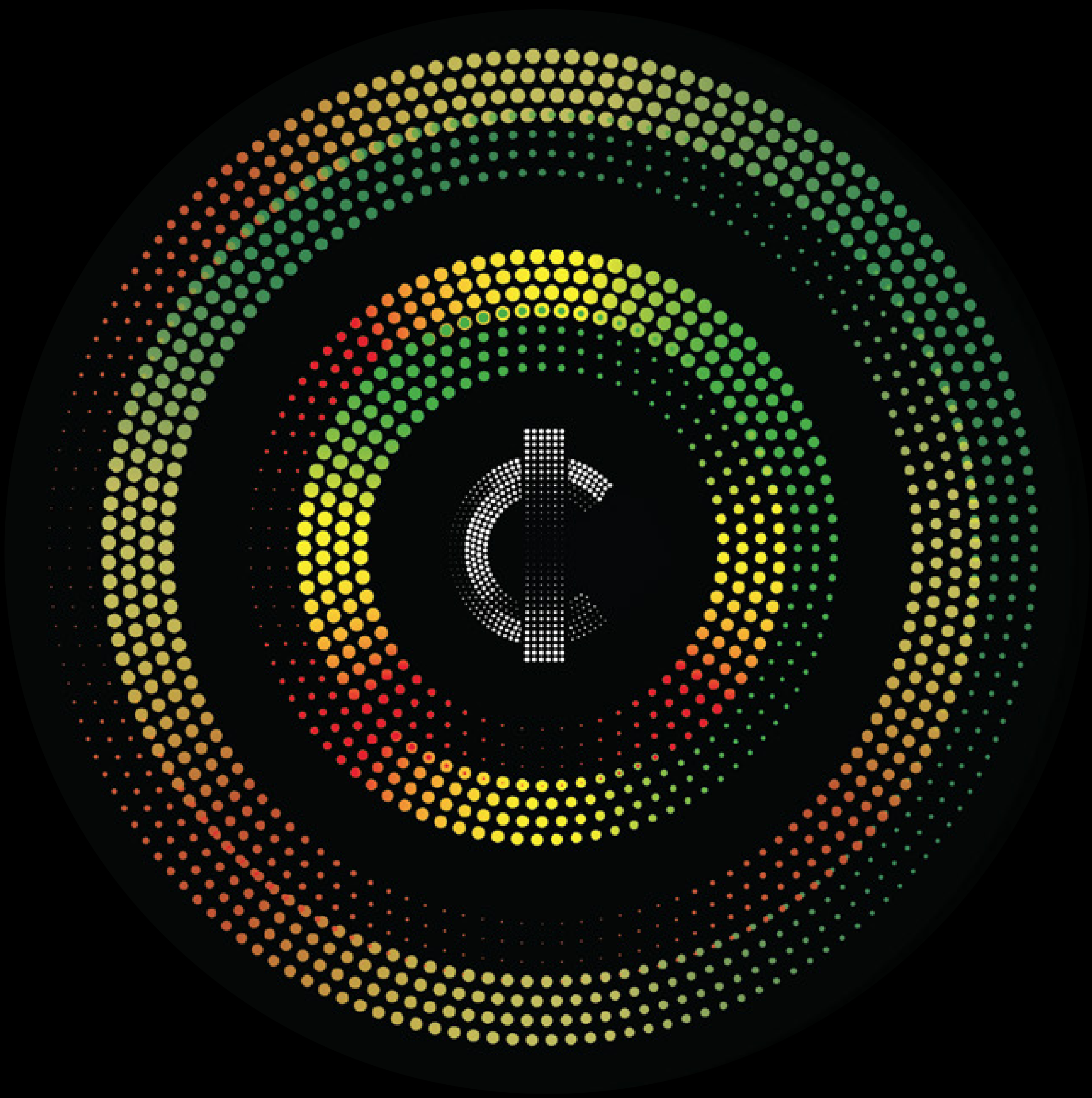


2022 Government Budget and Economic Policy

Summary of budget statement & Deloitte views

November 2021

Recover from the challenges of COVID-19 and thrive

Ghana's economy, like other global economies, was heavily affected by the COVID-19 pandemic. The global economy is still in a recovery mode and countries are instituting strategies, designing policies, and implementing measures to revamp their economies. Ghana, like other countries, is at the economic recovery stage. This calls for thoughtful policy directions to be implemented in a more aggressive and robust manner as the exigencies of the day may warrant to achieve the intended outcomes for the recovery.

The discussion on economic recovery will be incomplete without special mention of the role technology and digitilisation will play in this regard. For developing countries such as Ghana, some researchers have argued that digitalization is a leading driver of economic growth by raising capital and labour productivity, lowering transaction costs and facilitating access to global markets. The Government of Ghana (the "Government" or "GoG"), has in the recent past, showed commitment towards leveraging on digitalisation to make giant strides in the pursuit of economic recovery.

Also, the Government, through the 2022 Budget Statement and Economic Policy (the "2022 Budget Statement") under the theme "Building a Sustainable Entrepreneurial Nation: Fiscal Consolidation and Job Creation", is seeking to empower the citizens especially the youth to have an entrepreneurial mindset. The 2022 Budget Statement makes several policy proposals which are intended to broaden the tax net and increase government revenue to finance various Government programmes, support entrepreneurship, and create jobs to curb the unemployment menace.

We at Deloitte, through our shared values, endeavour to lead the way towards assisting our clients and other stakeholders to respond to the challenges the pandemic presents, recover from these challenges and thrive.

The 2022 Budget Highlights document provides a snapshot of the milestones achieved by the Government and the key policies as outlined in the 2022 Budget Statement and our analysis of how the policies could affect businesses and impact the economy at large. It is our believe and aspiration that this 2022 Budget Highlights document will provide an in-depth understanding of the various policy interventions outlined in the 2022 Budget Statement and help build resilient businesses on the road to economic recovery.

