marks |
| Add Back:                |           |                   |     |       |
| Responsibility           |           |                   |     |       |
| Allowance                | 9,000.00  |                   | ½   | marks |
| Medical Allowance        | 3,000.00  |                   | ½   | marks |
| Utility Bills            | 18,000.00 |                   | ½   | marks |
| House Help Allowance     | 4,800.00  |                   | ½   | marks |
| Air Ticket               | 5,000.00  |                   | 1   | marks |
| Fridge                   | 6,000.00  |                   | 1   | marks |
| Employer's               |           |                   |     |       |
| Contribution to          |           |                   |     |       |
| mandatory Pension        |           |                   |     |       |
| Scheme                   | 11,700.00 | 57,500.00         | 1 ½ | marks |
| Total CSH Emolument      | -         | 147,500.00        | 2   | marks |
| Add Back:                |           |                   |     | marks |
| Rent Element             | 14,750.00 |                   | ½   | marks |
| Car Element 14,750 but   |           |                   |     |       |
| restricted to            | 6,000.00  | 20,750.00         | 1 ½ | marks |
| Total Employment         |           |                   |     |       |
| Income                   | -         | 168,250.00        | 2   | marks |
| Deduct                   |           |                   |     | marks |
| Employer's               |           |                   |     |       |
| Contribution to          |           |                   |     |       |
| mandatory Pension        |           |                   |     |       |
| Scheme                   | 11,700.00 |                   | 1   | marks |
| Employee's               |           |                   |     |       |
| Contribution             | 4,950.00  |                   | 1   | marks |
| Marriage Reliefs         | 200.00    |                   | ½   | marks |
| Child Education          | 600.00    |                   | 1   | marks |
| Contribution toTems      |           |                   |     |       |
| SOS                      | 3,500.00  | - 20,950.00       | 1 ½ | marks |
| <b>Chargeable Income</b> | -         | <u>147,300.00</u> | 3   | marks |