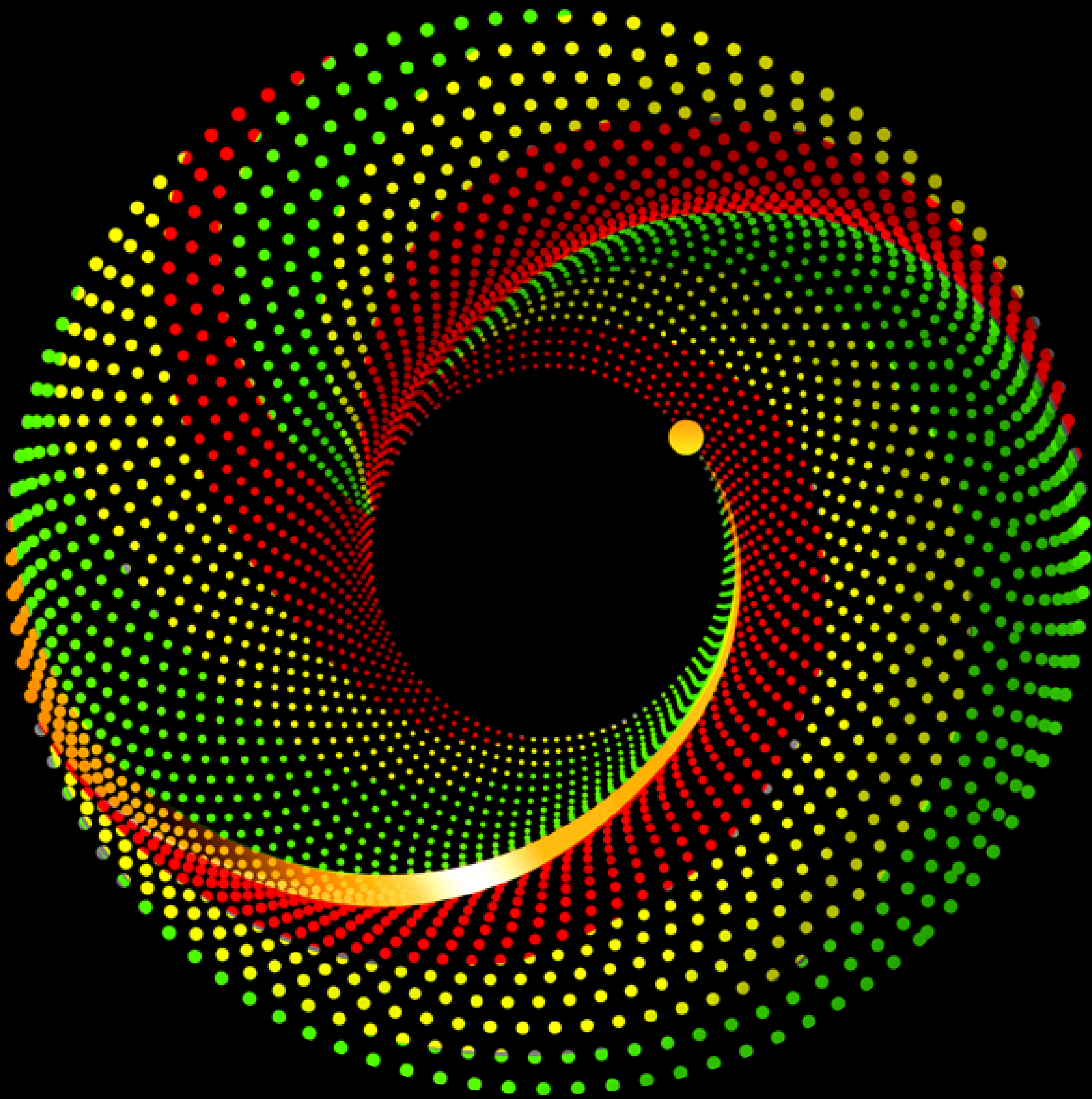
Deloitte.



2022 Mid-year review of the Budget Statement

Summary of budget statement & Deloitte's views

August 2022

MAKING AN IMPACT THAT MATTERS since 1845

The Minister of Finance, on 25 July 2022, presented the Mid-Year Fiscal Policy Review of the 2022 Budget Statement and Economic Policy of the Government of Ghana (the “Mid-Year Budget Statement for 2022”) to the Parliament of Ghana. This is in accordance with the provisions of Article 179 (8) of the 1992 Constitution of Ghana, Standing Order 143 of Parliament of Ghana and Section 28 of the Public Financial Management Act, 2016 (Act 921).

The 2022 “Agyenkwa” Budget presented to Parliament on 17 November 2021 sought to build a Sustainable Entrepreneurial Nation anchored on Fiscal Consolidation and Job Creation. The first half of 2022 however saw some unprecedented challenges such as the sustained effects of the COVID-19 pandemic and Russia’s invasion of Ukraine leading to Ghana’s proposed return to the International Monetary Fund (“IMF”).

Despite the ongoing local and global challenges, the 2022 Mid-Year budget seeks to lead Ghana to “macroeconomic stability, debt sustainability, robust growth and a Ghana Beyond Aid” through various initiatives and measures such as Enhanced Domestic Programme, the GhanaCARES “Obaatan pa” programme and the YouStart programme.

This Budget Highlights document provides highlights of key policies of the 2022 Mid-Year Budget Statement and our analysis of how the policies could affect businesses, the economy and society at large. We have also provided an update of amendments to the tax laws passed by Parliament during the month of July, 2022.