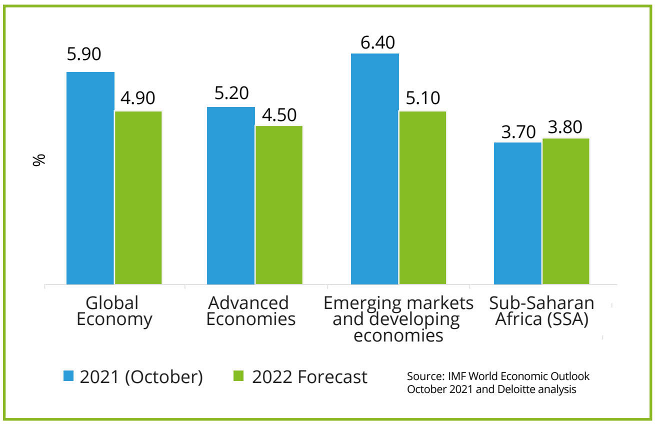
Daniel Kwadwo Owusu
Country Managing Partner
Deloitte Ghana

Content

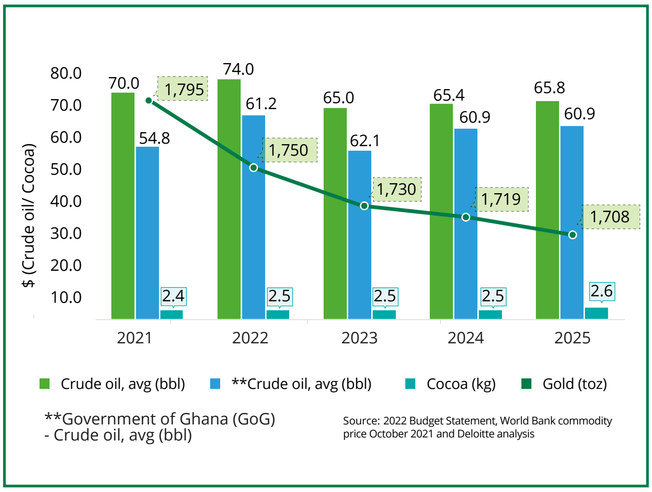
Global developments

Global economy and commodity prices

GDP growth: Global vs major markets (%)



Changes in commodity prices per product



Deloitte Comments

Although lower than the growth achieved in 2021, the projected growth in 2022 for Advanced Economies presents good prospects for Emerging and Developing Economies like Ghana as Advanced Economies serve as major export markets for traditional commodities such as gold, cocoa and oil, which are key revenue drivers for Ghana.

Government's projected average oil price per barrel in US$ terms, appears slightly lower when compared to World Bank's crude oil price forecast. This, to a large extent, gives a good indication that GoG's projections for petroleum revenue has a high probability of being achieved, all things being equal.

From the adjacent chart, GoG has projected average crude oil price of US$61.2/bbl in 2022, which is US$12.8 lower than the World Bank's projection of US$74.0/bbl in the same period. GoG is expected to exceed its projected petroleum revenues for the current and forecast period provided it achieves its projected production volumes and global crude oil prices remain as projected.

The global economy witnessed a Gross Domestic Product (GDP) growth of 5.9% as at October 2021.

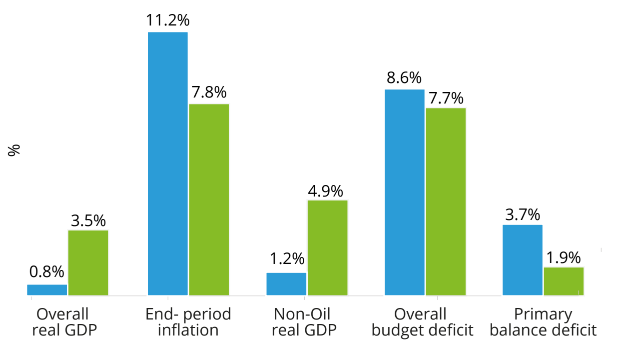
The growth rates across the economies in the world have varied, with Emerging and Developing Economies experiencing the highest growth with an average of 6.4% as at October 2021.

The Sub Saharan Africa (SSA) economy recorded the lowest GDP growth rate of 3.7% in 2021 mainly due to the slow rollout of vaccination programs across the region. Restrictions instituted by Governments across the region negatively affected the average growth rate of economies within the sub-region.

However, according to the IMF Economic Outlook for October 2021, forecasts for the medium term (2022-2025), indicate an expected decline in GDP growth rate in all economies across the world except for the SSA economy which is expected to experience a marginal

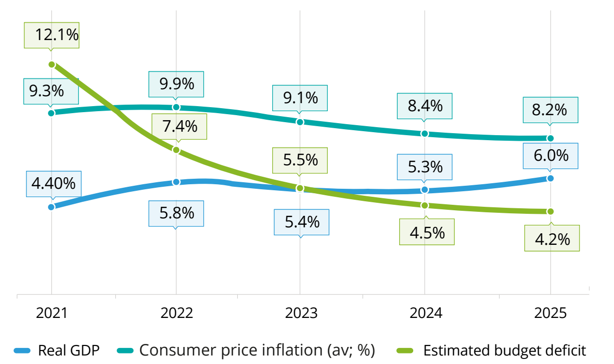
Economy of Ghana
Macroeconomic indicators

2021 macroeconomic performance (growth)



Source: 2022 Budget Statement and Deloitte analysis

Medium term targets-real GDP, average inflation and estimated budget deficit



Source: 2022 Budget Statement, EIU and Deloitte analysis

Deloitte Comments

Real GDP is expected to increase marginally over the medium-term period mainly driven by Government's medium-term revitalisation agenda including the following:

- a strong agricultural modernisation agenda
- industrialisation & manufacturing programme
- an aggressive Foreign Direct Investment (FDI) promotion drive
- a strong digitalisation drive for more efficient and effective service delivery and formalisation of the economy

The expected increase in prices of major commodities such as gold, crude and cocoa could have positive impact on the economy as demand increases following increased economic activities in advanced economies. Government should aggressively pursue programmes aimed at increasing production and export of these commodities

Although GoG expects inflation to decline over the medium term within a targeted band of 8+/-2%, inflation is projected to increase marginally over the forecast period due to expected high food prices, continuous increase in global commodity prices and increase in petroleum prices.

EIU projects a budget deficit of 8.2% by the end of 2021 which reflects a better budget deficit performance compared to Government’s projection. Based on the half year performance (budget deficit of 5.1%), Government’s 12.1% budget deficit projection is achievable. GoG expects budget deficit to improve over the short to medium term from 7.4% in 2022 to 4.2% in 2025. In order to achieve a budget deficit of less that 5% in 2025 in line with the Fiscal Responsibility Act, Government must ensure it operates a controlled budget expenditure and work towards achieving planned revenue targets.

