REPUBLIC OF GHANA

MINISTRY OF FINANCE

2022 TAX EXPENDITURE REPORT AND ESTIMATES FOR **2023 - 2026**

29th September, 2023

Contents

ABBREVIATIONS

AP	Adjusted Profit
CD	Customs Division
CI	Chargeable Income
CIF	Cost, Insurance and Freight
CIT	Corporate Income Tax
CPC	Customs Procedure Codes
DTRD	Domestic Tax Revenue Division
ECOWAS	Economic Community of West African States
EDIL	Export Development and Investment Levy
GCMS	Ghana Customs Management System
GETFUND	Ghana Education Trust Fund
GIPC	Ghana Investment Promotion Centre
GNPC	Ghana National Petroleum Company
GRA	Ghana Revenue Authority
GSS	Ghana Statistical Service
HCSTCS	Harmonized Commodity and Tariff Code Schedule
ICUMS	Integrated Customs Management Systems
ITA	Income Tax Act
MMA	Mineral and Mining Act
MNE	Multi-national Enterprises
NHIL	National Health Insurance Levy
PIT	Personal Income Tax
SUT	Supply and Use Table
TE	Tax Expenditure
TRIPS	Total Revenue Integrated Processing System
VAT	Value Added Tax
VCFC	Venture Capital Finance Company

VCTF	Venture Capital Trust Fund
WHT	Withholding Tax
WTO	World Trade Organization

1.0. EXECUTIVE SUMMARY

This report looks at Tax Expenditures (TE) relating to Customs Duties and Taxes, Domestic Direct and Domestic Indirect for 2022 financial year and the forecast for 2023-2026.

The main objective of this report is to provide an insight into the various amounts being spent directly and indirectly as Tax Expenditure items. The report also provides among other things, the basis for policy analysis and review in relation to Government Tax Expenditure.

Analysis of the data revealed that total provisional tax expenditures for 2022 was GHS4.80 billion as against GHS3.8 billion recorded in 2021 and GHS3.09 billion recorded in 2020. Out of the amount for the year 2022, Domestic Indirect Tax, Domestic Direct Tax and Customs accounted for GHS919.18 million, GHS415.30 million and GHS3,470.10 million respectively.

The top four (4) major contributors of tax expenditure under the Customs for 2022 reporting period were Parliamentary exemptions which contributed about 43%, General exemptions constituted 23%, Government and Privileged Organisations which was the third contributor, constituted 13%, and the fourth largest on the list was Ghana National Petroleum and upstream exploration related activities – this constituted about 8%. It is expected that the passage of the Exemption Bill should streamline the tax incentive regime in respect of application processes and procedures.

2.0. GLOBAL VIEW

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

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

2.3. The COVID-19 pandemic has had an unprecedented economic impact, with developing countries being particularly affected. The need for resources has significantly increased among these economies, as governments face the challenge of providing income support and liquidity to individuals and businesses, while collecting the required revenue to finance spending programmes. Rising debt levels and widening budget deficits, the revenue position of developing countries seems to worsen more than that of advanced economies (Gupta & Jalles, 2021).

The table below shows TE data on some selected countries:

