A SITUATIONAL ANALYSIS OF THE TAX EXEMPTIONS AND INCENTIVE REGIMES IN GHANA

A STUDY COMMISSIONED BY THE TAX JUSTICE COALITION, GHANA

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1.0 INTRODUCTION

Tax incentives can be defined as deliberate concessions, provisions and conditions enacted into law, reducing tax and lessening the tax burden in targeted areas to encourage, boost or sustain investment for growing the economy. In principle, a tax incentive is an aspect of a country's tax code designed to encourage companies or people to do something that will help the country's economy. Tax incentives are several tax policies that allow deductions, exclusions and exemptions or provide for lower rates that reduce the tax liability of selected economic entities with the intention of influencing and attracting flows of capital into preferred locations and sectors of the economy or specific investment activities such as financing infrastructure projects and research and development.

With tax incentives, the beneficiaries are able to enjoy a financial benefit through higher income or profit and/or lower cost of investment through reduced tax liability or other concession. In order to attract the desired investment to a country, increase employment, draw higher number of capital transfers, help develop research and technology and/or improve them to less developed areas while protecting the tax base and revenue mobilization efforts, the tax incentives regime must be properly designed, adopted and implemented. The general objectives of tax incentives comprise the following:

1. To attract investors to locate to more remote and economically less developed regions of a country
2. To attract investors to establish labour-intensive industries or employ particular categories of workers or generally reduce unemployment in a country
3. To attract investors to bring in advanced technology or research and development activities into a country or certain sectors of the economy
4. To attract export-oriented investment
5. To provide a discrete environment in which enterprises can import machinery, components, and raw materials free of customs duties and other taxes for assembly, processing or manufacturing with a view to exporting the finished product.

Tax incentives can only be beneficial if their use is properly justified or they deliver intended short and long-term results such as attracting the right investments and generating social benefits like employment or when the associated costs, both expected and unintended, are economically and socially acceptable. However, for tax incentives to yield the desired results, such as economic growth, job creation, international competitiveness and foreign direct investment, there is a need for a suitable “enabling environment” for growth. An “enabling environment” refers to the existence of certain factors which determine economic growth rates, comprising non-tax factors such as governance and the micro-economic policy environment, political stability, literacy rate and skills of labour, dependable legal and judicial system, efficiency of the banking system, development of modern infrastructure and

communications systems and effective promotion system. The availability of basic social services such as efficient delivery of health care, education, electricity and water and sanitation as well as efficient transport system and road network also contribute to an enabling environment.

Multilateral and bilateral agreements, political values and economic norms are important external factors that often influence the approval, adoption and granting of tax incentives. In highly corrupt countries, corruption is also an influencing factor in tax incentive regimes as businesses negotiate for and get tax exemptions, sometimes without legal backing and/or without Parliamentary approval.

Foreign investment location decisions also depend on market size and real income levels, skill levels in the host economy, the availability of infrastructure and other resources that facilitate efficient specialisation of production, trade policies, and the political and macroeconomic stability of the host country.

However, the granting of tax incentives also has consequences that may negatively impact the economy and the revenues of a country. These consequences include the loss of potential government revenues since the government relinquishes its right to collect them. It becomes an expenditure to the government. Moreover, tax incentives can be prone to abuse, leaving government and citizens to bear the costs.

Ghana, like most developing countries, is constrained in its taxation capacities to design and implement sustainable tax systems that can match the oversized informal sector and inadequate resource allocations for tax administrators to operate efficiently. This has compelled the government to focus more on the formal sector and indirect consumer-based taxes, mainly value-added tax (VAT) under various disguises to combat revenue shortfalls. It is, thus, under the challenges of a narrow tax base and a non-compliant sprawling informal sector that Ghana, like most developing countries, must grow its economy.

All the same, Ghana provides several tax exemptions and incentives to encourage private investment and reduce the tax burden on certain sectors of the economy aimed at attracting and promoting private sector investment and protecting the less privileged. These "tax expenditures" become liability on government causing high fiscal cost even though most of them do not find place in the budget. In 2013, the country lost an estimated 5.2 percent of Gross Domestic Product (GDP) in revenue accumulated from the tax expenditure. While value-added tax (VAT) exemptions and preferential VAT treatment reached 4.2 percent of GDP, customs exemptions hit 0.9 percent.[1]