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Budget at a Glance

Macro economic performance

Overall real GDP growth

Overall, real Gross Domestic Product (GDP) for 2021 grew by 5.4% in 2021 from 0.5% in 2020 with a revised 2021 annual target of 5.1%. Real GDP growth in 2021 was mainly driven by the post-pandemic economic recovery following the Covid-19-induced disruptions to the global supply chain, which had a strain on the economy in 2020. The economic recovery in 2021 was also anchored by Government of Ghana's ("GoG" or "Government") medium-term revitalisation agenda including:

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

Inflation

Year-on-year inflation trended upwards to 11.0% in 2021 from 10.4% in the same period of 2020. The marginal increase in inflation over the period was attributed to high food and non-food prices, upward adjustments in ex-pump prices of petroleum products and continuous depreciation of the local currency.

Budget Deficit

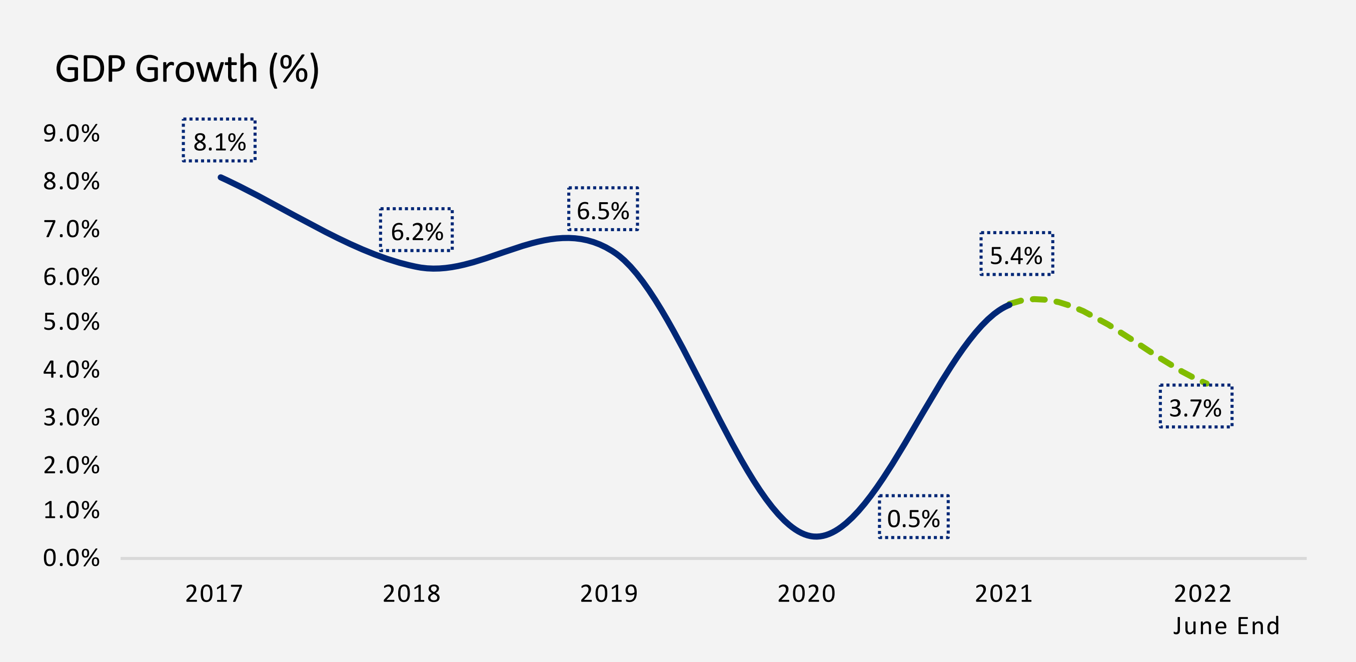
Overall budget deficit decreased to 9.4% of GDP in 2021 from 11.7% of GDP in 2020.

Budget deficit in 2020 was mainly driven by an increase in GoG's expenditure in response to recovery from the COVID-19 pandemic. The improved budget deficit in 2021 is mainly as a result of more controlled Government expenditure and the subsequent decline of COVID-19 cases and related expenditures.

Primary Balance

Primary balance trended upwards from a deficit of 5.3% in 2020 to a deficit of 2.0% in 2021. This was mainly due to GoG's strategy to strengthen its focus on efficiency in the Country's fiscal operations and transformation efforts such as aggressively improving revenue mobilisation by adopting more innovative and comprehensive approaches including:

- rationalising expenditures
- adopting policies to address inflation
- promoting production and improving productivity
- implementing the GhanaCARES



Deloitte's view

Real GDP growth is projected to dip from 5.4% in 2021 to 3.7% in 2022 as private consumption declines on account of rising prices of goods and services. Growth is projected to pick up from 2023-2025 as the economy is projected to recover from the adverse impact of global developments including the Russia-Ukraine War and COVID-19 pandemic.

The Economist Intelligence Unit (EIU) projected a 4.8% real GDP growth at the end of the year which is higher than GoG's revised projection of 3.7%. Based on the half year performance, GoG's revised real GDP growth projection of 3.7% appears realistic as gold production and processing is expected to strengthen in the face of increasing domestic inflation and the disruption in global supply lines from the ongoing Russia-Ukraine war.

We advise Government to intensify its implementation of the programs designed to expand and improve the economy such as the agricultural modernisation program, industrialisation and supporting businesses to take advantage of the Africa Continental Free Trade Agreement (AfCFTA).

Revision to 2022 Macro economic framework

Revised Macro-Fiscal Targets for 2022

Indicators	Projected	Revised
GDP Growth	5.8%	3.7% ↓
Inflation	8%	28.5% ↑
Fiscal Deficit	7.4%	6.6% ↓
Primary Surplus	0.1%	0.4% ↑
Gross International Reserves (Months of Import Cover)	4 months	3.5 months ↓

Overall Fiscal Deficit

Overall fiscal deficit for the first half of 2022 was 5.7% of GDP, compared to a target of 3.9% of GDP. This is largely attributable to the depression in GDP projections for the period. The revision of overall fiscal deficit from 7.4% of GDP to 6.6% of GDP is attributable to the implementation of the approved 30% expenditure cut as well as other rationalization measures put together by the GoG.