Overall real GDP grew by 3.5% in the half-year 2021 from 0.8% in the same period in 2020. Non-oil real GDP grew by 4.9% in the first half of 2021 as compared with 1.2% in 2020.

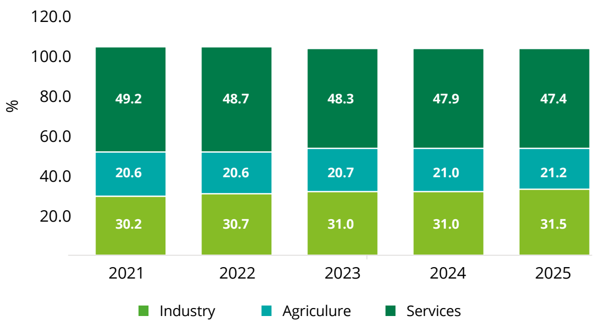
Inflation figures trended downwards to 7.8% in the half-year 2021 from 11.2% in the same period of 2020.

Overall budget deficit decreased to 7.7% of GDP in 2021 from 8.6% of GDP in 2020. Primary balance recorded a deficit of 1.9% in 2021 as compared to a deficit of 2.7% in 2020.

Overall GDP growth is expected to increase from 4.4% in 2021 to 5.8% in 2022 and continue to experience an increase in the medium term (2022 – 2025), averaging a growth rate of 5.6%.

The Economist Intelligent Unit (EIU) projects inflation to decrease marginally in the short term at an average growth rate of 8.4% which is closer to the lower end of the target band of 8+/- 2%

Sector distribution of GDP, 2021- 2025



Source: 2022 Budget Statement and Deloitte analysis

The Services sector of the economy has remained the major contributor to GDP over the years. The sector is expected to be the dominant contributor to GDP over the medium term with an average share of 48%.

The Industry sector remains the second largest contributor to GDP with an average share of about 31% over the medium term.

Agriculture sector, is expected to experience a growth in its contribution towards GDP over the medium term with an average share of about 21%.

Deloitte Comments

The construction sub-sector is expected to experience growth as new infrastructure projects are expected to be undertaken. In September 2021, the Ghana Integrated Aluminium Development Corporation (GIADEC), a state-owned corporation, signed a US$1.2bn deal for the development of a bauxite mine and refinery within the medium term from 2022 - 2026. This is expected to increase activity in the sub-sector, hence bolstering the industry sector.

Government should also look to develop and expand other sectors such as steel and iron through Ghana Integrated Iron and Steel Development Corporation (GIISDEC).

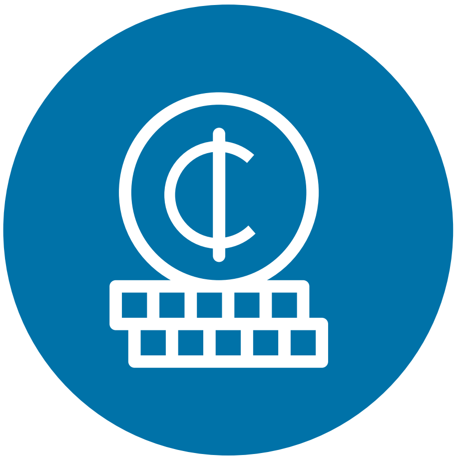
The industry sector has contracted over the last 2 years. According to the EIU, one of the reasons for this is GoG's efforts to curtail illegal mining activity. Government's efforts to curb illegal mining appears to have adversely affected the growth in the mining sub-sector of the industry sector. However, we believe such efforts have long term benefits to the country as the help protect environment and allows the legally recognised players operate in the sector. This policy will help strengthen the industry sector.

This sector has been a major driver of the economy in past years. Government should consider providing attractive incentives including tax rebates and easy access to financing to enable mining companies start and increase production, which will ultimately boost activities and impact the growth of the industry sector.

2022 Budget at a Glance

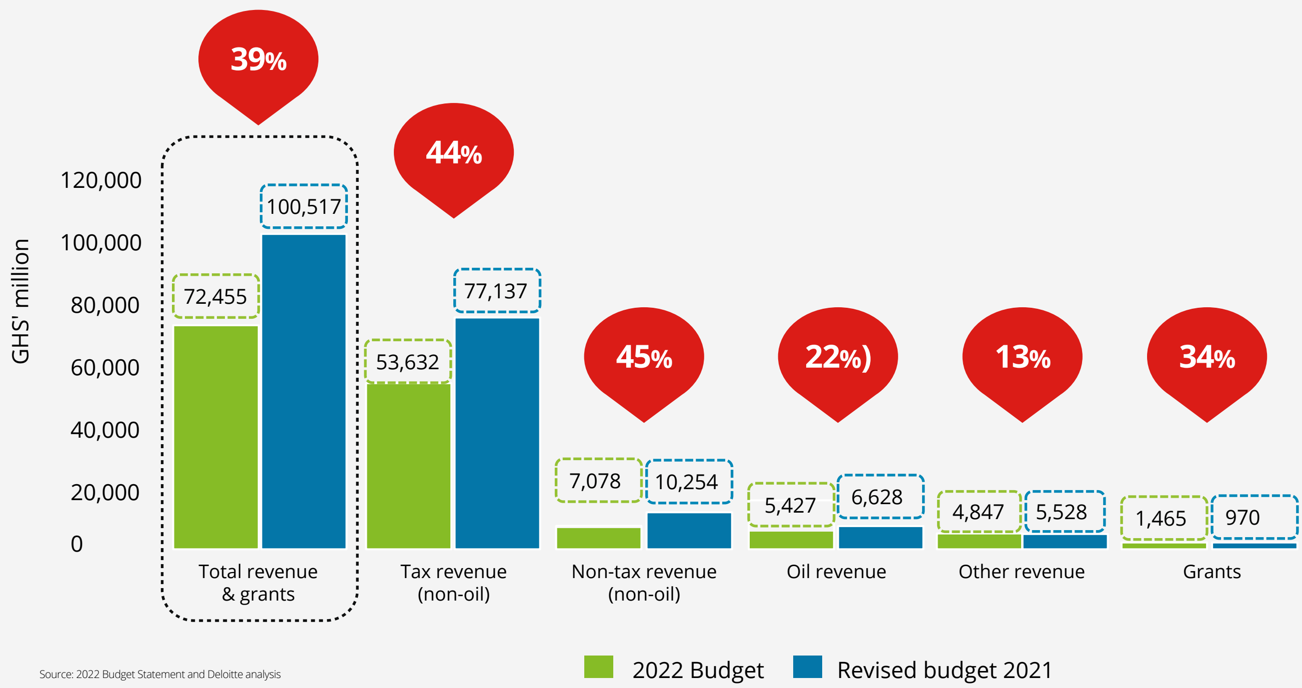
Government Revenue

Total revenue for 2022 is projected at GHS 100 billion compared to a revised revenue budget of GHS 72 billion in 2021 representing a 39% increase in projected revenue and 43% increase in 2021 projected outturn. The projected revenue increase in 2022 is expected to be largely driven by Government's plan to introduce a 1.75% electronic transaction levy (E-Levy) on mobile money payments, bank transfers, merchant payments and inward remittances, as well as the restoration of the benchmark values of imports by suspending the 50% discount on selected general goods and the 30% discount on vehicles.



