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The 2017 Budget and Tax Reviews: Can the Government meet its Revenue Target?

By

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A-N&A

Presenter



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Table 15: Summary of Revenue and Grants Estimates for 2017

Source: Ministry of Finance

Description (In million GHC)	2016 Prov. Outturn		2017 Budget		
	Amount	% of GDP	Amount	% of GDP	% Change over 2016
Total Revenue and Grants	33,678	20.0	44,962	22.1	33.5
Tax Revenue	25,729	15.2	34,382	16.9	33.6
Taxes on Income and Property	9,107	5.4	13,447	6.6	47.7
o/w Company Taxes on Oil	42	0.0	0	0.0	-100.0
o/w Royalties on Oil	176	0.1	617	0.3	251.3
Taxes on Domestic Goods and Services	12,231	7.2	13,863	6.8	13.3
Taxes on International Trade	4,390	2.6	7,072	3.5	61.1
Social contributions	280	0.2	296	0.1	5.7
Non-tax	4,882	2.9	6,670	3.3	36.6
o/w Royalties on Oil	493	0.3	1,741	0.9	252.9
Other Revenue (ESLA)	1,646	1.0	2,082	1.0	26.5
Grants	1,141	0.7	1,532	0.8	34.3

Table 16: Summary of Expenditure Estimates for 2017

Source: Ministry of Finance

Description (In million GHC)	2016 Prov. Outturn		2017 Budget		
	Amount	% of GDP	Amount	% of GDP	% Change over 2016
Total Expenditure (incl. arrears clearance)	51,125	30.3	58,137	28.6	13.7
Compensation of Employees	14,165	8.4	16,006	7.9	13.0
o/w Wages and Salaries	12,110	7.2	14,047	6.9	16.0
Use of Goods and Services	3,221	1.9	3,518	1.7	9.2
Interest Payments	10,770	6.4	13,941	6.9	29.4
o/w Domestic Interest	8,466	5.0	11,228	5.5	32.6
Subsidies	0	0.0	50	0.0	n/a
Grants to Other Government Units	8,607	5.1	9,731	4.8	13.1
Social Benefits	0	0.0	241	0.1	n/a
Other Expenditure	203	0.1	2,430	1.2	1,097.6
VAT Refunds	1,445	0.9	1,351	0.7	-6.5
Capital Expenditure	7,678	4.6	7,128	3.5	-7.2
o/w Domestically financed	2,049	1.2	2,780	1.4	35.7
o/w Foreign financed	5,630	3.3	4,348	2.1	-22.8
Other Outstanding Expenditure Claims	5,036	3.0	0	0.0	-100.0
Arrears Clearance	2,320	1.4	3,743	2.2	61.3

Revenue Mobilisation and Management Programme

285. Self-Assessment System to be piloted in five Small Taxpayer Offices in 2017.

Comment

- ❖ This is a good measure to instill voluntary tax compliance as is being currently done with the Large Taxpayer Offices and the Medium Taxpayer Offices.
- ❖ However, the Revenue Officers of the STO of the Ghana Revenue Authority need to be sensitized to enable them appreciate the measure to enable them assist taxpayers to comply.
- ❖ Penalties need to be enforced as well on defaulting taxpayers when the self-assessed figure is exceeded by the actual at the end of the year so as to check under-declarations.
- ❖ Unfortunately this pilot has not even taken off, although we are almost halfway through the year.

Revenue Mobilisation and Management Programme

286. To curb tax evasion and improve revenue collection under the VAT system, Electronic Point of Sales devices will be deployed by the third quarter of 2017 to ensure that VAT collections are monitored on a real-time basis by the GRA.

Comment

- ❖ ***A good measure for revenue mobilisation which was to have been rolled out last year as stated in paragraph 939 of the 2016 Budget Statement.***
- ❖ ***It is good the VAT on financial services has been abolished because if the VAT charges on the use of ATM cards and such electronic means of transacting business had been maintained, the likelihood of the reduction in patronage could have affected the revenue inflows.***
- ❖ ***To enable the Government meet its revenue target, measures have to be put in place as of now to roll out this improved system since the third quarter kicks off next month.***

Revenue Mobilisation and Management Programme

287. Full implementation of the Excise Tax Stamp Act, 2013 (Act 873) will be carried out to boost revenue collection and also curtail under-invoicing and smuggling.

