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Abdul Malik Iddrisu
Ross Warwick

Tax Policy Unit, Ministry of Finance, Ghana

Edward Abrokwah
Harriet Conron
Andara Kamara
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A survey of the Ghanaian tax system

UKaid from the British people

FREEDOM AND JUSTICE
Republic of Ghana
MINISTRY OF FINANCE

UKRI Economic and Social Research Council

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Preface

This report was prepared by the Institute for Fiscal Studies (IFS)'s Centre for Tax Analysis in Developing Countries (TaxDev) in collaboration with partners in the Tax Policy Unit in the Ministry of Finance of Ghana. TaxDev aims to contribute to more effective tax policymaking in low- and middle-income countries (LMICs) through research and applied policy analysis.

The views expressed in this report are, however, those of the authors and do not necessarily reflect the views of those of the funders nor of the other individuals or institutions mentioned here, including IFS, which has no corporate views, and the Ministry of Finance, Ghana.

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Contents

Abbreviations

AU	African Union
CARES	COVID-19 Alleviation and Revitalization of Enterprises Support
CCVR	Customs Classification and Valuation Report
CEPS	Customs, Excise and Preventive Service
CET	Common External Tariff
CIF	cost, insurance and freight
CIT	corporate income tax
COVID-19	coronavirus disease (severe acute respiratory syndrome coronavirus 2)
CST	communication service tax
DTRD	Domestic Tax Revenue Division
ECOWAS	Economic Community of West African States
ECS	electronic communication services
EDRL	Energy Debt Recovery Levy
ESRC	Economic and Social Research Council
EXIM	export-import
FSCL	Financial Sector Clean-Up Levy
GCAA	Ghana Civil Aviation Authority
GCMS	Ghana Customs Management System
GCNet	Ghana Community Network
GDP	gross domestic product
GETFL	Ghana Education Trust Fund Levy
GETFund	Ghana Education Trust Fund
GH¢	Ghanaian cedis
GITMIS	Ghana Integrated Tax Management Information System
GRA	Ghana Revenue Authority
GRD	Government Revenue Dataset
HS	Harmonised Commodity Description and Coding System
ICTD	International Centre for Tax and Development
ICUMS	Integrated Customs Management System
IFS	Institute for Fiscal Studies
IMF	International Monetary Fund
IRS	Internal Revenue Service

IT	information technology
iTaPS	Integrated Tax Application and Preparation System
LMICs	low- and middle-income countries
LPG	liquefied petroleum gas
LTIPS	Large Taxpayer Integrated Processing System
MDAs	ministries, departments and agencies
MMDAs	municipal, metropolitan and district assemblies
NFSL	National Fiscal Stabilisation Levy
NHIL	National Health Insurance Levy
NHIS	National Health Insurance Scheme
NPG	natural petroleum gas
NRL	National Reconstruction Levy
OECD	Organisation for Economic Co-operation and Development
PAARS	Pre-Arrival Assessment Reporting System
PAYE	pay-as-you-earn
PIT	personal income tax
RAGB	Revenue Agencies Governing Board
SIL	Special Import Levy
SPT	special petroleum tax
SR	standard rate
SSA	sub-Saharan Africa
TaxDev	Centre for Tax Analysis in Developing Countries
TIN	Taxpayer Identification Numbers
trips™	Total Revenue Integrated Processing System
UKAID	United Kingdom AID
UNU-WIDER	United Nations University World Institute for Development Economics Research
VAT	value added tax
VATS	VAT Service
VFRS	VAT Flat Rate Scheme
VIPS	Value-Added Tax Integrated Processing System
VIT	vehicle income tax

Executive summary

In its 2020 Ghana CARES 'Obaatanpa' programme, the Government of Ghana emphasised the need to improve domestic revenue mobilisation in order to ensure the realisation of its medium-term fiscal policy and development objectives. In the context of ambitious revenue mobilisation goals and a challenging fiscal outlook, the design of the country's tax system is a crucial issue for policymakers.

In this report, we provide a comprehensive overview of Ghana's tax system. This is intended as a repository of key information for researchers, policymakers and the public, as well as highlighting aggregate patterns of note as a first step for identifying challenges and areas for reform.

Key findings

1 The design of Ghana's tax system is a crucial issue for policymakers. This is especially true in light of a challenging fiscal outlook, with overall government budget balance reaching –11.7% of GDP for 2020 and spending on compensation of employees and debt repayment exceeding 100% of tax revenue.

2 At 13% in 2019, Ghana's tax-to-GDP ratio remains far below the government's target of 20% by 2023. Though this ratio is 5 percentage points higher than in 2000, it has remained at the same level since 2017.

3 Much of the growth in Ghana's tax revenues since 2000 has come from increased corporate and personal income tax and VAT and similar taxes, though revenue growth from the latter two has stagnated more recently. These taxes made up over 70% of total collections in 2019 – up from 57% in 2000.

4 Tax collections on imported goods have become far less important in the revenue mix, though they remain significant: 30% of overall tax

revenues were collected on imported goods in 2019 (including VAT on imported products), compared with 54% in 2000. The contribution of import duties specifically to total tax revenue declined from 18% in 2000 to a low of 12% in 2019.

5 Ghana's tax-to-GDP ratio is fairly typical of countries in sub-Saharan Africa. However, considering countries of a similar income level across the world, Ghana's tax revenue collections are relatively low: out of 36 lower middle-income countries with available data, Ghana ranked 26th in 2018.

6 Analysis of tax rates and revenues across countries is suggestive of differences by tax type in relative revenue mobilisation in Ghana. While recent growth in corporate income tax revenues means they exceed those in other countries using similar tax rates, personal income tax and general sales tax revenues are lower than would be expected, all else being equal.

1. Introduction

Ghana's economy has expanded significantly in recent years. In the decade to 2019, for instance, real GDP increased by 92% overall (Bank of Ghana, 2021). Alongside macroeconomic growth, the economy has also undergone significant structural change, with an increased role for mineral and oil exports, particularly in light of the discovery and exploitation of significant oil fields from 2010 onwards.

At the same time, the country's tax system has evolved in a number of ways, including in terms of its aggregate role in the economy. Between 2000 and 2019, Ghana's ratio of tax collections to GDP increased by 5 percentage points, from a base of just 8% at the turn of the millennium. Going forward, the tax system has a crucial role to play in terms of domestic revenue mobilisation, with the Government of Ghana aiming to reach a tax-to-GDP ratio of 20% by 2023 in order to enable spending on public investment and social programmes (Ministry of Finance, 2020a). In doing so, the tax system should be designed to raise revenue in an efficient, equitable and sustainable way.

Planning the future direction of the tax system requires a comprehensive understanding of its current structure, and lessons can also be learnt from how this has evolved over time. This report aims to provide that high-level understanding. Using aggregate tax revenue data, we present an analysis of Ghana's current tax revenue composition, the detailed rules that govern this system and how these have changed, and we compare Ghana's current tax revenue composition with previous years and with comparable countries around the world. This serves as a baseline source of information for policymakers, researchers and other parties interested in tax policy in Ghana, which is particularly pressing in light of the COVID-19 crisis, which has squeezed tax revenues and increased expenditure pressures. In this report, however, we focus on pre-crisis data in order to highlight long-term trends in tax collections.

The structure of the rest of the report is as follows. Section 2 discusses the composition of overall government and tax revenues in Ghana as of 2019. Section 3 presents a detailed description of the rules governing each of Ghana's main taxes.

Section 4 looks backwards at how Ghana’s tax revenues have changed over time and describes key tax policy reforms from recent years, while Section 5 uses cross-country data to compare Ghana’s tax revenues with those in other countries. Section 6 concludes.

2. Tax revenues in Ghana

In this section, we provide an overview of the different sources of revenue collected by the Government of Ghana, offering a brief discussion of non-tax revenue sources before setting out the main sources of tax revenue that the government relies upon. We focus here on 2019 data; 2020 was an unprecedented year in many ways, and different revenue streams were impacted in different ways. For this reason, pre-COVID revenue data are more likely to be representative of the overall structure of Ghana's revenues. A comparison of 2019 and 2020 revenues is provided in Table A.1 in the appendix, however.

Overview

Ghana is a unitary state, and as such the Government of Ghana sets tax policy and collects tax revenues for the whole of the country. The government receives revenues from a wide variety of sources, but these can be broadly split into two categories: tax revenues and non-tax revenues. Non-tax revenues plus grant funding from donors totalled GH¢ 8.5 billion in 2019, equivalent to 2.5% of GDP. The vast majority of this came from fees and charges collected by ministries, departments and agencies (MDAs), dividend/interest and profits from oil, and surface rentals from oil.

In recent years, the discovery of oil reserves in Ghanaian territories has been a boon to non-tax revenues. Almost a third of non-tax revenues in 2019 (GH¢ 2.7 billion) came from dividends/interest and profits from oil companies.[1] At the same time, Ghana's transition to middle-income status has prompted a reduction in grant funding by donors. For instance, in 2019, grants constituted just 2% of total government resources (less than GH¢ 1 billion), compared with more than 6% of

[1] These revenues accrue from government interests in oil and are distinct from taxes applied to oil companies.

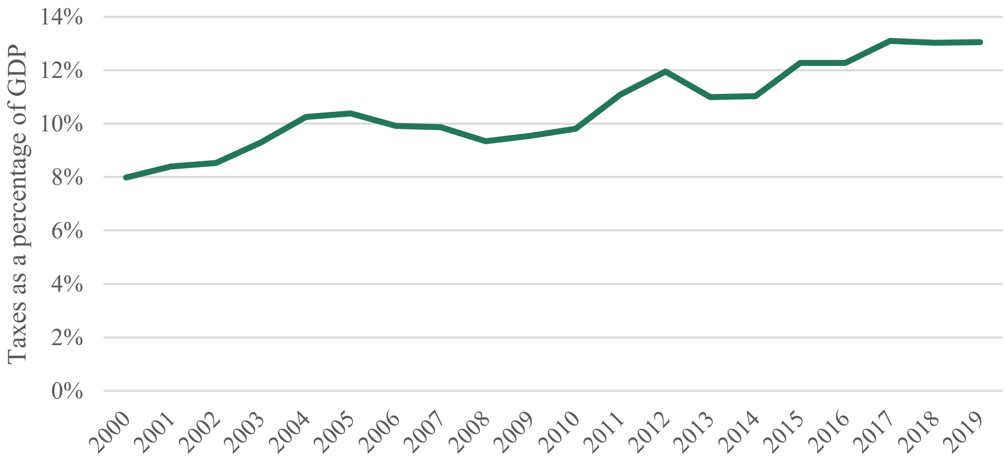
total government revenues (GH¢ 2.0 billion) in 2015. Ghana operates a property rate system which is administered by local authorities (MMDAs) and the related collections do not form part of central government revenues. These revenues are not covered in this report.

Collection of taxes is the responsibility of the Ghana Revenue Authority (GRA), which was established in 2009, following the merger of three pre-existing revenue agencies and the revenue agencies' governing board. The Domestic Tax Revenue Division (DTRD) is responsible for the collection of domestic direct and indirect taxes while the Customs Division is responsible for the collection of downstream petroleum taxes and taxes levied at the ports, borders and entry points. In this report, we focus primarily on tax collections from the GRA. This may lead to small differences compared with other data sources due to not incorporating tax refunds, for instance. We use these data because they are the cleanest and most comparable time series available for a long period.

Total tax revenue collections in 2019 totalled GH¢45.6 billion, implying a tax-to-GDP ratio of 13% (Figure 2.1). Like most low- and middle-income countries (LMICs), this is less than the typical tax take in richer countries: for instance, in 2018, the OECD average was 33.9% (OECD, 2020). Nonetheless, Ghana's relative tax collection remains lower than many comparator countries in the region, and countries with similar income levels, as will be discussed later. In this context, and in line with the government's objective to improve domestic revenue mobilisation under the Ghana CARES 'Obaatanpa' programme, there is a medium-term aim to increase the tax-to-GDP ratio to 20% by 2023 (Ministry of Finance, 2020a).

Revenue collection has become a particularly pressing issue in Ghana in recent years given longstanding fiscal challenges. The overall government budget balance for 2019 stood at –4.8% of GDP, while gross central government debt increased by almost 5 percentage points between 2018 and 2019 to hit 62% of GDP (Ministry of Finance, 2020b). Like many countries around the world, in 2020 the COVID-19 pandemic brought substantial economic disruption to Ghana, leading to declining revenues and increased expenditures. As a result, the overall fiscal balance reached –11.7% of GDP, with the combined cost of debt repayments and the compensation of employees exceeding overall tax revenue. Excluding the financial sector bailout, the public debt stock at the end of 2020 reached nearly 72% of GDP (Government of Ghana, 2021).

