# Meeting Accounting and Tax Obligations in Ghana

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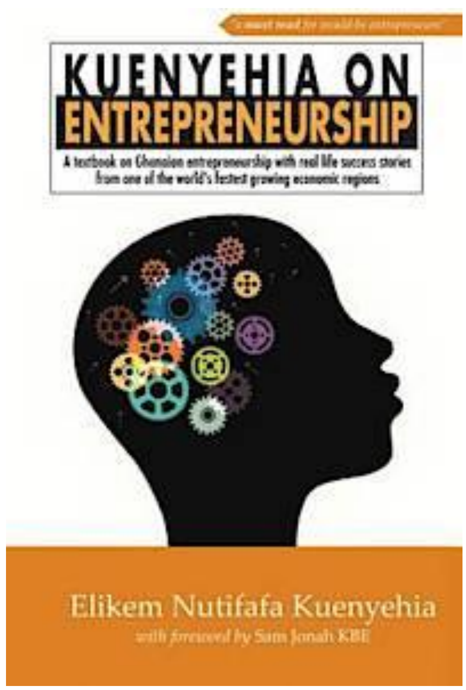

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## Introduction

Understanding how to meet the various accounting & tax obligations at the start of any business venture is critical. In this guide Elikem Nutifafa Kuenyehia, a Ghanaian Lawyer by profession, has outlined a step by step guide on how Ghanaian companies can best submit their annual accounts as well as meet their tax obligations to preventing future sanctions for non- compliance.

## How to Submit Annual Returns

The Companies Act 1963 (Act 179)[1] requires every company to deliver an annual return to the Registrar of Companies at least once every year. However, a newly formed company may file its first annual return within eighteen (18) months of its incorporation.

The annual return comprises two (2) main documents:

1. The prescribed form for filing annual returns of a company; and
2. The statements, accounts, and reports of the company.

There is a prescribed form which has to be completed by each company submitting an annual return. The form may be obtained from the Registrar General's Department (RGD) or downloaded from www.rgd.gov.gh. Particulars required to fill the form include;

- Registered address
- Summary of stated capital, shares and debentures
- Particulars of directors (name, nationality, address, occupation, TIN)
- Particulars of secretary
- Particulars of past and present shareholders (name, address, nationality, occupation, number of shares held, date of registration of transfer, TIN)
- Authorised business or objects
- Details of subsidiary companies and bodies corporate in which the company is entitled to at least 25% voting rights

[1] Section 122.

The statements, accounts, and reports of the company comprise the following documents:

1. A profit and loss account[2]
2. Balance sheet[3]
3. Any notes on the profit and loss accounts and balance sheet and documents annexed to those accounts giving any additional information
4. A report by the directors[4]
5. A report by the auditors[5]

The annual return must be filed at the RGD within forty-two (days) of the date on which the company circulates its statements, accounts and reports to its shareholders and debenture holders. It must be signed by a director and the secretary of the company.

## Procedure

1. Prepare the profit and loss account and balance sheet for the company.
2. Appoint an auditor to go through the books of the company and provide an auditor's report.
3. Prepare the directors' report.
4. Purchase an annual returns form from the RGD and complete it.
5. Submit the completed annual returns form together with the statements, accounts and reports to the RGD.
6. Pay the required fee.

[2] Where it is the first profit and loss account since the incorporation of the company, it shall cover the period since the incorporation. In any other case, it shall cover the period since the last account and shall be up to a date within nine months from the date on which the account was sent to members and debenture holders.

[3] It shall give a true and fair view of the company as at the end of the company's financial year.

[4] The report shall provide the state of affairs of the company and the amount which the directors recommend should be paid by way of dividend, if any. The report must be approved by the board of directors and signed on its behalf by two directors.

[5] The report must be made by an auditor or auditors who are duly qualified and appointed as auditors of the company and shall be addressed to the shareholders of the company. The report shall state whether or not the books of account of the company, the balance sheets and profit and loss account contain a true and fair view of the state of the company.

7. The annual return shall be registered and the Registrar shall publish a notice in the Gazette stating that the annual return of the company has been duly registered.
8. After the registration is complete, the Registrar will give you a certified copy of the returns.

### Fees

- Current fee for filing annual returns is forty Ghana cedis (GHS40.00).

### Timelines for filing returns

- Within eighteen months after the date of incorporation but within forty-two (42) days after the first dispatch of financial accounts to shareholders and debenture holders.
- In any other case, annually but within 42 days of giving members and debenture holders the statements, accounts and reports of the company.

## How to Satisfy Tax Obligations

Every person who is liable to tax must be registered with the Ghana Revenue Authority (GRA). Persons include individuals and bodies corporate. Each person is given a unique Tax Identification Number (TIN) for the purpose of satisfying tax obligations. Where a person does not have a TIN, that person will be unable to do any of the following:

1. Clear goods in commercial quantities from the ports.
2. Acquire an interest in any piece of land or any document affecting the use of land.
3. Obtain clearance certificate from the revenue authority.
4. Obtain clearance to incorporate a business.