Table 1: Tax Expenditure of selected countries

Summary of Tax Expenditure of selected countries 2016-2020					
Country	**Year**	**TE**	**USD Equivalent**	**TE/GDP**	**TE/TR**
Cameroon	2020				
	2019	584.60 billion XAF	997.91 Million USD	2.57%	NA
	2018	387.74	697.94 Million USD	2.57%	NA
	2017	451.3	777.15 Million USD	2.57%	16.31%
South Africa	2020				
	2019	249.33 Billion ZAR	17.26 Billion USD	4.91%	18.37%
	2018	224.11 Billion ZAR	16.93 Billion USD	4.60%	16.39%
	2017	228.02 Billion ZAR	17.11 Billion USD	4.90%	17.81%
	2016	195.29 Billion ZAR	14.66 Billion USD	4.48%	NA
Rwanda	2020	288.61 Billion RWF	305.96 Million USD	2.93%	18.14%
	2019	258.27 Billion RWF	287.19 Million USD	2.84%	16.95%
	2018	190.43 Billion RWF	221.09 Million USD	2.30%	14.45%
	2017	NA	NA	NA	NA
	2016	NA	NA	NA	NA
Nigeria	2020	5.84 Trillion NGN	16.29 Billion USD	3.79%	
	2019	4.41 Trillion NGN	14.38 Billion USD	3.03%	
	2018	NA	NA	NA	NA
	2017	NA	NA	NA	NA
	2016	NA	NA	NA	NA
Morocco	2020	28.91 Billion MAD	3.02 Billion USD	2.68%	13.38%
	2019	28.44 Billion MAD	2.96 Billion USD	2.47%	11.52%
	2018	28.56 Billion MAD	3.04 Billion USD	2.58%	11.78%
	2017	28.55 Billion MAD	2.95 Billion USD	2.69%	12.35%
Ghana	2020	4.30 Billion GHS	760.35 Million USD	1.12%	NA
	2019	4.68 Billion GHS	896.86 Million USD	1.34%	10.90%
	2018	4.26 Billion GHS	929.91 Million USD	1.42%	10.78%
Côte d'Ivoire	2020	326.80 Billion XOF	567.77 Million USD	0.93%	NA
	2019	381.80 Billion XOF	651.73 Million USD	1.11%	NA
	2018	338.50 Billion XOF	609.30 Million USD	1.05%	8.72%
	2017	344.80 Billion XOF	593.75 Million USD	1.15%	9.42%
United Kingdom	2020	171.74 Billion GBP	218.83 Billion USD	8.13%	NA
	2019	166.21 Billion GBP	212.15 Billion USD	7.49%	30.38%
	2018	164.84 Billion GBP	219.92 Billion USD	7.70%	31.04%
	2017	153.06 Billion GBP	196.99 Billion USD	7.40%	29.83%
Source: GTED					

3.0. MACROECONOMIC PERFORMANCE 2022

3.1 Macroeconomic targets set for 2022 as presented in the 2022 Mid-Year Policy Review document were as follows:

i. Overall Real GDP growth of 3.7 percent
ii. Non-Oil Real GDP Growth rate of 4.3 percent
iii. End-period inflation of 28.5 percent
iv. Overall fiscal deficit of 6.6 percent of GDP
v. Primary surplus of 0.4 percent of GDP, and
vi. Gross International Reserves sufficient to cover at least three and half months of imports of goods and services.

3.2 The economic performance for the first three quarters of the year is summarised as follows:

i. Real GDP growth averaged 4.0 percent year-on-year (y/y) for the first half of 2022 compared with 3.9 percent during the same period in 2021.
ii. Inflation accelerated to 40.4 percent in October 2022, from 37.2 percent in September and 33.9 percent in August.
iii. The Monetary Policy Rate increased by 1,000 basis points (from 14.5 percent to 24.5 percent) since the beginning of year.
iv. Overall budget deficit (cash) of 7.4 percent of GDP against the target of 6.2 percent of GDP and a corresponding primary deficit of 2.0 percent of GDP against a target of a deficit of 1 percent of GDP.
v. The Public Debt-to-GDP ratio stood at 75.9 percent at the end of September 2022, up from 74.4 percent at the end of September 2021.
vi. Gross International Reserves (GIR) stood at US$6,591.8 million, equivalent to 2.9 months of imports cover, at the end of September 2022 from a stock position of US$9,695.2 million (equivalent to 4.3 months imports cover) at the end of December 2021.
vii. The exchange rates across the major international currencies depreciated rapidly by the end of the third quarter of 2022. As of 23rd November 2022, the Ghana cedi depreciated cumulatively by 54.2 percent against the US Dollar compared to a depreciation of 4.1 percent at the end of December 2021. Similarly, the Ghana cedi depreciated cumulatively by a 48.5 percent against the British Pound compared to 3.1 percent at the end of December.

4.0 INTRODUCTION

4.1. The core function of any tax system is to raise the revenues necessary to fund government expenditures. The tax system can also be used to achieve public policy objectives through the application of specific measures such as preferential tax rates, exemptions, deductions, deferrals, and tax credits. These measures are often described as "tax expenditures" because they are used to achieve a policy objective that deviates from the core function of the tax system, at the cost of lower tax revenues.