Comment

- ❖ ***This is another welcome measure which was tried in 2016 with increased resistance from importers and producers citing a number of reasons which need to be addressed for a successful implementation.***
- ❖ ***I hope those concerns have been addressed to enable the implementation take off for Government to meet its revenue targets.***
- ❖ ***As of now this measure has not yet been rolled out.***

Revenue Mobilisation and Management Programme

288. Ghana Statistical Service data with 2014 as the reference year puts persons in employment as 3,383,206. GRA data, however, indicates that, only about one million are on its Register. In order to bridge the gap, the following actions will be undertaken: ensure that all employers file Annual Employee Returns; reconcile SSNIT and GRA PAYE data; and identify practicing professionals including self-employed persons to ensure that they pay PAYE for themselves and persons working for them.

Comment

- ❖ ***Another important measure of sustained revenue inflows. Same should be done for corporate entities, partnerships and sole proprietorships using data from the Registrar-General's Department.***
- ❖ ***The GRA should liaise with professional bodies to ensure that the renewal of practicing certificates and licences requires a Tax Clearance Certificate, as provided for in Part I of the First Schedule to the Revenue Administration Act, 2016 (Act 915), to enhance compliance by these professionals.***

Revenue Mobilisation and Management Programme

289. According to research by Tax Justice Network-Africa, Ghana loses an estimated amount of GH¢2.0 billion from Transfer Pricing abuses from the Extractive Sector. The Transfer Pricing Unit of the GRA will be strengthened to undertake rigorous audit of these companies. In addition, integrated audit of Free Zone companies and specialised sectors will be carried out.

Comment

- ❖ ***This should be a sustained and continuous exercise which should be carried out as a joint audit involving staff of both the Domestic Tax Revenue Division and the Customs Division of the GRA so that all tax types can be audited at a go.***
- ❖ ***This ensures that the taxpayer's activities are not unduly disrupted, whereas Government also receives its revenue promptly.***

Revenue Mobilisation and Management Programme

- ACEP in its February 2015 report on Illicit Financial Flows and the Extractive Industry in Ghana indicated that cumulative gross illicit flows from trade misinvoicing amounted to US\$14.39 billion over the ten year period 2002 to 2011. (Baker et al. (2014))
- They again indicated that if the period is taken from 1960 to 2012 then the IFFs through trade misinvoicing amounts to US\$40 billion.
- ACEP again estimates IFFs from illegal mining in Ghana in 2013 to be about US\$1.7 billion.

A critical look at these in addition to the transfer pricing challenges will secure Ghana a significant amount of revenue, albeit far in excess of its target.

Revenue Mobilisation and Management Programme

290. To increase Customs revenue and enhance efficiency in the disposal of forfeited vehicles, the Ministry will auction 70 percent of vehicles and allocate the rest to Public Servants. In both instances, the price of the vehicle shall include eligible duty and taxes. In the same vein, the law on the disposal of forfeited goods will be strictly enforced.

Comment

- ❖ ***This measure equally requires close supervision and monitoring in order to garner for government the much needed revenues, by avoiding cronyism and the like in the auction process.***
- ❖ ***The pricing should be at market values rather than give-away prices if indeed revenue mobilisation drive is to succeed.***

Revenue Mobilisation and Management Programme

291. The Ministry, in collaboration with all key stakeholders, will review existing legislation and all administrative instructions regarding Non-Tax Revenue/Internally Generated Fund (NTR/IGF) to develop an IGF Policy.

Comment

❖ *There exists a report on work done on some selected entities and institutions in this regard, sponsored by the European Union, and a look at this report will assist government expedite work in this area for maximising non-tax revenue mobilisation.*

Revenue Mobilisation and Management Programme

292. In 2017, the Ministry will: (i) roll out the e-monitor software to additional selected MDAs (ii) audit banking service arrangements with participating commercial banks and (iii) expand the coverage of the gross lodgment policy on NTR/IGF to cover more MDAs.