### Procedure for TIN Registration

1. Download a copy of the TIN Registration Form from the GRA website: www.gra.gov.gh
2. Complete the form and submit it to any of the following agencies
   a. Registrar General's Department
   b. Domestic Tax Revenue (Income Tax & VAT) Office
   c. Custom Division Office
3. Collect your Taxpayer Registration Certificate upon completion of the registration formalities

### Registration Requirements

In addition to providing the details on the registration form, you need one of the following:

a. Copy of picture page of valid drivers' licence;
b. Copy of picture page of valid passport;
c. Copy of valid voters' ID; or
d. Copy of valid National ID.

### Fee

There is no registration fee for the generation of a TIN. It normally takes between 2 to 7 days to receive the Taxpayer Registration Certificate.

## Corporate Tax

This is the tax paid by companies on their profits in the year. The current tax rate is 25%.

### Procedure

1. Typically at the beginning of the year, the Ghana Revenue Authority (GRA) will make a provisional assessment of the tax the company is liable to pay for the year. This provisional assessment is based on the Commissioner's judgment of the company's revenue. The company will then be required to make the payment at the time the assessment is made.

2. At the end of the financial year, prepare the financial accounts of the company. The financial accounts comprise:
   a. Profit and loss account
   b. Balance sheet
   c. Cash flow statement

3. Appoint an auditor to go over the books and provide an auditor's report.

4. Obtain and complete a Company Income Tax Return to be submitted with the accounts to the GRA. Filing has to be done by April of the next year but the company may seek an extension.

5. The GRA will make a final assessment for tax based on the submitted financial accounts. If there is any outstanding amount to be paid, the company shall be made to pay it.

## Personal Income Tax

Self-employed persons are required to pay Income tax at graduated rates in four equal instalments. The assessable income is all income from business, employment or investment accruing in, derived from, brought into or received in Ghana during the basis period less any allowable deductions for the year.

The graduated rates of tax means that the total amount of tax paid will depend on the income of the taxpayer because a flat rate is not applied. Thus, the more you earn the more tax you pay.

### Procedure

1. At the beginning of the basis period, the Commissioner may make a provisional assessment of tax based on the Commissioner's judgment of that person's chargeable income[6] and the taxpayer shall be required to pay the assessment so made.

2. At the end of the basis period, the taxpayer shall furnish a return of income, in the prescribed form, for the year of assessment not later than 4 months after the end of the basis period. A personal income tax return may be downloaded from the GRA website www.gra.gov.gh

3. Include a separate income and expenditure and a statement of assets and liabilities for the business undertaking.

4. Based on the return of income and any other information available, the Commissioner shall make a final assessment of the chargeable income and the tax payable on that assessment. The taxpayer will be required to make any outstanding payment.

## Partnerships

Individual partners are taxed on their share of partnership profits on which they pay personal income tax. The law does not impose a separate tax on the earnings of the partnership. In this sense the law treats the individual partners as

[6] Total income from business, employment or investment

if they were sole proprietors earning their proportionate share of the profits of the partnership.

Partnership firms are required by law to keep proper accounts with respect to their financial position, and to prepare financial statements (a profit and loss statement and a balance sheet) giving a true and fair view of the profitability, assets and liabilities of the firm for the relevant period.[7] There is no obligation for partnerships to have their financial statements audited. It is however good practice to do so because the audit process provides a good control mechanism to ensure that the firm's accounts are properly prepared.

## Procedure

- Prepare the balance sheet and income statement for the partnership
- Adjust for partnership income and distribute it based on each partner's share of the profits
- Download and complete a partnership return from the GRA
- Pay the assessed tax

[7] Incorporated Private Partnerships Act, 1962 (Act 152), Section 30.

## Pay As You Earn (PAYE)

The PAYE contributions are amounts withheld from salaries of employees by the employer in order to satisfy employees' income tax responsibilities. The PAYE is computed with the Personal Income Tax rates.

### Procedure

1. Every employer must withhold PAYE from the monthly salary of each employee.
2. At the end of the month, the withheld amount shall be paid to the GRA.
3. Complete monthly PAYE deductions return and provide a schedule of the names of the employees and the amount paid.
4. Make the payment.

## Withholding Tax

It is provided in the Internal Revenue Authority Act[8] that certain persons shall withhold tax at source. These persons include, but are not limited to, the following:

a. An employer paying an amount to be included in ascertaining the income of an employee
b. A resident person who pays interest to another resident persons
c. A resident company which pays dividends to a resident shareholder.
d. A resident person, other than an individual, who pays for goods and services

### Procedure

1. Complete a withholding tax return form.
2. File the return within 15 days after the end of the month in which the payment in respect of which tax was withheld is made.
3. Make the payment to the revenue authority.

