

2021 Budget Highlights

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Budget Statement of Ghana for the Year 2021

The Caretaker Finance Minister, **Hon. Osei Kyei Mensah-Bonsu, MP**, presented the 2021 Budget Statement on 12 March 2021 with the theme “Consolidation, Completion and Continuation Budget”. The Budget seeks to help government rebuild and strengthen public finances to provide the resources to protect lives and livelihoods of Ghanaians, deliver critical government services and support the transformation agenda of the economy.

This Alert highlights the tax proposals of the budget and government tax plans for the 2021 Fiscal year.

TAX POLICY INITIATIVES

- **Covid-19 Health Levy:** A proposal to increase National Health Insurance Levy (NHIL) by 1% point. Also, a 1%-point increase in the VAT Flat Rate has been proposed. The purpose of these proposed tax increases is to help the Government implement measures to contain the spread of Covid-19.
- **Sanitation and Pollution Levy (SPL):** 10 pesewas on the price per liter of petrol/diesel under the Energy Sector Levies Act (ESLA) has been proposed to aid proper sanitation management, improve the quality of life and reduce the number of deaths and diseases from poor sanitation.
- **Increases in Energy Sector Levies Act (ESLA):** The Government has proposed for approval of 20 pesewas per liter on petrol/diesel increment in the Energy Sector Levies Act (ESLA) to help Government cover the excess capacity charges that have resulted from the Power Purchase Agreements (PPAs). The Government estimates that the proposed increments in ESLA will result in a 5.7% increase in in petroleum prices at the pump.
- **Financial Sector Cleanup Levy:** A 5% levy on the profit-before tax of banks has been proposed to help defray outstanding commitments in the financial sector. This levy will be reviewed in 2024.

TAX ADMINISTRATION

- **Tax Audit:** GRA will intensify tax audits and employ measures to recover all the outstanding debt and enforce collections in the extractive industry. This will help government mobilize more revenue to meet its revenue target.

LEGISLATIVE REVIEW

- **Amendment of the Fees and Charges (Miscellaneous Provisions) Act, 2018 (Act 983):** The Government seeks to amend the Fees and Charges (Miscellaneous Provisions) Act, 2018 (Act 983) to set Rates and Tolls to accommodate an automatic annual adjustment that will be pegged to the previous year's average annual inflation as published by the Ghana Statistical Service.

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RELIEFS

- **Tax Rebate:** The Government has proposed a tax rebate of 30% on the income tax due for companies in hotels and restaurants, education, arts and entertainment, and travel and tours for the second, third and fourth quarters of 2021.
- **Tax Stamps:** The Government has proposed a suspension of the quarterly income tax instalment payments for the second, third and fourth quarters of 2021 for small businesses using the income tax stamp system.
- **Vehicle Income Tax:** Government has also proposed for the suspension of quarterly instalment payments of the vehicle income tax for the second, third and fourth quarters of 2021, for trotros and taxis as part of measures to reduce the cost of transportation.
- **Extension of Penalty and Interest Waiver:** A waiver of penalty and interest on accumulated tax arrears up to December 2020 has been proposed by the Government. Through this the Government intends to reduce cash flow challenges for companies and individuals who arrange terms with GRA to pay up the principal by September 2021.

TAKEAWAY

- These tax measures are not effective until the relevant laws have been amended by Parliament and given Presidential assent.
- It is quite unclear whether the increment in the VAT Flat Scheme and National Health Insurance Levy are of temporary nature and will be abolished when the country has won the fight against the Covid-19 pandemic. It will be apt to put the taxing community on notice the period that they are expected to shoulder this tax burden.
- To benefit from the tax reliefs proposed by the government, it is required that a person should be a registered taxpayer and meet all the first quarter tax obligations. The tax obligation during the first quarter includes filing of self-assessment, payment of first quarter tax instalment, filing of Withholding Tax (WHT), PAYE, VAT returns and paying same, etc.
- The tax reliefs proposed do not affect the first quarter tax obligations. It is advisable to ensure meeting all tax obligations which ends by 31 March 2021 to avoid suffering tax penalties.
- When the legislative amendments are made, the National Health Insurance Levy (NHIL) will increase from 2.5% to 3.5%, bringing the total levies payable to 6.5% instead of the initial 5%.
- The NHIL Levy (and the GETFund Levy) is not deductible for VAT purposes and consequently going to be a cost to businesses.
- Similarly, when the law is amended, the flat VAT rate will increase from 3% to 4%.
- The proposed effective rate of VAT and Levy (standard VAT + NHIL + GETFund) is set to increase

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from 18.125% to 19.25%. Thus 6% increase (1.125% point increase).

- The Government has given a clear indication of pursuing aggressively on Tax Audit by GRA. Internal arrangement of GRA confirms this position. It is advisable for taxpayers to take pragmatic steps to avoid noncompliance which would eventually be uncovered through the Audit.
- Taxpayers are advised to conduct Tax Health Checks to self-identify tax exposures and take corrective measures such as self-declaration to benefit from interest and penalties exemption regimes under the tax laws.
- The Government should provide a clear policy to face-out the 5% Financial Sector Cleanup Levy (FSCL) to give confidence of it being faced out as compared to the National Stabilisation Levy (NSL) which continue to exist after several deadlines.

If you have any questions on the matters referred to in this Alert, please do not hesitate to contact the authors below.

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