REPUBLIC OF GHANA

MINISTRY OF FINANCE

2023 TAX EXPENDITURE REPORT

9TH DECEMBER, 2024

Contents

ABBREVIATIONS

AP	Adjusted Profit
CD	Customs Division
CI	Chargeable Income
CIF	Cost, Insurance and Freight
CIT	Corporate Income Tax
CPC	Customs Procedure Codes
DTRD	Domestic Tax Revenue Division
ECOWAS	Economic Community of West African States
EDIL	Export Development and Investment Levy
GCMS	Ghana Customs Management System
GETFUND	Ghana Education Trust Fund
GIPC	Ghana Investment Promotion Centre
GITMIS	Ghana Integrated Tax Management System
GNPC	Ghana National Petroleum Company
GRA	Ghana Revenue Authority
GSS	Ghana Statistical Service
HCSTCS	Harmonized Commodity and Tariff Code Schedule
ICUMS	Integrated Customs Management Systems
ITA	Income Tax Act
MMA	Mineral and Mining Act
MNE	Multi-national Enterprises
NHIL	National Health Insurance Levy
PIT	Personal Income Tax
SUT	Supply and Use Table
TE	Tax Expenditure
TRIPS	Total Revenue Integrated Processing System
VAT	Value Added Tax

VCFC	Venture Capital Finance Company
VCTF	Venture Capital Trust Fund
WHT	Withholding Tax
WTO	World Trade Organization

1.0. EXECUTIVE SUMMARY

This report looks at Tax Expenditures (TEs) relating to import exemptions (Customs Duties and Taxes), Domestic Direct and Domestic Indirect for the 2023 financial year.

The main objective of this report is to provide an insight into various Tax Expenditure items. The report also provides, among other things, the basis for Government Tax Expenditure.

TEs for 2023 was GH₵4,616 million compared to GH₵4,804 million recorded in 2022; a decrease of GH₵185.74 million (representing 4.02 percent). Out of the amount for the year 2023, the shares of Domestic Direct Tax, Domestic Indirect Tax, and import exemptions (Customs) were GH₵264.02 million (representing 5.17 percent), GH₵809 million (representing 17.53 percent), and GH₵3,545 million (representing 76.76 percent) respectively.

Table 1: Tax Expenditure distribution for 2023 and 2022

Description	2023		2022	
Tax Components	(GH₵'M)	share %	(GH₵'M)	share %
Domestic Direct	264.02	5.72%	415.30	8.64%
Domestic Indirect	809.49	17.53%	919.18	19.13%
Import exemptions (Customs)	3,545.33	76.76%	3,470.10	72.22%
Grand Total	4,618.84	100.00%	4,804.58	100.00%

Total import exemptions in 2023 amounted to GH₵3,545 million compared to GH₵3,470 million and GH₵2,388 million recorded in 2022 and 2021 respectively. The 2023 amount was made up of Parliamentary exemptions of GH₵1,710 million (representing 48 percent); Government and Privileged Persons and Organisations of GH₵783 million (representing 22 percent); Ghana National Petroleum Company (GNPC) and upstream oil operators of GH₵595 million (representing 17 percent); ECOWAS of GH₵410 million (representing 11 percent) and others (representing 2 percent).

Total tax expenditure for Domestic taxes in 2023 stood at GH₵1,074 million. This consisted of GH₵809 million in respect of indirect taxes and GH₵264 million for domestic direct taxes.

2.0. GLOBAL VIEW BY GTED

2.1. According to the Companion Paper to the Global Tax Expenditures Database (GTED) the global average for tax expenditures over the 1990-2020 period was 3.8 per cent of GDP and 24.2 per cent of tax revenue respectively.

2.2. Global figures on revenue forgone have also been growing steadily over the years. Between 2014 and 2018, it averaged more than 3.5 trillion USD per year (GTED Companion Paper).

The table below shows TE data for some selected countries:

Table 1: Tax Expenditure of selected countries

Summary of Tax Expenditure of selected countries 2016-2020					
Country	**Year**	**TE**	**USD Equivalent**	**TE/GDP**	**TE/TR**
Cameroon	2020				
	2019	584.60 billion XAF	997.91 Million USD	2.57%	NA
	2018	387.74	697.94 Million USD	2.57%	NA
	2017	451.3	777.15 Million USD	2.57%	16.31%
South Africa	2020				
	2019	249.33 Billion ZAR	17.26 Billion USD	4.91%	18.37%
	2018	224.11 Billion ZAR	16.93 Billion USD	4.60%	16.39%
	2017	228.02 Billion ZAR	17.11 Billion USD	4.90%	17.81%
	2016	195.29 Billion ZAR	14.66 Billion USD	4.48%	NA
Rwanda	2020	288.61 Billion RWF	305.96 Million USD	2.93%	18.14%
	2019	258.27 Billion RWF	287.19 Million USD	2.84%	16.95%
	2018	190.43 Billion RWF	221.09 Million USD	2.30%	14.45%
	2017	NA	NA	NA	NA
	2016	NA	NA	NA	NA
Nigeria	2020	5.84 Trillion NGN	16.29 Billion USD	3.79%	
	2019	4.41 Trillion NGN	14.38 Billion USD	3.03%	
	2018	NA	NA	NA	NA
	2017	NA	NA	NA	NA
	2016	NA	NA	NA	NA
Morocco	2020	28.91 Billion MAD	3.02 Billion USD	2.68%	13.38%
	2019	28.44 Billion MAD	2.96 Billion USD	2.47%	11.52%
	2018	28.56 Billion MAD	3.04 Billion USD	2.58%	11.78%
	2017	28.55 Billion MAD	2.95 Billion USD	2.69%	12.35%
Ghana	2020	4.30 Billion GHS	760.35 Million USD	1.12%	NA
	2019	4.68 Billion GHS	896.86 Million USD	1.34%	10.90%
	2018	4.26 Billion GHS	929.91 Million USD	1.42%	10.78%
Côte d'Ivoire	2020	326.80 Billion XOF	567.77 Million USD	0.93%	NA
	2019	381.80 Billion XOF	651.73 Million USD	1.11%	NA
	2018	338.50 Billion XOF	609.30 Million USD	1.05%	8.72%
	2017	344.80 Billion XOF	593.75 Million USD	1.15%	9.42%
United Kingdom	2020	171.74 Billion GBP	218.83 Billion USD	8.13%	NA
	2019	166.21 Billion GBP	212.15 Billion USD	7.49%	30.38%
	2018	164.84 Billion GBP	219.92 Billion USD	7.70%	31.04%
	2017	153.06 Billion GBP	196.99 Billion USD	7.40%	29.83%
Source: GTED					

3.0 INTRODUCTION

3.1. The core function of any tax system is to raise revenues necessary to fund government expenditures. The tax system can also be used to achieve public policy objectives through the application of specific measures such as preferential tax rates, exemptions, deductions, deferrals, and tax credits. These measures are often described as "tax expenditures" because they are used to achieve policy objectives.