[1] ibid

In the last eight years, tax exemptions namely import duty, import value added tax, import National Health Insurance Levy and domestic value added tax in the economy have grown from GHS 391.0 million which is 0.6% of the GDP for 2010 to GHS 4,662.36 million, that is, 1.6% of GDP for 2018. These figures do not include exemptions from the payment of corporate and individual income taxes, concessions on tax rates, petroleum tax reliefs, customs tax exemptions enjoyed by diplomatic missions and waiver of processing charges at the ports. These exemptions are growing at the expense of tax revenue. This means that for every one Ghana Cedi of tax collected, the corresponding amount given away as exemptions has increased from six pesewas to 12.5 pesewas between 2010 and 2018. Further, exemptions may distort fair competition among businesses in the same industry where private projects are granted exemptions to improve their profitability or viability, which are not available to other players of the same industry. The current challenges of the exemptions regime are sustained by the existence of pre-determined tax exemptions in various legislation for future projects whose financials cannot be known today. The situation is not helped by an entrenched policy mindset on the part of both Government entities and private suppliers that, by default, businesses that supply goods, services and projects to the public sector should be exempted from payments of customs and some domestic taxes.

Unfortunately, even where tax exemptions are necessary, they invariably create opportunities for abuse and irregularities. Together with the abuses, exemptions deny the country of much needed revenue, the consequence being low revenue reporting, which gives an unfavourable impression to our citizens, investors, and the international community that Ghana's economy is weak, with very low revenue to gross domestic product ratio.

During the 2018 tax justice campaign season in Ghana, the Trades Union, its affiliates and CSOs proposed a research into the special economic zones to understand the kind of tax incentives provided to corporations, which are sometimes abused. The main concern to workers and CSOs was the astronomical levels of tax incentives that are handed to corporations, without analysis of the benefits to Ghana in terms of jobs, workers' rights, foreign direct investments, and contribution to trade balance. The Ghana Free Zones Board, in 2018 reported that in the first nine months of the year, 11,948 jobs were created, in addition to the more than 40,000 jobs already created. However, these figures need to be cross-checked to ensure their accuracy as these "glorious stories" always come with concerns and controversies due to the kind of incentives that are used to attract national and multinational companies to operate in the zones. The opportunity cost to government in setting up these enclaves; the kind of jobs created, general working conditions and the rights of workers are but some of the concerns raised by Trade Unions, CSOs, activists and other national and international financial and economic institutions.

In 2019, a research titled "Tackling Tax Incentives in Ghana" (Nyarko Otoo, Kwabena 2019) revealed that, in 2017, Ghana granted tax exemptions amounting to GH¢2.6 billion but even then, another estimated amount of GHS1.51 billion of company taxes could not be collected. In a more recent example, the Government of Ghana granted import duty exemptions totalling US$834 million to Meridian Port Services (MPS), a Consortium of international firms, which is undertaking a port expansion programme at the Port of Tema. This is in addition to other lavish concessions. In analysing the recent incentive packages and how much that could cost government, it was realised that if it is assumed that given the many pecuniary and non-pecuniary incentives the companies enjoy, the companies on average make a return of 20% on each dollar of export undertaken, then we could be looking at about US$474 million in forgone corporate tax revenues between 2014 and 2018 in Ghana. The research provides information on some of these loses and makes recommendations to government and policy makers on dealing with tax incentives.

1.1 The Problem with Revenue Mobilization and Shortfalls

The budget deficit is projected at 8.3% for 2021, up from 4.5% in 2019. The Government's fiscal operations resulted in a cash basis deficit of GH¢24,345 million (US$ 4.2 billion), or 6.3% of GDP, compared to the programme target of GH¢11,794 million (US$ 2.0 billion), or 3.1% of GDP for January to June, 2020 cumulatively.

Ghana's domestic revenues over the last decade have stagnated around 13% to 16%. However, Ghana's middle-income status by convention expects a tax-to-GDP performance ratio of over 18%. The under-performance on this benchmark has been recorded since the rebasing of the Ghanaian economy in 2010. However, domestic revenue underlines the macro indicators for sustainable development, hence, increased domestic revenues would lower the deficit as documented, improve the primary balance and the debt profiles of Ghana. In its efforts to enhance the fiscal space for government spending, the government has over the years proposed and partly implemented revenue mobilization measures with mixed successes.

The Government has proposed a Tax Exemptions Bill aimed at addressing the challenges of the tax incentives regime in Ghana. The Ministry of Finance estimates significant domestic revenue gains on rationalising the tax exemptions policy, a welcome but long overdue policy initiative that is being delayed unnecessarily. In 2019 the Ministry of Finance (MoF) presented the first tax exemptions bill to Parliament. However, it has since not been passed due to the General Elections and the expiry of the term of office of the then Parliament.

