
iAdjoa Services

C539/18, Ashiakle Link 14,
Abelemkpe, Accra
iadjoaservices@gmail.com

Written by:

Priscilla Adjoa Koranteng
Student of ACCA and CITG.
priscillaadjoakoranteng@gmail.com

The COVID-19 Health Recovery Levy - How it works.

10th May 2021

OVERVIEW

The COVID-19 Health Recovery Levy Act, 2021, (Act 1068), imposes a special levy, the COVID-19 Health Recovery Levy, on the supply of goods and services, and imports to raise revenue to support COVID-19 expenditure, and also to provide for related matters.

The imposition of the Levy is on the supply of goods or services made in the country, and on the import of goods or services, unless exempt. The rate of the Levy is 1%, and it is calculated on the value of the taxable supply of goods or services, or on the value of imports. It follows the same time of supply as that of the Value Added Tax (VAT) Act, 2013, Act 870 (as amended). A taxable person that charges the VAT flat rate is also required to charge the Levy on the supply of goods or services.

Zero-rated and Exempt supplies under the respective First and Second Schedules of the VAT Act are considered as zero-rated and exempt for the purpose of this Levy. Individuals and organisations specified in the Third Schedule of the VAT Act as relieved from VAT are also relieved from the payment of the Levy. Similarly, supplies specified in the Third Schedule of the VAT Act as relief supplies do not attract the Levy.

The Levy, like the NHIL and GETFund Levies, does not allow for the recovery of input tax. The Commissioner-General (“C-G”) of the Ghana Revenue Authority (“GRA”) is responsible for the collection of the Levy, and the administration of the Levy is governed by the Revenue Administration Act, 2016, (Act 915) (as amended).

How it works with the VAT System.

According to the Ghana Revenue Authority, the effective date of implementation is May 1st, 2021 and will be an addition to the sales taxes we currently have.

How does this affect the structure of sales taxes and prices?

The COVID-19 Levy is an additional 1% to the rates in both the current VAT Standard and the VAT Flat Rate schemes. Currently the VAT Standard and Flat rates stand as:

NHIL - 2.5%

VAT Flat Rate - 3%

GETFund - 2.5%

VAT Standard - 12.5%

With the introduction of the new levy, the rates change to:

NHIL - 2.5%

VAT Flat Rate - 3%

GETFund - 2.5%

COVID-19 Levy - 1%

COVID-19 Levy - 1%

VAT Standard - 12.5%

Illustration:

Taking an example with a product that costs GHS1,000 to determine the VAT to apply on it:

Computing the VAT Payable under the Old Rates:

VAT STANDARD		VAT FLAT RATE	
PRODUCT COST	1,000.00	PRODUCT COST	1,000.00
NHIL - (1,000 * 2.5%)	25.00	VAT Flat Rate - (1000*3%)	30.00
GETFund - (1,000 * 2.5%)	25.00	Total Price to Customer	GHS 1,030.00
TAXABLE VALUE = (1,000+25+25)	1,050.00		
VAT Standard = (1,050 * 12.5%)	131.25		
Total Price to Customer	GHS 1,181.25		

Computing the VAT Payable under the New Rates:

VAT STANDARD		VAT FLAT RATE	
PRODUCT COST	1,000.00	PRODUCT COST	1,000.00
NHIL - (1,000 * 2.5%)	25.00	VAT Flat Rate - (1000*3%)	30.00

GETFund - (1,000 * 2.5%)	25.00		COVID-19 Levy (1000*1%)	10.00
COVID-19 Levy (1000*1%)	10.00		Total Price to Customer	GHS 1,040.00
TAXABLE VALUE = (1,000+25+25+10)	1,060.00			
VAT Standard = (1,060 * 12.5%)	132.50			
Total Price to Customer	GHS 1,192.50			

Conclusion:

This means that the new effective standard VAT rate is 19.25% (i.e. $192.5/1,000 \times 100$), which is 1.125% more than the previous rate of 18.125% ($118.25/1,000 \times 100$); showing a 6.21% (thus, $((19.25-18.125)/18.125) \times 100$) increase from the previous rate of 18.125%.

This increase in the Standard VAT Rate results in a general increase of 6.21% in the prices of goods and services. Even though the increase is due to the tax increase, the final consumer is to bear the cost and may blame suppliers and retailers for their relatively costly products or services.

Also, the VAT Flat rate changes from 3% to 4%, with the increment being the 1% Covid-19 Levy.

Do you think the COVID-19 Health Recovery Levy is a cause for worry to the final consumer?