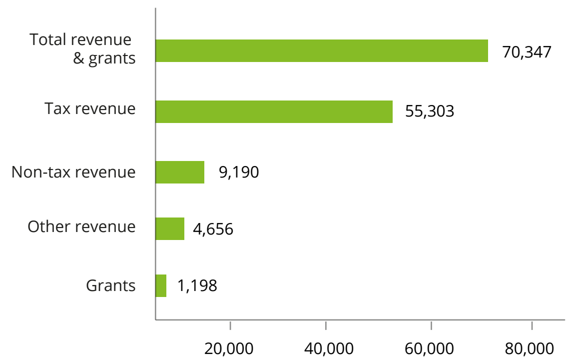
Government also intends to introduce unified common platform for all Metropolitan, Municipal and District Assemblies (MMDAs) from January 2022 that will help assist the MMDAs to implement a common platform for property rate administration to enhance property rate collections and its accountability.

2021 revised revenue budget vs. 2022 budget

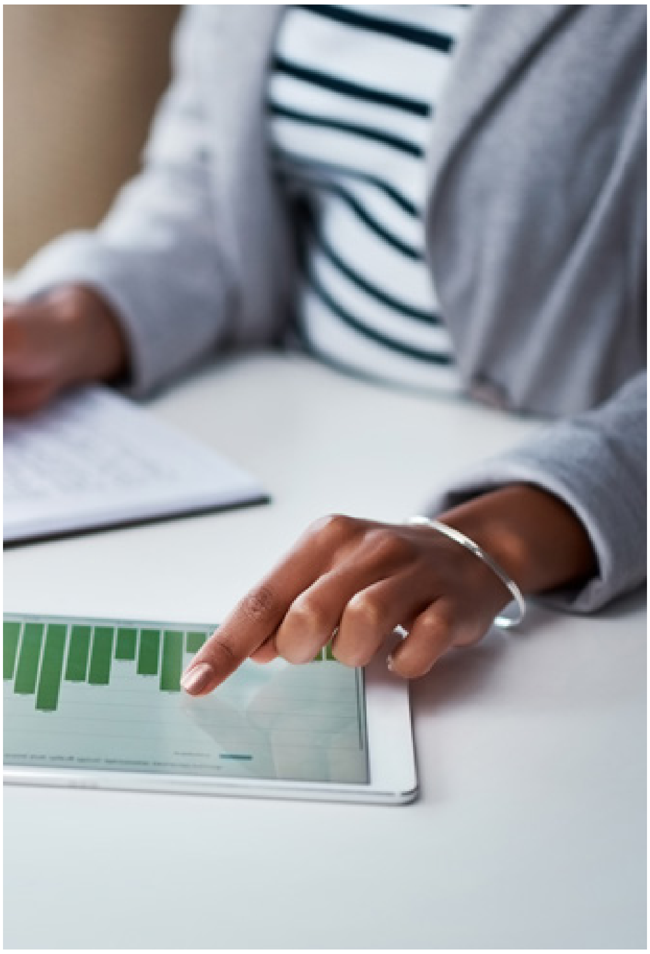


Source: 2022 Budget Statement and Deloitte analysis

2021 projected out-turn (GHS mn)



Source: 2022 Budget Statement and Economic Policy



Deloitte Comments

Although Government projects to mobilise about GHS7 billion revenue from the E-levy in 2022, the announcement of the levy has been met with public outcry over the economic hardship to individuals and businesses that may result from the introduction of the levy. In addition, some analysts have expressed some fears about the unintended consequences of encouraging cash based transactions and a slow down in the country's effort to build a cashless economy.

Government's initiative to introduce a Unified Common Platform to facilitate property tax assessment and collection is timely as such a digitized platform will enhance revenue mobilization from property tax and increase overall revenue. According to Ghana's 2021 Population and Housing Census, there are over 10.7 million structures in Ghana of which only a handful are in the database of MMDA's for the purposes of property rates. This means there is some potential for Government to make some significant revenues if property taxes are properly implemented and administered

Government's initiative to replace the Tax Identification Numbers (TINs) with the Ghana Card and the merger of the National Identification Authority (NIA) numbers with the Social Security and National Insurance Trust (SSNIT) numbers of Ghanaians will assist in widening the tax net by providing unique identifiers for all transactions and enhance revenue mobilization.

Government Expenditure

Government Expenditure: The total estimated expenditure for 2022 is GHS 135.6 billion, 25.6% higher than the projected expenditure outturn for 2021. The main drivers of the increase in budgeted expenditure are compensation of employees, interest payments, and grants to other government units.

Expenditure for the first 3 quarters of 2021 was GHS 81bn, which is lower than the budgeted expenditure of GHS 83.9bn for the period. The difference in the budgeted and actual expenditure was mainly due to lower expenses on the use of goods and services (39.2% below budget), grants to other government units (13.7% below budget), and other expenditure (23.6% below budget).