The Tax Exemptions Bill proposes to drive the quest to mobilise sufficient domestic resources for inclusive growth and development, to identify and prevent revenue leakages, while coordinating and reinforcing compliance in the short to medium term. In addition to the

traditionally dispersed approaches of tax exemptions, incentives, rebates and reliefs scattered in multiple bilateral agreements, projects and contracts, the Exemptions Bill seeks to leverage aggressive revenue mobilisation and strengthen the capacity of revenue collecting agencies in coordinating all these incentives, exemptions and reliefs. Thus, forging Government's efforts to move the tax revenue to GDP of 14.3% closer to the 18% average for sub-Saharan Africa over the immediate to the near term, and possibly move beyond 20% over the long run.

The object of the Bill is to rationalise the current exemptions regime on taxes, levies, fees and charges by varying, where necessary, and consolidating existing statutory provisions on tax and other exemptions and to provide for the administration of exemptions. These are the challenges that this Bill seeks to address. In 2019, when the Bill was presented to Parliament, it was projected that the exemptions for the year are expected to be lowered by about GHS 500.00 million when the Bill is passed.

2.0 THE GHANAIAN SITUATION OF TAX INCENTIVES

The Income Tax Act, 2015 (Act 896) and its supporting regulations form the basis for taxation of income in Ghana. Act 896 consolidated and rationalized the too many amendments in previous legislations and brought various other tax laws together. Under the Act, all tax incentives, as far as they relate to matters of direct tax, are brought under the administration of the Commissioner General of the Ghana Revenue Authority, taking away the powers of the Ghana Investment Promotion Council which gave automatic award of investment incentives and benefits without prior approval.

Ghana's revenue mobilization efforts are seen to be rather low and even declining partially blamed on the country's tax exemptions and incentives regimes. The low and declining revenue mobilization situation obviously continues to result in a widening gap between tax revenues and national expenditures and hence, a budget deficit and an unsustainable debt stock. While tax revenues constitute about 16% of Ghana's GDP, expenditures hover around 23%.

Despite the negative effects of tax incentives, Ghana continues to offer a wide range of incentives. Under the Ghana Investments Promotion Centre Act, 2013 (Act 865), various incentives are available to encourage strategic or major investments in the country, particularly in the areas of agriculture; manufacturing industries engaged in export trade or using predominantly local raw materials or producing agricultural equipment, construction and building industries, mining and tourism, etc. This is because tax incentives also have some economic benefits for a country which often makes countries provide attractive tax incentives for various reasons, including international cooperation and diplomacy purposes.

However, the much-touted rationale for tax incentives and exemptions has always been that it attracts Foreign Direct Investment (FDI) as they help companies reduce their cost of capital and production in general and, hence, increase their profits. FDI brings along job creation opportunities both directly and indirectly. Secondly, tax incentives come with it positive external spillovers such as the diffusion of knowledge (Technology), skills upgrading in domestic workforce and investment in Research Development. However, the empirical literature on the benefits of tax incentives and/or exemptions remains ambiguous and inconclusive with some of the literature showing that tax incentives are a secondary rather than primary driver of FDI. This school of thought emphasizes the need for a conductive environment for business operations such as ease of doing business, availability of basic infrastructure like utility and a good road and communications networks.

The tax incentives generally include exemptions from customs import duties on plant and machinery, reduced corporate tax rates, more favourable investment and capital allowances on plant and machinery, retention of foreign exchange earnings, guaranteed free transfer of dividends or net profits, foreign capital, loan servicing, and fees and charges in respect of technology transfer and guarantees against expropriation by the government.

The legal framework for granting tax incentives in Ghana can be found in the following laws:

1. The Income Tax Act, 2015 (Act 896);
2. The VAT (Amendment) Act 2017 (Act 948)
3. The Revenue Administration Act, 2016 (Act 915);
4. The Excise Duty Amendment (No. 2) Act, 2015 (Act
5. The Customs Act, 2015 (Act 891)
6. The Value-Added Tax Act, 2013 (Act 870)
7. The Ghana Investment Promotion Centre Act 2013 (Act 865);
8. Ghana Investment Promotion Centre (Promotion of Tourism) Instrument, 2005 L.I. 1817.
9. Venture Capital Trust Fund Act, 2004, (Act 680)
10. Ghana Free Zones ACT 1995 (Act 504);
11. Minerals and Mining Act 2006 (ACT 703)
12. Minerals (Royalties) Regulations 1987 (LI 1349)
13. Petroleum Income Tax Law 1987 (PNDCL 188)
14. Ghana Revenue Authority 2009 ACT (791)
15. The Timber Resources Management (Amendment) Act, 2002 (Act 617)
16. Harmonised System: ECOWAS Common External Tariffs (CET) and Other Schedules Act (Act 905).
17. The Taxation (Use of Fiscal Electronic Device) Act, 2018 (Act 966)