3.2 TEs are special provisions of the tax laws that deviate from the country's benchmark tax system and provide preferential treatment to specific groups of taxpayers, activities, economic sectors, or regions. Such treatment usually results in a reduction in tax liability for the taxpayer. They represent tax revenues that would have been otherwise generated if not for this preferential treatment in the tax laws.

3.3. The legal framework underlying taxes and tax expenditures stems from Article 174 of the 1992 Constitution of Ghana, various revenue acts and subsidiary legislations.

3.4. The Minister of Finance is mandated by Section 21 (5) (e) (viii) of the Public Financial Management Act, 2016 Act 921 and Section 5 (5) (b) of the Exemptions Act, 2022 (Act 1083) to report on Tax Expenditure to Parliament as part of the Annual Budget Statement. Following from the mandate of the Minister, the Commissioner-General of the Ghana Revenue Authority (GRA) is required by Section 64 of the Revenue Administration Act, 2016 (Act 915) to "submit to the Minister a quarterly report on the total amount of reductions of tax granted to or claimed by taxpayers."

3.5 The purpose of reporting TEs annually is to provide the public and policymakers with information on the cost of TEs for decision making.

4.0 METHODOLOGY FOR ESTIMATING TAX EXPENDITURE

4.1. Three (3) methodologies exist for the estimation of TEs. These are Revenue Forgone Approach, Revenue Gain Approach, and the Outlay Equivalent Approach. Ghana uses the Revenue Forgone Method (RFM) because of its simplicity and adaptability.

4.2. The RFM calculates the extent to which a provision in the Laws or Acts reduces the estimated tax revenue to the State. The method estimates the difference between the standard tax rate and what is payable because of some specific provisions in the legislation or discretion exercised pursuant to Article 174(2) of the 1992 Constitution.

5.0 DATA COLLECTION

Data on domestic tax expenditures is extracted from the Ghana Integrated Tax Management Information System (GITMIS) whiles Customs data is extracted from the Customs Management Systems (ICUMS).

6.0. CATEGORY OF TEs

TEs are categorised under three (3) broad headings; namely, import exemption (Customs), Domestic Direct and Domestic Indirect.

6.1.1 Domestic Direct TEs

a. *Agriculture (cash crops, tree crops, animal rearing)*
b. *Agro-Processing*
c. *Export*
d. *Free Zones*
e. *Hotel*
f. *Location Incentive*
g. *Mining*
h. *Rural Bank*
i. *Waste Processing*
j. *Young Entrepreneurs*

6.1.2 Domestic Indirect Tax Expenditure Projects (Domestic Relief)

a. Domestic Refunds (Post Paid)
b. Excise (Sliding Scale)
c. Textiles (Domestic Zero Rated)
d. Automobile (Domestic Zero Rated)

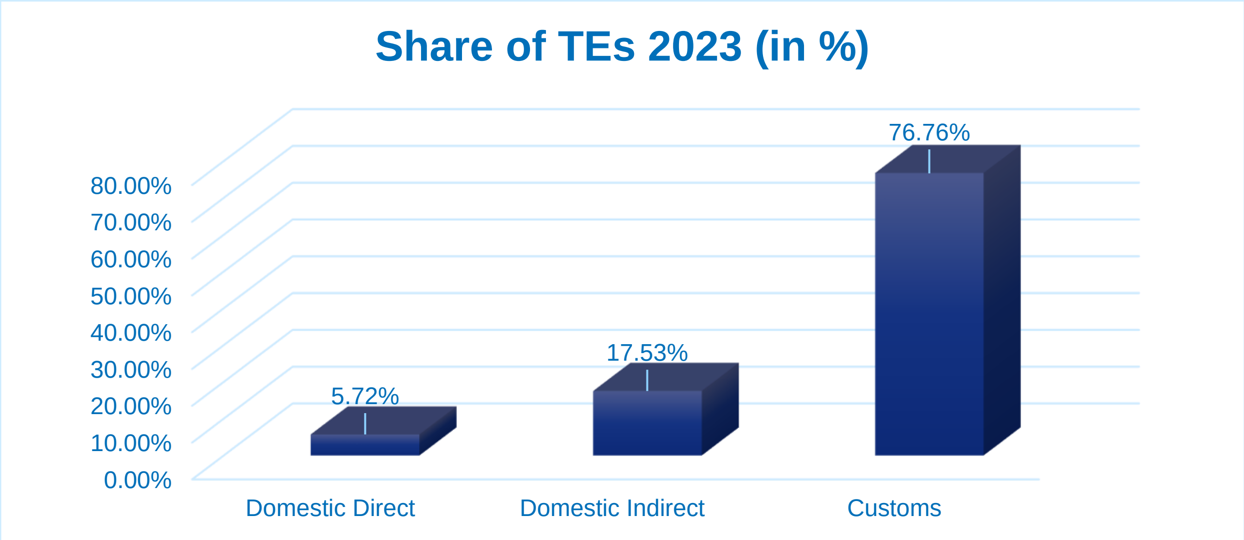
6.1.3 Import Exemptions

a. Government, Privileged Persons, and Organisations
b. Parliamentary Exemptions
c. General Exemption
d. ECOWAS Exemptions
e. Ghana Investment Promotion Centre (GIPC)
f. Ghana National Petroleum Corporation (GNPC) and upstream oil operations
g. Concessions for Manufacturing
h. Concessions for Mining