Figure 2.1. Tax collections as a share of GDP in Ghana, 2000–19



Note: Figure is based on tax collections reported by the GRA so may not align with figures reported in other data sets.

Source: Ghana Revenue Authority and the Bank of Ghana.

Tax revenue composition

Data from the Ghana Revenue Authority show that tax revenues in Ghana divide relatively evenly between direct and indirect taxes (including import duties), which respectively contributed 48% and 52% of the total in 2019. Customs collection continues to be an important source of tax revenue in Ghana, with 58% of indirect taxes collected at borders. Of this customs collection, over a third comes from taxes specifically levied on imported goods, equating to 12% of overall tax revenue in 2019.

Table 2.1 lists briefly the main tax instruments driving revenue collections in Ghana, the rules of which we describe in detail in Section 3. The main sources of tax revenue in Ghana are typical of other countries around the world, with corporate income tax (CIT) and personal income tax (PIT) applying to corporate profits and individual earnings respectively, and value added tax (VAT), import duty, petroleum taxes and excise duties all present on the indirect tax side. However, the National Fiscal Stabilisation Levy (NFSL) – which applies to the pre-tax profit of some firms – is a less common type of tax measure. The National Health Insurance Levy (NHIL) and Ghana Education Trust Fund Levy (GETFL), which are unreclaimable levies applying to the VAT base, are also less familiar.

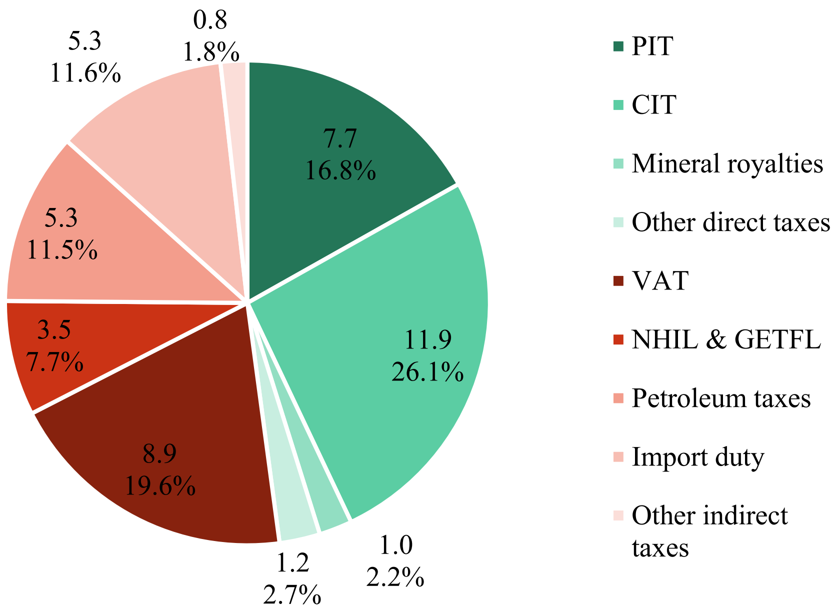
Table 2.1. Main tax types in Ghana using GRA categorisation, 2019

Tax	Tax base
Direct taxes	
Corporate income tax (CIT)	Corporate profits
Personal income tax (PIT)	Individual earnings
Mineral royalties	Revenues from mineral sales
National Fiscal Stabilisation Levy (NFSL)	Pre-tax profit in selected sectors
Stamp duty	Transaction value
Airport tax	Flight passengers
Indirect taxes	
Value added tax (VAT)	Taxable consumption
National Health Insurance Levy (NHIL)	All taxable sales
Ghana Education Trust Fund Levy (GETFL)	All taxable sales
Petroleum taxes	Petroleum purchases
Import duty	Imported goods
Communication service tax (CST)	Electronic communication services
Excise duty	Selected goods, e.g. alcohol, tobacco

Note: The tax base is described in a simplified manner in the interest of brevity. See Section 3 for a more detailed description of each tax. The table uses the categorisation of tax types used by GRA; hence airport tax is classified as a direct tax.

Figure 2.2 shows the breakdown of tax collections in Ghana in 2019. The three biggest sources of tax revenue are CIT, PIT and VAT. Respectively, these contribute 26%, 17% and 20% of the total. Other notable sources of direct tax revenue in Ghana include mineral royalties, airport tax and NFSL. In terms of indirect taxes, both import duties and a range of taxes levied on petroleum products contribute substantial sums of revenue. NHIL, GETFL, the communication service tax (CST) and excise duties all contribute smaller portions of total tax revenue. Outside of these tax collection figures reported by the GRA are company taxes and royalties from oil (see ‘Upstream petroleum revenues’ in Section 3), as well as tax refunds – taken together, these three lines approximately cancel out in revenue terms.

Figure 2.2. Tax revenue collections reported by GRA, 2019 (GH¢ billion and % of total)



Note: Other direct taxes include the National Fiscal Stabilisation Levy and smaller tax handles such as airport tax and rental tax which is a residual payment as part of it is often subsumed in either CIT or PIT payments. Petroleum taxes include special petroleum tax, Energy Debt Recovery Levy and other petroleum taxes. Other indirect taxes include excise duty and the communication service tax.

Source: Ghana Revenue Authority.

3. The Ghanaian tax system

In this section, we outline the main features of the various tax types in Ghana as of April 2021. These include some tax measures changed or introduced during the COVID-19 pandemic and not present in the revenue statistics in Section 2, in order to provide the most up-to-date rules on the tax system. Specifically, in this section, we cover any recently introduced taxes and changes in tax rates. Tax measures of a more temporary nature introduced in response to COVID-19 are summarised in Table A.2 in the appendix. The GRA distinguishes between three main groups of taxes: taxes on income and profits (direct taxes); taxes on goods and services (indirect taxes); and taxes on international trade (customs taxes). While taxes on international trade are a form of indirect tax as well, we adopt this categorisation for consistency with the GRA's terminology.

Direct taxes

Personal income tax

Individuals resident in Ghana are taxable on their worldwide income from employment, business and investment, less any allowable deductions. Non-cash benefits are valued at market value and added to taxable income, with accommodation and transport valued in relation to the overall income of the individual. There are, however, a number of exempt individual income sources and benefits, including pensions and interest paid by resident financial institutions or on bonds issued by the Government of Ghana.

Ghana uses a progressive personal income tax (PIT) schedule for residents. The income thresholds are adjusted on an ad hoc basis to account for changes in the minimum wage. Table 3.1 shows the latest annual income tax schedule in Ghana. Pay-As-You-Earn (PAYE) is the most common mechanism for paying tax on employment income, accounting for 95% of PIT revenue in 2019. PAYE is applied according to a specified formula implemented on a monthly basis.[2] Employers withhold income tax from employees' monthly salaries and remit it to the GRA on their behalf.

Table 3.1. Annual income tax rates in Ghana

Chargeable income (GH¢)	Tax rate (%)
First 3,828	0
Next 1,200	5
Next 1,440	10
Next 36,000	17.5
Next 197,532	25
Exceeding 240,000	30

Source: Income Tax (Amendment) Act 2019 (Act 1007).

Taxes on other sources of income – from self-employment or investments – are either payable directly by the individual or collected through withholding taxes (for example, withholding tax on rent). Self-employed individuals are required to pay PIT according to the annual schedule in Table 3.1, in four instalments per year. At the beginning of the year, individuals file a return estimating their income and associated tax liability for that year, with four equal-sized quarterly tax payments due on or before the last day of each quarter. At the end of the year, individuals declare their realised annual income. If the amount declared differs from their initial assessment, they are either reimbursed or must pay the excess.

The vehicle income tax (VIT) sticker system is a mechanism for collecting income tax from owners of commercial vehicles. Where the person is an individual, the payment is set off against annual PIT liability on filing the end-year tax return. The

[2] See Income Tax Regulations 2016 (L.I. 2244).

tax is paid in quarterly instalments that depend on the class of vehicle – these rates are summarised in Table A.4 in the appendix.[3]

The tax stamp system is another collection mechanism for the PIT. Self-employed individuals who own a business in a qualifying category that generates an annual turnover of up to GH¢ 20,000, and who are not VAT registered, qualify for the tax stamp system. Quarterly instalments depend on the size and category of the taxpayer – these rates are summarised in Table A.5 in the appendix. Upon payment of the tax, the taxpayer receives a tax stamp, which must be displayed in a conspicuous place on the premises of that person's business or in any other manner as will make the stamp visible at the place of business.[4]

Other features of the PIT system include the following:

- Personal reliefs (detailed in Table A.3 in the appendix) may apply and reduce an individual's assessable income by the specified amount.
- Allowable deductions also include employee contributions to social security – a mandatory 5.5% of the employee's basic salary is paid into Tier 1 of the Social Security Scheme, and up to a further 16.5% may be voluntarily contributed to a private scheme.
- Self-employed individuals are also allowed a deduction of up to 35% on their income in relation to pension contributions.
- Mortgage interest payments on one residential property and life insurance premiums are deductible from taxable income.
- Part-time income is taxable at a rate of 10%.
- Bonus payments below 15% of a worker's base salary are subject to a 5% tax rate, with anything above this threshold added to their gross salary and taxed accordingly.
- For qualifying junior staff, overtime payments are subject to a 5% tax rate up to 50% of their basic salary, and 10% thereafter.
- The income of non-residents is subject to a flat rate of 25%.

[3] The government suspended quarterly VIT payments for the third and fourth quarters of 2021 for 'Trotros' and 'Taxis' as part of measures to limit the impact of the COVID-19 pandemic on households.

[4] Because filing behaviour is haphazard among small traders (and the cost to the GRA of enforcing filing obligations among small traders may outweigh potential tax collections), in practice both VIT and the tax stamp may often act as a final tax on small traders.

- A non-resident public entertainer is considered to be an employee of the promoter of the service provided and the income is subject to withholding tax at a flat rate of 25%. This includes any stage artiste, motion picture artiste, radio artiste, musician, and sports man or woman including any athlete, footballer or boxer.

Corporate income tax

The tax base for corporate income tax (CIT) is the taxable profits of a corporation. Allowable deductions for tax purposes include capital allowances, tax losses brought forward (for three to five years, depending on the industry) and losses incurred on the sale of investment assets. For the purpose of capital allowances, most assets are depreciable on a reducing-balance basis, with the exception of buildings, which are depreciable at a straight-line 10% rate, and intangible assets, which are depreciated over their useful life.

The standard CIT rate in Ghana is 25%, although sector-specific rates also exist, as summarised in Table 3.2. In addition to different sectoral rates, reduced CIT rates apply to companies based in specific locations, young entrepreneurs, and companies listed on the Ghana Stock Exchange. The CIT revenue collected from upstream petroleum companies is not included in CIT (or overall tax) collections reported by the GRA, however. We return to this when outlining upstream petroleum revenues.

Companies submit an annual self-assessment estimating their taxable income and CIT liability for the year, which is divided into four equal payment instalments, due at the end of the third, sixth, ninth and twelfth months of the company's basis period (i.e. March, June, September and December where the basis period coincides with the calendar year). After submitting a final tax return after the end of the basis period, any outstanding tax liability or excess payment is determined.

Table 3.2. Corporate tax rates in Ghana[a]

Eligibility	Rate
Standard rate (SR)	**25%**
Mining or upstream petroleum companies	35%
Manufacturing companies located:	
In regional capitals of Ghana (excluding Accra)	75% of SR
Elsewhere in Ghana	50% of SR
Free Zone enterprises during the tax holiday	0%
Agricultural enterprises (5 years after their concessionary period) located:	
In Accra and Tema	20%
In other regional capitals outside the Northern Savannah Ecological Zone	15%
Outside other regional capitals	10%
In the Northern Savannah Ecological Zone	5%
Hotels	22%
Exports of non-traditional goods	8%
Income from loans to a farming enterprise	20%
Income from loans granted to a leasing company	20%
Export income for companies in Free Zones	15%
Young entrepreneurs after a 5-year tax holiday located:	
In Accra and Tema	15%
In other regional capitals outside the three northern regions	12.5%
Outside other regional capitals	10%
In the three northern regions	5%

[a] In an effort to support sectors hit hardest by the COVID-19 crisis, the government provided 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.

Note: Young entrepreneurs are those below the age of 35 who start their own business.

Source: Income Tax Act 2015 (Act 815), as amended.

National Fiscal Stabilisation Levy

The National Fiscal Stabilisation Levy (NFSL) is a 5% charge on the pre-tax profit (accounting profit) of certain companies and institutions. It is payable on a quarterly basis and is not an allowable deduction for income tax purposes. Entities operating in the sectors listed in Box 3.1 are liable for NFSL, which was renewed for a five-year period in 2020.