GDP Growth

Overall Real GDP for the first quarter of 2022 grew by 3.3% compared to an initial target of 5.8% for 2022. The Ministry of Finance (MoF) has subsequently revised the projected overall real GDP growth target for 2022 from 5.8% to 3.7% According to MoF, the downward revision was warranted by the first quarter performance of GDP growth , impact of the on-going Russia-Ukraine war which has affected fuel and food prices, and the anticipated reduction in real consumption due to inflationary pressures.

Primary Surplus

The MoF projects a favourable appreciation in the primary surplus and has revised this upwards to 0.4% of GDP from 0.1% of GDP previously projected. This revision stems from the 30% cut in Government's projected expenditure for the year.

Inflation

Inflation at the end of June 2022 stood at 29.8%, while the projected year end target was 8%. The significantly high inflation at half year is largely attributable to the general upsurge in global oil prices which resulted in increased transport and food inflation. Additionally, the depreciation of the Cedi against major trading currencies and global inflation further aggravated the general pricing landscape. As a result of the half year performance, the MoF has revised the projected end of period inflation for 2022 from the projected 8% to 28.5%. The significant revision has been necessitated by the anticipated high levels of oil prices which, as at July 2022, stood at US$ 103.4/bbl as well as the expected impact of the Russian-Ukraine tension on global inflation.

Gross International Reserves

Gross international reserves as at the end of June 2022 was 3.4 months of import cover. This compared to 4.3 months of import cover the same period in the previous year. The MoF has revised the end of year import cover from the projected 4 months to 3.5 months of import cover given the persistent rise in the country's import bill amidst the challenges of a depreciating currency.

Deloitte's view

Ghana, like other developing countries on the continent, has suffered severely from the impact of the general global economic slowdown caused predominantly by the Russian-Ukraine tensions and the COVID19 pandemic. Revision of initial GDP growth projections is in the right direction, given the uncertainties surrounding tensions between the aforementioned nations which is expected to aggravate the country's current situation.

The implementation of the Enhanced Domestic Program supported by the IMF is expected to improve Government's fiscal situation and re-instill investor confidence. We expect these interventions, together with Government's initiatives on digitalisation and improvement in commodity prices, to yield favourable results in the medium to long term.

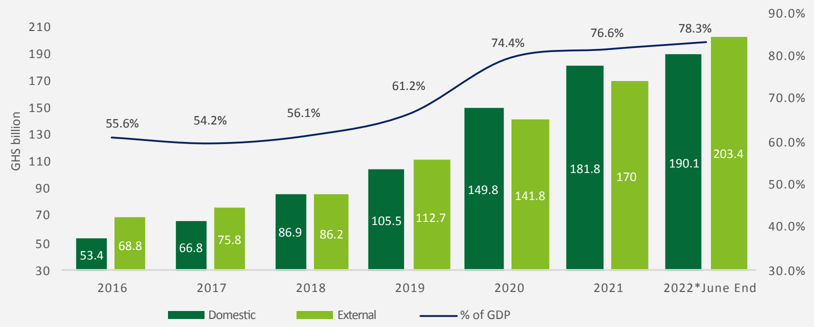
The country's present inflation situation replicates that of the global economy caused largely by the disruptions in the global production and trade of goods and services, coupled with soaring oil prices. The situation in Ghana has been worsened by the depreciated Cedi value caused by heightened investor concerns on the country's fiscal stance and food supply challenges from the shortage of fertilizer supply. With continuous monetary tightening and weakening supply-side price pressures, we expect inflation to stablise in the medium term, however, still above Bank of Ghana's (BoG) long term target of 6-10%

We expect the country's fiscal deficit situation to improve slightly given the implementation of Government's 30% cut in projected expenditure and implementation of improved revenue mobilization strategies.

Revenue measures including the Ministry of Local Government Decentralisation and Rural Development Project (MLGDRD) and the Revenue Assurance, Compliance and Enforcement (RACE) as well as other compliance initiatives undertaken by the Ghana Revenue Authority will improve government's revenue mobilization yields amidst the current fiscal challenges.

Public Debt Analysis

Public Debt Development from 2016 - June 2022



Domestic Debts

GHS 190.1b (June 2022)

+9.9%

GHs173b (June 2021)

External Debts

GHS 203.4b (June 2022)

+25.7%

GHS 161.8b (June 2021)

Debt analysis and Ghana's Credit Ratings for 2022

The total debt issuance by the Government increased by 17.6% from June 2021 to June 2022 compared to a 29.5% increase in total debt issuance between June 2020 and June 2021. This increased debt issuance in combination with elevated global inflation in 2022 has led to increased borrowing costs for the Government in both the domestic market and international markets. In the international markets, issuance of debt and payment of interest has become more expensive due to investor fears over the Government's fiscal position and the depreciation of the Ghana Cedi against foreign currencies. Consequently, the Government has not been able to issue sovereign bonds in 2022 due to these adverse market conditions.

The revised interest expenditure of GHS 41,632m in 2022 (30% of 2022 total expenditure) is due to Cedi depreciation against foreign currencies and increased interest rates due to higher global inflation. Further depreciation against foreign currencies may lead to increased interest expenditure on external debt and a subsequent increase in the budget deficit.