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

4.3. The Minister of Finance is mandated by Section 21 (5) (e) (viii) of the Public Financial Management Act, 2016 {Act 921} to report Tax Expenditure to Parliament as part of the Annual Budget Statement. Following from the mandate of the Minister, the Commissioner-General of the Ghana Revenue Authority (GRA) is required by Section 64 of the Revenue Administration Act, 2016 (Act 915) to "submit to the Minister a quarterly report on the total amount of reductions of tax granted to or claimed by taxpayers."

4.4 In line with this, a Tax Expenditure Committee has been mandated to facilitate the estimation of tax expenditures for the Medium-Term per the PFM Act.

5.0 IMPORTANCE OF REPORTING ON TAX EXPENDITURES

5.1 The purpose of reporting tax expenditures annually is to allow the public and policymakers to conduct impact assessments of fiscal policies periodically to make informed decisions on whether the expenditures should be continued or discontinued. The availability of tax expenditure information or report(s) also allows for debate on budget lines, which could result in the elimination of inefficient and inappropriate tax expenditures, which are detrimental to the economy.

5.2 Estimates of tax expenditure are prepared for use in budget analysis. They are a measure of the economic benefits that are provided through the tax laws to various groups of taxpayers and sectors of the economy. The estimates also may be useful in determining the relative merits of achieving specified public goals through tax benefits or direct outlays. It is appropriate to evaluate tax expenditures with respect to cost, distributional consequences and economic effects, alternative means of provision, and to allow policymakers to evaluate the trade-offs among these and other potentially competing policy goals.

6.0 METHODOLOGY FOR ESTIMATING TAX EXPENDITURE

6.1. Three (3) methodologies exist for the estimation of tax expenditures. These are Revenue Forgone Approach, Revenue Gain Approach, and the Outlay Equivalent Approach. Ghana uses the revenue forgone method because of its simplicity and adaptability.

6.2. The revenue forgone method calculates the extent to which a provision in the Laws or Acts reduces the estimated tax revenue to the State. The method estimates the difference between the standard tax rate and what is payable because of some specific provisions in the Acts.

7.0 DATA COLLECTION

7.1. A Tax expenditure template has been designed to capture data on Adjusted Profit (AP), Chargeable Income (CI) and Tax Payable by qualified companies enjoying tax holidays or preferential rates lower than the benchmark rate.

7.2. In the case of Customs, data was extracted from the Ghana Customs Management System (GCMS) and Integrated Customs Management Systems (ICUMS).

7.3. It must be noted that the tax expenditure estimates in this report are developed using the latest available data, collected by the Tax Expenditure Analysis Team from GRA. Revisions of the data as well as improvements in the estimation methodology can result in substantial changes to the reported values of tax expenditure.

8.0. AREAS OF TAX EXPENDITURE

8.1. Tax expenditure items are categorised under three (3) broad headings; Customs (International Trade), Domestic Direct and Domestic Indirect.

Twenty-four (24) items of tax expenditures falling within these categories are costed annually. (See appendix 4 for brief explanations).

8.1.1 Domestic Direct Tax Expenditure Areas

Domestic Direct Tax Expenditure Areas have been grouped as shown in the table 2 below.

- The first group is made up of Areas with sunset clause (limited tax holidays). After the tax holiday, they revert to the Standard Tax Rate.
- The second group is made up of Areas without tax holidays. However, they enjoy tax rates lower than the Standard Tax Rate.
- The third group consist of Areas with sunset clause. They, however, continue to enjoy concessionary tax rate after the holidays.
- The fourth group is in respect of reliefs granted to individuals and deducted from the assessable income before tax.