Box 3.1. Companies and institutions subject to NFSL

- Banks (excluding rural and community banks)
- Insurance companies
- Breweries
- Companies providing mining support services
- Non-bank financial institutions
- Telecommunications companies liable to collect and pay communication service tax
- Inspection and valuation companies
- Shipping lines, maritime and airport terminals

Financial Sector Clean-Up Levy

In 2021, the government introduced a 5% Financial Sector Clean-Up Levy (FSCL) on the pre-tax profit of banks. The FSCL is a temporary measure which seeks to mobilise revenue to help settle outstanding commitments related to the cleaning up of the financial sector in 2017.[5] The levy is expected to be reviewed in 2024.

Mineral royalties

The general mineral royalty rate in Ghana is 5%, applied to gross revenue. However, some large gold producers in the country negotiate development or investment agreements that specify a ‘sliding scale’ royalty regime. The ‘sliding scale’ provides some protection for mining companies by reducing the rate at which royalties are payable when commodity prices are low.

[5] The Bank of Ghana embarked on an exercise to clean up and recapitalise the financial sector in 2017. The exercise was aimed at promoting the safety, soundness and stability of the financial system. According to the 2021 budget statement, the exercise cost the government some GH¢ 21 billion.

Upstream petroleum revenues

Petroleum revenues are a mixture of tax and non-tax revenues and consist of CIT from upstream and mid-stream petroleum companies, royalties from oil and gas, additional oil entitlements, surface rentals, and dividends payable by the national oil company, among others. The Petroleum Revenue Management Act 2011 (Act 815) states that petroleum revenues are paid into the Petroleum Holding Fund and these shall not be treated as part of the normal tax revenue of the government. Thus, even though the GRA collects and accounts for some petroleum receipts (for example, CIT), these receipts do not appear in the GRA's revenue collection figures, as the Ministry of Finance is responsible for reporting petroleum revenues.

The standard CIT rate for petroleum companies is 35%. The applicable royalty rate varies between 4% and 12.5% depending on a number of factors including the depth of the sea and the risk associated with the investment. In 2019, company taxes on oil and royalties from oil yielded GH¢ 0.9 billion and GH¢ 1.3 billion, or 0.26% and 0.36% of GDP, respectively. For comparison, total revenue from these two sources was a little over GH¢ 0.2 billion in 2016.

Airport tax

Airport tax applies at specific rates per passenger, on both domestic and international travel. The rate varies depending on the destination and the passenger class (Table 3.3). Aircraft owners are responsible for collection, and the Ghana Civil Aviation Authority (GCAA) retains all of the revenue.[6]

[6] GRA books airport tax revenues under direct tax revenues; hence, we cover it here too for consistency, although the design of the tax mirrors that of a specific indirect tax in practice.

Table 3.3. Airport tax rates

Type of flight	Charge
Domestic	GH¢ 5
Within West Africa	$60
Other international:	
Economy	$100
Business class	$150
First class	$200

Source: Airport Tax (Amendment) Act 2013 (Act 858).

Other direct taxes

Dividends are subject to a final withholding tax of 8%, with tax withheld at source and imposed on dividends paid to resident and non-resident individuals in Ghana. For residents, rental incomes from residential and commercial property are subject to final withholding tax rates of 8% and 15%, respectively. For non-residents, all rental income is taxed at a rate of 15%. In practice, however, part of the rental income is often subsumed under personal and corporate incomes.

Gains on realisation of assets or liabilities (capital gains) are included in business income or investment income, depending on the source of the gain, and taxed accordingly. However, individuals may elect to pay a 15% tax on gains on the realisation of an asset instead of including the gain in business income or investment income. If the gains are included in business income or investment income and taxed as such, the tax rate is the same rate applicable to the individual on his or her business income or investment income.

Stamp duty applies to certain transactions and legal instruments at a rate of 0.25–1% of the transferred value or GH¢ 0.05–25, depending on the transaction or instrument. Box 3.2 provides examples of transactions for which stamp duty is applied.

Box 3.2. Transactions where stamp duty applies

- Insurance policies
- Awards of cost in matters of dispute
- Conveyances or transfers on the sale of any property
- Appointment letters of new trustees

- Natural resource leases or licences (e.g. mining, timber)
- Agreements or memoranda of agreement
- Bills of exchange (e.g. issue of cheques)
- Bills of lading

Indirect taxes

Value added tax

Value added tax (VAT) was first introduced in Ghana in 1995 and was repealed before its reintroduction in 1998. The current standard VAT rate is 12.5%.[7] Ghana operates an invoice-credit system whereby VAT-registered suppliers deduct the VAT paid on their inputs from their output VAT and remit only the net amount. VAT in Ghana uses the destination principle, meaning imports are subject to VAT, but exports are zero-rated. VAT registration is compulsory for persons/businesses with annual taxable transactions above GH¢ 200,000, or above GH¢ 50,000 in 3 months and with reasonable grounds to expect to exceed turnover of GH¢ 150,000 in the next consecutive 9 months.[8] VAT registration is, however, voluntary for businesses with an annual turnover below GH¢ 200,000. VAT returns are filed monthly. VAT on imports is collected and administered by the Customs Division of the GRA; these collections are, however, reported separately in revenue figures.

Other than zero-rating for exports, Ghana also provides a VAT Flat Rate Scheme (VFRS) for wholesalers and retailers. Under this scheme, retailers and wholesalers selling taxable supplies (other than the supply of power, heat, refrigeration or ventilation) charge a fixed 3% rate of VAT on their sales, which replaces VAT, NHIL and GETFL. However, they are not able to reclaim any input tax paid on their purchases.

7 Prior to 1 August 2018, the VAT rate in Ghana was 15%, which included a 2.5% Ghana Education Trust Fund (GETFund) Levy. In 2018, this was separated from VAT and made a straight levy, thus reducing the VAT rate to 12.5%.

8 According to Act 870 (2013), a taxable activity is an activity carried out by a person wholly or partly in Ghana that involves or is intended to involve, in whole or in part, the supply of goods to another person for consideration, whether or not for a pecuniary profit.

The VAT system in Ghana provides for a range of exempt supplies (see Box 3.3). Businesses selling these goods and services do not charge VAT on their sales but also cannot claim input tax credit on their purchases.

Box 3.3. VAT exempt supplies

- A range of raw (or simply prepared or preserved) food products such as maize, rice, millet, sorghum, fruits, vegetables, fish and meat
- Selected live animals (i.e. cattle, sheep, goat, swine and poultry) bred or raised in Ghana
- Specified agricultural and fishing inputs
- Water supply (excluding bottled water)
- Electricity supply (not exceeding maximum consumption level specified for block charges for lifeline units)
- Approved textbooks and newspapers, atlases, charts, maps and music (excluding similar imported items, e.g. newspapers, magazines, greeting cards, calendars and stationery)
- Education services and related equipment
- Medical services and supplies
- Specified pharmaceuticals
- Domestic passenger transport by road, rail or water (excluding haulage or rental or hiring of passenger and other vehicles)
- Machinery used in specified activities
- Petrol, diesel, liquefied petroleum gas (LPG), natural petroleum gas (NPG) and kerosene
- Financial services where no fee is paid, and life insurance and reinsurance
- Land used for specified purposes (including for agricultural activities)
- Goods designed for persons with disability
- Postage stamps issued by the Ghana Post
- Salt for human consumption
- Mosquito nets
- Plant and machinery, and kits designed for use by registered manufacturer or assembler under the Ghana Automotive Manufacturing Programme
- Management fees charged by local fund managers for management of a licensed private equity fund, a venture capital fund or a mutual fund

In 2018, the government introduced VAT withholding – a collection mechanism whereby selected organisations (for example, government ministries and large corporations) are mandated to withhold 7% of the VAT payable on their purchases, and to transfer the withheld VAT directly to the GRA. The remaining 5.5% of the VAT goes to suppliers to enable them to recover VAT paid on their own inputs. VAT withholding is common in countries where voluntary compliance is low as a way of forcing traders to charge VAT on their sales and ensuring the tax authority receives the tax revenue due.

When VAT paid on inputs exceeds that charged on sales, firms generate a VAT credit. In general, this credit carries forward and can be offset against VAT liability in future. However, for firms that receive more than 25% of income from exports, and in cases where a credit persists after 3 months, the GRA can provide tax refunds.

National Health Insurance Levy

The National Health Insurance Levy (NHIL) applies to the same range of goods and services as VAT with a rate of 2.5% applied to the VAT-exclusive price. Like VAT, NHIL is also collected on imports and administered by the Customs Division of the GRA. However, it is a ‘straight levy’, with no allowance for the deduction of taxes paid on inputs. Supplies that are exempt from VAT are also exempt from NHIL; suppliers operating under the VFRS also do not charge NHIL. NHIL revenues are earmarked for Ghana’s National Health Insurance Scheme (NHIS).

GETFund Levy

Separated from the VAT in August 2018, the GETFund Levy (GETFL) functions in the same way as NHIL – it applies at a rate of 2.5% on the VAT-exclusive price of all VATable supplies and there is no allowance for deducting input GETFL. The levy is also collected on imports, and its administration and reporting in revenue figures is similar to that of VAT and NHIL collections on imports. GETFL revenues are earmarked for Ghana’s Education Trust Fund.

COVID-19 Health Levy

In 2021, the government introduced the COVID-19 Health Levy to support COVID-19 expenditures. It is effective from 1 May. This levy applies to the same taxable supplies as VAT, including the VFRS, and is not eligible for input tax deduction. Like NHIL and GETFL, this levy applies to the VAT-exclusive price of a good or service.

Communication service tax

Fees for communication services are subject to the communication service tax (CST), which applies together with the service charge paid by consumers on electronic communication services (ECS), recharges made by ECS providers, and internet connection services. The rate of CST is currently 5%, following a reduction from 9% in the 2020 Mid-Year Budget Review.

Excise duty

Ghana’s excise duties range from 0% to 175% of the ex-factory price or the CIF value of imports, and apply to products such as beer, spirits and tobacco (Table 3.4). An environmental excise tax of 10% applies on plastic and plastic products listed under Chapters 39 and 63 of the Harmonised System and Customs Tariff Schedules.

Table 3.4. Excise duty rates in Ghana

Commodity description	Rate of duty
Waters, including mineral waters of all description	17.5%
Distilled, bottled water	17.5%
Sachet water	0%
Malt drink, by percentage use of local raw materials:	
Less than 30% local raw materials	17.5%
30–50% local raw materials	12.5%
50–70% local raw materials	7.5%
More than 70% local raw materials	2.5%
Beer, stout, other than indigenous beer, by percentage use of local raw materials:	
Less than 50% local raw materials	47.5%
50–70% local raw materials	32.5%
More than 70% local raw materials	10%
Wines, including sparkling wine	22.5%
Spirits, including 'Akpeteshie':	
Distilled or rectified	25%
Blended or compounded	25%
For use solely in laboratories or in the compounding of drugs	0%
Denatured to the satisfaction of the Commissioner-General	10%
'Akpeteshie'	20%
Tobacco products:	
Cigarettes	175%
Cigars	175%
Negrohead	GH¢ 12 per kg
Snuff and other tobacco	170.65%
Plastic and plastic products listed under Chapters 39 and 63 of the Harmonised System and Customs Tariff Schedules	10%

Note: Rates apply as a percentage of ex-factory price or CIF value, unless otherwise specified.

Source: Excise Duty Act 2014 (Act 878), as amended.

Special petroleum tax

Licensed oil-marketing companies are required to charge the special petroleum tax (SPT) on sales of petrol, diesel, liquefied petroleum gas, natural petroleum gas and kerosene. Previously, this applied as an ad valorem tax; as of 2018 the tax applies at specific rates per litre or kilogram of the product, as summarised in Table 3.5.

Table 3.5. Special petroleum tax rates

Petroleum product	Tax per litre (GH¢)	Petroleum product	Tax per kg (GH¢)
Petrol	0.46	Liquefied petroleum gas	0.48
Diesel	0.46	Natural petroleum gas	0.35
Kerosene	0.39		

Source: Special Petroleum Tax (Amendment) Act 2018 (Act 965).

Other petroleum taxes

The government applies several additional charges on the sale of petrol, kerosene, diesel and fuel oil, collectively referred to as ‘energy sector levies’. Until recently, this tax type comprised six levies in addition to petroleum excise. However, the government consolidated the levies to four in 2015, and it removed petroleum excise in 2017. In 2021, the government introduced two new levies (the Energy Sector Recovery Levy and the Sanitation and Pollution Levy), which are effective from 1 May. Table 3.6 provides a description of the charges in effect in Ghana in 2021.