In the first half of 2022, Fitch Ratings downgraded Ghana's long-term issuer and senior unsecured debt rating from B to B- while maintaining their outlook on Ghana at negative. Moody's also downgraded Ghana's long-term issuer and senior unsecured debt rating from B3 to Caa1. However, Moody's changed their outlook on Ghana from negative to stable in contrast to Fitch Ratings. The reasons for the Fitch and Moody's downgrades included concerns over the level of public debt, government revenue underperformance, the government's lack of a clear majority in Parliament, the Government's inability to tap the international bond market in 2022 as planned due to the high financing costs and the inflationary effects of Russia's invasion of Ukraine on the global economy.

Deloitte's view

The increased domestic debt issuance highlights the existing competition between Government and businesses for funds available in the domestic market. Given the lower risks involved in lending to Government versus the private sector, this has resulted in increased lending to Government since the beginning of 2022 at the expense of the private sector.

This 'crowding out' of funds available to the private sector results in increased borrowing costs for private sector businesses due to their higher default risk, which ultimately also increases the likelihood of private businesses defaulting on their loans in the medium to long-term. The government should focus on containing inflation and stabilizing the exchange rate to help reduce the default risks in the private sector and incentivize commercial banks to increase private sector lending.

Rising external debt will lead to increased demand for foreign currency for debt repayment and further depreciation of the Cedi. This may lead to further strain on the Government's finances as it will need to raise more Cedi revenue to repay the external debt.

The downgrading of Ghana's credit rating by Fitch and Moody's has adversely affected the Government with Ghana Eurobonds currently trading at distressed debt levels, which has led to increased and prohibitive Eurobond borrowing costs. A comprehensive debt management strategy, with a focus on accessing concessionary loan facilities and reducing our reliance on commercial loans should be pursued by Government.

Socio-Economic Intervention Policies

GhanaCARES

GhanaCARES was rolled-out to mitigate the impact of the COVID-19 pandemic by growing the economy through improved productivity and targeted support to drive growth and create jobs. The programme continues to prioritize modernisation of agriculture and food import substitution, support for value addition, development of a vibrant tourism sector, building technological competencies and expansion of the country's manufacturing and export capacity. The programme has recently collaborated with MasterCard foundation to mobilise private sector investments. The Ghana Investment Promotion Centre (GIPC) is also developing an investment promotion programme which targets the key priorities of the GhanaCARES Programme.

YouStart

As part of Government's effort to reduce the rate of youth unemployment, YouStart was introduced in March 2022 to create one million jobs over three years (2022–2024). Government, through this initiative, intends to provide training, funding, access to market and technology to the youth (Ghanaian citizens between the ages of 18-40 years) and youth-led businesses. An amount of GHS1.98 million was disbursed under the pilot to 46 individuals and 8 Associations/Groups. The President is expected to launch the YouStart programme before the end of the year.

Development Bank of Ghana (DBG)

The Development Bank of Ghana (DBG) was launched and became fully operational in June 2022. The Bank is anticipated to provide medium to long-term financing through credit and capital market institutions for commercially-designed businesses and projects with independent cash flow. While the focus of Government is on public investment and social programmes, DBG will focus on private sector and commercial projects.

Strategic Anchor Industries

The Ghana Automotive Development Programme under the Strategic Anchor Industries continues to attract investment from global vehicle brands. An enabling Act to raise customs duties to 35% of the Cost, Insurance and Freight (CIF) value on vehicles in the same category as those built domestically, as well as the ban on import of salvaged vehicles and vehicles over 10 years old will be passed by the end of the year as part of the measures to support the programme. In addition, supplies of these vehicles will be zero-rated for VAT purposes until December 2023 to make these competitive.

Power Purchase Agreements Negotiations

The renegotiation of Power Purchase Agreements (PPAs) was completed with six Independent Power Producers (IPPs), namely, Karpower, Cenpower, Early Power, Twin City Energy (formerly Amandi), AKSA Energy, and Cenit. The main objective of the negotiations was the formation of balanced, sustainable energy partnerships, which will reduce the overall financial burden imposed on Government by "take or pay" contracts.
To date, agreements with the Key IPPs have been achieved, resulting in estimated savings of US$13.2 billion over the life of the PPAs. These savings are projected to be realized through a combination of lower capacity and energy charges across the Key IPPs. Furthermore, the government's strategic goal is to maximize savings over the next 7 to 10 years.

Others

Some other socio-economic interventions that have been undertaken include the Infrastructure for Poverty Eradication Programme (IPEP), One District One Factory (1D1F), Planting for Food and Jobs (PFJ) Free SHS Programme, Ghana School Feeding Programme, The Livelihood Empowerment Against Poverty (LEAP) Programme and the National Identification Programme.

Deloitte's view

The DBG following its formal launch, is most likely to be the new engine of Ghana's economic transformation given its mandate to support the transformation of SMEs, strengthening strategic sectors such as agribusiness, manufacturing & ICT, increasing access to medium to long-term financing, and the fact that it is independent of political interference.

The Government has also made progress with its attempts to increase the productive capacity of the economy in the Agriculture, Tourism and Manufacturing sectors through the GhanaCARES programme and has attracted more funding from international partners including MasterCard Foundation. However, there is still work to be done regarding the formulation and implementation of policies under the YouStart programme that will lead to the creation of one million jobs within the next 3 years if the economic recovery is to continue in the medium to long term.

Government should estimate the full funding requirements for the Strategic Anchor Industries and YouStart Programme and assign budgeted amounts to it going forward. Measures should also be put in place to maximize savings over the life of the Power Purchase Agreements (PPAs) and allow for effective monitoring and evaluation of progress of these social intervention programs.

