Ghana's experience in Tax Expenditure reporting, presentation at the ATI Regional Follow-up Technical Workshop on Tax Expenditures, at Alisa, Tema

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REPUBLIC OF GHANA

MINISTRY OF FINANCE

Presentation by:

Emmanuel Edumadze Mensah (Head Exemptions)

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Introduction

- According to the Global Tax Expenditure Database (GTED) Companion Paper, Tax Expenditures are costly (the global average over the 1990- 2020 period is 3.8 percent of GDP and 24.2 percent of tax revenue) and often ineffective in reaching their stated goals.

- Global figures on revenue forgone have been growing steadily over the years. Between 2014 and 2018, they averaged more than 3.5 trillion USD per year (GTED Companion Paper). They can sometimes be highly distortiv and trigger negative externalities.

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Legal framework

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

- The Minister of Finance is mandated by Section 21 (5) (e) (viii) of the Public Financial Management Act, 2016 {Act 921} and section 28 of the Exemptions Act,2022 (Act 1083) to report Tax Expenditure to Parliament as part of the Annual Budget Statement.

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Items of TE

- Tax expenditure items are categorised under three (3) broad headings; Customs (International Trade), Domestic Direct and Domestic Indirect.
- Twenty-four (24) items of tax expenditures falling within these categories are costed annually.
- Currently developing a comprehensive TE Repository for the annual report.

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Methodology

- Three (3) methodologies exist for the estimation of tax expenditures. These are Revenue Forgone Approach, Revenue Gain Approach, and the Outlay Equivalent Approach. Ghana uses the revenue forgone method because of its simplicity and adoptability.
- The revenue forgone method calculates the extent to which a provision in the relevant legislation 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.

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Performance of TE

Description	2020		2021		2022	
	(GHS'M)	share %	(GHS'M)	share %	(GHS'M)	share %
Domestic Indirect	776.37	24.60%	750.76	21.57%	919.18	19.13%
Domestic Direct	665.97	21.10%	342.35	9.83%	415.30	8.64%
Customs	1,714.21	54.31%	2388.04	68.60%	3,470.10	72.22%
Grand Total	3,156.55	100%	3,481.15	100.00%	4,804.58	100.00%

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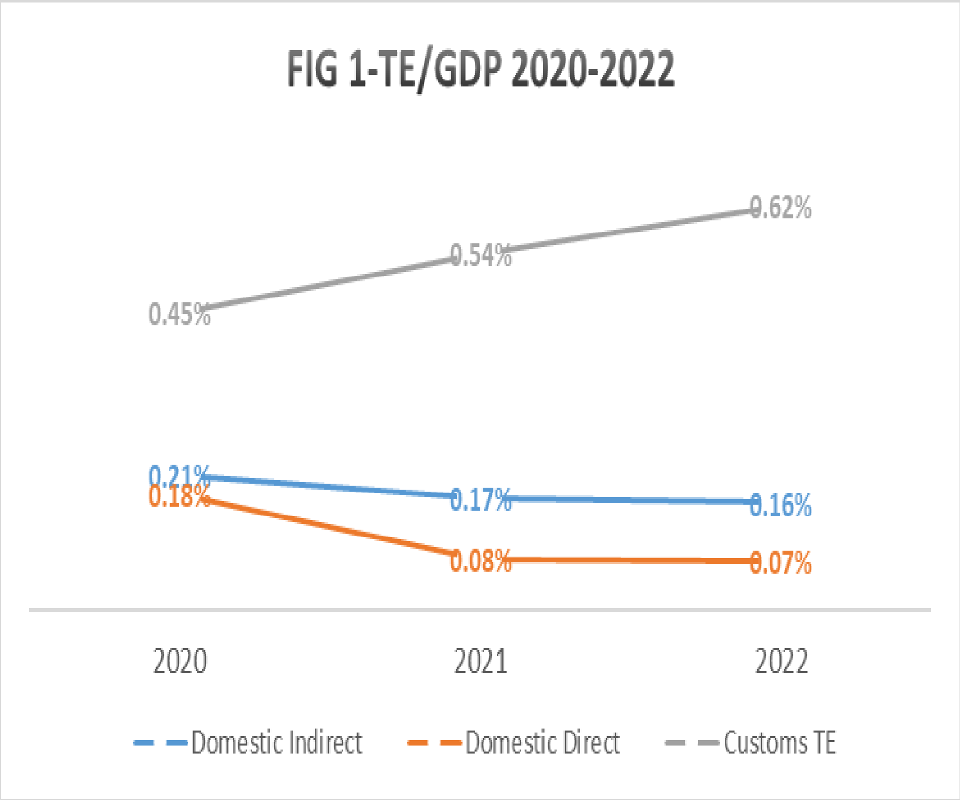
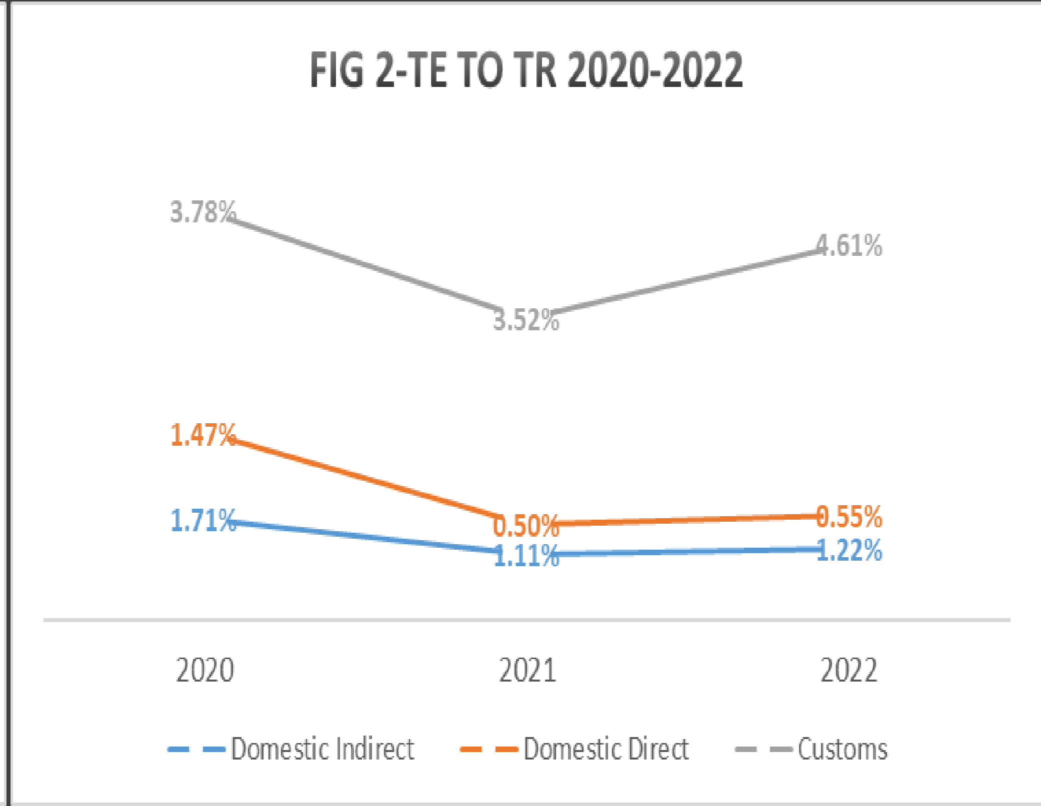
Performance of TE Cont’d