7.0. TEs ANALYSIS FOR 2023

7.1. TEs for 2023 was GH₵4,616 million compared to GH₵4,804 million recorded in 2022; a decrease of GH₵185.74 million (representing 4.02 percent). Out of the amount for the year 2023, the shares of Domestic Direct Tax, Domestic Indirect Tax, and import exemptions (Customs) were GH₵264.02 million (representing 5.17 percent), GH₵809 million (representing 17.53 percent), and GH₵3,545 million (representing 76.76 percent) respectively. See figure 1

Figure 1: TEs Composition



Source: MOF/GRA Computation

7.2. Total import exemptions in 2023 amounted to GH₵3,545 million compared to GH₵3,470 million and GH₵2,388 million recorded in 2022 and 2021 respectively. The 2023 amount was made up of Parliamentary exemptions of GH₵1,710 million (representing 48 percent); Government and Privileged Persons and Organisations of GH₵783 million (representing 22 percent); Ghana National Petroleum Company (GNPC) and upstream oil operators of GH₵595 million (representing 17 percent); ECOWAS of GH₵410 million (representing 11 percent) and others of GH₵0.05 million (representing 2 percent).

7.3. TEs for Domestic taxes in 2023 stood at GH₵1,074 million. This consisted of GH₵264 million for Domestic Direct taxes and GH₵809 million in respect of Domestic Indirect taxes. See the table 3:

Table 3: Share of TEs (2023 and 2022)

Description	2023		2022	
Tax Components	(GH₵'M)	share %	(GH₵'M)	share %
Domestic Direct	264.02	5.72%	415.30	8.64%
Domestic Indirect	809.49	17.53%	919.18	19.13%
Customs	3,545.33	76.76%	3,470.10	72.22%
Grand Total	4,618.84	100.00%	4,804.58	100.00%

Source: MOF computation

The reasons for the decreased in TEs figures for 2023 could be attributed to the following:

I. Implementation of the Exemptions Act, 2022 (Act 1083)

II. Review of the temporary income tax concessions tax rate from 1% to 5% during the 2023 Year of Assessment in respect of taxpayers operating in sectors enjoying the concessional tax rate, thus, reducing the TE for the under listed sectors:
- Agriculture (Cash Crops, Tree Crops, Cattle rearing)
- Rural Banks
- Waste recycles
- Agro processing
- Young Entrepreneurs

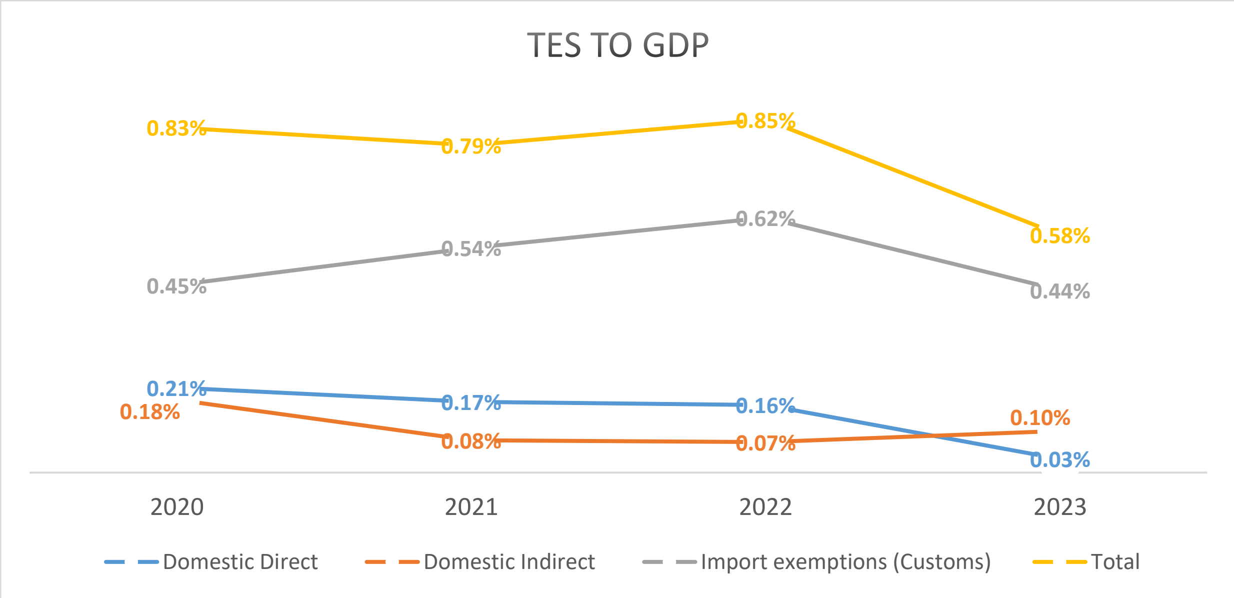
III. Some of the beneficiaries declared losses and once it happens, they are not required to pay taxes and by extension no TE is recorded.

IV. increase in the headline rate for some excisable products under the sliding scale policy.

7.4. TAX EXPENDITURE (TE) TO GROSS DOMESTIC PRODUCT (GDP)

TEs to Gross Domestic Product (GDP) rose from 0.79 percent in 2021 to 0.85 percent in 2022 and subsequently reduced to 0.58 percent in 2023. Domestic Direct, Domestic Indirect and import exemptions recorded 0.3 percent, 0.10 percent and 0.44 percent respectively in 2023. The graph (Figure 2) depicts a decrease in the TEs to the GDP for 2023.