The Customs Division of the GRA collects the energy sector levies. The GRA includes revenue from the Energy Fund Levy and the Road Fund Levy under the heading of ‘petroleum taxes’. Collections from the Energy Debt Recovery Levy, and the Price Stabilisation and Recovery Levy are earmarked for specific accounts and are classified as ‘other revenue’ in the government’s financial statistics, although the former does form part of the GRA’s reporting on overall tax collections.

Table 3.6. Energy sector levies and rates

Levy	Item	Rate
Energy Debt Recovery Levy	Petrol, diesel	GH¢ 0.49 per litre
	Marine gas oil	GH¢ 0.03 per litre
	Fuel oil	GH¢ 0.04 per litre
	Liquefied petroleum gas	GH¢ 0.41 per kg
Energy Fund Levy	Petrol, kerosene, diesel, fuel oil	GH¢ 0.01 per litre
Energy Sector Recovery Levy	Petrol/diesel	GH¢ 0.20 per litre
Sanitation and Pollution Levy	Petrol/diesel	GH¢ 0.10 per litre
Price Stabilisation and Recovery Levy	Petrol	GH¢ 0.16 per litre
	Diesel	GH¢ 0.14 per litre
	Liquefied petroleum gas	GH¢ 0.14 per kg
Road Fund Levy	Petrol, diesel	GH¢ 0.48 per litre
National Electrification Scheme Levy	Electricity	2% of the price per kWh
Public Lighting Levy	Electricity	3% of the price per kWh

Source: Energy Sector Levies Act 2015 (Act 899), Energy Sector Levies (Amendment) Act 2017 (Act 946), Energy Sector Levies (Amendment) Act 2019 (Act 997) and Energy Sector Levy (Amendment) Act 2021 (Act 1064).

Customs taxes

Import duty

Import tariffs in Ghana apply to goods classified by the internationally accepted system of classification known as the Harmonised Commodity Description and Coding System (HS). As part of the Economic Community of West African States

(ECOWAS), Ghana's tariff schedule applies a common external tariff (CET) to goods at a rate of 0%, 5%, 10%, 20% or 35%. Import duties apply to the CIF value of imports. In addition, there are a range of small taxes and levies applied specifically to imported goods. These are summarised in Table 3.7.

Table 3.7. Levies charged on imports in Ghana

Levy	Base	Rate
AU Import Levy	All imported goods from non-AU states	0.2% of the CIF value
ECOWAS Levy	All imported goods from non-ECOWAS states	0.5% of the CIF value
EXIM Levy	Selected non-petroleum imported goods	0.75% of the CIF value
Special Import Levy	All imports, except for petroleum products, fertilisers, and machinery and equipment	2% of the CIF value

Note: Other important charges at the ports include inspection charge, CCVR processing fee and GCNet charge, among others. These are not tax collections, however.

Source: African Union Import Levy Act 2017 (Act 952); ECOWAS Protocol A/P1/7/96; Special Import Levy Act 2013 (Act 861) as amended; Ghana Export-Import Bank Act 2016 (Act 911); Excise Duty Act 2014 (Act 878) as amended.

4. Recent reforms and trends

This section highlights recent developments in Ghana's tax system, focusing on key tax policy reforms and long-term trends in revenues generated from different tax instruments. We do not cover 2020 revenues in this section because of the specific economic context of that year; however, they are summarised in Table A.1 in the appendix.

Aggregate trends

Total tax revenues in Ghana have grown over the past two decades from just over 8% of GDP in 2000 to 13% in 2019 (Figure 4.1). While this is a significant increase, the overall level of tax revenue mobilisation remains low compared with other nations in the region and with those at similar income levels. We explore these comparisons in Section 5.

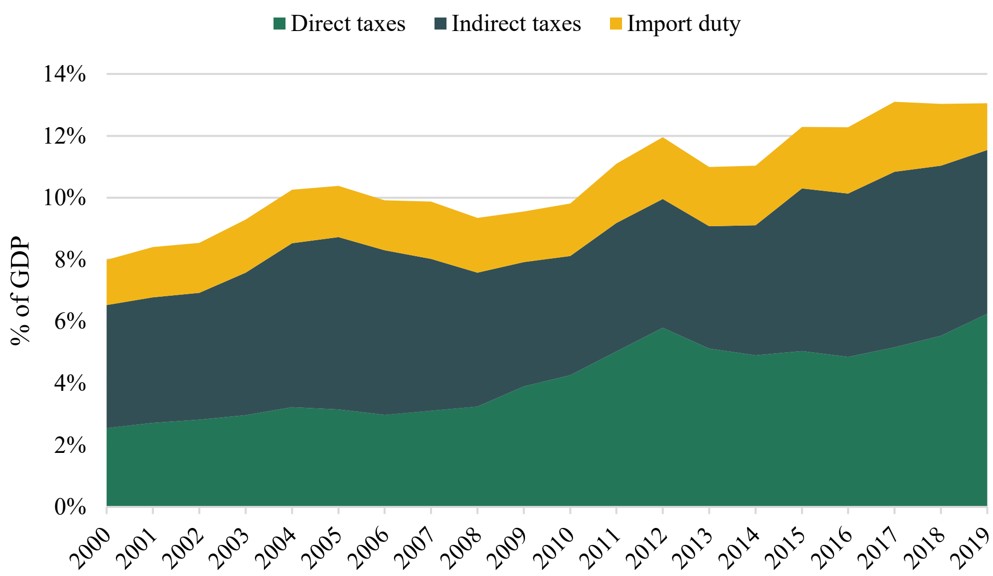
However, the aggregate trend masks significant differences between tax types. Between 2000 and 2019, revenues from direct taxation grew from 2.5% of GDP to over 6% of GDP. Indirect tax revenue excluding import duties has seen more modest growth, increasing from just under 4% of GDP to just over 5%.[9] Import duty revenues have been relatively stable for the past two decades, inching up from 1.5% of GDP in 2000 to just over 2% between 2016 and 2018. With commodity imports as a share of GDP changing little over time (they stood at 20.6% in 2005 and 20.1% and 18.0% in 2017 and 2018, respectively[10]), this implies similar effective (weighted) average import duty rates over time. It is notable, however,

[9] This includes revenues collected at customs clearance if the taxes are not specific to imported products – i.e. it includes VAT on imports, for instance.

[10] Authors' calculations based on Bank of Ghana GDP data and Ghana Revenue Authority import data.

that import duty revenues drop substantially in 2019 back down to 1.5% of GDP, given that effective tariff rates decreased significantly in April of that year.

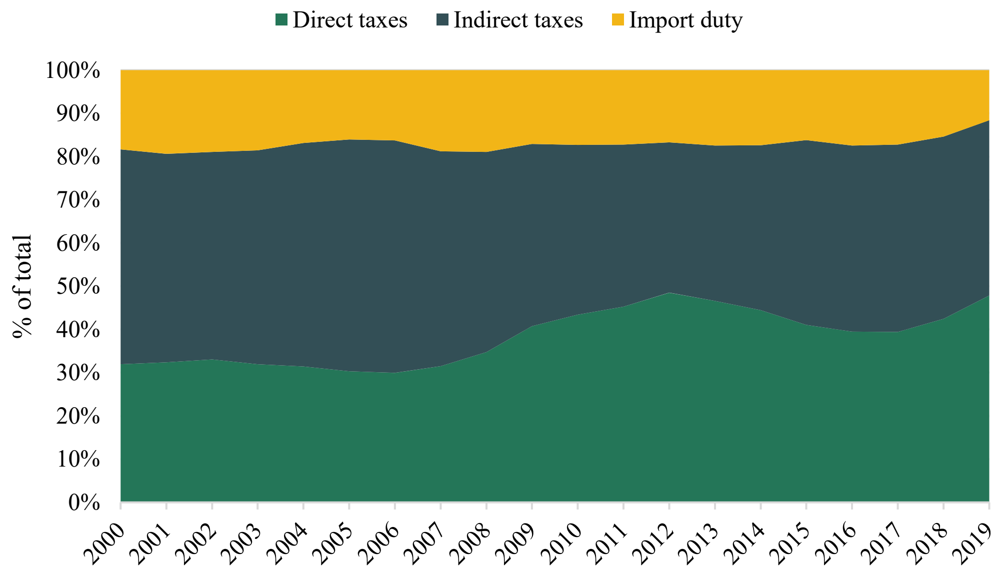
Figure 4.1. Tax revenues in Ghana, 2000–19



Source: Authors' calculations based on data from the Ghana Revenue Authority and the Bank of Ghana.

These trends mean that the overall composition of tax revenues in Ghana has shifted between 2000 and 2019 (Figure 4.2). Most notable overall is a shift away from indirect taxes and towards direct taxes: in 2000, the latter contributed 32% of total tax revenue and by 2019 this had risen to 48%. The share of revenues collected from indirect taxes has fluctuated over time. It rose in the early 2000s to a peak of 54% in 2005 and 2006, fell substantially to 35% in 2012, and has since increased again somewhat, reaching 41% in 2019. While import duties are still an important part of the country's overall tax revenue mix, their relative importance declined gradually over time. In the early 2000s, import duties contributed 18–19% of total tax revenue; this figure was 15% in 2018 and less than 12% in 2019. This mirrors a pattern seen in many countries of different income levels around the world (Besley and Persson, 2013), following a consensus that taxes that apply to imported goods specifically are likely to be particularly distortive. Overall, the role of the major taxes on income and consumption has increased over time: the share of total tax collections from the sum of PIT, CIT, VAT, NHIL and GETFL increased from 57% in 2000 to over 70% in 2019.

Figure 4.2. Overall tax revenue collection composition, 2000–19



Source: Authors' calculations based on data from the Ghana Revenue Authority and the Bank of Ghana.

From an administrative perspective, it is also interesting to note the share of total taxes collected at customs clearance has declined from 54% in the early 21st century to 30% in recent years. This may partly reflect an increased ability to collect taxes domestically.

The tax reform process

Ghana's calendar of fiscal announcements centres on its annual and mid-year budget presentations. Annual budgets laying out the government's fiscal programme for the year ahead usually occur in November during non-election years and in March of the year in which a newly elected government takes office. In each year, usually before the end of May, the Finance Minister is required to submit a fiscal strategy document to Cabinet for the ensuing three- to five-year period which, among other things, includes a fiscal forecast and a statement of policy measures intended to ensure that the government meets fiscal policy objectives. Halfway through every year, before the end of July, a mid-year fiscal policy review provides a revised stance of the government's fiscal direction. This may lead to the preparation of a supplementary budget where there is the need to introduce, modify or cancel fiscal measures. The majority of tax policy reforms in Ghana are announced during these budget events. Only in occasional circumstances are tax policy changes introduced outside of budget events, with the 2019 benchmark values reform (described below) serving as one example.

Tax administration

In addition to tax policy reforms, Ghana has also introduced considerable changes to tax administration to enhance revenue mobilisation, which we briefly describe here. Prior to 2009, different classes of taxes were administered by three independent semi-autonomous revenue agencies: the Customs, Excise and Preventive Service (CEPS), the VAT Service (VATS) and the Internal Revenue Service (IRS). Each of these revenue agencies had a governing board. In 2002, the individual governing boards were merged to form the Revenue Agencies Governing Board (RAGB). The three autonomous revenue agencies, along with the RAGB, were integrated in 2009 to create the Ghana Revenue Authority, which is headed by a Commissioner-General.

The Large Taxpayers Unit was established in 2003 as a one-stop shop to manage the domestic taxes collected by VATS and IRS under one roof. The respective Commissioners, however, had operational supervision of the taxes within their domain while the RAGB was responsible for administration. The Unit also served as a pilot to the eventual integration of the individual revenue agencies. The lessons learnt informed the setting up of the Ghana Revenue Authority.

Since its inception, the GRA has embarked on a programme of significant administrative reforms, embodied in three strategic plans covering the periods 2012–14, 2015–17 and 2018–21. These plans were designed to integrate and fully modernise the Authority to enable it to carry out its mandate, to strengthen enforcement mechanisms, broaden the tax base, improve processes and procedures and implement innovative measures to increase tax revenue collections.

The Authority had three divisions at the outset: the Domestic Tax Revenue Division, the Customs Division and the Support Services Division. All other departments subsisted under the Commissioner-General. One major introduction was the application of the client-oriented organisation concept in the Domestic Tax Revenue Division to cater for the special needs of different categories of taxpayers. This led to the creation of a large taxpayer office and small and medium taxpayer offices in 2012 – each of them a one-stop shop for the administration of domestic taxes (VAT, income tax and excise duty). These offices, which are fully automated, are run on functional lines in contrast to the previous schedular system. The introduction of the Self-Assessment System permits all large and medium taxpayers to make their own assessments instead of having administrative/provisional assessments. The Authority also introduced the concept of policy and programme departments to act as the divisional research, monitoring and forecasting units at the Domestic Tax and Customs Headquarters.

