

CUTS GHANA



**INPUTS INTO THE GOVERNMENT OF GHANA  
BUDGET STATEMENT & ECONOMIC POLICY FOR 2019**

**SUBMITTED TO:**

**Ministry of Finance  
Attn: Honourable Minister of Finance  
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**Submitted by**

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## **I. ABOUT CUTS GHANA**

CUTS Ghana ([www.cuts-international.org/arc/accra](http://www.cuts-international.org/arc/accra)) is a local research and advocacy policy think tank based in Accra Ghana. It is a resource centre of CUTS International ([www.cuts-international.org](http://www.cuts-international.org)), a global independent non-profit economic policy research and advocacy organisation. CUTS International is headquartered in India and has resource centres in many parts of the world including Asia (India and Vietnam), Africa (Kenya, Zambia, Ghana) and Europe (Switzerland). It is globally recognised for its evidence based research in a wide range of areas including consumer protection, financial inclusion and literacy, digital financial services and consumer advocacy. Through its evidence based research, outreach and capacity building activities, CUTS International has earned itself an enviable name in the realm of competition policy and law, economic and investment regulation, trade and development, consumer protection, and governance. The organisation has effectively been contributing to developing a healthy competition and consumer protection culture across the developing world for over three decades in matters related to telecom, financial services/banking services, water, electricity, healthcare, and food and drugs, among others.

CUTS International established its physical presence in Accra (CUTS Accra in August 2013) on account of the demand for the organisation to work closely with state and non-state actors in areas of evidence based research in competition and consumer protection in all key sectors of the Ghanaian economy and nearby region.

### **Functional Thematic Areas**

- Public Policy
- International Trade and Development
- Competition, and Economic Regulation
- Consumer Protection and Education
- Sustainable Development Goals
- Governance

## II. HIGHLIGHTS OF THE RESEARCH AND KEY RECOMMENDATIONS

1. Taxation is a matter of raising money and redistributing it across the country. That is tax and spend is the duty of every government. If when done properly, it reduces inequalities. A good tax system is progressive. The more you earn, the more you pay ie PAYE.
2. The poor in Ghana are overly exposed to indirect taxes compared to the rich in Ghana. This overexposure worsens the inequality in the country.
3. Ghana is not doing well when it comes to tax collection. Ghana's tax to GDP ratio is about 16% compared to OECD average of 32%.
4. Tax exemptions and deductions to multinational firms in Ghana amount to an average of US\$1.3 billion year which year represents two-thirds of the education budget and 80% of the health budget.
5. We are unable to raise revenue from example from property taxes simply because the District Assembly Common Fund would come. AMA for example, based on a conservative estimate can raise GHC 2 billion. The assembly can spend this money on education, health, sanitation and can own their development.
6. Global Financial Integrity (GFI) data have suggested that Ghana is losing US\$401 million a year (under 2% of GDP) due to illicit flows through trade mispricing alone. (Source: Global Financial Integrity Report).
7. On the issue of **tax treaties**. Ghana has signed treaties with 12 countries (Belgium, Denmark, France, Gambia, Germany, Italy, Netherlands, Nigeria, South Africa, Sweden, United Kingdom). These set low rates for the taxes Ghana can deduct up front from companies headquartered in these countries (withholding taxes) before they can start shifting profits out of Ghana, and therefore reduce Ghana's tax revenue. However, they have had less effect on reducing tax revenue than in other countries, because Ghana has set very low withholding tax rates (between 8% and 20%) which are generally similar to the ceilings in the treaties (ie Ghana has deprived itself of withholding taxes).

8. Ghana collects approximately 55% of its taxes from indirect taxes (VAT, excise duties and customs duties), which have been found globally to be regressive, and around 30% of its tax from VAT.
9. The education sector budget increased by 11% from GH¢ 8.33 billion in 2017 to GH¢ 9.26 billion in 2018. However, much of the increment went into the payment of compensation compared to goods and services and capital expenditure. The share of allocation to compensation increased significantly from 91.4% in 2017 to 98.5% in 2018.
10. This study estimates that two-thirds of the overall inequality reduction is accounted for by spending on education and health: spending on education is the most inequality-reducing (accounting for around two-thirds of the reduction in Gini from government spending), partly because Ghana spends a high share of its education budget on pre-primary, primary and junior secondary schooling, which benefit lower-income groups.
11. Economic inequality is on the increase in Ghana, which is also impacting on the fight to reduce extreme poverty. Large parts of the Ghanaian population remain locked out of the gains from growth. This is compounded by large inequalities which also exist within Ghana based on region and rurality. It is crucial that the Ghanaian government works to address this spiralling inequality.
12. Given that health and education account for two-thirds of the reduction in inequality as a result of social spending, it is absolutely vital that any reductions in health spending are reversed, and greater allocations help scale up access for the poorest, and ultimately move towards universal health care. Moreover, the existing health budget needs to work better addressing inequality and to increase inefficiencies in the system.