Figure 2: TEs/GDP

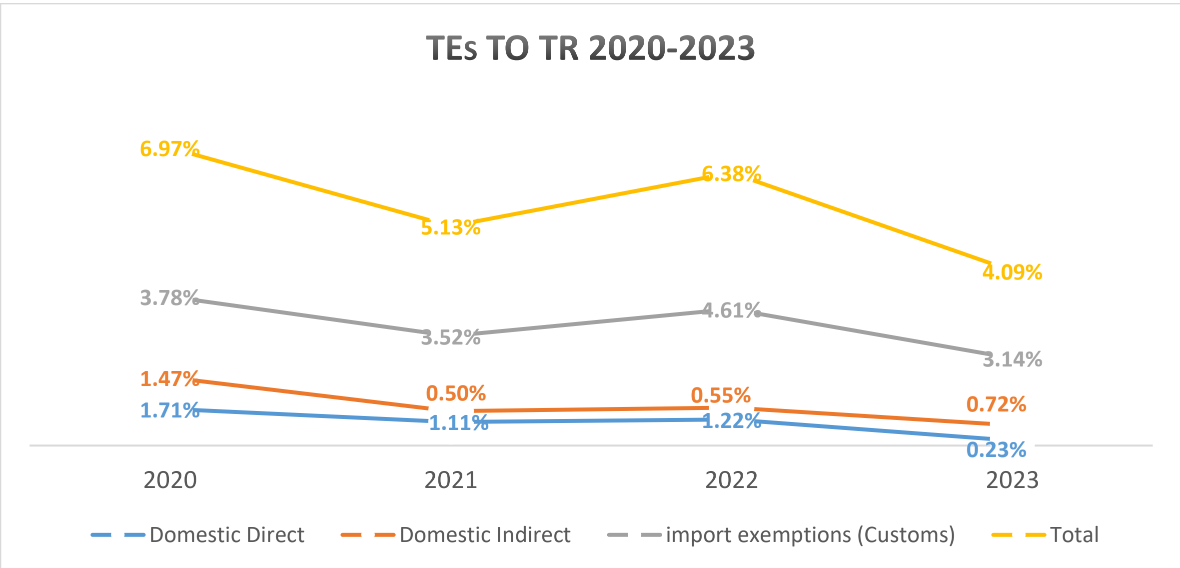


Source: GRA/MOF Computation

7.5. TAX EXPENDITURE (TE) TO TOTAL TAX REVENUE (TTR)

Tax expenditure to tax revenue rose from 5.13 percent in 2021 to 6.38 percent in 2022 and decreased to 4.09 percent in 2023. The 2023 percentage was made up of 0.23 percent Domestic Direct, 0.72 percent Domestic Indirect and 3.14 percent import exemptions (Customs). This suggests relatively lower revenue foregone. There was a downward trend as shown in Figure 3.

Figure 3: TEs to Tax Revenue (TTR)2020-2023



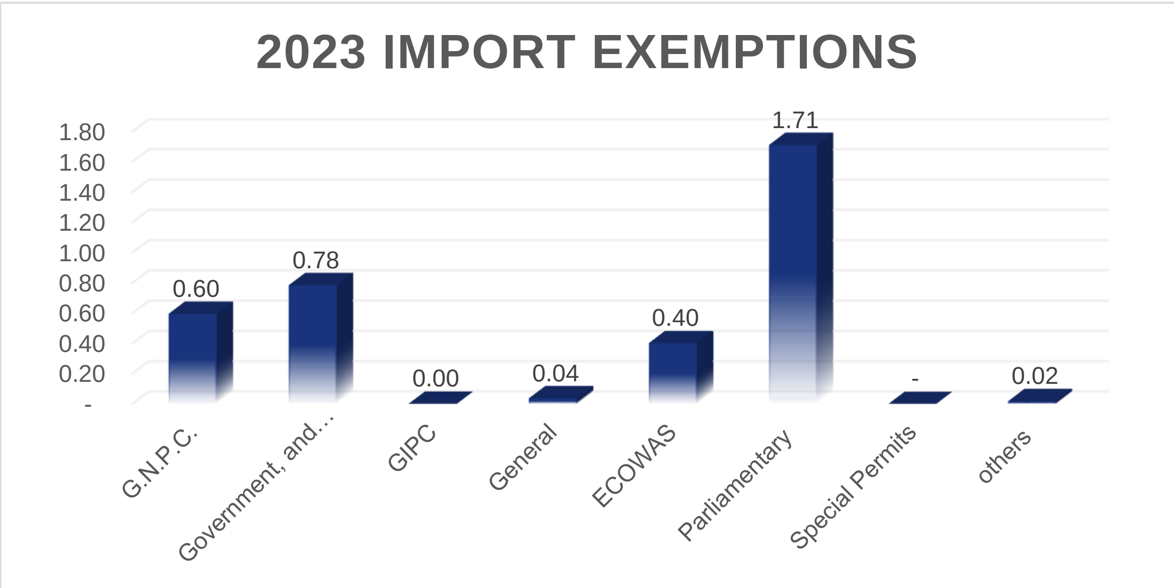
Source: MOF computation

8. ANALYSIS OF IMPORT EXEMPTIONS

8.1. IMPORT EXEMPTIONS PERFORMANCE FOR 2023

Analysis of the data revealed that total import exemptions for 2023 was GH₵3.55 billion compared to GH₵3.47 billion and GH₵2.46 billion recorded in 2022 and 2021 respectively. The 2023 amount was made up of Parliamentary exemptions of GH₵1.71 billion (representing 48 percent); Government and Privileged Persons and Organisations of GH₵0.78 billion (representing 22 percent); Ghana National Petroleum Company (GNPC) and upstream oil operators of GH₵0.60 billion (representing 17 percent); ECOWAS of GH₵0.40 billion (representing 11 percent) and others of GH₵0.02 billion (representing 2 percent).

Figure 4-2023 import exemptions



Source: MOF/GRA computation

8.1.1. IMPORT EXEMPTIONS PERFORMANCE BY CATEGORIES

The following discusses the import exemptions by categories.

8.1.2. PARLIAMENTARY EXEMPTIONS

These are exemptions granted under Resolutions of Parliament for public or publicly guaranteed projects and/or supplies financed from loans and aid/grants. They also include exemptions granted to Members of Parliament and the Council of State Members for their official vehicles, companies under the One District One Factory (1D1F) Programme and some mining companies. The rising trend in Parliamentary exemptions is attributed to the numerous ongoing government projects with tax exemption provisions, embedded in grants and other concessionary and commercial agreements, the 1D1F exemptions and the exemptions to mining companies through their Development Agreements. The following discusses the Parliamentary Exemptions:

8.1.2.1. MINING COMPANIES

Government of Ghana as part of its policy to attract investment in the mining sector continues to provide tax incentives to mining companies in the form of import duties, taxes and levies on their plant, machinery/equipment and parts through their Development Agreements as well as other items in the mining list imported necessarily, specifically, and exclusively for mining operations. Total amount granted these mining companies for the year 2023 was GH₵1.13 billion.

