

IN THE FOURTH SESSION OF THE SIXTH PARLIAMENT OF THE FOURTH REPUBLIC OF GHANA

**REPORT OF THE FINANCE COMMITTEE**

**ON**



**THE INCOME TAX (AMENDMENT) BILL,  
2016**

FEBRUARY 2016

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(AMENDMENT) BILL, 2016**

**1.0 INTRODUCTION**

The Income Tax (Amendment) Bill, 2016 was presented to Parliament by the Hon. Minister for Finance and read for the first time on Friday, 29<sup>th</sup> January, 2016. The Rt. Hon. Speaker referred The Bill to the Finance Committee for consideration and report in accordance with Article 174(1) of the 1992 Constitution and Order 169 of the Standing Orders of the Parliament of Ghana.

Pursuant to the referral, the Committee was assisted in its deliberations by the Hon. Minister for Finance and a Deputy Minister for Finance, Mr. Emmanuel Seth Terkper and Mr. Cassiel Ato Baah Forson respectively, the Commissioner-General of the Ghana Revenue Authority, Mr. George Blankson and Officials of the Ministry of Finance, Attorney-General's Department and Ghana Revenue Authority (GRA), and considered the referral.

The Committee is grateful to the Hon. Minister and his Deputy, Officials of the Ministry, Attorney-General's Department and GRA for attending upon it.

## **2.0 REFERENCE**

The Committee referred to the following documents at its deliberations:

- The 1992 Constitution of Ghana.
- The Standing Orders of the Parliament of Ghana.
- The Income Tax Act, 2015 (Act 896)

## **3.0 BACKGROUND**

The Ministry of Finance in an attempt to reorganize the income tax law provisions into one single legislation to simplify the provisions and make it more user friendly laid before Parliament the Income Tax Bill in 2015. The House accordingly passed the Income Tax Bill into an Act. The new Income tax law which came into effect in 2016 seeks to ensure equity in payment of income tax and also addresses some compliance issues. However, the implementation of the Act is facing some unforeseen challenges and the amendment has therefore become necessary to address some of these challenges.

## **4.0 PURPOSE OF THE BILL**

The Bill seeks to amend the Income Tax Act, 2015 (Act 896) to provide for the exemption from tax of interest paid to an individual by a resident financial institution or on bonds issued by the Government of Ghana and to reduce the withholding tax on service fees paid to a resident person.

## 5.0 PROVISIONS OF THE BILL

The Bill is divided into two clauses. Clause 1 amends the section 7 of Act 896 to exempt the interest paid to an individual by a resident financial institution and bonds issue by the Government of Ghana from income tax.

Clause 2 of the Bill amends the First schedule of Act 896 by amending subparagraph (c) (vii) of paragraph 8 to reduce withholding tax on service fees from 15% to 7.5%

## 6.0 OBSERVATIONS

### **6.1 *Rational for the proposed amendment***

The Minister of Finance informed the Committee that the Income Tax Act, 2015 imposed a 1% income tax on resident persons for interest on investment in resident banks and on government treasury Bills and Bonds. The Act also imposes 15% withholding tax on services charge by resident persons. He explained to the Committee that as the country transits into a middle income status, there was the need to bring the tax regimes in conformity with international standards. Again, the imposition was motivated by the need to expand the tax base and to ensure equity in tax administration. In this regards, all sources of income which hitherto were exempted from income tax were to be roped into the tax net to further expand the tax base. He indicated that, as the country transitions into a middle income status, there are varied forms of financial instruments attracting huge financial transactions with huge incomes to individuals and corporations. Again, it was realized that individuals and corporations are making huge income from government bonds and treasury bills. There was

therefore the need to bring all these income into the tax net to broaden the tax base and reduce the burden on few tax payers. However, following the implementation of the proposals, there are some informed opinions which suggest that Ghana's capital market is not well matured enough for income on such investments to be taxed. The tax could discourage savings and investment in corporate and government bonds which are important for accelerated investment. There is therefore the need to exempt the tax on interest paid to individuals by resident financial institutions.

## **6.2 Financial Impact**

On the impact of the amendment on projected revenue of the Government, the Deputy Minister of Finance informed the Committee that, the proposed amendment seeks to exempt interest income earned by only individuals. He indicated that corporate investors which hitherto were paying such taxes are not exempted. The revenue loss to the state for 2016 is estimated at GHS6, 128,103. He explained to the Committee that necessary adjustment will be made for the 2016 budget to accommodate the revenue shortfall during the mid-year budget review.

## **6.3 Effective Date**

The Committee also observed that the effective date of the exemption is the date this amendment law becomes effective. It is therefore noted that until the new Act becomes operational, all interest income earned by residents are taxable under Act 896.

## 6.4 Urgency of the Bill

The Committee was informed that the Bill seeks to promote savings investment in corporate and government bonds. The Committee in its deliberations considered the bill to be of an urgent nature and must be taken through all the stages in accordance with Article 106 (13) of the Constitution and Order 119 of the Standing Orders of the House.

## 7. AMENDMENTS

The Minister of Finance proposed additional amendments which are not in the Bill. The Committee having carefully scrutinized the Bill proposes the following amendments which includes the additional amendments proposed by the Minister for the consideration of the House:

- 1) **Clause 2 – Amendment proposed** – Line 4, after “percent” insert “semi colon”.
- 2) **New Clause – Amendment proposed** – Add the following new clause:  
“First Schedule of Act 896 amended: The principal enactment is amended in the First schedule by the substitution for:
  - a. paragraph 8(1) (b) (viii) of “(viii) in the case of lottery winning:
    - (i) First 2,592 - Nil
    - (ii) Exceeding 2,592 - 5 percent
  - b. Paragraph 8(3) of “the rate of tax to be withheld from payment under Section 85(2) is three percent of the amount””

- 3) **New Clause – Amendment proposed** – Add the following new clause:  
“ Sixth Schedule of Act 896 amended: (4). The principal enactment is amended in the sixth schedule by the substitution for paragraph 6(3) of “the interest or dividend paid or credited to a holder or member on an investment in an approved unit trust scheme or mutual fund is exempt””.

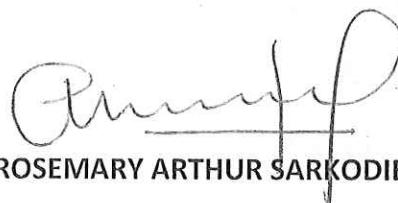
## 8.0 CONCLUSION

The Committee upon a thorough examination of the Bill recommends to the House to adopt its report and pass the Income Tax (Amendment) Bill, 2016 into law in accordance with Article 106 of the Constitution and Order 119 of the Standing Orders of the House.

Respectfully submitted.



HON. JAMES KLUTSE AVEDZI  
(CHAIRMAN, FINANCE COMMITTEE)



ROSEMARY ARTHUR SARKODIE (MRS)  
(CLERK, FINANCE COMMITTEE)

February, 2016