Social-Economic Intervention	Amount Allocated	Anticipated Savings
Ghana CARES	GHS 100 billion	N/A
Development Bank of Ghana	EUR 170 billion	N/A
YouStart (Pilot Phase)	GHS 1.98 million	N/A
Strategic Anchor Industries	N/A	N/A
Power Purchase Agreements Negotiations	N/A	US$13.2 billion

Revenue

Government missed its revenue target of GHS43.4 billion for the first half of the year by GHS 5.6 billion. The revenue deficit was largely due to shortfalls in non-oil tax revenue which fell short by GHS 4 billion representing 12.7% of target for the period and the delay in implementing some revenue measures, particularly the e-levy.

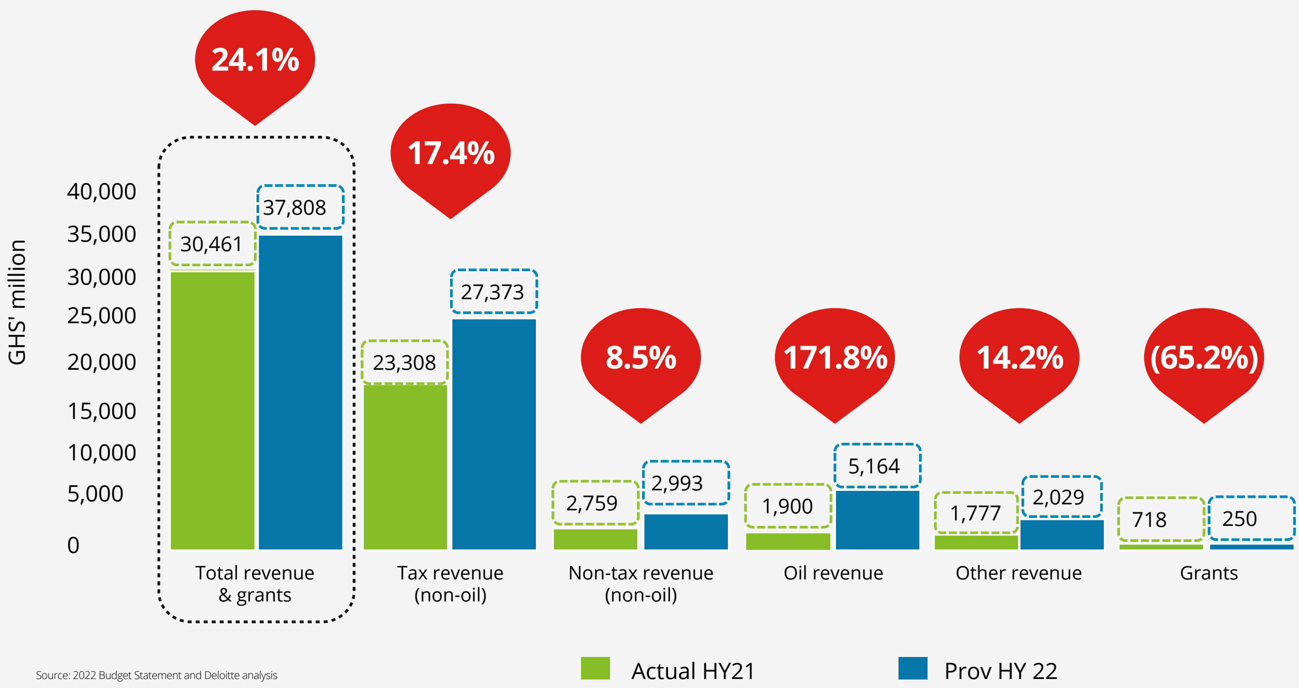
Expenditure

Total Government expenditure from January to June 2022 was GHS 65.96 billion which was GHS 2.8 billion greater than the target expenditure of GHS 63.15 billion. Total expenditure for 2022 was 30.2% higher than expenditure for the same period last year.

Interest payments and compensation of employees accounted for 56.9% of total expenditure and increased by 36.3% and 16.1% respectively from the same period last year.

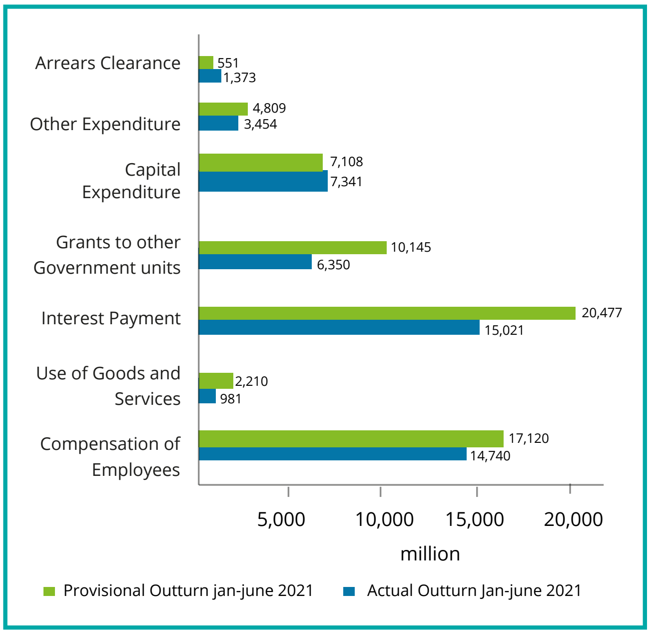
Interest payment of GHS 20.4 billion was the highest component of expenditure for the period compared to Compensation of employees being the highest for the same period in 2021. Interest payments however rose above the target expenditure of GHS 19 billion.