8.1.2.2. PROJECTS FUNDED FROM GRANTS AND OTHER CONCESSIONARY FACILITIES

These covered exemptions granted by resolutions of Parliament for public or publicly-guaranteed projects and/or supplies financed from loans and grants. Total amount granted MDAs/contractors for these projects for 2023 was at GH₵460.56 million.

8.1.2.3. ONE DISTRICT ONE FACTORY (1D1F) PROGRAMME

Parliament, at the Fourth Sitting of the Emergency Meeting held on Friday 3rd May 2019, approved by Resolution, the framework for the waiver of import duties, import VAT, GETFUND levy, import NHIL, EXIM levy on plant, machinery and equipment or parts as well as Corporate Income Tax Holiday for five years of operation being tax incentives to support the implementation of the One District One Factory (1D1F) Programme.

The Resolution required the 1D1F entities to prepare and submit a Master List of their purchases for tax assessment and subsequent submission by the Ministry of Finance to Parliament for consideration and approval.

A total of 23 new applications were submitted by the Ministry of Finance to Parliament in 2023. However, approvals are yet to be received. Nonetheless a total amount of GH₵40.93 million was utilised as tax exemptions for previously approved 1D1F entities.

8.1.2.4. MEMBERS OF PARLIAMENT AND COUNCIL OF STATE MEMBERS

Members of Parliament (MPs) and Members of the Council of State (CSMs) were granted tax exemptions for the purchase of their official vehicles under Parliamentary Resolution No. PS/CS/80/178 dated 15th July 2021. A total of 13 Members of Parliament in 2023, utilised their exemptions estimated at GH₵3,944,547.98 See table 4 for the breakdown.

Table 7: Members of Parliament exemption for official vehicles

CONSIGNEE_NAME	CIF_VALUE_GH₵	EXEMPTED_GH₵
Members of Parliament	**9,867,302.79**	**3,944,547.98**

Source: MOF estimation

Table 8: Gross utilisation table for MPs and CSM

Summary of utilisation of duties and levies for MPS and MCS								
Description	Threshold (US$)	No	Amount (US$)	Actual	Balance	Exchange rate	Actual (GHS)	Balance (GHS)
Members of Parlaiment	43,750.00	275	12,031,250.00	6,767,371.70	5,263,878.30	12.8393	86,888,315.47	67,584,512.66
Members of the Council of State	43,750.00	31	1,356,250.00	1,151,958.23	204,291.77	12.8393	14,790,337.30	2,622,963.32
Total			**13,387,500.00**	**7,919,329.93**	**5,468,170.07**	12.8393	101,678,652.77	70,207,475.98

Source: MOF computation

8.2. GOVERNMENT, PRIVILEGED PERSONS, AND ORGANISATIONS

Government, Privileged Persons, and Organisations are the second largest contributors to import exemptions, GH₵0.78 billion (22 percent); over the period.

8.3. GHANA NATIONAL PETROLEUM CORPORATION (GNPC) AND UPSTREAM OIL OPERATORS

These are tax and duty exemptions granted to GNPC and it upstream oil operators under Section 2 of the Ghana National Petroleum Corporation Act, 1983 (PNDC Law 64) and Petroleum Agreements for the import of approved machinery, parts, and other items necessary for their operations. A total of GH₵0.60 billion (17 percent) was utilised by Ghana National Petroleum Company (GNPC) and it upstream oil operators for 2023.

8.1.10. ECOWAS EXEMPTIONS

ECOWAS exemptions constituted GH₵0.40 billion (11 percent) of the total import exemptions.

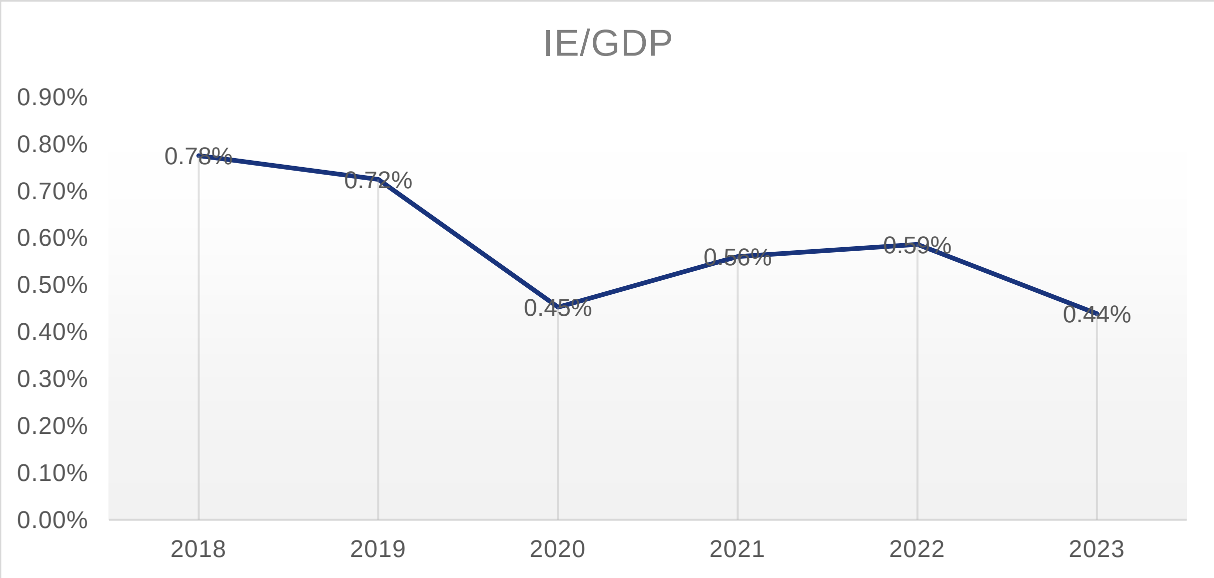
8.4. OTHER EXEMPTIONS

The remaining exemptions constituting about GH₵0.02 billion (2 percent) came from other general exemptions.