Where a person obliged to withhold tax fails to do so, the person is liable to pay the amount not withheld. The person is however entitled to recover the amount paid from the payee. **The current rate of tax is 8%.**

[8] Part X, Division III

# Value Added Tax (VAT)

VAT is a tax imposed on the expenditure of consumers when they purchase goods and services. It is collected by businesses which are registered to charge the tax. The businesses then account for the tax so collected at the end of every month. The current standard rate of the tax is 15%.

## Procedure

1. Business owners who are registered to charge VAT must apply the tax to the price of all goods sold.
2. Issue a VAT receipt for each purchase indicating the amount of VAT charged on the item.
3. At the end of the month, file VAT returns at the GRA and pay all the amounts collected as VAT to the GRA
4. You may net off VAT paid by the business with VAT collected by the business.
5. Where no VAT is collected, file a nil return.

## National Health Insurance Levy (NHIL)

The National Health Insurance Levy (NHIL) is a levy imposed on goods and services supplied in or imported into the country. All goods and services are subject to the levy unless they are otherwise exempted. The levy is charged at a rate of 2½ on the VAT exclusive selling price of goods supplied or service rendered.

### Procedure

The NHIL is collected by registered businesses in the same way as VAT is collected. The same receipt is used.

## VAT Flat Rate Scheme (VFRS)

This is a special method for collecting and accounting for VAT/NHIL. It is designed for traders who make an annual turnover of less than GHS120,000 and who operate in the retail sector and sell items for which VAT apply. Under the VFRS, registered retailers of taxable goods shall charge VAT/NHIL at a marginal rate of 3% on the value of each taxable item sold.

Procedure

1. They issue 3% VAT receipt for the purchase of all goods.
2. File a monthly return at the GRA and pay the amount collected for the period.

## Vehicle Income Tax (VIT)

A person who operates a commercial vehicle such as taxi, trotro, and tour bus has to pay this tax for each vehicle. The tax is paid every quarter.

### Procedure

1. Buy a VIT sticker from any GRA District office on a quarterly basis. The cost of the sticker depends on the vehicle's passenger capacity and type of operation.
2. The sticker must be posted on the front windscreen of the vehicle.

## Tax Stamp

This is a tax collected from small-scale self-employed persons in the informal sector on quarterly basis. Under the Tax Stamp System, business operators in the informal sector are grouped according to business type. The business types are further grouped by class/size to arrive at the rate to be paid according to both type and size.

### Procedure

- The GRA applies a flat rate of tax which is based on the discretion of the officer
- The taxpayer is obliged to pay the assessed amount quarterly by filing the appropriate form at the GRA.
- Where a person pays for a tax stamp, it is not necessary for the person to pay for PAYE.

## Gift Tax

This tax is paid by a person who receives gifts within the year of assessment. Where the total value of the gifts cost less than GHS50.00, no tax will be paid. The tax is only charged on gifts which have a total value which is greater than GHS50.00. Gifts include money, land, shares, computers, etc. The current rate of tax is 5%.

### Procedure

- Complete a gift tax return form.
- Pay the tax imposed.

## Capital Gains Tax

When a chargeable asset is sold, the law requires the seller to pay capital gains tax if the gain from the sale is above GHS50.00. Chargeable assets include land, buildings, business assets and shares of a resident company. The current rate of tax is 15%.

### Procedure

- It is filed as part of personal income tax.
- Complete capital gains tax return form.
- Make the requisite payment

## Rent Tax

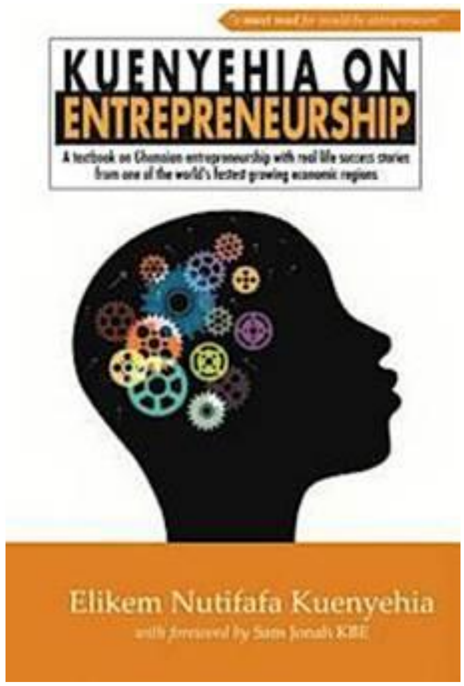
This is the tax paid by rent income earners on the gross amount earned in a year of assessment. The current rate of tax is 8% on the gross rent income. It may be withheld by the tenant or paid by the building owner.

## Mineral Royalties

This is a tax imposed on persons for the extraction of natural resources on or under the surface of the earth. The rate is 5%.

# Thank you for reading!

Please find more information on how to grow and strengthen your business in Ghana via Elikem Kuenyehia's book on Entrepreneurship.




Readers of this guide also found the following guides useful:

- Accounting and Auditing in Ghana (Finance)

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