Actual HY 21 vs. Prov HY 22

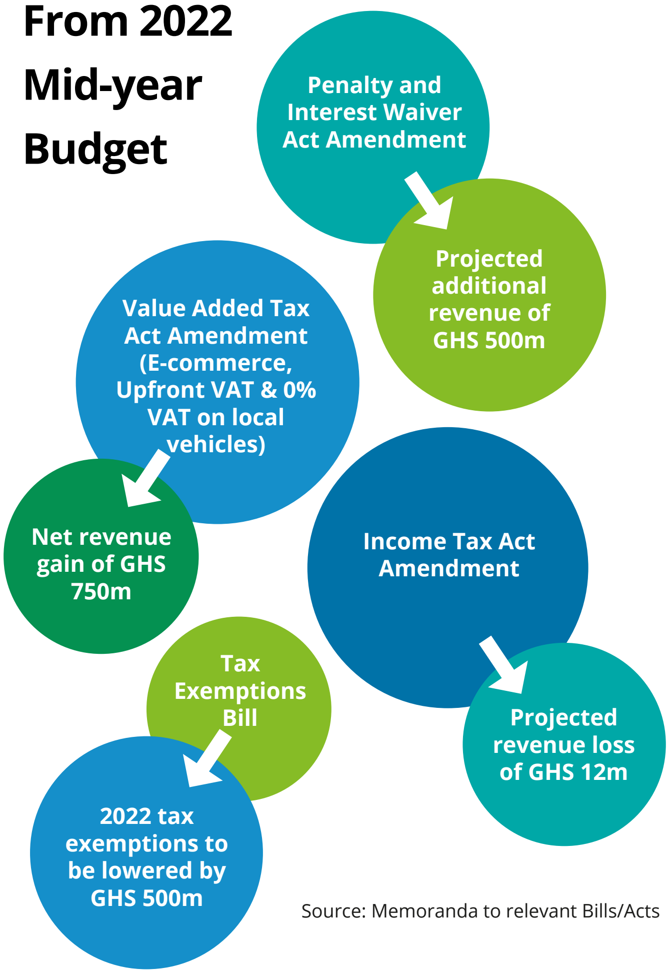


Source: 2022 Budget Statement and Deloitte analysis

Mid-Year Expenditure 2022 and 2021



Tax policy "Gains" and "losses" From 2022 Mid-year Budget



Source: Memoranda to relevant Bills/Acts

Deloitte's view

As the global economy faces increasing inflationary pressures mostly stemming from the Covid-19 pandemic and the ongoing Russia-Ukraine conflict, the Ghanaian economy is struggling with record high inflation of 29.8% as of June 2022, the highest rate since September 2009. Food price inflation rose to 30.7% in June from 13.7% in January, while non-food inflation rose to 29.1%, from 14.1%. Additionally, from January to June 2022, the Ghana Cedi depreciated against the US dollar (16.93%), the Pound Sterling (7.69%), and the Euro (9.92%) on the interbank market.

Government did not meet its revenue target mainly due to the delay in implementing some revenue measures, particularly the e-levy and shortfalls in expected revenue from taxes, MDA's Internally Generated Funds (IGF) lodgment, and retention. Government should strengthen the means of implementing its underperforming revenue. Also, Government may have to revisit the e-levy and consider which components of the levy can be revised to boost the related revenue.

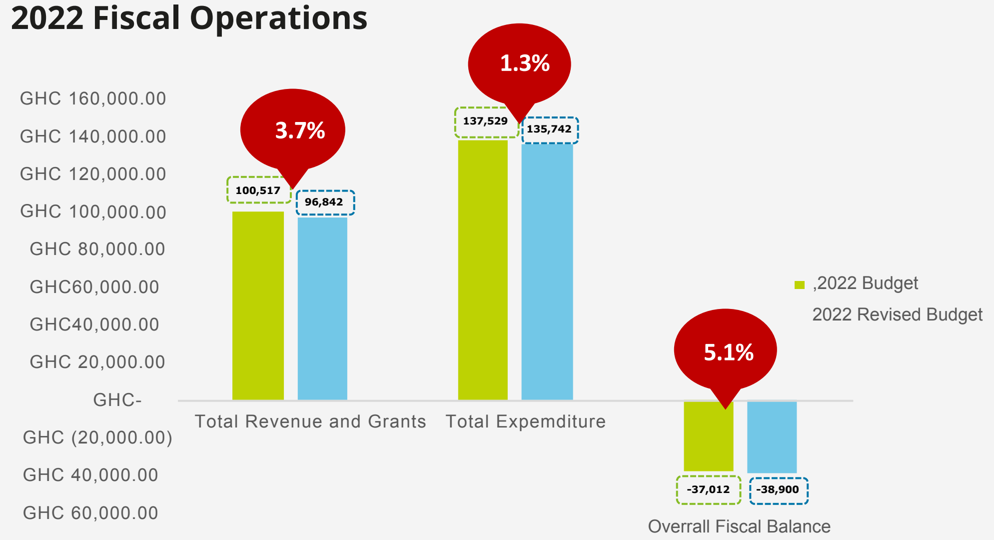
Government was able to maintain all expenditure items within budget with the exception of interest payments. The high level of Interest payments can be attributed to depreciation of the Cedi against major trading currencies and the higher cost of borrowing in the domestic market. Government should consider reducing its reliance on the international capital markets and switch more towards concessionary loans in order to contain the rising interest expense. Additionally, funds borrowed from the international capital markets should be invested more in capital projects with the ability to boost foreign exchange (FX) earnings and increase FX reserves. This will help absorb some of the FX shocks accounting for the increase in interest expense.

Fiscal constraints, rising inflation and debt sustainability are key concerns for government in these turbulent economic periods. The need for fiscal consolidation coupled with prudent spending is key to restoring macro-economic stability and growth prospects in the medium to long term.