### III. REVENUE MOBILIZATION

1. **Enhance tax effort** by: clamping down on tax exemptions and deductions; increasing petroleum sector corporate tax rates; fighting tax dodging more effectively; and renegotiating tax treaties to allow higher withholding taxes, capital gains taxes and taxes on dividends.
2. **Make the design of its tax system more progressive** by: increasing taxes on capital gains, inheritance and gifts to match income tax rates; increasing personal and corporate income rates to match regional levels, while raising minimum tax thresholds further to exempt poor citizens.
3. **Make tax collection more progressive** by: sharply increasing the proportion of taxes coming from personal and corporate income tax (by reducing exemptions, deductions and dodging), and capital gains/property/wealth taxes, ending taxes on cocoa exports, and increasing excise duties on bottled water and soft drinks.
4. **Automate all toll roads and give incentives to cars that make pre-payment using electronic pass.** Motorist can top up at the bank or use mobile money platform. This will prevent fraud and revenue leakages.
5. **MMDAs should maximize their efforts in raising revenue from property taxes** and have the same spent on three key sectors-educations, health and sanitation.

**Reclassify PAYE Schedule:**

We propose that those earning GHS 10,000 be rather taxed at 30% instead of the current 35%, whilst those earning GHS 14,000/per month be taxed 35% and finally, income exceeding 18,000/month be taxed at 38%.

| No. | Chargeable Income            | Rate              | Yearly Taxable | Monthly Taxable  |
|-----|------------------------------|-------------------|----------------|------------------|
| 1   | First GHS 3132               | Nil               | 3132           | 261.00           |
| 2   | Next GHS 840                 | 5 percent         | 840            | 70.00            |
| 3   | Next GHS 1200                | 10 percent        | 1200           | 100.00           |
| 4   | Next GHS 33,720              | 17.5 percent      | 33720          | 2,810.00         |
| 5   | Next GHS 81,108              | 25 percent        | 81108          | 6,759.00         |
| 6   | <b>Next GHS 120000</b>       | <b>30 percent</b> | <b>120000</b>  | <b>10,000.00</b> |
| 7   | <b>Next GHS 168,000</b>      | <b>35 Percent</b> | <b>168000</b>  | <b>14,000.00</b> |
| 8   | <b>Exceeding GHS 216,000</b> | <b>38 Percent</b> | <b>216000</b>  | <b>18,000.00</b> |

#### IV. GHANA REVENUE AUTHORITY

1. **Investment into the Operations of Ghana Revenue Authority:** The ability of the country to rake in more revenue depends upon how the GRA is resourced. Deployment of technology and proper harnessing of data can help GRA close-in on tax evaders. With the full implementation of the TIN, PAYE payers should be able to know much their employers have paid on their behalf.
2. **GRA should develop an online platform which requires all companies paying their employees' salaries upload it unto the GRA system for validation.** This validation would allow people working in multiple places to pay the correct tax rate instead of second on their second, third or part time jobs not only withholding 7.5%.
3. **Formalize the Informal Artisanal Sector for Tax Purposes:** About 95% of houses built in the country are built by people in the informal sector. These plumbers, masons, painters, carpenters and electricians take money and do not pay taxes to the state. To help ensure that informal artisans pay at least 7.5% taxes on their services, the burden should of compliance must be shared between the property owner and the artisan. All approved building permit must alongside with GRA Activity Log Book which would mandate all building owners to log in correctly every activity/work done( date, activity/work done, name of artisan +plus the TIN number, amount paid to the artisan and the 7.5% withholding tax). If the property owner fails to ensure the deduction, a standard rate will be applied and the owner shall be responsible for paying the tax. To be able to apply for electricity. GRA must clear the property of artisan withholding tax compliance before ECG or GWCL can supply water to the house.
4. **Maximize Revenue from Property Rates:** According a research undertaken by CUTS Ghana, most MMDA does not have operational capacities to access, rate and collect property rates. Going forward, MLGARD, should consider allowing GRA or private firms collect the rates.
5. **GRA must make the payment of taxes more friendly.** Businesses should be able to make payment online, bank transfer. Taxi and commercial cars can also pay with mobile money and GRA can arrange dispatch riders to deliver their receipt and stickers to them.

## V. TAX EXEMPTIONS

**Tax Exemption for Multinationals should be tied to how the operations of the firms lead to the attainment of SDGs (at least 10 goals).** This means that tax exemption should not be granted at the onset. The bulk pack should be spread over the years, and once the company meets the criteria, then it can deduct the exempted amount from their tax liability.

**Tax exemptions should not be given to multinational firms in a sector where there are existing local players/competitors.** This is to ensure competition and level playing field.

Tax exemptions should be linked to sustainable job creation and must pass the SMART test.

**Ban/Freeze on Sitting Allowances** Sitting allowances should only be restricted to those are not on government payroll, eg. Assembly members. If a government employee attends a meeting during office hours, there should be no sitting allowances.

**Remove of Special Petroleum Tax:** Government must consider removing Special Petroleum Tax on petroleum products to lessen the impact of the exchange rate vulnerabilities on consumers.

## VI. AGRIC SECTOR AND HEALTH SECTOR

**Pension Scheme for Cocoa and Coffee Farmers across the country will can bring about income security in their old age or in times of poor crop season.** The pension scheme will be based on contribution and government can withhold part of the producer price to fund the same.

