



TAX JUSTICE COALITION – GHANA

PROMOTING PROGRESSIVE TAXATION IN GHANA

A RESPONSE TO THE MID-YEAR REVIEW OF THE 2018 ANNUAL BUDGET STATEMENT AND ECONOMIC POLICY AND THE 2019 ANNUAL BUDGET STATEMENT AND ECONOMIC POLICY

Introduction

Tax Justice Coalition – Ghana (TJC – Ghana) conducted an analysis of the tax policy initiatives and measures announced in the Mid-Year Review of the 2018 Annual Budget Statement and Economic Policy and the 2019 Annual Budget Statement and Economic Policy as approved by Ghana’s Parliament. Based on the Analysis, the TJC – Ghana wishes to share with the government, Ghanaians and other stakeholders its views on some of the policy initiatives.

In July 2018, the Minister for Finance, presented to Ghana’s Parliament, a mid-year review of the government’s 2018 Annual Budget, which included some tax policy initiatives. Some of these policies were repeated in the 2019 Annual Budget Statement and Economic Policy. Those of immediate concern to TJC – Ghana are:

- The conversion of the GET Fund VAT rate of 2.5% to a straight levy;
- The conversion of National Health Insurance Levy of 2.5% to a straight levy;
- The introduction of a new income tax band with a threshold of GHS 10,000 at a rate of 35% which was increased to GHS 20,000 with a lower rate of 30%;
- The imposition of a luxury tax on vehicles with engine capacity of 3000cubic centimetres and above;
- The intensification of tax compliance measures.

As a key civil society organization (CSO) and stakeholder, the TJC-Ghana finds it necessary to indicate its position on some of these policy initiatives and their impact on the people and the economy. This is why the TJC – Ghana conducted the analysis to enable it raise concerns, demand that government revisits some of the policy initiatives and endorse those that it finds appropriate.

The Position of the Tax Justice Coalition – Ghana

1.0 The New Income Band and Tax Rates

On the introduction of the new income tax band at a final rate of 30% for incomes above GHS 20,000.00 per month, TJC –Ghana believes that there is still a need for the review of the income tax rates and to flatten and expand the income brackets to include more income tax rates such as 15%, 20% and 35% and make the income tax system more progressive and reduce the already widening inequality in the country.

In line with this thinking, TJC-Ghana also calls on the government to return the corporate tax rate to 35% as was the case in the 1990s. The TJC-Ghana believes that, apart from the loss in revenues from a lower corporate tax rate, it is not fair to tax individuals at 30% or 35% while taxing companies which earn huge profits at a lower rate.

2.0 The Conversion of VAT to Straight Levies

The policy converting the VAT on the GETFund and NHIL to straight levies is, in fact, an increase in the VAT rate as government has admitted it will enable the Government to isolate and increase the budget for health and education. The policy, therefore, needs to be given a second look as it increases the overall VAT burden on the taxpayer and businesses and defeats the VAT Flat Rate System (VFRS) policy which reduced VAT to 3% for several VAT qualified persons. The conversion also deprives the businesses of the recovery of input VAT. This definitely affects the ordinary person because consumer-based taxes are regressive in nature and often lead to price hikes and may tend to reverse the recent achievements in inflationary trends. We, therefore, call on the government to revert to the previous VAT regime of 17.5% standard VAT rate and the VFRS of 3%.

3.0 The Luxury Vehicle Tax

Inasmuch as this tax is well-intended, TJC – Ghana calls for an amendment to the law to take immediate effect and not to have retrospective effect on people who purchased and registered their luxury vehicles several years ago when the tax was not in existence.

4.0 Review of Tax Exemptions

The government has admitted, in the 2019 Budget Statement, that Ghana's tax exemption regime is not sustainable and has doubtful benefits. It is, therefore, imperative that the government pursue its decision to review current tax exemptions and monitor seriously the implementation of the existing exemptions and other tax concessions. However, TJC – Ghana has also noted that, the government has granted new tax exemptions such as tax breaks to private universities, abolishing the 7.5% income tax on the commission of lotto agents and removing VAT on lotto stakes to discourage people from engaging in illegal lottery and others. These concessions will definitely reduce the government's revenue potential.

5.0 Reforming Revenue Collection Agencies

The proposal to reform the revenue agencies is a welcome proposal and it is recommended that the government carries out the reforms without any further delay. In doing this, the government must provide the GRA with the necessary human and material resources to effectively execute its mandate. However, any serious reforms of the GRA must include making it semi-autonomous and devoid of political interference so as to enable it pursue tax defaulters and other criminally minded persons without fear or favour.

6.0 The Use of NABCO Officers for Tax Work

The TJC –Ghana believes that using temporary NABCO officers who have no security of tenure and motivation to offer quality and dedicated services will be a disaster and undermine the objective of

effective revenue mobilization. GRA may need additional staff but they should be provided through a meritorious selection process with formalized and secured tenure of office.

7.0 The Collection and use of Internally Generated Funds (IGFs)

The streamlining of the collection of IGFs by the Ministries, Departments and Agencies (MDAs) is not only necessary to promote transparency and accountability in the collection but also to control the use of these IGFs by the MDAs to avoid misappropriation.

8.0 The Introduction and Use of the Taxpayer Identification Number (TIN)

The issuance and use of the TIN for business and other transactions must be enforced for all transactions with all public and private companies, including financial and investment companies, etc. However, the decision to link it to the social interventions needs to be looked at again as it will impose undue burden on the illiterate and rural poor population.

9.0 The Use of Third-party Information

The use of third-party data to build a database for revenue mobilization by both the central government and the Metropolitan, Municipal and District Assemblies (MMDAs) is welcome, imperative and long overdue for a revenue agency that works to widen the tax net. The GRA needs to intensify its collaboration with other state agencies and make use of modern data management technology to increase its effectiveness as a revenue collection agency.

Additionally, the GRA must effectively exhaust the use of information in its own custody, such as information on Withholding taxes to pursue unregistered businesses, before reaching out to other institutions and demanding this information. Providing feedback to these agencies and individuals, even providing compensation to people who volunteer information and acknowledging good taxpayers.

Conclusion

In conclusion, the tax policy initiatives contained in the Mid-Year Review of the 2018 Annual Budget and the 2019 Annual Budget are well-intentioned and aimed at enhancing Ghana's revenue mobilization efforts. This objective will most likely be achieved if all these policy initiatives are effectively implemented. However, some of these initiatives may have some negative effects on the economy and the citizens that may counteract the benefits. These negative initiatives have been highlighted by the TJC - Ghana and should be revisited.