8.5. IMPORT EXEMPTIONS TO GROSS DOMESTIC PRODUCT (GDP)

Import exemptions to Gross Domestic Product (GDP) for 2023 was 0.44 percent compared to 0.59 percent and 0.56 percent recorded in 2022, and 2021 respectively. Figure 1 below depicts a declining trend in import waivers to GDP from 2019. The decline could be attributed to the streamlining of exemptions, reduction in project fund disbursement and an increase in the GDP. See figure 5.

Figure 5: import exemptions to GDP

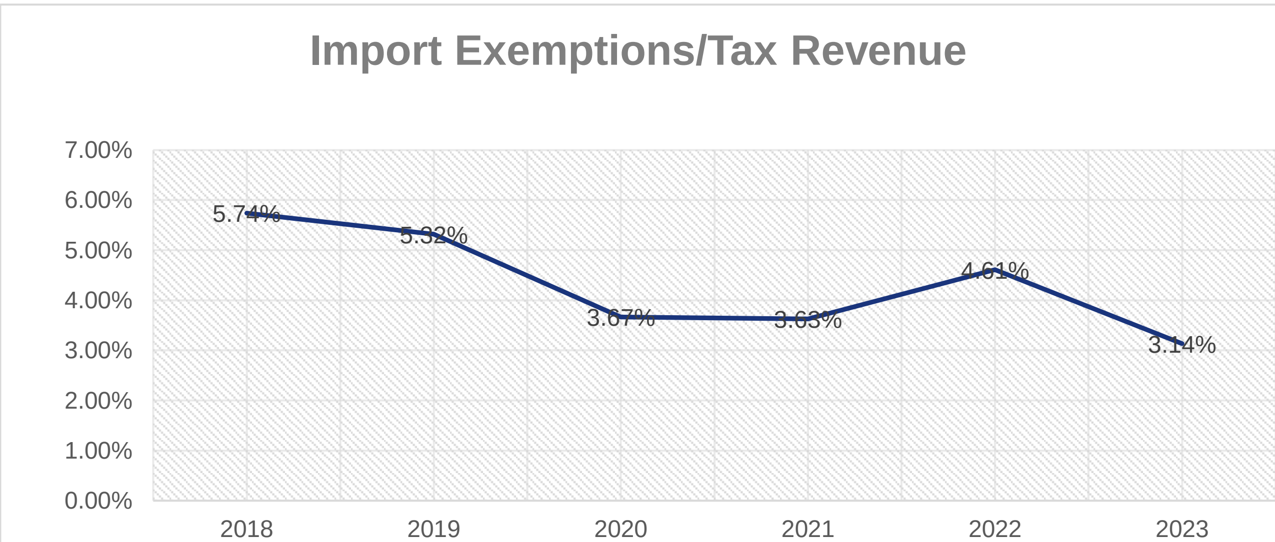


Source: MOF/GRA computation

8.6. IMPORT EXEMPTIONS TO TAX REVENUE

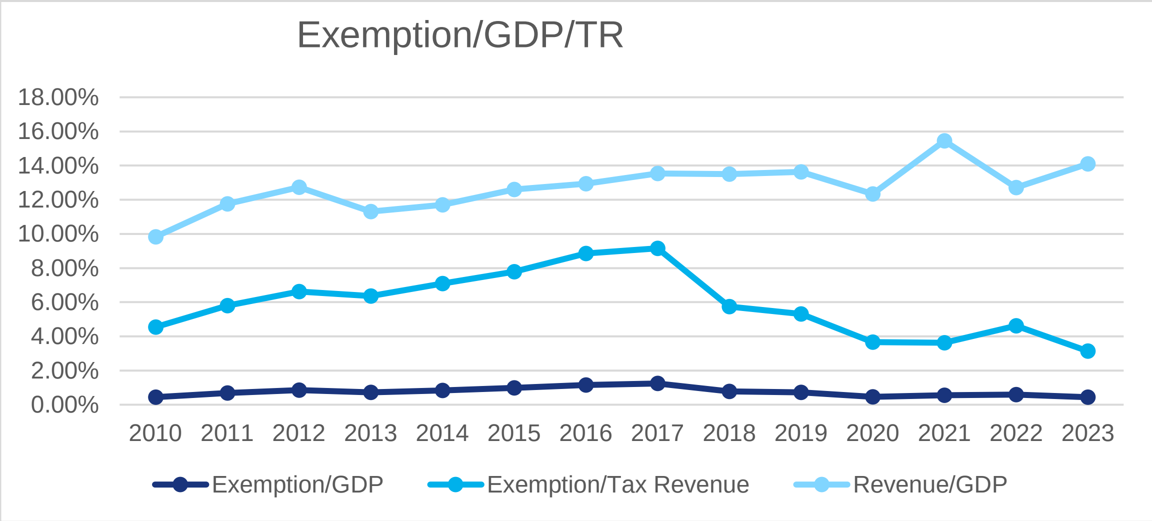
Import exemptions to tax revenue in 2023 was 3.14 percent from 4.64 percent in 2022 and 3.63 percent in 2021. The revenue foregone in the year 2023 decreased considerably as depicted in Figure 6 below. The decline could be attributed to the streamlining of import exemption regime, reduction in project funds disbursement and enhancement in revenue performance.

Figure 6: import exemptions to revenue



Source: MOF/GRA computation

Figure 7: import exemption to GDP and tax revenue



8.7. ANALYSIS ON DOMESTC TAX EXPENDITURE

The total tax expenditure for Domestic taxes in 2023 stood at GH₵1.074 million. This consisted of GH₵0.809 million in respect of indirect taxes and GH₵ 0.264 million for direct taxes. Broadly, fourteen tax expenditure areas were covered over the period.

The domestic direct tax expenditure was derived by categorizing the expenditures, calculation of the tax payable at 25% standard rate and 35% for the mining sector, less the tax payable under the various tax dispensation, (i.e. TE = Standard rate * C/I – less Tax rebate).