**Food Security** To ensure constant supply of food to major towns and cities, government should consider investing in a form of food distribution companies. Their operations should be data driven, to ensure the optimal distribution of food across major cities. The activities of market queens and food aggregators sometimes border on cartelization which distort the prices in the market especially Accra, Tema and Takoradi.

**Scrape teacher and nursing training allowances,** and rather pay for the cost of boarding and lodging. This will free funds to be spent on key priorities areas like building of CHP Compounds and strengthening education and health sector at the rural and deprived cities.

**Ensure the full operations of the commodity exchange.** Government must ensure that every bottlenecks that has stymied the full operationalization of the Ghana Commodity Exchange be tackled.

**Increase NHIS premium for the informal sector to reflect the rising cost of healthcare and to prevent the scheme from collapsing.** This will reduce out of pocket expenses

## VII. EDUCATION & PUBLIC TERTIARY INSTITUTION

### **A transportation and Logistic Firm for Public Universities can Reduce Universities Cost of Operation**

Government should consider placing ban on public universities spending so much resources on buses and other forms of vehicles. Rather, an out-sourced service company can be made to provide transportation and logistics services at reduced prices. Some universities prioritizes vehicle purchases to spending resources on teaching and learning. For example, transport firm in Accra can be made to provide transportation and logistics for UG, UPSA, Accra Technical Universities, and all the SHS instead of allowing each department, college or institution to have buses whose utilization is less than 15%.

**National Science and Technology Endowment Fund.** Government should consider setting up National Science and Technology Endowment Fund. Sources of funds can include: consolidated fund, GETFUND, 10% of tuition collected from Ghanaian and international students fee paying students, levy on lottery winnings, etc. This will help strengthen research and scholarship in the field of science and technology.

### **National Service Waiver for Students on Start-up Projects**

Students who at time of graduating from the university and have come out with any project idea or start-ups idea, such a person can be exempted from national service. This will allow the student to spend time to develop and nurture the business ideas under mentorship program under the tutelage of NEIP. A monthly stipend, which is equal to the national service allowance, should be paid to those students.

**Students who take loans to study be made to deduct the interest of the loan from the tax liabilities.** When a company takes a loan for expansion or for capital investment, it becomes a cost of operations. Subsequently, such a relief should be extended to students who take loans to study in Ghana only. Once the person starts working, all the interest paid be can be deducted from their tax liability (PAYE) at the end of the year. Those who fall under this should apply to the GRA, and the bank must include original bank statement of the loan account for verification.

## **VIII. JOB CREATION**

### **Ghana Post**

To create jobs in the postal services, and to increase e-commerce, government can consider allowing all passports, drivers' license, company registration certificates and other be delivered by courier services (Ghana Post/EMS). Also people wanting to register their company can be asked to submit their forms at Post Office where the clerical checks be done and the form couriered to the Registrar General Office for processing. This can reduce congestion at the RGD Offices. We can take clue from how some diplomatic missions nowadays operate. ECG, Ghana Water Company can also deliver their bills through courier.

### **Jobs Creation for the TVET Sector**

Some automobile companies have expressed interest in coming to set up their assembly plants in Ghana. Government needs to develop the TVET sector well so that these firms can be mandated to source some of their car parts from the Ghanaian market. In this way, we can create more jobs for the economy. In India, it is mandated that foreign automobile companies source a minimum number of parts from Indian firms locally.

### **Corporate Social Responsibilities (CSR)**

Government should ensure CSR expenditure outcomes leads to the attainment of the Sustainable Development Goals (SDGs). Government should encourage voluntary compliance on this. An annual ranking on how CSR helped addressed SDGs can be published by government in collaboration with the private sector.

### **Tourism Development across The MMDAs: One District One Tourism Potential**

Domestic tourism has the potential of creating jobs. For this reason, MMDAs should map out all tourist and potential tourist cities in their jurisdiction. A dossier can be prepared on each and by government can explore PPP approach in funding the development of those sites.

In the not too distant future, there will be tourism ranking among the MMDAs.

## **IX. COMPETITION (ANTITRUST) POLICY AND LAW**

### **Competition Law and Consumer Protection Law**

There is a body of evidence that shows that a well enforced competition (antitrust) law ensures market efficiency, and drive foreign direct investment and in the end, consumers enjoy varieties of goods and services at competitive prices. No country has developed without a competition law to guide the conduct of the market and curtail bad practices like abusive monopolies, cartels, price fixings, predatory pricing and tied selling. Ghana has had competition law draft for more than a decade.

Government should ensure the passage of the National Competition Law, and National Consumer Protection Law with the urgency they require.

## **X. TRAINING FOR GOVERNMENT OF GHANA CONTRACT NEGOTIATORS**

Over the years, it appears that most negotiations that government enters with a third party, it does not become win-win. Most developed /OECD countries have a pool of experienced negotiators who negotiate for their countries at the international level whether at WTO, UNCTAD, or loan agreement. Government in collaboration with GIMPA can start developing modules on negotiations for government negotiators.