3.0 EXISTING TAX INCENTIVES AND THEIR IMPLICATION FOR DRM

3.1 Income Tax Incentives

The Income Tax Act, 2015 (Act 896) which replaced the Internal Revenue Act, 2000 (Act 592) was expected to broaden the tax base; tackle erosion of the tax base, rationalize, streamline and restrict tax concessions. However, in addition to the above-mentioned reduced income tax rates, there are general and sectoral tax incentives, location Incentives and tax holidays as well as import duty and VAT exemptions for various sectors of the economy. Furthermore, there is a host of allowable deductions from assessable income of a person or company. These expenses must be made in relation to the production of the income from either business, employment, or investment and must be incurred wholly, exclusively and necessarily in the production of the income. They include; interest on loans, repairs and maintenance, bad debts, Research and Development, capital allowance, foreign currency exchange losses, carry over losses as well as charitable donations and contributions. Start-up expenses and pre-operating costs incurred by a business are also allowed, provided such expenses are incurred wholly, exclusively, and necessarily in the production of the income. However, it must be admitted these "allowable deductions" can be subject to abuse due to various tax avoidance planning and would require more effective monitoring and auditing of various companies to prevent and detect such abuses.

3.2 Mineral Operations

Income from mineral operations is taxable at a rate of 35%. However, the tax laws have also provided reduced corporate income tax rates for mineral operations in the country subject to a written agreement ratified by Parliament. This provision is too open and gives too much discretion to the responsible Minister or whoever has the responsibility to negotiate the agreement. This policy needs to be reviewed as mineral resources are non-renewable so the country can derive maximum benefits from the resource, mainly through the income tax. There should be at least a minimum tax rate for such operations. It is instructive to note that the Income Tax Act has just been amended to reduce the withholding tax on the rate of tax on unprocessed gold by small scale miners to 1.5%.

3.3 Tax Incentives for the Agriculture and Agro-Processing Sector

The **Cocoa Sector** benefits from an unlimited period of exemption from tax. However, most production in the sector is carried out by peasant farmers although a small number of elite farmers seem to dominate the industry. Despite government's special grooming of the cocoa industry by providing increased producer prices, effective disease and pest control programmes, bonus payments and replanting of denuded trees to enable the sub-sector to contribute significantly to the growth of the agricultural GDP, output is characterized by serious fluctuations. However, in return, government determines the price of the product, the main rationale for the exemption from tax. However, the indefinite exemption of the

sector from tax creates economic distortions, especially as it is not based on any scientific analysis of the costs of the benefits of the farmer from government and the price paid by government to see if the farmer is actually paying tax through the price determined by government. The elite cocoa farmers should be removed from indefinite exemption from tax of cocoa income as there is a possibility of them hiding other sources of income behind current cocoa income exemption to evade appropriate taxes. In any case, such cocoa farmers can be identified for more scrutiny by the GRA. However, in spite of the efforts at minimising tax incentives, the cocoa sector remains untouched.

3.4 Tax Incentives for Tree / Cash Crop Growers

In Ghana, tree-crops and cash-crop farmers are granted tax holidays of between 5 years and 10 years. Cattle farmers are also entitled to a tax holiday for the first 10 years of operation. This has now been reviewed and they are now subject to tax at 1% during this holiday period. However, there are few pure plantations of tree-crops as mix cropping with cash crops is rather the norm. This makes it difficult to determine acreage per crop per yield and, hence, income from such an enterprise. Besides, Ghanaian farmers usually do not register with the tax authorities to enable them know commencement years and determine when their tax holiday periods end. This makes the concession inefficient and unnecessary. Similarly, livestock and fish farming are limited enterprises in the country and the tax incentives redundant. For example, commercial cattle rearing is negligible as it is mostly reared more for prestige and social status than for economic purposes.

The problems of agricultural enterprises are numerous and go beyond taxation. These problems include discriminatory land-tenure system, poor rainfall pattern, unaffordable agricultural inputs with corruption nullifying the effects of subsidies, inadequate agric–extension services and limited irrigable lands, among others.

With all these problems, tax holiday incentives are simply redundant and need to be replaced with other incentives such as effectively managed subsidies. This is because the economic impact of tax incentives regarding tree-crop and cash-crop farming is marginal or even nominal, especially as many farmers do not even know of these tax incentives. Government must rather be encouraged to put proper structures in place to regulate and monitor their operations, provide them some support so that after their 5 or 10 years tax holiday periods they will be better placed to contribute to national development.

Finally, tax incentives for agro-processing enterprises have not yielded the desired purpose of growing businesses as their economic impact is minimal.