In the case of domestic indirect taxes (VAT, NHIL & GETFUND Levies and Excise Duty), tax expenditure is administered through relief. The amount was based on project exemptions, technical assistance exemptions, domestic zero-rating and differential excise rates for manufacturers who use local raw materials in the production of excisable goods. Zero-rated exports and diplomatic reliefs do not form part of tax expenditure by convention.

The tax expenditure for Excise Duty is derived by computing the tax payable at the standard rate less the tax paid using the differential rate.

The largest contributors (37.76%) to Domestic TEs was in respect of the Sliding Scale Excise Duty for use of local raw materials for manufacturing followed by concession for mining by companies with mining stability agreement in production (20.95%).

Table 16. Details of Direct Tax Expenditure for 2023

SUMMARY OF TAX EXPENDITURE FOR 2023 DOMESTIC DIRECT	
DESCRIPTION	**GH¢**
Agriculture	702,001.96
Agro-Processing	1,658,354.88
Export	2,618,673.05
Free Zones	28,890,111.84
Hotel	1,217,303.02
Location Incentive	1,448,962.35
Mining	224,847,991.09
Rural Bank	2,635,560.24
Waste Processing	-
Young Entrepreneurs	4,210.73
Sub-Total	**264,023,169.15**

Source: Returns filed on GITMIS

***Table 17* - Details of Indirect Tax Expenditure Estimates for 2023**

SUMMARY OF TAX EXPENDITURE FOR 2023 DOMESTIC INDIRECT	
DESCRIPTION	**GH¢**
Projects (Domestic Relief)	53,514,000.00
Domestic Refunds (Post Paid)	129,301,000.00
Excise (Sliding Scale)	405,329,000.00
Textiles (Domestic Zero Rated)	163,835,000.00
Automobile (Domestic Zero Rated)	57,511,000.00
Sub -Total	**809,490,000.00**

Source: Returns filed on GITMIS

9.0. CHALLENGES WITH CURRENT TEs

- Absence of complete digitisation of the domestic tax revenue data

10.0 PROPOSED POLICY CHANGES ON TEs

i. Prepare Petroleum List applying local content rules
ii. Discontinue exemption clauses in commercial contracts
iii. Restrict exemption clauses and conditions in loan agreements to only interest on the loans
iv. Review exemptions provided for the mining industry and repeal exemptions for consumption goods (i.e., goods that are not directly related to production).

11.0 CONCLUSION

Increases in TEs continue to pose a threat to government's revenue mobilisation efforts and growth. Every effort to reduce the ever-increasing levels is critical for economic growth and development. 2023 witnessed a relative reduction in TEs compared to 2022, an indication of the positive effect of the Exemptions Act, 2022.

12.0. APPENDICES

2010-2023 IMPORT EXEMPTION DATA-Nominal

	2017	2018	2019	2020	2021	2022	2023
	GHS	GHS	GHS	GHS	GHS	GHS	GHS
G.N.P.C.	1,478,765,724.42	417,971,310.34	464,399,476.04	178,363,937.17	160,225,734.28	364,124,268.91	595,094,523.72
Government, and priviledged persons and organisations	324,149,371.53	241,336,398.21	255,735,621.18	209,454,612.45	268,589,242.54	455,146,704.77	783,411,495.46
GIPC	55,401,928.41	88,014,494.05	114,570,691.88	31,687,118.40	45,701,153.84	88,270,542.41	1,182,521.56
General	208,007,646.18	445,077,523.80	451,552,146.67	312,987,036.60	514,106,389.51	797,403,277.17	35,921,822.32
ECOWAS	201,377,619.96	284,538,965.91	317,863,652.20	114,362,042.84	135,719,635.47	266,062,028.82	401,758,465.15
Parliamentary	612,338,716.68	690,808,232.09	819,568,865.03	864,253,322.16	1,337,746,038.29	1,491,470,686.53	1,710,873,121.14
Special Permits	198,468,140.10	80,367,447.13	2,074,924.51	3,102,147.29	605,588.65	-	-
Others	-	-	-	-	-	7,624,956.88	17,083,064.01
Total	**3,078,509,147.28**	**2,248,114,371.53**	**2,425,765,377.51**	**1,714,210,216.91**	**2,462,693,782.58**	**3,470,102,465.49**	**3,545,325,013.36**

Tax Expenditure actuals from 2017 to 2022

Tax Expenditure (TE) to Gross Domestic Product (GDP) 2017-2022												
Description	2017		2018		2019		2020		2021		2022	
	(GHS'M)		(GHS'M)		(GHS'M)	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%
GDP	256,671.37		289,988.20		332,228.60		378,030.92		439,381.00		562,690.07	
Domestic Indirect	86.56	0.03%	90.39	0.03%	753.38	0.23%	776.37	0.21%	750.76	0.17%	919.18	0.16%
Domestic Direct	96.96	0.04%	106.55	0.04%	193.17	0.06%	665.97	0.18%	342.35	0.08%	415.30	0.07%
Customs TE	3,078.51	1.20%	2,771.73	0.96%	2,564.58	0.77%	1,714.21	0.45%	2,388.04	0.54%	3,470.10	0.62%
Grand Total	**3,262.03**	**1.27%**	**2,968.68**	**1.02%**	**3,511.13**	**1.06%**	**3,156.55**	**0.83%**	**3,481.15**	**0.79%**	4,804.58	0.85%

Table 1-Tax Expenditure to Total Tax Revenue (TTR) 2017-2021												
Description	2017		2018		2019		2020		2021		2022	
	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%
TTR	**33,434.21**		**39,109.33**		**43,764.89**		**45,315.93**		**67,879.00**		**75,265.00**	
Domestic Indirect	86.56	0.26%	90.39	0.23%	753.38	1.72%	776.37	1.71%	750.76	1.11%	919.18	1.22%
Domestic Direct	96.96	0.29%	106.55	0.27%	193.17	0.44%	665.97	1.47%	342.35	0.50%	415.30	0.55%
Customs	3,078.51	9.21%	2,771.73	7.09%	2,564.58	5.86%	1,714.21	3.78%	2,388.04	3.52%	3,470.10	4.61%
Grand Total	**3,262.03**	**9.76%**	**2,968.68**	**7.59%**	**3,511.13**	**8.02%**	**3,156.55**	**6.97%**	**3,481.15**	**5.13%**	4,804.58	6.38%