As part of the Second Strategic Plan, the Authority created two key units – the Risk Management Unit and the Monitoring and Evaluation Unit – to ensure the delivery and implementation of an enterprise-wide risk management system and consolidate monitoring, evaluation and review of strategy, programmes and operational activities. The Third Strategic Plan led to a review of the organisational structure, leading to the merger of all the research and policy and programmes offices and the modernisation office into one department and the creation of a transformation office. The main objectives of the plan were to focus on people and technology as the main drivers of revenue mobilisation in the second decade of the Authority.

Consequently, a number of significant revenue administration measures were undertaken in the technology area. These included the digitisation of the unique Taxpayer Identification Numbers (TIN) in 2011 to replace the old TIN which was introduced in 2002, and upgrades to IT infrastructure to enable digital tax administration, most notably the Ghana Customs Management System (GCMS), which was introduced in 2000 to manage customs administration, and the attendant Ghana Community Network (GCNet) platform for front-end users. The Pre-Arrival Assessment Reporting System (PAARS) provided the platform for valuation of goods both prior to and on arrival in Ghana. This completed the Single Window System that provided end-to-end automation of Customs administration. These have been replaced by the Integrated Customs Management System (ICUMS), which commenced operations in mid 2020.

The Total Revenue Integrated Processing System (trips™) was introduced in 2011 as a domestic tax administration system to integrate revenue collection across tax types. It replaced the Value-Added Tax Integrated Processing System (VIPS, introduced in 1998) and the Large Taxpayer Integrated Processing System (LTIPS, introduced in 2003) used by VATS and the Large Taxpayers Unit respectively, and the Ghana Integrated Tax Management Information System (GITMIS) used by the IRS for domestic direct tax collection. The Integrated Tax Application and Preparation System (iTaPS) was introduced in 2019 to assist taxpayers in keeping proper records required to fulfil their tax obligations, in filing returns and in making payments online.

The rest of this section compiles a comprehensive (albeit non-exhaustive) list of various tax policy reforms undertaken in Ghana over the past two decades. As well as serving as a reference for practitioners and researchers, this information is important for understanding developments in different components of the country's tax revenue mix presented subsequently.

Direct taxes

Table 4.1 lists key reforms to direct taxes in Ghana since 2000. Over this period, the rates and bases of both CIT and PIT have changed on a number of occasions. Most notably, the standard rate of CIT was reduced from 35% to 25% between 2001 and 2006, and more recently a new top rate of PIT was introduced. Other direct taxes have also been implemented and abolished over the period, including the National Reconstruction Levy (NRL, a charge on the pre-tax profits of companies) and the National Fiscal Stabilisation Levy (NFSL, a charge on the pre-tax profits of selected companies).

Figure 4.3 shows direct tax revenue trends over the period. Unsurprisingly, CIT and PIT are the main sources of revenue in this category, accounting for almost 90% of total direct tax revenues in Ghana in the last few years. Both these taxes followed a strikingly similar path in terms of revenue raised as a percentage of GDP between 2000 and 2012, aside from cuts in the main rate of CIT in 2005 and 2006 seemingly affecting the positive gradient for that series for a couple of years. Since 2012, however, PIT revenues have not increased relative to GDP, highlighting the challenges of improving tax enforcement on individuals in a highly informal economy. CIT revenues, on the other hand, have performed more strongly, partly buoyed by growth in mining and financial services sectors.

The importance of other direct taxes has varied over time with the implementation and removal of different taxes (Figure 4.4). Together, these taxes raised revenue of only 0.27% of GDP in 2006 as the NRL was phased out. Since then, mineral royalties and the implementation of the NFSL in 2009 have driven increased revenue collection from this set of taxes, though they are still a small part of the overall tax revenue mix.

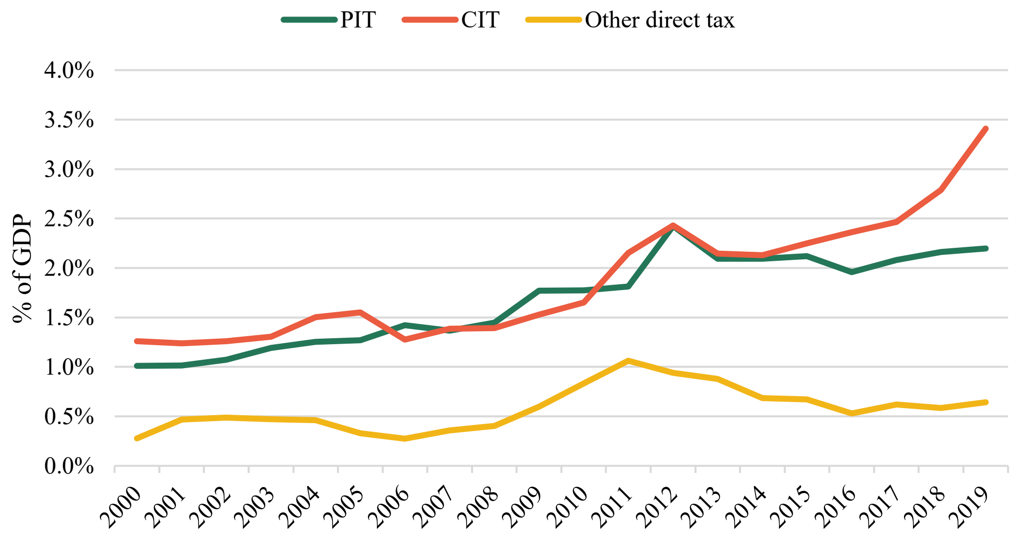
Table 4.1. Main direct tax policy reforms in Ghana, 2000–20

Tax type	Year	Reform
PIT	2001	Income tax structure reformed: top and middle rates reduced by 5 percentage points and thresholds increased, and a range of reliefs introduced
	2003	Vehicle income tax (VIT) sticker system introduced
	2005	Top rate reduced from 30% to 28%
	2006	Bottom threshold set at annual minimum wage
	2007	Top rate of graduated rate reduced to 25%; 15% and 20% rates consolidated into one 17.5% rate
	2011	Thresholds revised; five personal reliefs increased by a factor of 2–3
	2016	Individual capital gains become subject to PIT
	2018	New top marginal rate of 35% for incomes over GH¢ 120,000 introduced
	2019	Top income tax threshold increased from GH¢ 120,000 to GH¢ 240,000, and rate decreased from 35% to 30%
	2020	Five personal relief allowances increased by a factor of 3–10
CIT	2001	CIT reduced from 35% to 32.5% (30% if listed on Stock Exchange)
	2004	CIT incentives revised, including reduced rates and holidays for agro-processing and for companies listed on Stock Exchange; introduction of incentives for waste processing
	2005	Reduction in standard rate from 32.5% to 30%
	2006	Reduction in standard rate from 30% to 25%
	2012	Higher 35% rate introduced for mining and petroleum
	2021	30% reduction in CIT rate for Q2–Q4 for firms in education, travel and tours, arts and entertainment, and hotels and restaurants
Other direct taxes	2002	National Reconstruction Levy (NRL) introduced – a surcharge of 1.5–7.5% paid by companies on pre-tax profits
	2006	Royalty rate for mining operations revised to between 3% and 6%
	2007	NRL ended
	2007	Dividend tax reduced from 10% to 8% and capital gains tax reduced from 10% to 5%
	2009	National Fiscal Stabilisation Levy (NFSL) introduced as a temporary measure
	2011	NFSL ended; all airport tax rates increased
	2013	NFSL reintroduced (subsequent renewals have followed, including a five-year renewal from 2020)
	2016	Capital gains tax and gift tax incorporated into income tax
	2021	Financial Sector Clean-Up Levy (FSCL) introduced until at least 2024

Note: The table is not exhaustive.

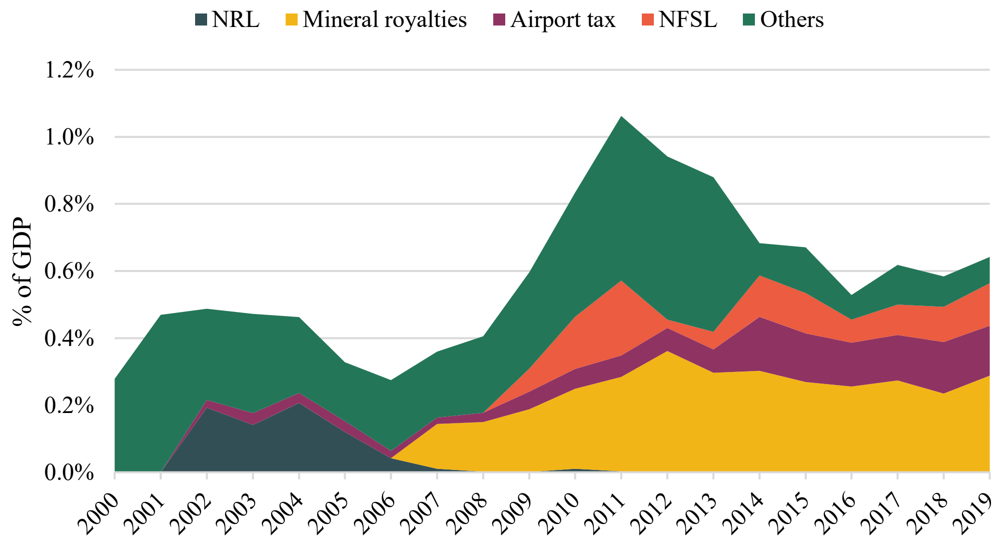
Source: Budget documents; Ministry of Finance and Ghana Revenue Authority staff.

Figure 4.3. Direct tax revenue collection, 2000–19



Source: Authors' calculations based on data from the Ghana Revenue Authority and the Bank of Ghana.

Figure 4.4. Composition of other direct taxes, 2000–19



Note: 'Others' includes, for instance, dividend taxation and stamp duty.

Source: Authors' calculations based on data from the Ghana Revenue Authority and the Bank of Ghana.

Indirect taxes

Table 4.2 lists key reforms to indirect taxes in Ghana since 2000. For VAT, the most significant changes occurred near the beginning of this period, including an effective 5 percentage point increase between 2000 and 2003, including the introduction of NHIL and the earmarking of 2.5 percentage points of VAT to the Ghana Education Trust Fund. More recently, the conversion of NHIL and decoupling of the GETFL into 'straight levies' which cannot be reclaimed by businesses was another notable shift in VAT-related policy. The taxation (and subsidisation) of petroleum products has also changed substantially over time as the energy sector in Ghana has undergone various phases of deregulation.[11] The communication service tax (CST) was introduced in 2008, while excise duties have oscillated between specific and ad valorem rates over time.

Important revenue trends have accompanied these policy changes in the last two decades (Figure 4.5). While VAT revenues relative to GDP have barely increased over the period, once combined with NHIL and GETFL revenues – which have effectively functioned as an additional VAT for much of the period – the overall growth from 2.3% to 3.6% of GDP is clearer. However, these revenues have not increased at all since 2014. Figure 4.6 breaks down the composition of these revenues over time, including by domestic and customs collections. This shows the increased role that domestically collected revenues play for these taxes – particularly in the last couple of years as revenues collected at customs have stalled somewhat. However, it is important to note that these figures reflect collections reported by the GRA. This means that, to the extent that VAT paid on imports is later offset against output VAT liabilities, collections from VAT on imports are likely to overstate revenues from VAT on imports, and domestic VAT revenues will be equivalently understated.

Tax revenue collections from the various fuel taxes in use over the last two decades change substantially. Trends in these revenues relate not only to the taxes in place, but more broadly to the regulation of pricing for such products in Ghana. Since 2001, there have been numerous phases of liberalisation of petroleum prices. The

[11] A full account of these changes is beyond the scope of this report. For accounts of the various phases of reform, see, for example, Laan, Beaton and Presta (2010), International Monetary Fund (2013) and Cooke et al. (2016).

increase in fuel tax revenues in the early 2000s reflects a first phase of deregulation. Fuel tax revenues were notably lower from 2008 to 2014, following increases in world prices and decreases in the tax rates applied in order to ameliorate the effects of these. In line with reforms over the period 2014–15, tax revenues from fuel taxation have since increased substantially, and have returned to levels (relative to GDP) in the period before the Global Financial Crisis.