293. Additionally, the Ministry in 2017 will wean off the National Pensions Regulatory Authority (NPRA) from government payroll and ensure a net transfer of IGF from the Authority into the Consolidated Fund to help free up fiscal space.

Comment

❖ *Good measures that need to be pursued and monitored, especially the roll out of the e-monitor software.*

Revenue Mobilisation and Management Programme

294. In response to the changing global development cooperation architecture, and to improve effective and strategic use of development assistance in support of Ghana's medium to long term development strategy, the Ministry will complete the Ghana Development Cooperation Policy (GDGP) to serve as a basis for dialogue with development partners, and provide direction for governance arrangements.

Comment

❖ ***It is welcome news that this policy will be continued as that will instill confidence of the development partners in the country and its managers.***

IMPROVING THE BUSINESS ENVIRONMENT

Tax Incentives (Par. 796)

» The following specific measures shall be implemented in the short to medium term: **(Note: The relevant legislation, for most of them are in place)**

» • abolish the 1 percent Special Import Levy;

Comment: Will lessen the burden on importers and producers however there is the need to ensure such beneficiaries indeed pay up their corporate tax and personal income tax, hence the Tax Clearance Certificate for clearing goods from the ports need to be rigorously enforced.

» • abolish the 17.5 percent VAT/NHIL on financial services;

Comment: Good policy as discussed above along the deployment of point of sale devices. However, what happens to Input VAT so far?

» • abolish the 17.5 percent VAT/NHIL on selected imported medicines, that are not produced locally;

Comment: Good policy, however there is the need for monitoring to ensure this translates in the medicines being cheaper than before the abolishment.

IMPROVING THE BUSINESS ENVIRONMENT

Tax Incentives (Par. 796)

- » • initiate steps to remove import duties on raw materials and machinery for production within the context of the ECOWAS Common External Tariff (CET) Protocol;

Comment: Good to know it is an initiation and has to be within the context of the ECOWAS CET so we remain true to pacta sunt servanda and not flout the Protocol.

- » • abolish the 17.5 percent VAT/NHIL on domestic airline tickets;

Comment: This should translate into lower airfares to promote domestic air travels as well as boost domestic tourism.

- » • abolish the 5 percent VAT/NHIL on Real Estate sales;

Comment: This should also translate into lower cost of housing else there will also be the need to ensure corporate taxes are paid.

IMPROVING THE BUSINESS ENVIRONMENT

Tax Incentives (Par. 796)

- » • abolish excise duty on petroleum;

Comment: This should lessen the burden on consumers as well as cost of doing business. We however need to guard against smuggling of our albeit cheaper petroleum into neighbouring countries.

- » • reduce special petroleum tax rate from 17.5 percent to 15 percent;

Comment: Same comment as above.

- » • abolish duty on the importation of spare parts;

Comment: It would have been better to start with a reduction and graduate downwards towards an abolishment after assessing the impact of the reduction.

That way we guard against the possible effects of

- ***dumping;***
- ***Ghana being used as a conduit to transship into other countries;***
- ***Effect on local manufacturers of some spare parts.***

Abolishing duty on spare parts vis-à-vis CET

- » This is a doable policy because each country is allowed 3% of the tariff line to vary the rate from that of ECOWAS CET for a period of 5 years beginning January 1, 2015. (Note: Ghana commenced implementation on February 1, 2016, hence losing a year already).
- » Ghana thus has $3\% \times 5,899 = 176$ to vary and we have already varied 59 Headings leaving us with 117, so yes the Government can reduce the import duty on spare parts to 0% (i.e. abolish).
- » What is allowed is in two parts – Import Adjustment Tax and Supplementary Protect Measures.
- » The Import Adjustment Tax can be resorted to before 2020 (ECOWAS CET completion point).
- » The Supplementary Protect Measures are available to a country post-2020, for example being able to slap additional tax to prevent dumping and flooding of imports into one's country.