Table 2-Tax Type to Tax Expenditure 2017-2021												
Description	2017		2018		2019		2020		2021		2022	
	(GHS'M)	%	(GHS'M)	share %	(GHS'M)	share %	(GHS'M)	share %	(GHS'M)	share %	(GHS'M)	share %
Domestic Indirect	86.56	2.65%	90.39	3.04%	753.38	21.46%	776.37	24.60%	750.76	21.57%	919.18	19.13%
Domestic Direct	96.96	2.97%	106.55	3.59%	193.17	5.50%	665.97	21.10%	342.35	9.83%	415.30	8.64%
Customs	3,078.51	94.37%	2,771.73	93.37%	2,564.58	73.04%	1,714.21	54.31%	2388.04	68.60%	3,470.10	72.22%
Grand Total	**3,262.03**	**100%**	**2,968.68**	**100%**	**3,511.13**	**100%**	**3,156.55**	**100%**	**3,481.15**	**100.00%**	4,804.58	100.00%

Note: It should be noted that the areas identified under tax expenditure could be reviewed with the introduction or amendment of the tax law.

Explanations to some Areas of TEs

Sectoral incentives are in the form of reduced rates or tax holidays. These incentives are offered to the farming industry, in particular cocoa production, manufacturing location incentives, exporters of non-traditional goods, construction, and hotels.

Farming

The primary beneficiaries of tax incentives are cocoa producers. Income from cocoa of a cocoa farmer is exempt from corporate income tax (CIT) with no sunset provision (indefinite tax holiday). Income of cocoa by-product businesses and agro-processing are taxed at 1 percent. The nominal 1 percent rate, which also applies to farming cash-crops, tree crops and livestock, applies for a concessionary period of 5 years, after which the standard rate applies.

Manufacturing location incentives

Reduced corporate tax rates are available for manufacturing businesses, depending on the location of the business. In particular, the CIT rate is reduced from 25 percent to 18.75 percent for taxable income from a manufacturing business located in regional capitals other than Accra and Tema. The CIT rate is reduced further to 12.5 percent for taxable income from a manufacturing business located outside of the regional capitals.

Export of non-traditional goods

Income of companies derived from the export of non-traditional goods is taxed at a preferential 8 percent rate. Non-traditional goods include horticultural products; processed and raw agricultural productions grown in Ghana other than cocoa beans; wood products other than lumber and logs; handicrafts; and locally manufactured goods.

Construction

Income derived from the construction of low-cost affordable residential property is taxed at a nominal 1 percent CIT rate within a concessionary period of 5 years. In addition to the construction industry, the accommodation industry enjoys a reduced CIT rate of 22 percent against the standard rate of 25 percent.

Banking incentives

Income of a rural banking business is taxed at a nominal 1 percent CIT rate, for a period of 10 years. This policy measure is an attempt to address the general lack of access to financial services and capital in rural areas of Ghana, which has long been recognized as a major impediment to the government's growth and poverty reduction goals. In addition to rural banks, income of financial institutions from loans to farming enterprises, and to leasing companies is taxed at a 20 percent CIT rate.

Tax incentives for savings and investment institutions

The Income Tax Act (Act 896) includes two provisions that subsidize savings. Both (one for mutual funds and unit trusts, and another for 'venture capital finance companies') tax portfolio income at a nominal 1 percent CIT rate. The venture capital finance company regime cannot be considered as being targeted at venture capital, given its design.

Mutual funds

Income of an approved mutual fund or unit trust is taxed at a nominal 1 percent CIT rate for 10 years. Also, at the level of the holder of an investment in an approved mutual fund or unit trust, tax is limited to final withholding tax at 1 percent on interest, dividends paid, or dividends credited (capital gains) to the investor. Mutual funds and unit trusts (collective investment funds) are emerging as a popular investment vehicle in Ghana. There are now over 30 registered mutual funds (up from 27 in 2014), regulated by the Securities and Exchange Commission of Ghana.

Venture capital finance companies:

The mandate of the venture capital finance companies (VCFCs) is "to provide financial resources for the development and promotion of venture capital financing for Small and Medium Enterprises (SMEs)". Other major investors in VCFCs are financial institutions.

The VCTF is exempt from the payment of all taxes (Venture Capital Trust Fund Act, 2004 (Act 680)), while VCFCs pay CIT on investment returns at a nominal (5 percent) rate during a concessionary period. In addition, investors in a VCFC do not pay tax on interest, dividends or capital gains earned on their investment in a VCFC. These provisions allow private investors to escape tax on income derived through a VCFC. While CIT is payable at 1 percent on the taxable profit of a VCFC, the ability of a VCFC to deduct interest payments to the VCTF on debt finance from the VCTF could be used, in practice, to reduce the CIT base to zero.

Free zone enterprises

The free zone regime provides companies with a 10-year holiday for corporate income tax, VAT, customs duties, excise taxes, levies, and fees on imports. The 10-year CIT holiday is provided to free zone enterprises and developers. The Income Tax Act (ITA) stipulates a post-holiday CIT rate of 15 percent for taxable income from exports of a free zone enterprise; and a post-holiday CIT rate of 1 percent for taxable income from exports of a free zone developer. Further, dividends paid out of exempt profits of free-zone enterprises are exempt from shareholder-level taxation (no withholding tax).

Indirect TEs

The Third Schedule of the Value Added Tax Act, 2013 (Act 870) provides relief on some VAT supplies. The Second Schedule of the Act also provides a zero rate for some domestic supplies. The Excise Duty Act, 2014 (Act 878) provides differential excise rates for manufacturers who use local raw materials in the production of excisable goods. Data used in estimating domestic indirect tax expenditure were based on the above provisions.

The Value Added Tax Act, Customs Act and other legislations grant tax relief to selected taxpayers on the importation of goods. In addition, all imports from Economic Community of West African States (ECOWAS) countries are also exempt.

13 .0. REFERENCES

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