Table 4.2. Key indirect tax policy reforms in Ghana, 2000–20

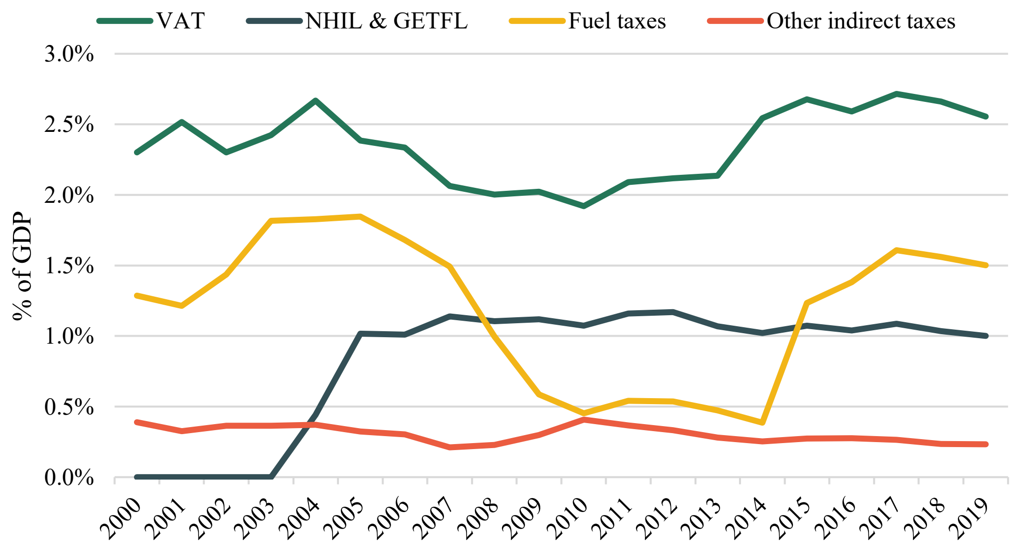
Tax type	Year	Reform
VAT, NHIL, GETFL	2000	Standard VAT rate increased from 10% to 12.5% with additional revenue allocated to Ghana Education Trust Fund (GETFund)
	2001	VAT turnover registration threshold reduced from GH¢ 20,000 to GH¢ 10,000
	2003	National Health Insurance Levy (NHIL) introduced at 2.5% and treated similar to the treatment of VAT
	2004	0% rate for imported raw materials; exemption for imported irrigation pumps and fishing materials
	2007	VAT Flat Rate Scheme (VFRS) introduced for retailers at 3%
	2011	VAT registration threshold increased from GH¢ 10,000 to GH¢ 90,000; pharmaceutical and paper products made exempt
	2013	VAT registration threshold increased to GH¢ 120,000; VFRS abolished
	2017	VFRS introduced for retailers and wholesalers at 3%
	2018	GETFund Levy (GETFL) and NHIL turned into ‘straight levies’ which cannot be reclaimed; VAT withholding introduced
	2021	COVID-19 Health Levy introduced, adding 1 percentage point to both VFRS and NHIL
Fuel taxes	2001	Petroleum excise duty introduced at 2 pesewas per litre/kg of petroleum products, with cross-subsidisation of LPG and kerosene
	2003	Increase in Road Maintenance Levy to 4 pesewas and introduction of Debt Recovery Levy at 6.4 pesewas, both per litre/kg of petroleum products
	2005	Fuel taxes overhauled: various fuel levies (ad valorem and specific) introduced and subsidies removed, implying a large price increase for petroleum products
	2008	Specific excise duty rates reduced for petroleum products and Debt Recovery Levy reduced to 2.5 pesewas per litre
	2009	Specific excise duty rates reduced for all petroleum products
	2014	Special petroleum tax (SPT) introduced at 17.5%; petroleum excise tax converted to specific duty
	2015	Energy sector levies legislation consolidated into one Act, and their number decreased from 6 to 4
	2017	SPT reduced to 15%; petroleum excise duties abolished
	2018	SPT reduced to 13%

	2021	Energy Sector Recovery Levy and the Sanitation and Pollution Levy introduced at rates of 20 and 10 pesewas per litre of petrol or diesel, respectively
Other indirect taxes	2007	Excise duties converted to specific taxes; increased on alcohol and decreased on tobacco
	2008	6% communication service tax (CST) rate introduced; airport tax increased by 50% for international travel; excise duties converted to ad valorem rates
	2011	20% excise duty on plastic products introduced
	2012	Sliding-scale excise duty rates introduced according to use of local raw inputs
	2014	Excise duty increased on tobacco products; excise tax stamp introduced
	2019	CST increased to 9%
	2020	CST reduced to 5%

Note: The table is not exhaustive. The Ghana cedi was redenominated at a rate of 1:10,000 in 2007; all figures here are in the new currency.

Source: Budget documents; Ministry of Finance and Ghana Revenue Authority staff.

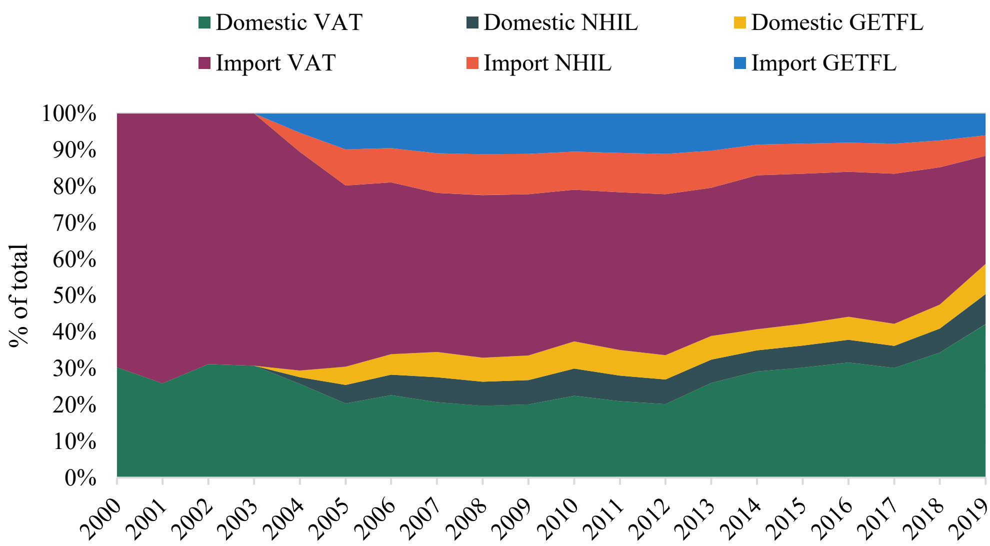
Figure 4.5. Indirect tax revenue collection, 2000–19



Note: The figure shows collections only; VAT refunds are not incorporated.

Source: Authors’ calculations based on data from the Ghana Revenue Authority and the Bank of Ghana.

Figure 4.6. Domestic and import VAT, NHIL and GETFL, 2000–19



Note: The figure shows collections only; VAT refunds are not incorporated.

Source: Authors' calculations based on data from the Ghana Revenue Authority.

Customs taxes

Major changes to the taxation of imported goods include the adoption of the ECOWAS Common External Tariff (CET) from 2016 and reductions in the 'benchmark value' of many imported goods of up to 50% in 2019, which reduced the value on which goods are assessed for taxes and constituted a substantial effective tax rate reduction.

Import duty revenues also grew for much of the period but dropped sharply since hitting a high in 2017. The 2019 reform which reduced benchmark values for imported goods appears to have contributed to this drop, although there was also a year-on-year fall in relative import duty revenues in 2018.

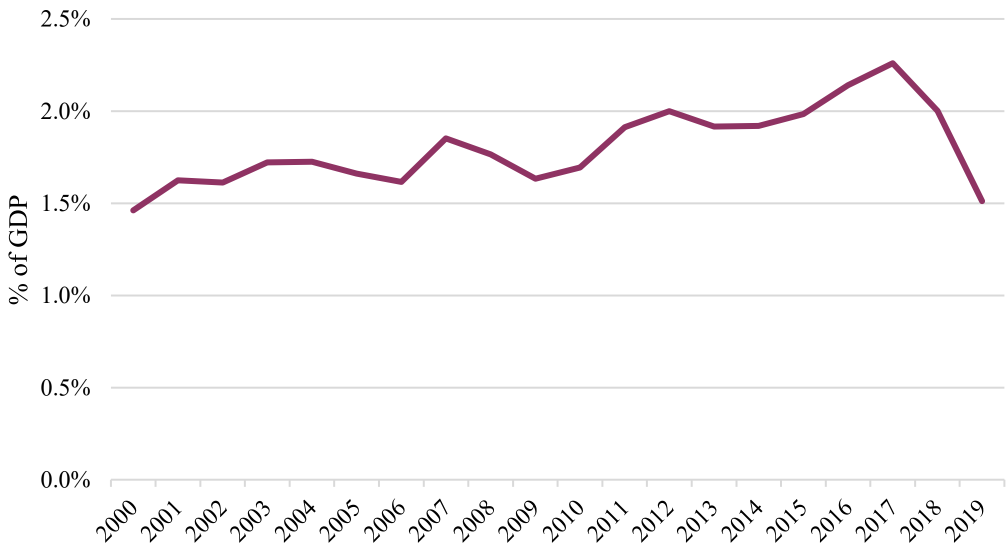
Table 4.3. Key customs tax reforms in Ghana, 2000–19

Tax type	Year	Reform
Import duties	2002	5% duty applied to zero-rated goods (excluding education, health and agriculture inputs)
	2003	Import duty increased from 10% to 15% for finished goods and from 20% to 25% for rice; increased to 20% for finished poultry; reduced from 10% to 5% for textile inputs and aluminium ingots
	2007	5% concessionary import duty rate on raw materials imported by registered manufacturers
	2009	Duty restored on rice, wheat and cooking oil following temporary suspension
	2013	Special Import Levy (SIL) introduced at a rate of 1–2% of CIF value of imports (except petroleum)
	2018	Full implementation of ECOWAS Common External Tariff (CET)
	2019	Benchmark values reduction – assessed value reduced by 50% for general goods and 30% for vehicles

Note: The table is not exhaustive.

Source: Budget documents; Ministry of Finance and Ghana Revenue Authority staff.

Figure 4.7. Import duty revenues, 2000–19



Note: The figure includes all taxes levied specifically on imports as described in Section 3.

Source: Authors' calculations based on data from the Ghana Revenue Authority and the Bank of Ghana.