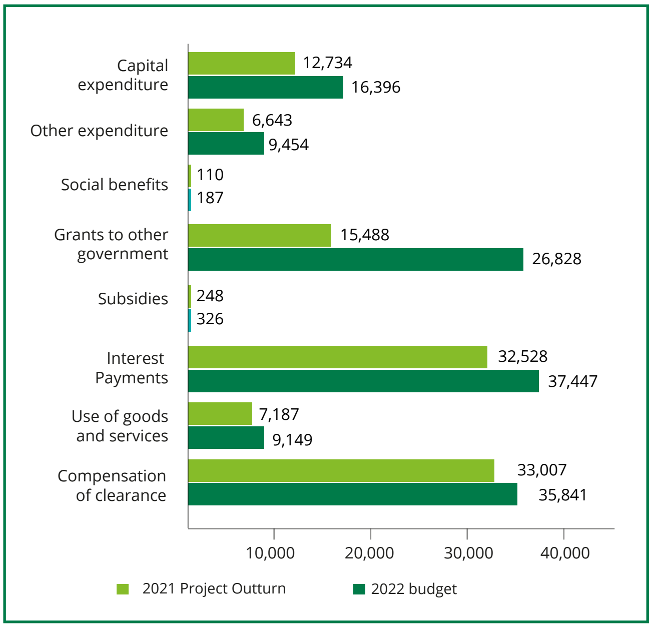
Deloitte Comments

Interest payments continue to take significant portion of Government expenditure as it is projected to constitute the highest component (27.6%) of the 2022 budgeted expenditure. With the rising debt to GDP ratio, a downgraded credit rating and increasing inflation in advanced economies, the Government's borrowings from the international capital markets are expected to be more expensive in 2022, further increasing the interest expense on loans.

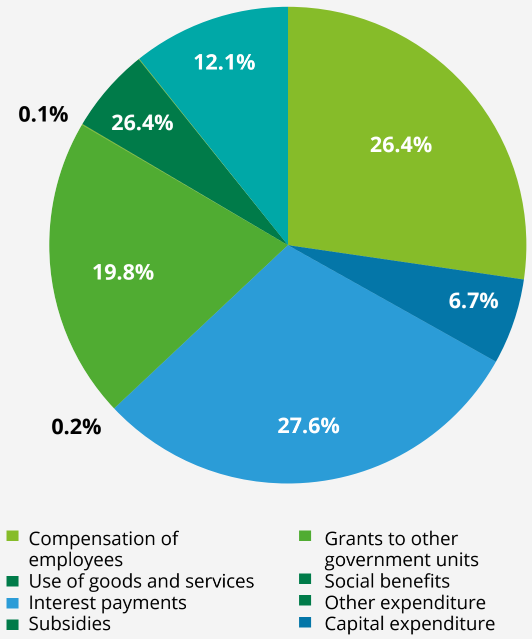
It has become critical for the Government to consider diversifying its borrowing sources, hence Government's decision to temporarily suspend access to debt from International Capital Markets (ICMs) and resort to domestic borrowing through syndicated loans from commercial banks is laudable.

2022 Expenditure Budget GHS 135.6 billion

2021 Expenditure Outturn GHS 107.9 billion



Resource allocation 2022



Source: 2022 Budget Statement and Economic Policy

Public Debt & Debt Management Strategy

Public Debt to GDP ratio (2017-September 2021)

Debt to GDP	2017	2018	2019	2020	Sept. 2021*
External Debt/GDP	28.8%	27.9%	31.6%	37.0%	37.1%
Domestic Debt/ GDP with bailout	25.4%	28.2%	29.6%	39.1%	40.1%
Total Debt/GDP with bailout	54.2%	56.2%	61.2%	76.1%	77.5%
Domestic Debt/ GDP without bailout	25.4%	25.1%	24.6%	32.7%	34.7%
Total Debt/GDP without bailout	**54.2%**	**53.0%**	**56.2%**	**69.7%**	**71.8%**

*Figures are provisional and subject to change.

Source: 2022 Budget Statement and Economic Policy

Rating Agency		
Moody's	S&P Global Ratings	Fitch Ratings
Rating Outlook		
B3	B-	B
Outlook		
Negative	Stable	Negative
Rating Action		
Ghana's long-term issue & Senior unsecured bond ratings maintained at B3 and outlook at negative	Ghana's long-term foreign and local currency sovereign credit ratings maintained at B- with stable outlook	Ghana's long-term For-eign-Curency IDR at B with negative outlookk

Government received approval to raise US$ 3 billion from International Capital Markets ("ICM") with an option to raise a further US$ 2 billion based on favourable market conditions in 2021. To date, the Government has raised US$ 3.025 billion in Eurobond financing which occurred in March 2021.

To avoid increased interest payments from raising capital in the international markets, GoG plans to take advantage of exceptional financing offered by the International Monetary Fund (IMF) in the amount of GHS 4.5 billion. Doing this will reduce the Government's domestic borrowing need. The Government also plans to access syndicated loans from commercial banks to reduce the need to access International Capital Markets.

Some of the Government's plans to manage its debt include:

- The Medium-Term Debt Management strategy for 2022-2025 which proposes reducing total limits set for concessional and non-concessional external borrowing from US$2.5 billion to US$2 billion
- Proposing new instruments to diversify the debt portfolio and increase the debt financing capacity of the domestic market
- Acceleration of the fiscal consolidation plan to targeting a positive primary balance in 2022 as the Government seeks to reduce the debt to GDP ratio and improve debt liquidity ratios

Government interest expenses are forecast to account for about 37.3% of revenue in 2022.

Deloitte Comments

The increase in debt as a result of COVID-19 related expenditures, as well as concerns about the sustainability of the Ghana's rising debt has resulted in downgrades in Ghana's credit rating by the major rating agencies. This, together with the rising inflation in advanced economies, are expected to result in an increase in financing costs in the International Capital Markets, and by extension, Ghana's interest burden.

The above situation is already reflected in the Ghana 2032 Eurobond yield currently trading near distressed debt levels (yields that are 10% greater than US Treasury bonds of the same maturity) which indicates the Government's challenging fiscal position. Given that these high yields are likely to persist until the Government makes significant progress in improving its fiscal position, the decision by Government not to access the International Capital Markets in the short term and take advantage of IMF's exceptional financing is a step in the right direction. However, Government should embark on aggressive diversification of borrowing sources and limit its reliance on domestic borrowing which could result in 'crowding out effect' by limiting available credit to business and increase the cost of borrowing in Ghana.