3.5 Tax Incentives for Real Estate Development

Initially, companies engaged in the construction of residential premises were exempt from paying income tax for the first five years. However, this has been reviewed and the income of a certified company from a low-cost housing business is subject to tax at 1% for a period of five years of assessment. Real estate companies enjoy tax incentives, but the houses are either not available or affordable while rents are prohibitive. The sector faces several challenges including the high cost of inputs, lack of appropriate technology, high land acquisition and labour costs with high interest rates. Ghana's government is one of the biggest patron of real estate in the country although there are a few private estate developers. Besides, most landlords are not registered and are oblivious of tax incentives, rendering the impact of the incentives negligible.

3.6 Business Locations Incentives

The chargeable income of a manufacturing company located in a regional capital is subject to tax at a rate of 75% of the rate applicable to other income. Similarly, the chargeable income of a manufacturing company located elsewhere in the country is subject to tax at a rate of 50% of the rate of other income. However, providing countryside location incentives is an opportunity for aggressive tax planning as well. In addition, the location tax incentive is not attractive enough and manufactures prefer to stay on at the capital city and other big cities particularly Accra / Tema and Kumasi. This tax incentive can, therefore, be said to be redundant.

3.7 Tax Incentives for Rural Banking

Rural banks are exempt from paying taxes for the first ten years of operation. This is because they are supposed to serve their communities in terms of solving micro-financing problems. However, rural banks face poor patronage and effective management problems as well as a weak funding base. Most of them have, therefore, abandoned their original mandate and have turned commercial with branches in the cities to compete in commercial banking. These banks are, therefore, just enjoying tax incentives without executing their original mandate. Besides, most of these rural banks have been in existence beyond their tax holiday period. The economic impact of their tax incentives is, therefore, not worth continuing and they should be stopped.

3.8 Capital allowances

In place of the depreciation of depreciable assets of a business, capital allowances are granted at prescribed statutory rates of between 20% to 50%, depending on the category of the assets. However, intangibles, such as goodwill, patents, trademarks, and copyrights, capital allowance deductions are made over the useful life of the asset. Though not usually described as tax incentives, these capital allowances are aimed at enabling the investor to recover the

costs of the assets procured for the business and to possibly help when the need arises for replacement. These capital allowances are granted only on the grounds that the taxpayer owns the asset, and that capital expenditure has been incurred for an asset used in the trade up to the end of the basis period. However, capital allowances are granted for every year in which the asset is in use while balancing allowances and charges are made where an asset has been disposed off. The granting of capital allowances is international best practice aimed at helping businesses to operate profitably, while being able to replace worn out capital assets. The challenge is that GRA is unable to conduct physical verification of all the depreciable assets to ensure that the capital allowances being claimed are actually linked to existing assets that have been used in the generation of the income against which they are deducted.

3.9 Incentives for the Venture Capital

In 2004, the Venture Capital Trust Fund was established to provide financial resources for the development and promotion of Venture Capital Financing for Small and Medium Enterprises (SMEs) in specified sectors of the Ghanaian economy. The Venture Capital Trust Fund Act, 2004 (Act 680) states, among others, that "A venture capital financing company shall enjoy such tax incentives as shall be provided in the Internal Revenue Act, 2000 (Act 592) as amended". The current Venture Capital Tax Incentives include the following:

- Venture capital companies are allowed a relief from stamp duty in each year on subscriptions for new equity shares in venture capital funds.
- The interest and dividends from investment in venture capital companies are subject to tax at 1% for the first ten years of assessment.
- The chargeable income of a venture capital company is subject to tax at 1% for the first ten years of assessment.
- Venture capital companies are allowed to carry forward their losses for five years after the year of disposal.
- They are also allowed to carry forward their losses from disposal of investment in a subsidiary for five years after the ten years of assessment.

Funding made available to SMEs is through intermediary companies, the Venture Capital Finance Companies (VCFCs), which used to have full exemption from tax, but are now being taxed a reduced rate of 1%.

However, the overall objectives of the well-intentioned VCF initiative are not realized in terms of location and accessibility. For one, the nature of the funding for SMEs is problematic due to the bureaucratic involvement and the limited resources available for such funding, rendering the impact limited.