5. International context

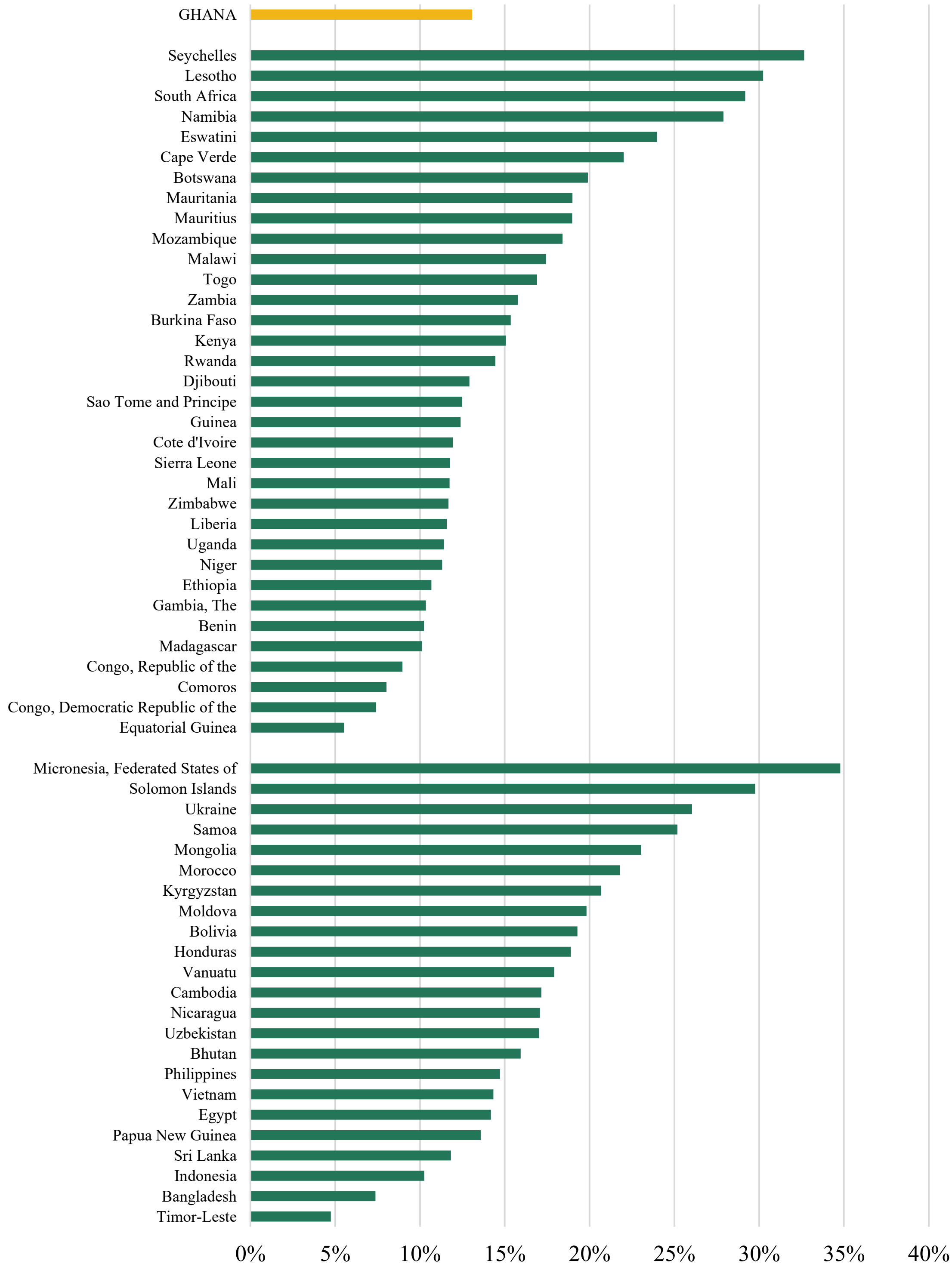
Ghana's overall tax-to-GDP ratio remains low in relation to other countries in the region and the African average. Despite increasing steadily from around 8% in 2000 to approximately 13% today, Ghana's tax take remains far below the government's target of 20% of GDP by 2023 (Ministry of Finance, 2020a). This level of tax revenue mobilisation is lower than estimates that were available for Ghana just a few years ago. The reason for this is the rebasing of Ghana's GDP series, which led to a substantial upwards revision of nominal GDP in 2018, and highlights a key challenge when making international comparisons across developing economies. Prichard, Cobham and Goodall (2014) argue that the infrequent and irregular rebasing of GDP series in developing countries often leads to the overestimation of tax-to-GDP ratios, and presents a major challenge in comparing tax revenue ratios across countries.

Bearing in mind this caveat, Figure 5.1 compares Ghanaian tax revenues with other countries in sub-Saharan Africa (SSA) and other (non-SSA) lower middle-income countries in 2018, the latest year for which comparable cross-country data are currently available disaggregated by tax type.[12] Total tax collections in Ghana are fairly typical of SSA overall. However, Ghana is a higher-income country than most of this sample, and it lags behind most countries in the same broad income grouping overall. Out of a sample of 35 countries from sub-Saharan Africa in the ICTD/UNU-WIDER Government Revenue Dataset (GRD), Ghana ranks 17th in 2018 in terms of tax-to-GDP ratio. Among lower middle-income countries (including those in SSA), it ranks 26th out of 36.[13]

[12] There can be small discrepancies between the data in the Government Revenue Dataset and those compiled by national sources – in this case, from the Ghana Revenue Authority. This is owing to the fact that GRA data reflect simply tax collections whereas the GRD attempts to implement the most consistent treatment possible across countries for social contributions, tax refunds and VAT collected on imports, for instance, in order to facilitate international comparisons.

[13] These data do not necessarily offer a representative sample.

Figure 5.1. Tax-to-GDP ratios in sub-Saharan Africa and lower middle-income countries, 2018



Source: Ghana Revenue Authority, Bank of Ghana, and ICTD UNU-WIDER Government Revenue Dataset 2020.

Ghana's relatively low level of tax revenue mobilisation naturally raises the question as to what drives this pattern. The factors that drive aggregate tax collection are numerous, including tax policy, tax administration and structural economic features. The fiscal capacity of governments is strongly related to a country's level of development and is engendered over long periods of structural change (Lee and Gordon, 2005; Besley and Persson, 2014; Jensen, 2019). Nonetheless, it is still instructive to go beyond tax-to-GDP ratios to get a sense of which parts of the tax system lead to Ghana's relatively low yield.

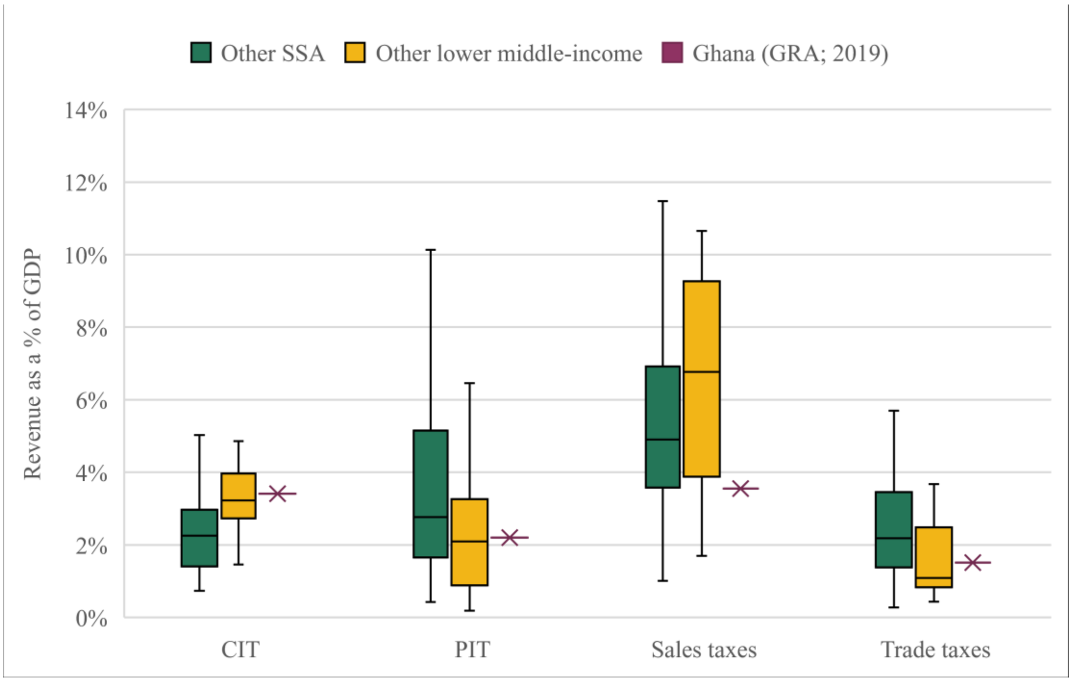
Figure 5.2 plots the distribution of tax revenue yield from different components of the tax system in countries in sub-Saharan Africa and from (non-SSA) lower middle-income countries, with figures for Ghana alongside for comparison. Given some substantial changes across tax types in recent years in Ghana, as shown in Section 4, here data for Ghana pertain to 2019; most other countries' data come from 2018, though some are from 2016 or 2017 too.

For corporate tax revenue, Ghana is towards the top of the SSA sample in terms of revenue raised as a share of GDP, and above the median of other lower middle-income countries. This largely reflects significant increases in Ghana's CIT revenue collection in recent years; even a couple of years back, Ghana would have been towards the middle of the SSA sample in this respect. The opposite applies for trade taxes. In 2017, Ghana raised considerable sums of tax revenue from trade taxes when compared with many other countries in the sample. However, as Figure 5.2 shows, revenue from this source is now below that typical in SSA countries and comparable to that of lower middle-income countries outside of SSA, which raise relatively less from this source.

Personal income and general sales tax revenues exhibit much greater variability across countries in revenue collections in the sample considered. In terms of PIT, tax revenue in Ghana is lower than many comparator countries in SSA but is slightly above the median of other lower middle-income countries. However, for general sales taxes, Ghanaian revenues are noticeably lower.[14] While the median SSA and other lower middle-income country collected general sales tax revenues of over 4.9% and 6.8% of GDP, respectively, for Ghana this figure was 3.6% in 2019.

[14] For Ghana, general sales tax revenues comprise VAT, NHIL and GETFL.

Figure 5.2. Tax revenues by tax type in Ghana and comparator countries, 2016–19



Note: Sample varies between each tax revenue category according to data availability; values of zero excluded. Sample may not be representative. Ghanaian sales tax revenue includes VAT, NHIL and GETFL. The line within a box shows the median value within the group. The bottom line of the box indicates the median value for the first quarter while the upper line of the box is the median value for the fourth quarter. The whiskers indicate the minimum and maximum values.

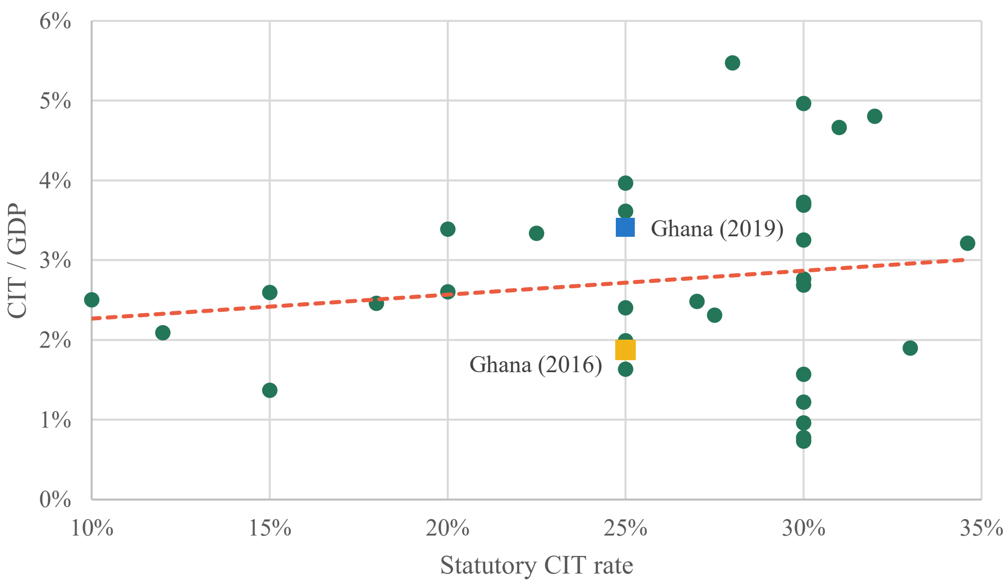
Source: ICTD UNU-WIDER Government Revenue Dataset 2020 and Ghana Revenue Authority.

For each of these tax revenue components, a wide range of factors could drive differences in revenue collection across countries. Fundamentally though, two variables determine the tax revenue collected. The first is the size of the tax base to which the tax applies, which is partly a function of structural and macroeconomic factors, and partly a function of tax policy and administration (e.g. compliance, enforcement, reliefs and exemptions). The range of factors that determine the size of the tax base in practice means that it is extremely difficult to compare across countries.

The second factor that determines revenues is the (average) tax rate applying to the relevant tax base. Although tax rates for a given tax base may vary by individual taxpayer, tax rates are easier to compare across countries than tax bases. This is particularly true for taxes such as CIT and VAT, which are typically characterised by a statutory rate that applies to the majority of the tax base. Comparing Ghanaian tax rates and revenue collections with other countries provides suggestive evidence on whether tax policy (and tax rates specifically) can rationalise Ghana's relative tax revenue yield. Such evidence must be interpreted only as suggestive though, given that the samples available are small and not necessarily representative, and the simplicity of the parameters used.

Figure 5.3 first considers statutory corporate tax revenues and rates in a sample of SSA and lower middle-income countries, showing one observation per country over the period 2016–19 according to data availability. There is considerable variation in the headline CIT rate in the sample, ranging from 10% to nearly 35%. As a percentage of GDP, CIT revenues range from 0.7% to 5.5%. The dashed red line shows a slight positive association between statutory tax rates and revenues. The overall pattern suggests that, given its statutory CIT rate, Ghana used to collect less CIT revenue than would be expected, but growth in revenue collections in the past few years means that it is now above the trend line.