IMPROVING THE BUSINESS ENVIRONMENT

Tax Incentives (Par. 796)

- » • abolish levies imposed on 'kayayei' by local authorities;
- » • abolish levies imposed on religious institutions by local authorities;

Comment: The above two reliefs are to be discussed with local authorities as Parliament has under article 174(3) approved the exercise of such powers by them of imposing levies.

- » • exempt from taxation, the gains from realization of securities listed on the Ghana Stock Exchange or publicly held securities approved by the Securities and Exchange Commission (SEC);

Comment: This exemption has outlived its significance as a stimulus for businesses listed on the Ghana Stock Exchange to raise funds. This is because since the GSE started operations in November 1990, these gains have been exempt from tax, yet sourcing of funds by the entities remain a challenge.

This is because aside the Initial Public Offering (IPO), the shares are held by individuals and corporate shareholders who make the gains by trading on the GSE through their brokers hence aside the initial funds that go to the listed companies, all secondary transactions create gains for others other than the listed entities.

IMPROVING THE BUSINESS ENVIRONMENT

Tax Incentives (Par. 796)

- » • reduce National Electrification Scheme Levy from 5 percent to 3 percent;
- » • reduce Public Lighting Levy from 5 percent to 2 percent;

Comment: The above two will surely have a mitigating cost to businesses and households which is welcome.

- » • replace the 17.5 VAT/NHIL rate with a flat rate of 3 percent for traders;

Comment: This policy has been tried before and there is the need to evaluate the how and why the reinstatement of the standard rate of 17.5%.

The net effect of the input-output credit system indeed results in a net returns to government of about 3% hence the introduction of the VAT Flat Rate Scheme.

However it has its inflationary tendencies as compared to the standard rate. The current policy does not take into account the issue of a threshold.

The likelihood of revenue losses to the Government are high.

There is the need for a relook at the law to ensure Government receives maximum revenue from it. (Modified Taxation)

IMPROVING THE BUSINESS ENVIRONMENT

Tax Incentives (Par. 796)

- » • implement tax credits and other incentives for businesses that hire young graduates.

Comment: There has been in existence such a relief introduced by the Late Hon Baah Wiredu (may his soul rest in peace).

It is currently found in paragraph 8 of the Sixth Schedule to the Income Tax Act, 2015 (Act 896).

Unless this relief seeks to add more to the existing relief.

797. Mr. Speaker, we will also support local banks to make credit available to small and medium scale businesses.

Comment: This is welcome news to small and medium scale businesses. The SMEs to benefit should be carefully scrutinized to ensure their ability to repay the loans so as not to create non-performing loans to the banks.

REVIEW OF IMPORT DUTY AND TAX EXEMPTIONS (Par. 798)

- » This was captured as Review of Tax Exemptions in Pars. 934 to 938 of the 2016 Budget Statement as well and my comment remains same as below:
- » **This is another area of ongoing measures as captured under paragraphs 850 to 854 of the 2015 Budget Statement.**
- » **The review of tax exemptions is a welcome policy measure as it addresses the huge revenue lost through tax expenditures, being the tax revenue lost through tax exemptions.**
- » **The statistics provided speak for themselves in terms of the tax revenue lost so far. (1.68% of GDP for 2013; 1.82% in 2014 and 1.98% in 2015).**
- » **One key area of concern is the exemptions in government contracts and grants which these policy measures now tend to address under paragraph 937 of the Budget Statement.**
- » ***Comment: It is thus good riddance that as a nation we are continuing such good policies to secure revenue for the State. Reports exist on work done on how to resolve this challenge.***

CONCLUSION

- ▶ I am of the firm conviction that, the Government may be able to meet its revenue target if and only if, as a country, we adhere strictly to the plans under paragraph 16 of the Budget by
 - ▶ Strengthening tax administration;
 - ▶ Reducing tax exemptions;
 - ▶ Plugging revenue loopholes and leakages;
 - ▶ Combatting tax evasion; and
 - ▶ Broadening the tax base.

END OF PRESENTATION

THANK YOU

Questions, Comments, Contributions



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