Key sources of revenue for Government for rest of 2022

The revised budget projections for 2022 is expected to be funded by Tax revenue, which is set to contribute 76.85%. Non-Tax revenue is expected to contribute 16.48% whilst other revenue, grants and social contributions are expected to account for a total of 6.67% of the revenue. The projections for the E-levy has been revised from GHC 6.9 billion to GHC 611 million following the low performance of the tax handle in the first and second quarters of 2022. The government revised projections for VAT from GHC 14.5 billion to GHC 15.4 billion, a 6% increase in projections.

Revised 2022 Fiscal Operations



Revenue Resource

Revenue	2022 Revised Budget	% Contribution
Tax Revenue	GHS 74,426m	76.85%
Non-Tax Revenue	GHS 15,951m	16.48%
Other Revenue	GHS 4,756m	4.91%
Grants	GHS 1,188m	1.23%
Social Contribution	GHS 511m	0.53%
Total	**GHS 96,842m**	**100.00%**

Revised 2022 fiscal Operations

Item	2022 Budget	2022 Revised Budget	%Change
Total Revenue & Grants	GHS 100,517m	GHS 96,842m	-3.7%
Total Expenditure	GHS 137,529m	GHS 135,742m	-1.3%
Overall Fiscal Balance	**37,012m**	**38,900m**	**5.1%**

Deloitte's view

Government has revised the 2022 budget downward based on the following reasons;

- The fiscal performance in the first half of the year
- Revenue shortfalls mainly as a result of delays in the implementation of the e-levy, benchmark value policy, exemptions act and review of fees and charges act
- Implementation of expenditure cuts
- Payment of cost of living allowance to public servants
- Upward revision to the weighted average domestic interest rates and exchange rate due to high depreciation
- Upward revision of the benchmark crude oil price

Government should leverage its recent digitalization drive and registration of citizens by the NIA to expand its tax base and generate more revenue. Current tax policies should also be strongly implemented to generate more revenue.

Key Initiatives

Infrastructure for Poverty eradication (IPEP)

- Initiated in 2018 with the aim of providing basic socio-economic infrastructure at the constituency level to help accelerate poverty eradication and address the various forms of inequity that exist in the country.
- The Coastal Development Authority under this initiative constructed drains, roads, classroom blocks, health facilities, institutional toilets and boreholes and pumps in various underdeveloped constituencies.
- The 2022 Budget Statement detailed that the programme would be entirely financed as part of the SDI Secretariat and Development Authorities expenditure.

One District One Factory (1D1F)

- The initiative was designed to support the private sector to establish manufacturing enterprises to add value to the natural resource endowments in the districts. A total of 296 1D1F projects are at various stages of implementation, out of which 125 are currently operational.
- Government has successfully mobilised loans totaling GHS 2.69 billion for 1D1F companies from the Participating Financial Institutions over the implementation period. This facility has been leveraged through an amount of GH¢269 million disbursed by Government to de-risk loans and support interest payments.

Ghana School Feeding Programme

Under the School feeding programme, GoG fed 3,620,468 pupils in 10,832 public basic schools with one hot nutritious meal every school going day in the first half of the year as part of the initiatives of the Comprehensive Africa Agricultural Development Programme (CAADP) Pillar 3

Free SHS

Free SHS seeks to increase enrolment in schools by removing the burden of all major mandatory fees from parents and guardians and making it a responsibility of the government. Government also undertook the infrastructural expansion of 17 projects made up of classroom blocks, dormitories, staff bungalows, libraries, and toilet facilities.

Planting for Food and Jobs

- Planting for Food and Jobs aims to promote food security and immediate availability of selected food crops on the market and also provide jobs. In 2022, there was an increase in the productivity of selected crops such as maize and increase in farmer's willingness to use improved seeds and fertilizers.
- Funding for the Planting for Food and Jobs initiative was covered by various sources including GoG allocation as well as the third and final tranche of the Brazilian More Food Programme which provided agricultural machinery and equipment to farmers under a concessionary financing arrangement.

2022 Budgeted Cost of Government's key initiative

Infrastructure for Poverty Eradication (IPEP)
GHS 1,025m

One District One Factory (1D1F)
GHS 216m

Planting for Food and Jobs
GHS 614m

Free SHS
GHS 3,000m

Ghana School Feeding Programme
GHS 881m

Total
GHS 5,736m

Deloitte's view

Government intends to fund majority of these initiatives through internally generated funds allocated through the various MDAs. The Government thus needs to tighten revenue mobilization measures to ensure the sustained funding of the initiatives. Government could also consider partnering with the private sector to finance some of these initiatives by providing incentives to productive sectors to accelerate the implementation these projects.

Tax and Regulatory Updates

Tax amnesty and exemptions

Extension of Tax Amnesty Window

In a continued effort to mitigate the impact of COVID-19 pandemic on economic activities in the country, GoG is extending the window for the recently ended tax amnesty programme to 31 December 2022.

To benefit from the amnesty programme, taxpayers in default are required to apply and settle tax arrears by 31 December 2022.

Deloitte's view

This extension provides an opportunity for businesses and individuals who could not meet the initial submission deadline to make applications to regularize their tax status with the Ghana Revenue Authority (GRA) by 31 December 2022. The qualifying years for waiver of interest and penalties however remains the same (i.e prior years up to December 2020).

With the extension of the amnesty deadline to 31st December, 2022, an extension of the tax years covered by the amnesty to include 2021 tax year would have enhanced government's ability to rake in more tax revenue under the amnesty regime.

Extension of tax exemption for capital gains on listed securities

With the aim of deepening the capital market and attracting more investors, the GoG has extended tax exemption for capital gains on securities listed on the Ghana Stock Exchange (GSE) by additional five years. The extension, which comes in after the last exemption period lapsed on 31 December 2021, implies that capital gains realized by investors from trading securities listed on the GSE will continue to be exempted from tax until at least 31 December 2026.