Figure 5.3. CIT rates and revenues across countries, 2016–19

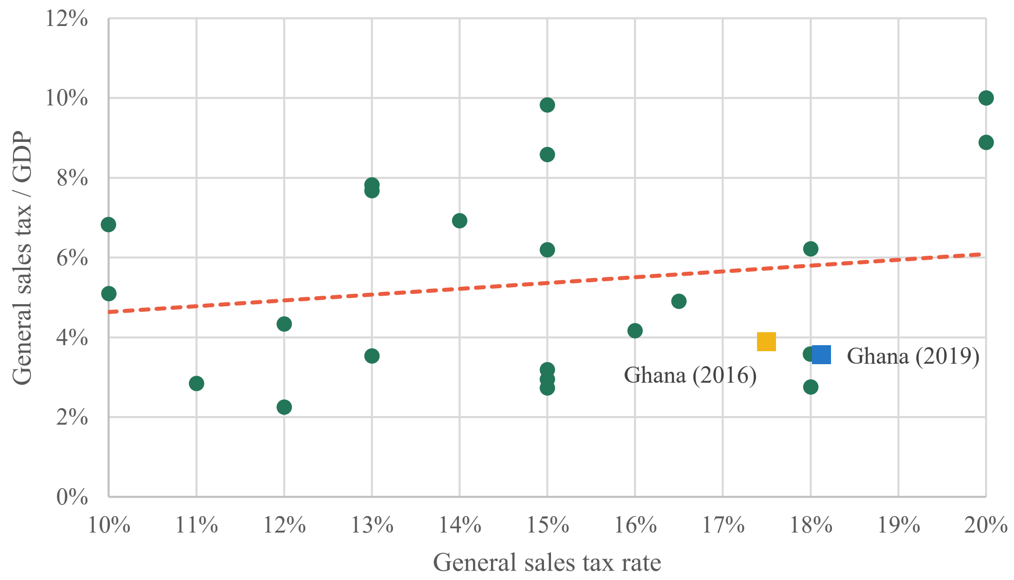


Note: One observation per country (two for Ghana). Sample comprises 32 countries either from sub-Saharan Africa or in the lower middle-income country grouping.

Source: ICTD UNU-WIDER Government Revenue Dataset 2020 and KPMG tax rates data.

Figure 5.4 conducts the same exercise for general sales tax revenues, which comprise VAT, NHIL and GETFL for Ghana.[15] Here, the statutory rates range from 10% to 20%, and Ghana is close to the top of the sample in this respect. The positive association between tax rates and tax revenues exists again in this sample, but Ghana's revenues are below what one would expect given its headline rate. This could be due to a range of factors, including but not limited to compliance, VAT registration requirements, or the breadth of exemptions.

Figure 5.4. General sales tax rates and revenues across countries, 2016–19



Note: One observation per country (two for Ghana). Sample comprises 23 countries either from sub-Saharan Africa or in the lower middle-income country grouping.

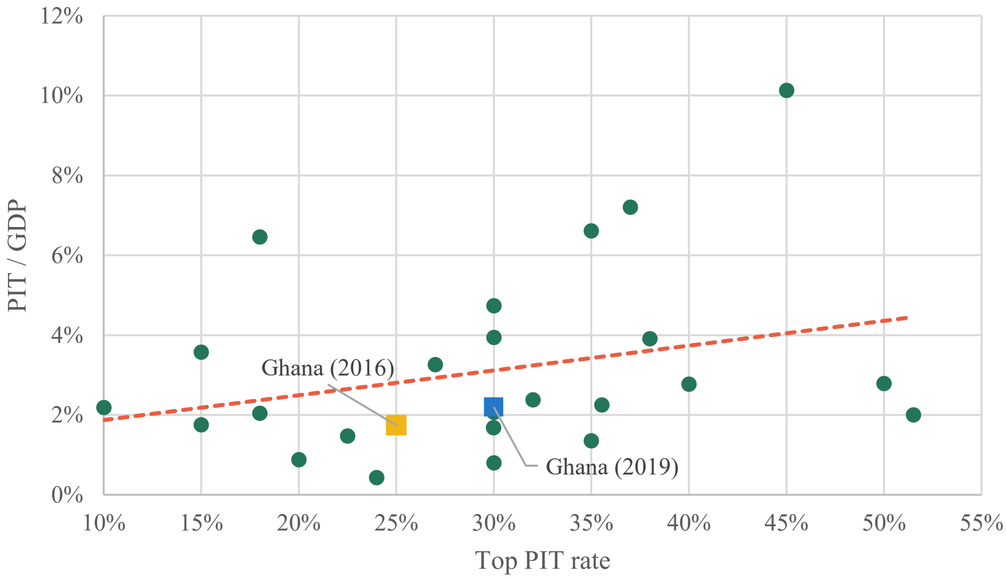
Source: ICTD UNU-WIDER Government Revenue Dataset 2020 and KPMG tax rates data.

Finally, Figure 5.5 plots the relationship between PIT rates and revenues. PIT systems are typically characterised by a schedule of rates applying to different bands of income, making statutory tax rate comparisons across countries more difficult. Here we use the highest marginal tax rate in each country as a proxy for average PIT rates, as in Lee and Gordon (2005) and Besley and Persson (2014). This does yield a weak positive association between rates and revenues: taken at

[15] The increase in the overall rate from 17.5% to 18.1% for Ghana between 2016 and 2019 reflects the fact that the tax base for NHIL and GETFL changed to include VAT in 2018.

face value, the trend suggests that quintupling the top rate from 10% to 50% roughly doubles overall tax revenues. Again though, Ghana falls below the overall trend line, implying it raises less PIT revenue than would be expected when compared with other countries.

Figure 5.5. Top PIT rates and revenues across countries, 2016–19



Note: One observation per country (two for Ghana). Sample comprises 26 countries either from sub-Saharan Africa or in the lower middle-income country grouping.

Source: ICTD UNU-WIDER Government Revenue Dataset 2020 and KPMG tax rates data.

6. Conclusion

The Government of Ghana has made domestic revenue mobilisation a crucial part of its medium-term development strategy, with the goal of tax revenues reaching 20% of GDP by 2023. Improving domestic revenue mobilisation in the country is seen as an important means of funding social programmes and public goods, as well as for improving the country's fiscal position. The detailed information provided here on the current structure of Ghana's tax system and how this has evolved over time is intended to serve as a reference point for policymakers and researchers alike when considering tax policy options for achieving these goals.

Overall, despite some gradual increases over the past two decades, Ghana's tax-to-GDP ratio, which stood at 13% in 2019, remains below that of many countries of a comparable income level, though it is middling among other countries in sub-Saharan Africa. Broadly, the direction of tax reform and revenues in Ghana in the last two decades has mirrored some of the major developments seen across the world, including a reduced reliance on taxes collected on trade and increased revenues from corporate income tax and VAT. While corporate tax revenues have grown noticeably in recent years, personal income tax and VAT revenues have stalled relative to GDP, and international comparisons are suggestive that collections for these two taxes in Ghana are relatively low given the tax rates in place.

Specific policy recommendations are beyond the scope of this report. However, these aggregate patterns raise questions for further research to study different tax types and specific policy options in more detail in order to pave the way for possible recommendations for reform which can meet policy objectives in an efficient, equitable and sustainable manner.

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Appendix

Table A.1. Tax collections in Ghana, 2019 and 2020

	2019		2020*	
	Million GH¢	% of GDP	Million GH¢	% of GDP
GRA collections				
PAYE	7,275.45	2.08%	7,646.95	2.00%
Self-employed	406.51	0.12%	412.95	0.11%
CIT	11,913.28	3.41%	11,799.35	3.08%
Other direct taxes	273.35	0.08%	254.78	0.07%
Mineral royalties	1,006.67	0.29%	1,391.04	0.36%
Airport tax	521.34	0.15%	166.50	0.04%
NFSL	441.81	0.13%	541.09	0.14%
VAT	8,930.19	2.56%	9,211.90	2.40%
NHIL	1,731.97	0.50%	1,828.14	0.48%
GETFL	1,766.56	0.51%	1,840.53	0.48%
Excise duties	385.27	0.11%	426.75	0.11%
CST	427.84	0.12%	566.62	0.15%
Import duties	5,280.38	1.51%	5,356.51	1.40%
Special petroleum tax	1,928.05	0.55%	1,956.40	0.51%
EDRL	1,704.02	0.49%	2,048.74	0.53%
Other petroleum	1,618.45	0.46%	1,939.19	0.51%
TOTAL	45,611.14	13.05%	47,387.43	12.36%
Memoranda				
Company tax on oil	925.65	0.26%	951.00	0.25%
Royalties from oil	1,251.72	0.36%	1,091.97	0.28%
Non-tax revenue	7,567.58	2.17%	6,667.32	1.74%
Grants	986.12	0.28%	1,228.70	0.32%
Tax refunds	2,470.18	0.71%	2,586.68	0.67%
Nominal GDP	349,480.41		383,304.85	

* All 2020 figures are provisional.

Note: GRA collections refer to tax collections reported by the Ghana Revenue Authority. Memoranda items come from the Ministry of Finance.

Source: Ghana Revenue Authority and Ministry of Finance.

Table A.2. Temporary tax measures in response to COVID-19

2020

- Exemption of certain withdrawals from the statutory voluntary pension schemes (Third Tier) from income tax.
- Exemption of goods designated as COVID-19 donation items from the payment of VAT, NHIL and GETFL.
- Waiver of income tax on personal emoluments of all health workers for the months of April to September 2020; and waiver of income tax on 50% additional allowance for front-line health workers for the months of March to September 2020.
- Treatment of all COVID-19 donations as deductible expenses for income tax purposes.
- Extension of the deadline for filing annual income tax returns by two months (that is, from four to six months after the end of the basis year).
- Penalties on principal debts cancelled upon payment of outstanding debts due to the GRA up to 30 June 2020.

2021

- Provision of a 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.
- Suspension of quarterly income tax instalment payment of the VIT for third and fourth quarters of 2021 for ‘Trotros’ and ‘Taxis’.
- A waiver of penalty and interest on accumulated tax arrears up to December 2020 to reduce cash-flow challenges for companies and individuals who arrange terms with the GRA to pay up the principal by September 2021.

Source: Government of Ghana (2020 and 2021); Ministry of Finance staff.

Table A.3. Personal income tax reliefs

Eligibility	Reduction in assessable income
Dependent spouse or at least two dependent children	GH¢ 1,200
Disability	25% of the assessable income of the disabled individual
Aged 60 years and above	GH¢ 1,500
Sponsoring the education of a child/ward at a domestic institution	GH¢ 600
Dependent relative (not child or spouse) aged 60 years and above	GH¢ 1,000
Individual has self-funded training for professional, technical or vocational skills	GH¢ 2,000

Source: Income Tax Act 2015 (Act 896) and Income Tax (Amendment) Act 2019 (Act 1007).

Table A.4. Annual vehicle income tax payment amounts

Vehicle	Rate (GH¢)
Tractor, power tillers and tankers	40
Taxis/private taxis	48
One pound, one pound/Peugeot cars/fork-lift, recovery towing trucks	60
Trotro (up to 15 persons)	64
Hiring cars (saloon, caravan)	320
Hiring cars (4x4) four wheels	480
Trotro (up to 19 persons)	80
Trotro (20–23 persons)	88
Trotro (24–32 persons and above)	120
Commuter (up to 15 persons)	80
Commuter (16–19 persons)	100
For buses, commuter (up to 23 persons)	80
Tour operator (up to 15 persons)	320
Commuter (up to 38 persons)	160
Tour operator (16–23 persons)	400
Commuter (39–45 persons)	200
Tour operator (24–38 persons)	280
Tour operator (above 45 persons)	600
Commuter (46 and above persons)	240
Dry cargo (below 2 tons) pay loaders/pickups 2–3.5 tons	140
Dry cargo (2–4 tons) tankers 2000 gallons/sewage tankers/garbage trucks/cranes	256
Tankers above 2000 gallons/graders/bulldozers	404
Dry cargo (4–7 tons)	480
Tipper trucks (single axle)	320
Tipper trucks (double axle)	480
Articulated truck trailers (18 cubic metres)/timber trucks	800
Tipper trucks (12–14 wheelers)	600
Ambulance/motor hearse	88
Articulated truck trailers (single axle)	800

Source: Second Schedule, Income Tax Regulations, 2016 (L.I. 2244).

Table A.5. Quarterly tax stamp payment amounts

Category	Size	Rate (GH¢)
(A) Retail traders; susu collectors; drinking and chop bars; bakeries; business centres; estate and accommodation agents	Large	45
	Medium	30
	Small	10
	Table top	3
(B) Dress makers and tailors; hairdressers, beauticians and barbers; artisans (masons, carpenters, plumbers, electricians, tillers, steel benders, labourers etc.); hiring services other than vehicle hiring; freelance photographers	Large	35
	Medium	20
	Small	5
	Table top	3
(C) Butchers; individual undertakers; corn and other millers; charcoal and firewood vendors; auto technicians; vulcanizers and alignment operators; shoe and equipment repairs; traditional healers	Large	25
	Medium	15
	Small	3
	Table top	3

Source: Third Schedule, Income Tax Regulations, 2016 (L.I. 2244).