Public Debt Developments, 2021

Provisional nominal debt stock (including financial services bailouts and IPP Payments)

End of December 2020
GHS 291,630.7 million

End of September 2021
GHS 341,762.7 million

Impact of Cyclical Fiscal Adjustments for Covid-19 on Global Public Debt

Global public debt as a ratio of GDP according to IMF's October 2021 Fiscal Monitor report

2020
98.6% of GDP

2021
97.8% of GDP

Public Debt Composition

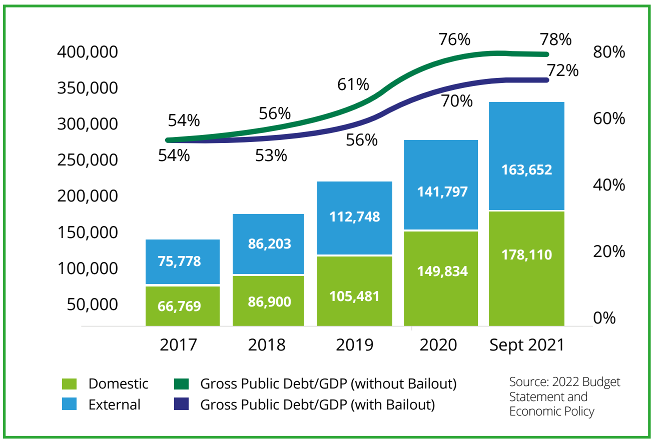
Foreign Debt
GHS 163,652.2 million (47.9%)

Domestic Debt
GHS 178,110.5 million (52.1%)

Stabilisation of Debt Stock contributed by Covid-19

The contribution of Covid-19 to an increased debt stock has stabilised since the end of September 2021.

Trend in public debt and debt accumulation (2017- Sept. 2021)



Deloitte Comments

Borrowing from the International Capital Markets (ICMs) is relatively expensive and has led to increases in Government expenditure on interest payments. Government interest expenses are forecast to account for about 37.3% of revenue in 2022. The rising interest payment has the potential of limiting funds for other critical sectors such as capital expenditure for infrastructure. Therefore, the decision by Government to diversify the debt portfolio and access syndicated loans from commercial banks is laudable. However, Government should negotiate competitive interest rate on these facilities in order to reduce the rising interest payment.

Key Initiatives

YouStart

Vehicle for supporting young entrepreneurs to gain access to capital, training, technical skills and mentoring to enable them launch and operate their own businesses. Key vehicle to create 1 million jobs in 3 years under the GhanaCARES programme. The Ghana Enterprises Agency (GEA), the National Entrepreneurship and Innovation Programme (NEIP), and partner financial institutions, will serve as the implementing arms of YouStart.

Fast-tracking digitilisation

Facilitation of investment and development of communication software. Over 11.5m Ghana Cards have been issued to Ghanaians as part of effort to enhance revenue identification. Government is in the process of digitising the health records of Ghanaians and creating a national digital platform for the sale of pharmaceutical products to improve healthcare delivery. Government through GhanaCAREs, is also making funds available for a host of on-going data integration platforms and electronic information systems.

National Homeownership Fund (NHOF)

The National Homeownership Fund is working in partnership with three universal banks, the Rent to Own Scheme of the Affordable Real Estate Investment Trust, as well as GCB Capital to scale up delivery of affordable housing in Ghana. The National Homeownership Fund (NHOF) is facilitating the use of innovative products to tap into pension and other long-term funds to support homeownership in Ghana.

Infrastructure for Poverty eradication (IPEP)

The programme will be entirely financed as part of the SDI Secretariat and Development Authorities expenditure. A total of 730 out of the 1,000 community-based mechanised water systems have been completed. A total of 80 were completed in 2021 and the rest are scheduled for completion in 2022.

Green Climate Fund

Of 18 proposals submitted seeking funding from the Green Climate Fund (GCF) and co-financiers, 9 proposals were approved totaling US$ 106.9 million. Two key projects approved by the GCF are the Ghana Shea Landscape Emission Reduction Project (GSLERP) and the Affirmative Finance Action for Women in Africa (AFAWA). The GSLERP commenced with an approved amount of US$ 30.1 million from the GCF with the aim of significantly reducing emissions from deforestation on the shea landscape and restoring degraded savannah forests.

Top initiatives with likely significant impact on expenditure

Free SHS
GHS 2.3bn

YouStart Programme
GHS 1bn

GhanaCARES Programme
GHS 1.033bn

Planting For Food and Job
GHS 614m

Infrastructure for Poverty Eradication
GHS 1.025bn

One District One Factory
GHS 216m

Total GHS 6.188bn

Deloitte Comments

Overall, these initiatives will enhance the productive capacity and economic recovery of the country following the slowdown in economic growth as result of Covid-19 pandemic. Government intends to partner with the private sector to finance some of these initiatives therefore Government should consider providing incentives to productive sectors to accelerate the implementation of these projects.

Government has made some progress with the Free SHS, GhanaCares and Infrastructure for Poverty Eradication projects in 2021 however, there's still more work to be done on some key initiatives such as the National Home Ownership Fund (NHOF) and the Green Climate Fund. Government should set out a clear policy agenda and guidelines to effectively implement and monitor these initiatives.

Tax Policy Proposals

Revenue Mobilization Measures

Introduction of Electronic Transaction Levy (E-Levy) on the value of digital transactions

The Minister for Finance has announced the introduction of an Electronic Transactions Levy (E-levy) effective 1 January 2022. The levy will be chargeable at 1.75% on the value of digital transactions that exceed a cumulative daily transactions value of GHS 100 per person. The key government objectives for this policy are increasing government revenue and roping in more informal sector participants into the tax net to contribute towards the development of Ghana. Funds from the E-levy are projected to be used to support Government initiatives such as entrepreneurship development, youth employment, cyber security, digital and road infrastructure, among others.

Deloitte's view

This policy proposal, we believe, is driven by the increase in the volume of financial transactions conducted through digital platforms especially mobile money services which has enhanced the financial inclusion drive. Notwithstanding the opportunities this sub-sector presents for the Government to rake in the much-needed revenue, it is imperative for the Government to assess the impact, both intended and unintended, of implementing the E-levy on retail electronic payments and overall financial inclusion in the country.

Studies have shown that the implementation of similar digital tax schemes in other countries (for instance Kenya) may not widen the tax base significantly but rather "reverse the gains on retail electronic payments and financial inclusion". Imposition of the E-levy has the potential of discouraging the use of electronic payment systems while encouraging a cash preference and financial exclusion, especially for low income earners.

We recommend that as Government works on designing an implementation framework for the E-levy, it also draws on lessons from the challenges other countries have encountered with the imposition of similar digital levies. More importantly, it is our view that, Government explores other means of roping in the informal sector into the tax net which targets actual income generated by the informal sector players. If at all the E-levy is implemented, Government could consider making this policy a temporary measure to avoid the erosion of gains made in the financial inclusion policy.