Deloitte's view

In our opinion, this is a good initiative, and it is expected to make the capital market attractive and buoyant. However, given that this policy has seen a number of extensions over the period, we hope the Government will provide a more permanent position on exemption status for gains from the GSE, to provide certainty to investors in the capital market.

VAT zero rating for locally assembled vehicles

In further support for the local automobile industry, the GoG is making the supply of vehicles by a local manufacturer under the Ghana Automotive Development Programme (GADP) to be zero-rated for VAT purposes (for the period 1 September 2022 to 31 December 2023).

Deloitte's view

This initiative is expected to contribute to making the final price of such vehicles to consumers competitive and aid in growing the nascent local automobile industry. Suppliers of locally assembled/manufactured vehicles under GADP should also be eligible to apply for refund of VAT credits attributable to locally assembled/manufactured vehicles supplied at 0% VAT.

Extension of tax stamp and VIT concessions

Payment of tax stamp for specified small businesses and Vehicle Income Tax (VIT) on specified class of vehicles was suspended for the 2nd to 4th quarters of 2021. This was further extended to cover the 1st and 2nd quarters of 2022. The Minister for Finance has noted that to mitigate the continuing impact of COVID-19, the Government is extending the suspension of payment of quarterly income tax for small businesses and VIT to end of December 2022.

This means that specified small business owners such as artisans, masons, carpenters, welders, mechanics, hairdressers, tailors, seamstresses, 'chop bar' operators, market traders; and operators of commercial vehicles who ordinarily pay quarterly tax via tax stamps or VIT stamps will not be required to purchase these tax stamps up to end of 2022. It should however be noted that to obtain the tax exemption benefit, the qualifying business owners must be registered with the GRA and should have fulfilled any outstanding tax stamp obligations before the suspension commenced.

Deloitte's view

We encourage small businesses and vehicle owners to fully take advantage of this opportunity to reduce their tax burden and to plough back exempted profits to support business recovery during these difficult economic times.

Tax revenue collection measures

Introduction of upfront VAT payment by unregistered importers

In the Government's bid to ensure effective VAT compliance and to increase VAT revenue, the Minister for Finance announced Government's intention to impose a penalty on VAT registrable importers who are yet to register from 1 October 2022.

The penalty to be imposed will be equivalent to twelve and a half per cent (12.5%) of the customs value of taxable goods imported by non-registered persons and payable at the ports of entry. That is, non-registered importers will be charged a penalty amount equal to the estimated output VAT that would have been charged on the sale of the imported goods should they have registered for VAT.

There is however an opportunity for non-registered importers to recover the penalty amount as input VAT if they register for VAT and file their VAT returns as required under the Value Added Tax Act, 2013 (Act 870). Parliament has passed an amendment to Act 870 to bring this proposal into force.

Deloitte's view

While this appears as a good initiative to rope in defaulting registrable VAT suppliers, we look forward to receiving guidance from the GRA on it's implementation, especially with respect to separation of VAT on how to segregate VAT registrable importers from non-registrable importers among other practical questions that may arise.

Launch of Unified Common Platform for property rate collection

To enhance collection and administration of property rate, the Minister for Finance indicated Government's intention to launch a Unified Common Platform (UCP) that will digitize property rate collection by the last quarter of 2022.

As the Minister noted, the GRA will be engaged to assist the Metropolitan, Municipal and District Assemblies (MMDAs) to implement the UCP to facilitate property rate assessment and collection.

Deloitte's view

We note that the launch and use of the UCP is expected to improve property rate administration and enhance revenue generation at the local government level. However, given that this policy was earlier announced in the 2022 Budget Statement and Economic Policy read in 2021, we expect Government to intensify efforts aimed at seeing to the timely implementation of this policy and bridge the current budget deficit.

Electronic transactions and e-commerce

Introduction of Electronic VAT Invoicing

As part of efforts to improve and digitize revenue mobilization, the Minister announced the introduction of an electronic VAT (e-VAT) invoicing system to take effect from 1 October 2022. The system will require VAT registered businesses to issue VAT invoices through a Certified Invoicing System (CIS). The CIS is to be certified by the Commissioner-General (C-G) and will be integrated into the invoicing system of the C-G.

Deloitte's view

The roll out of the e-VAT invoicing system is expected to give GRA access to transaction data in real time and close current gaps in VAT reporting and collection. Small and medium businesses can also take advantage of this technological initiative to mitigate the challenges encountered with maintaining VAT records and enhancing VAT compliance monitoring and assurance.

Implementation of this e-invoicing system is expected to be completed within one year from the passage of the amendment Act, with a possible extension of three months. To avoid any logistical challenges, taxpayers are encouraged to start immediate preparations to comply.

Broadening the scope of VAT on electronic commerce.

The Minister for Finance noted that the GRA was reviewing legislation for taxation of e-commerce, betting and gaming activities. These are expected to be presented to Parliament for consideration at a later date.

In the meantime, Parliament has passed an amendment to the VAT Act to broaden the scope of e-commerce transactions supplied by non-residents for use or enjoyment in Ghana.

The amendment Act defines electronic commerce to include "a business transaction, including digital service, that takes place through the electronic transmission of data over a communication network such as internet". A new definition has been provided to cover digital services. Digital service has been defined to include "social networking, online gaming, cloud services, video or audio streaming, digital marketplace operations, and online advertising services".

Deloitte's view

These amendments are broader in scope and in tune with current trends in the technology space which should lead to an increased revenue intake for GoG.

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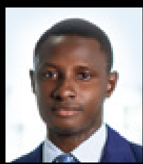

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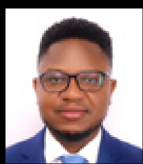

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