3.10 Carry forward of losses

In order to cushion businesses against the current economic challenges and to create a conducive economic environment and business climate as well as as try to align itself with international laws and what pertains in most tax jurisdictions, Ghana's tax laws allow carryover of losses in business or investment, including banking, general insurance, petroleum operations and mining operations. A person operating in a priority sector is allowed to deduct an unrelieved loss for any of the five (5) previous years of assessment. A person operating in a sector other than a priority sector is allowed to deduct an unrelieved loss for any of the three (3) previous years of assessment in ascertaining the person's income from business or from investment for a year of assessment. Tax losses can be carried forward for all sectors and deducted from assessable income for the three years immediately following the year in which the loss was incurred. However, specified priority sectors can carry forward their tax losses for up to five years. The priority sectors for the purpose of carrying forward unrelieved losses for five years are Minerals and mining operations, Petroleum operations, Energy and power business, Manufacturing business, Farming business, Agro processing business, Tourism business Information and communication technology (ICT) business. There is also a "carryback of losses" incentive for persons deriving income relating to a long-term contract where a contract for manufacture, installation, or construction goes beyond the company's accounting year. Losses arising from trade, profession or vocation constitutes business loss, whiles investment loss arises from losses other than from business and employment. With the poor record keeping in Ghana and the use of aggressive tax planning, including criminal presentation of accounting information, this provision is subject to abuse.

3.11 Free zone developers/enterprises

The Free Zones Act (Act 504) was enacted in 1995 to establish the Ghana Free Zone Board with the mandate to oversee the establishment and operation of Export Processing Zones in Ghana. Ghana's Free Zones concept is designed to attract mobile capital into export-oriented industries and to shore up the export position of the country. This was expected to help the country to deal with its trade and current accounts deficit. It was envisaged that the costs of forgone revenues arising out of the incentives provided to the Free Zones companies would be more than offset by the boost to the economy resulting from larger inflows of foreign exchange, and the provision of mass employment and beneficial impacts on the rest of the economy.

In order to attract investors into the Free Zones Scheme and to create a viable and sustainable business environment, the GFZA offers extensive and generous incentives to potential investors interested in developing and operating free zone enclaves and single-factory free zones in Ghana, including special geographic areas where goods may be landed, stored, handled, manufactured or reconfigured and re-exported under specific customs regulations

without attracting customs duty. These incentives comprise 100% exemption from payment of direct and indirect duties and levies on all imports for production and exports from free zones, 100% exemption from payment of income tax on profits for 10 years, thereafter, 15% on income from exports outside the domestic market and 25% on income from sales in the domestic market and total exemption from payment of withholding taxes from dividends arising out of free zone investments. There are also non-monetary incentives which include exemption from import licensing requirements, minimal customs formalities and the privilege to own 100% shares by an investor without recourse to whether the investor is foreigner or Ghanaian.

The EPZs regimes is beset with several challenges with the growing suspicion that companies deliberately fold up when their 10-year tax holiday has expired and then re-apply for free zones status under a different corporate name. Some companies also take advantage of the weak monitoring system and increasingly ignore the cap on the proportion of outputs they can sell on the domestic market. For example, between 2014 and 2015, total exports grew by 59% while exports from the free zones rather contracted by 23%, an indication that the policy was not yielding the desired outcomes and not fulfilling the export objective (Nyarko Otto, 2020).

The table below presents a summary of the income tax incentives, mainly reduced tax rates, that are available to businesses in Ghana. It should be noted that, to reduce the huge tax revenues lost through the exemptions, the government has now pegged a minimal tax rate of 1% on all companies that initially qualified for and are granted tax holidays for the tax holiday period. This is reflected in the Table below:

Table 1: Income Tax Incentives

Description	Reduced Rate	Act
Reduced corporate income tax rates for mineral operations only subject to written agreement ratified by Parliament	<35%	Act 896
Reduced corporate income tax rates for companies listed on the Ghana Stock Exchange	22%	Act 896
Reduced corporate income tax rates for a company in hotel industry	22%	Act 896
Reduced corporate income tax rates of a Venture Capital Financing company for the first 10 years	1%	Act 896
Reduced corporate income tax rates for company income from the export of non-traditional goods	8%	
Reduced corporate income tax rates for manufacturing	18.7% - 12.5%	Act 896

businesses based on location	15% - 25%	
Reduced corporate income tax rates for cocoa by-product businesses (up to five years)	1%	Act 896
Reduced corporate income tax rates for free zone enterprise/developers (up to ten years)	0%; 15%; 25%	Act 896
Reduced corporate income tax rates for rural banking businesses (up to ten years)	1%	Act 896
Reduced corporate income tax rates for financial institutions granting loans to farming enterprises and leasing companies	1%	Act 896
Reduced corporate income tax rates for agro-processing businesses (up to five years)	1%	Act 896
Reduced corporate income tax rates for tree crop farming (up to five years)	1%	Act 896
Reduced corporate income tax rates for cash crops or livestock (excluding cattle) (up to five years)	1%	Act 896
Reduced corporate income tax rates for waste processing businesses (up to seven years)	1%	Act 896
Reduced corporate income tax rates for low cost affordable residential premises (up to five years)	1%	Act 896
Reduced income tax rates applicable to chargeable income for non-resident individuals	25%	Act 896 (Amended)
Reduced corporate income tax rates for various types of trusts that are exempt (mutual funds and approved unit trust)		

Source: Author-generated from the GIPC website.