- The fifth group is in respect of Parliamentary approvals. The table 2 below consist of the five classes discussed above:

Table 2: Domestic Direct Tax Expenditure Areas

Group	Areas of Tax Expenditure	Sunset Clauses (Holiday)	Concessionary Rate	Effective Tax Rate After the Tax Holidays
1.	Free Zones Companies Young Entrepreneurs **(Act 956)	5 years	1%	15% of Export Income 15%, 12.5%, 10%, 5%
2.	▪ Ghana Stock Exchange (Act 941) ▪ Agriculture ▪ Real Estate ▪ Agro processing ▪ Waste Processing ▪ Venture Capital Financing ▪ Rural Banking ▪ Approved Unit Trust Scheme & Mutual Fund	31st Dec 2021 5 years 5 years 5 years 7 years 10 years 10 years 10 years	 1% 1% 1% 1% 1% 1% 1%	Realization from securities traded on GSE is exempt. Corporate Tax Rate of 25%
3.	▪ Location Incentive for Manufacturing ▪ Export of Non-traditional goods ▪ Hotel ▪ Financial Institution (income from loans to farming and leasing Enterprises) ▪ Mining Sector	N/A	1% N/A	18.75% or 12.5% 8% 22% 20% Based on stability clause
4	▪ Personal Reliefs ▪ Employment of Refresh Graduates			Reliefs
	▪			

**Young *entrepreneur refers to a person who is not more than 35 years old and engaged in the business of Manufacturing, Information and Communication Technology, Agro-processing, Energy Production, Waste Processing, Tourism and Creative Arts, Horticulture and Medical Plants. The effective rates depend on their respective locations: Accra and Tema, Other regional capitals outside the three northern regions, outside other regional capitals and three Northern Regions respectively.*

8.1.2 Domestic Indirect Tax Expenditure Areas

- Refunds (VAT, NHIL & GETFUND)
- Upfront Relief – VRPO use (VAT, NHIL & GETFUND)
- Excise Sliding Scale
- Excise Exempt

8.1.3 Customs Tax Expenditures Areas

- Government, Privileged Persons, and Organisations
- Parliamentary Exemptions
- General Exemption as per the Customs Harmonised Code
- ECOWAS Exemptions
- Ghana Investment Promotion Centre (GIPC)
- Ghana National Petroleum Corporation (GNPC)
- Concessions for Manufacturing
- Concessions for Mining

9.0. DISCUSSION OF TAX EXPENDITURE ESTIMATES 2021-2022

9.1. Provisional tax expenditure for 2022 was GHS4.80 billion compared to GHS3.48 billion recorded in 2021 and GHS3.16 billion recorded in 2020; an increase of GHS1.32 billion (0.06 percent) over the 2021 amount and about GHS1.64 over the 2020 amount. Out of the amount for the year 2022, the shares of Domestic Indirect Tax, Direct Tax and Customs were 19.13 percent, 8.64 percent, and 72.22 percent respectively.

9.2. In terms of composition, International Trade (Customs) increased from 68.60 percent in 2021 to 72.22 precent. Domestic indirect decreased to 19.13 percent in 2022 from 21.57 percent in 2021 while Domestic Direct also decreased to 8.64 percent in 2022 from 9.83 percent in 2021.

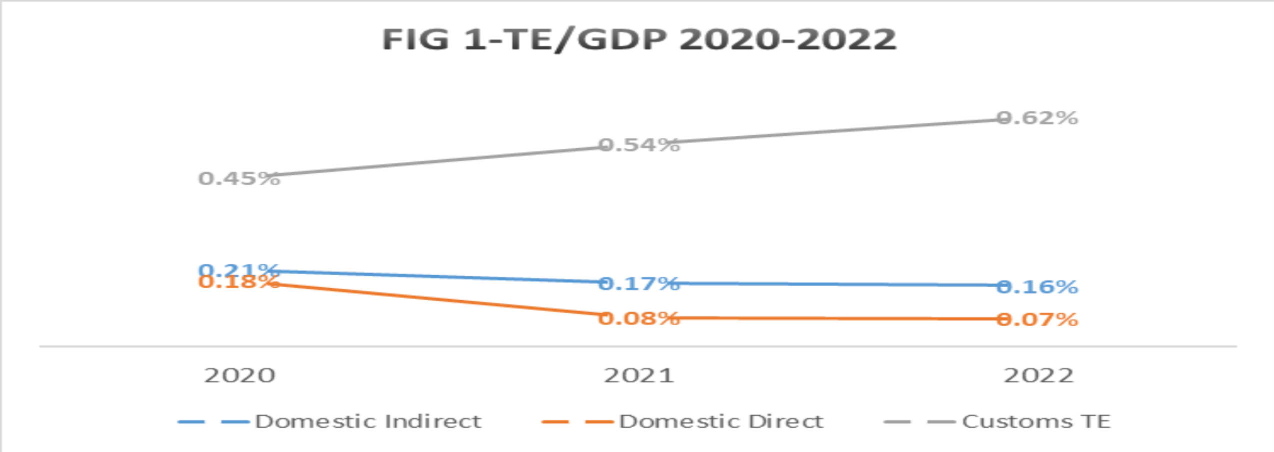
Table 3: Tax Type to Tax Expenditure (2020-2022)