Implementation of "Unified Common Platform" for property rate administration

As part of Government's efforts to enhance administration of the property rate system, the Minister for Finance also announced Government's intention to implement a Unified Common Platform (UCP) for property rates administration from January 2022. The Minister indicated that the Ghana Revenue Authority (GRA) will be engaged to assist the Metropolitan, Municipal and District Assemblies (MMDAs) to implement the UCP to facilitate property rate assessment and collection in exchange of a compensation to GRA to cover costs incurred.

Deloitte's view

Property rates assessment, collection and accountability have been identified as a challenge for most MMDAs due to several inefficiencies in the current property rate regime. We are of the opinion that a timely implementation of measures that will improve property rate administration will enhance revenue generation at the local government level.

While this task has traditionally not been part of the GRA's portfolio, the GRA's experience in assessing and collecting taxes can be an important factor to significantly improve property rate administration in Ghana if the necessary monitoring and control mechanisms are implemented. We expect implementation of the UCP, together with data from the recent Population and Housing Census, to provide a comprehensive database for proper administration of property rates going forward.

Review of fees and charges of MDAs

The Government has proposed to review the fees and charges for the services of Ministries, Departments and Agencies (MDAs) with an average increase of at least fifteen percent (15%) effective 1 January 2022. Following the increase, Government proposes that the fees will be subject to an automatic adjustment based on the annual average inflation rate as announced by the Ghana Statistical Service (GSS). Government also proposes to undertake a comprehensive review of the fees and charges every five years.

Deloitte's view

One major benefit we foresee from the implementation of this policy is the contribution it will make to government revenue. We are equally mindful of the potential unintended consequence of this policy making government services inaccessible to financially vulnerable persons in society.

Once implemented, the fees and charges for services of the MDAs should reflect the current market conditions. Also, with the annual automatic adjustment tied to the annual average inflation rate, there will be some level of certainty with respect to the expected increment in fees and charges payable for the services of the MDAs.

Support to Industry

Extension of VAT zero-rating on locally manufactured textiles

In order to grow local production and consolidate the gains from introducing zero rating of VAT on supply of locally manufactured textiles, Government has proposed to extend this initiative for another two years.

Deloitte's view

This initiative, originally introduced in 2019, was due to end by 31 December 2021. The proposed two-year extension means the supply of locally manufactured textiles will continue to be VAT zero rated until December 2023.

Given the reported successes achieved over the period of implementing the VAT zero rating policy, we are of the opinion that this announcement of an extension will continue to enhance growth in the local textile industry.

Introduction of threshold for VAT Flat Rate Scheme (VFRS)

Under the current VAT flat rate scheme, wholesalers and retailers of goods are required to charge VAT at the flat rate of 3% together with the 1% COVID-19 Health Recovery Levy (COVID-19 Levy). The Government has proposed to restrict the VFRS scheme to retailers with annual turnover not exceeding GHS 500,000. Retailers with annual turnover above the threshold and wholesalers will be required to apply the standard VAT rate.

Deloitte's view

The revision of the VAT flat rate scheme will mean that registrable retailers with annual turnover exceeding GHS 500,000 and all wholesalers will be required to charge VAT at the standard rate of 12.5% on the taxable value of goods plus levies. Such suppliers will also qualify to claim the VAT incurred on their purchases as input VAT deduction against output VAT. The 6% levy (NHIL, GETFL and COVID-19 Levy) paid on purchases will be treated as part of business expense.

Although this proposal will require amendment to the current Value Added Tax Act, 2013 (Act 870) to be effective, we recommend that retailers should conduct an assessment to ascertain whether they meet the proposed threshold for the revised VAT flat rate scheme. Retailers who do not fall within the VFRS threshold must migrate to the standard rate VAT scheme once the revision takes effect. Similarly, all wholesalers are also to take steps to migrate to the standard rate scheme once the policy takes effect.

Review of benchmark (discount) policy

The Minister of Finance has announced Government's intention to review the benchmark (discount) policy to make it more efficient and targeted to support the current development needs of protecting the environment, local industry, strengthening public safety, and supporting public health. The Minister added that the review will exclude vehicles and selected general goods from the benchmark (discount) policy.

Deloitte's view

The temporary benchmark policy was introduced in 2019 by Government to reduce benchmark values that served as the base for import duties. This policy was initiated as part of measures to curb smuggling of goods and to make Ghana's ports competitive and attractive to importers.

The revision, we believe, is likely to be in response to government tax revenue needs and local manufacturers' concerns with increased competition from imported goods. We expect the implementation of the policy to enhance competitiveness of the goods produced locally relative to imported goods. However, we recommend that Government focuses on essential goods and inputs for production in deciding on the categories of items that will no longer be granted the discounts. This is to ensure that the review does not overburden consumers as a result of an increase in the prices of goods that are not readily produced within Ghana.

Reduction of withholding tax on payment for unprocessed gold

The Minister for Finance has also indicated Government's intention to reduce the withholding tax on payment to small scale miners for the sale of unprocessed gold from 3% to 1.5%. This policy is expected to take effect from 1 January 2022.

Deloitte's view

We are of the opinion that the decrease in withholding tax rate will encourage export of unprocessed gold through official channels. This will also help to minimize the smuggling of unprocessed gold and minerals out of the country while allowing government to rake in the needed revenue from the production and export of unprocessed gold. We recommend that Government takes the necessary steps to ensure a high level of compliance with this policy and data mining.

Removal of toll charges on all public roads and bridges

Government has announced the removal of tolls charged on all public roads and bridges. This policy is aimed at reducing vehicular traffic and carbon emissions while enhancing productivity from reduced travel time. The Minister for Finance indicated that the policy would take effect immediately the 2022 Budget Statement is approved by the Parliament of Ghana.

Deloitte's view

Given the congestions the tolling system creates on some public roads, we expect the removal of the tolls to enhance productivity as a result of the reduction in the travel time and enhance the quality of access between centres of economic activities. Notwithstanding the expected benefits, a key assessment to be made is how the removal of the tolling system will affect Government revenue and measures to address the shocks from such revenue shortfalls.