4.0 FINANCIAL INCENTIVES

In addition to tax incentives, the government of Ghana also provides some financial incentives in its efforts to promote investments into priority sectors. These include the following:

a. Strategic major investment projects (currently over $50 million) where investors may be granted concessions on import duties and other development cost
b. Exempt categories and reduced tax rates applicable to VAT and NHIS payments
c. One district, one factory (1D1F)
d. Incentives for young entrepreneurs
e. Industrial parks, special economic zone, business resource centers and partnership exchanges for SMEs and large enterprises

f. Reduction of the special petroleum tax imposed on supply of specified petroleum products by licensed oil marketing companies to 13%.

5.0 CUSTOMS AND EXCISE DUTY EXEMPTIONS

Customs and excise duties are imposed on the importation of goods at the port of entry and certain manufactured goods produced or imported into Ghana. However, there are several exemptions for persons and goods exported from or imported into the country. However, the Excise Duty (Amendment) (No.20) Act, 2015 increased duty on excisable goods on ex-factory prices on malt drinks, stout beer and cider beer. Currently, the general Customs duty rates on various goods are as follows:

Essential commodities	0%
Raw materials and capital goods	5%
Intermediate products	10%
Consumer goods	20%
Specific goods for economic development	35%

These rates are graduated and some of them are considered to be very low and serve as incentives. In addition, the following incentives apply to the payment of customs and excise duties:

a) The excise duty for increasing the use of local raw material for brewing malt drinks, stout beer and cider beer has been reduced
b) The forestry sector developers benefit from concessions on import duties on their machinery and equipment
c) Free zone developers/enterprises enjoy exemptions from customs import duties for plant, machinery, equipment's and parts
d) There are also import duty exemptions of 5% for mining companies for 253 mining equipment and machinery.

6.0 THE VALUE-ADDED TAX (VAT)

The Value-Added Tax (VAT) Act, 2013 (Act 870) provides for the payment of the VAT on the supply of goods or services made in the country other than exempt goods or services as well as on import of goods or services other than exempt import. Similarly, the VAT/NHIL is chargeable on the supply of goods or services only if the supply is a taxable supply, made by a taxable person inthe course of the taxable activity of that person. The standard VAT rate is 12.5%. The Value Added Tax Act, 2013 (Act 870) was amended in 2017 to classify the supply of financial services, domestic transportation of passengers by air and supply of

immovable property by a real estate developer as exempt supplies. However, unless specifically exempt, supplies of all goods and services are subject to VAT.

The 2017 amendment also gave legal backing to a VAT Flat Rate Scheme that was introduced to impose a Flat Rate of 3% on the value of goods by wholesalers, retailers and importers to facilitate the collection of VAT on the supply of goods in the distribution chain. However, it does not permit the payment of input tax credit. There is a general exemption on the exports of goods and services as they are zero-rated. The VAT Flat Rate has now been limited to only retailers with an annual turnover of not less than 200,000 and not exceeding 500,000 cedis. The VAT zero-rate on African textile prints for local textile manufacturers has been extended for the next two years (2023).

7.0 THE COVID-19 TAX INCENTIVES

The COVID-19 pandemic continues to exert a huge impact on the finances of governments just as it does to households. There has been a significant slowdown in Ghana's GDP growth, significant shortfalls in petroleum revenues, shortfalls in import duties and other tax revenues, as well as increased expenditures (both on health and health-related expenses), and tighter financing conditions with consequences on the 2021 Budget. The Government's "Coronavirus Alleviation Programme (CAP)" which was initiated to address the disruption in economic activities, the hardship of the citizens and to rescue and revitalize Ghana's industries came with significant impacts on Government finances.

To alleviate the suffering following the impact of COVID 19 pandemic on individuals and businesses in Ghana, the government enacted several tax laws and provided some tax incentives, initially for 2020 but has since extended some of them to June 2022. These include the following:

- A 30% rebate of income tax instalments due from hotels, restaurants, education, arts and entertainment companies, and travel and tour agencies for the second to fourth quarters of 2021 and now extended to June 2022.
- Waiving of interest and penalties due on accumulated tax arrears up to December 2021 for taxpayers who arrange to settle the arrears by September 2021 subject to specified conditions. This has also now been extended to June 2022.
- Suspending quarterly income tax instalment payments for the second to fourth quarters of 2021 for qualifying small businesses using the income tax stamp system.
- Suspending quarterly payments for vehicle income tax (VIT) for qualifying owners of primary commercial transport (i.e., taxis and trotos) for the second to fourth quarters of 2021.
- Indefinitely extending the tax exemption on capital gains on securities listed in Ghana's capital market.