Overview of the Exemptions Act, 2022

- **Preliminary Provisions**

1. Object of this Act
2. Application
3. Definition of exemption

- **General Provisions**

4. General responsibility
5. Responsibility of the Minister
6. Negotiation and approval of exemption

- Covered Entities and Other Relevant Agencies

7. Procedure for granting exemption to covered entities

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Overview of the Exemptions Act, 2022, cont'd

- **Private Businesses**

13. Free zone enterprises

14. General tax incentives

15. Special tax incentives for strategic investments

16. Procedure for granting special tax incentives

- **Personal Effects, Foodstuffs and Equipment for Trial**

17. Baggage and effects

18. Foodstuffs

19. Equipment, replacement parts and others for production trial

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Overview of the Exemptions Act, 2022, cont'd

- **Privileged Persons**

8. The President

9. Diplomats and diplomatic missions

10. Persons with disability

11. Religious organisations

12. Donor and charity organisations

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Overview of the Exemptions Act, 2022, cont'd

- **Development Partner Projects**

20. Executed treaties, agreements, or conventions

21. Technical cooperation programmes or projects

22. Programmes or projects funded with grants

23. Concessional facility projects

24. Commercial Government projects

Security Transactions, Administrative Fees and Transnational Levies

25. Transactions by State security agencies

26. Administrative fees and other charges

27. Transnational levies

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Overview of the Exemptions Act, 2022, cont'd

- **Miscellaneous Provisions**

28. Monitoring and reporting of exemptions

29. Review of tax expenditure

30. Transfer of ownership of exempt item by holder of an exemption

31. Local content

32. Offences and penalties

33. Regulations

34. Interpretation

35. Consequential amendments,

36. Repeals, savings, and transitional provisions

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Monitoring and reporting of exemptions

Section 28 provides that the Minister shall, as part of the presentation of the annual budget statement to Parliament, submit an annual report to Parliament on

a) exemptions granted;

b) the revenue forgone;

c) explanations on how the exemptions granted are consistent with the economic management priorities of the Government; and

d) any other matter that affects the exemptions regime. Review of tax expenditure

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Review of Tax Expenditures

Section 29 provides for a schedule to review tax expenditures at least once every five years.

This goes to confirm that tax expenditures are not to be utilised perpetually.

Local content

Section 31 provides for local content

(l) Where an item to be used for a contract is produced locally, the contractor shall procure the item from the local market and the Minister shall not grant an exemption in respect of the item.

(2) This section applies, with the necessary modifications, to skills and technical know-how.

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Offences and Penalties

Section 32 provides that a person acting on behalf of the Government who

a) makes an unauthorised commitment for the grant of an exemption,

b) provides false information to influence a decision for the grant of an exemption,

c) in relation to the management or administration of an exemption, wilfully makes or signs a false documentation, false return, or false entry into records,

d) fails to report knowledge or information in respect of an exemption-related fraud committed by a person against the State to the appropriate authority or law enforcement authority, or

e) by wilful act or omission, fails to take action on an exemption-related fraud reported to that person commits an offence and is liable on summary conviction to a fine of not less than one hundred penalty units and not more than two thousand five hundred penalty units or to a term of imprisonment of not less than six months and not more than five years or to both.

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References

- 1992 constitution of Ghana
- Exemptions Act, 2022 9Act 1083)
- Global Tax Expenditure Database (GTED) Companion Paper
- GCUS Data
- Exemptions Act, 2022 9Act (1083) Administrative Guidelines

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Q&A

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