Tax Administration and Compliance

Intensify Revenue Assurance and Compliance Enforcement (RACE) initiative

In order to enhance compliance, identify and eliminate revenue leakages, the Minister for Finance indicated that the GRA, with the support of RACE, will continue to use enhanced compliance measures to help plug revenue leakages.

Deloitte's view

A robust revenue compliance and assurance system is relevant for effective revenue mobilization. From the launch of the RACE initiative earlier this year, the initiative was implemented to identify and eliminate revenue leakages in the various sectors of Ghana's economy. One of the measures earmarked to assist with the fulfilment of this responsibility is the reinforcement of a compliance culture, especially in areas like free zones operation, gold and minerals export, petroleum bunkering and port operations.

We are of the opinion that this is a good initiative from a tax administration viewpoint to ensure that revenues due the government are effectively collected, and leakages adequately sealed. However, this will require a well-equipped team with highly integrated databases like the Ghana card, digital address system among others to ensure effective and efficient operations to help improve revenue mobilization for the government.

Passage of revised Tax Exemptions Bill into law

The Minister for Finance indicated Government's intention to work with Parliament to complete and pass the Exemptions Bill into law in the 2022 financial year.

Deloitte's view

The Exemptions Bill, which was first introduced to Parliament in the year 2019, was withdrawn to be amended, and after several consultations with various stakeholders, a revised Exemptions Bill has been laid before Parliament for approval. The Exemptions Bill, when passed into law, will regulate the application of tax exemptions, and streamline tax exemptions granted to businesses and foreign investors in Ghana. This will help reduce Government's tax expenditures (i.e. government revenue losses to the tax exemptions) and provide certainty to investors with a defined framework for tax exemption applications.

Implementation of modified taxation regime

The Minister for Finance announced Government's intention to implement the modified taxation regime under the Income Tax Act, 2015 (Act 896) with a consideration to review the threshold from GHS 200,000 to GHS 500,000 to widen coverage.

Deloitte's view

The modified taxation regime simplifies tax compliance for individuals in business as it allows for accounting for income and expenses on cash basis and grants them the option to pay taxes on a presumptive basis. Increasing the threshold for application of the modified taxation regime can be one of the ways of simplifying tax assessment for more informal sector businesses and eventually widening the tax net.

The increase in the threshold from GHS 200,000 to GHS 500,000 will enable more sole-proprietor businesses, who would ordinarily find the general assessment system too complex to comply with, to now enjoy the benefits of a simplified tax system by paying 3% of their turnover as income tax.

While this is a welcoming news for both tax administration and informal business owners, we recommend that the GRA in collaboration with the National Commission for Civic Education (NCCE) embarks on a massive education of the informal sector to ensure that implementation is successful for government to reap the intended benefits.

What to look out for in 2022!

In order to implement the policies proposed in the 2022 budget, there are key legislations that are expected to be amended or introduced in 2022. These legislations include:

1. Electronic Transaction Levy Bill
2. Value Added Tax Act, 2013 (Act 870)
3. Income Tax Act, 2015 (Act 896)
4. Exemptions Bill
5. Fees and Charges (Miscellaneous Provisions Act), 2009 (Act 793) / Fees and Charges (Amendment) Instrument, 2016 (L.I. 2228)

Deloitte policy proposals for consideration by government

Ghana is currently at the economic recovery stage in dealing with the COVID-19 pandemic and its attending impacts. Given the various Government initiatives outlined for implementation to help the Ghanaian economy to recover from the adverse impact of the COVID-19 pandemic and return to its growth trajectory, the need for enhanced revenue mobilization efforts by Government and control of expenditure cannot be overemphasized.

However, in raising the much-needed revenue, it is imperative that the actions taken by the Government do not worsen the woes of the general population. We at Deloitte recommend the following proposals for consideration by Government going into the 2022 financial year.

Tax Policy Proposals

Implementation of VAT on electronic services law

VAT on non-resident supplies of e-commerce and telecommunication services has been in our VAT law since 2014 but implementation is still pending. We understand the GRA is currently developing systems to aid the non-residents register and comply with their obligations in Ghana. We recommend that the Government sees to it that the process is fast-tracked, and the required implementation guidelines published to aid compliance and help raise more revenue for the country.

Implementation of the Fiscal Electronic Device (FED) system

This system has been approved since 2018 but remains unimplemented to date. The FED system is expected to be connected to VAT suppliers' systems to provide the GRA with real time assess to VAT transactions. The benefit of the FED system will be to provide enhanced revenue assurance via a digital means that is less intrusive and costly compared to regular audits while plugging revenue leakage.

Automating WHTCC and TCC issuance

The GRA made significant progress in automating tax compliance with its launch of the taxpayers' portal in 2021. With this portal launched, we recommend that the GRA continues to extend the various compliance tasks that can be handled on the portal to ease compliance cost for taxpayers.

Two of these tasks we recommend the GRA considers are the processing of Withholding Tax Credit Certificates (WHTCCs) and issue of Tax Clearance Certificates (TCCs). Automating the WHTCC issuance process has the potential of reducing taxpayer compliance cost and enhancing business cash flow as well as cost of collection on the part of the GRA. An automated TCC issuance process is also likely to enhance ease of doing business and encourage voluntary compliance with tax obligations.

Economic Policy proposals

Economic growth and recovery:

Government should aggressively pursue programmes aimed at increasing production and export of commodities such as gold, crude and cocoa as prices for these commodities are expected to increase due to the increased demand for these commodities in advanced economies.

Government should consider providing attractive incentives including tax rebates and easy access to financing to the mining sector as the sector has been a major driver of the economy in the past years. The proposed incentives will enable mining companies start and increase production, which will ultimately boost activities and impact the growth of the sector.

Debt management:

Government should endeavour to diversify its borrowing sources and limit its reliance on domestic borrowing which could result in 'crowding out effect' by limiting available credit to businesses and increasing the cost of borrowing in Ghana.

Government's decision to diversify the debt portfolio and access syndicated loans from commercial banks is laudable, however, Government should negotiate competitive interest rate on these facilities in order to reduce the rising interest payment.

Revenue

In order to achieve a budget deficit less than 5% in 2024 in line with the Fiscal Responsibility Act, Government must ensure it operates a controlled budget expenditure and work towards achieving planned revenue targets. In line with this, Government should ensure the implementation of the Unified Common Platform and other tax programmes and policies aimed at widening the tax net.

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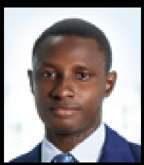

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