9.0 CONCLUSION AND RECOMMENDATIONS

The study concludes that, Ghana has several fiscal provisions that allows for the granting of very significant and costly tax incentives to both domestic and foreign investors without the necessary mechanisms to monitor results and sometimes without sunset clauses on them. However, there is no conclusive evidence that tax incentives are per se factors for economic growth. It is even argued that the extent to which tax incentives have an impact on economic growth, job creation, inter-national competitiveness, and direct investment, depends on non-tax factors such as good governance and the micro-economic policy environment, political stability, the literacy rate and skills of labour, dependable legal and judicial systems, efficiency of the banking system, development of modern infrastructure and communications systems and an effective promotion system. These factors determine economic growth and when taken together, create the "enabling environment" necessary for attraction of investments that promotes economic growth.

Taxes are paid virtually in every country and investors know and willingly pay taxes and so tax incentives can be minimised without any serious negative impact on economic growth if all the other factors are in place. In fact, governments need the funding from taxes to create the enabling environment. However, when taxes are too high and unbearable, businesses can be scared and may tend to look for low tax jurisdictions.

Ghana's tax system should focus on combining low tax rates with a broadened tax base. Broadening the tax base would include adopting pragmatic long term measures to tackle the informal sector which is left off the tax hook causing inequity in the tax system with the tax burden weighing more heavily on the formal sector which inadvertently also leads to widespread tax evasion and avoidance. The combination being recommended will most likely set the tone for reducing economic distortions and lead to a transparent, neutral tax system, which in turn brings about fair competition among both local and foreign firms.

Ghana's tax incentives are largely viewed as unnecessary, redundant, inefficient, and ineffective in generating the desired impacts. There is, therefore, a need to review the regime in line with the country's economic needs while safeguarding its revenue mobilization efforts taking into consideration the fact that different economic goals require different tax incentives. Based on the findings and the conclusion, the study makes the following recommendations:

1. The Ministry of Finance (MOF) must undertake a thorough review of the host of generous incentives that exist in our statutes in order to eliminate those that are profit redundant and based, like tax holidays. The 1% income tax rate now imposed on companies qualified for tax holidays is still not adequate. The government can also provide more specific exemptions with sunset clauses, where necessary.

2. The government through its relevant Ministries, Departments and Agencies (MDAs) must strengthen and resource the Free Zones Board (FZB) and other regulatory and security agencies to be more vigilant over multinational companies and others to prevent them from stripping out profits to offshore holdings and financing affiliates.

3. The Commissioner General needs to use his/her powers to deal with pernicious and increasingly sophisticated tax avoidance schemes, such as Income Splitting, Transfer Pricing and Thin Capitalization, aimed at avoiding tax in Ghana.

4. Parliament must expedite action on the passage of the current Exemptions Bill laid before it into an Act so the country can have the legal backing for a proper regulation of the exemptions regime.

5. Tax incentive regimes should be underpinned by enforceable and clear, transparent and credible legal, technical and political processes to deter rent-seeking behaviours that grant tax breaks purely for private gains.

6. Furthermore, the social costs and benefits of new and existing tax incentives must continuously be evaluated to cover externalities, intended and unintended consequences, and consistency with social and environmental policies, labour standards and environmental regulations.

7. The Ghana Revenue Authority (GRA) must conduct physical verification of the depreciable assets to ensure that the capital allowances being claimed are actually linked to existing assets that have been used in the generation of the income against which they are deducted

8. The GRA must undertake proper examination of accounts and conduct special audits on high-risk businesses in order to ensure that all the conditions required in relation to granting of allowable deductions (as per sections; 7 to 17 of the Income Tax Act 2015, Act 896 together with all the relevant amendments) are strictly adhered to in order to prevent abuse.

9. The Commissioner General must exercise his power under section 34 of the Income Tax Act 2015, Act 896 without fear or favour to re-characterise or disregard all arrangements that are entered into or carried out as part of tax avoidance schemes to take undue advantage of the existing tax incentive regime.

10. Government must set up a committee to review all existing stability agreements and come up with appropriate recommendations on the way forward as the state continues to lose so much tax revenues through these arrangements. Additionally, Parliament must carry out proper scrutiny of all such agreements which are brought before it in order to ensure that the state does not continue to lose its scarce resources to the multinational corporations as some of them have the option to stabilise an agreement for a period of fifteen (15) years.

11. Finally, the Ministry of Finance must analyse tax expenditures annually to determine whether they are consistent with budget policies and ensure that they are subjected to ongoing monitoring, review, and parliamentary oversight. The Minister must present this report to Parliament and make same available to the public.

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