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

9.3. Tax Expenditure (TE) to Gross Domestic Product (GDP)

Tax Expenditure (TE) to Gross Domestic Product (GDP) for 2022 was 0.85% up from 0. 79% in 2021 and 0.83% in 2020. Domestic indirect, Domestic Direct and Customs in 2021 recorded 0.16%, 0.07% and 0.62% respectively. The graph (Figure 1) depicts an increase in the tax expenditure to the Gross Domestic Product for 2022.

Figure 1: Tax Expenditure/GDP, 2020-2022

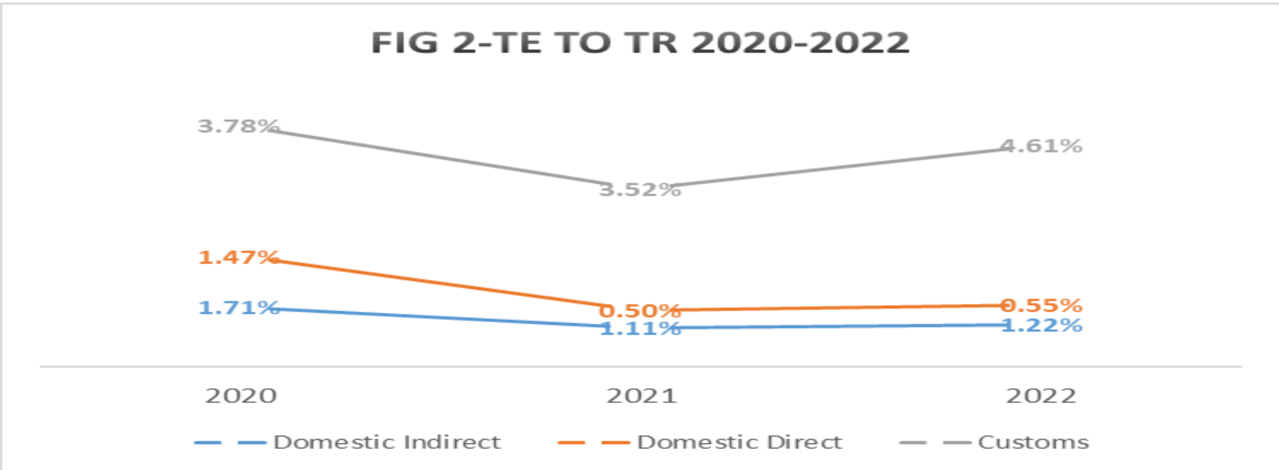


Source: MOF computation

9.4. Tax Expenditure (TE) to Total Tax Revenue (TTR)

Tax expenditure to tax revenue in 2022 was 6.38% from 5.13% recorded in 2021 and 6.97% in 2020. The 2022 percentage was made up of 1.22% Domestic indirect (DI), 0.55% Domestic Direct (DD) and 4.61% Customs. This suggests higher revenue foregone (i.e., revenue we should have been collected in the form of taxes and duties) in the year 2022. There is upward trend as shown in Figure 2.

Figure 2: Tax Expenditure/Tax Revenue, 2020-2022



Source: MOF computation

9.5. International Trade (Customs) Tax Expenditure

Customs Tax Expenditure (CTE) for 2022 saw an increase in the total exemption. Total CTE increased to GHS3.47 billion from GHS2.46 billion in 2021. This has been attributable to a significant increase in the Parliamentary exemptions. See table 4 below.

Table 4: Import Exemptions (2021-2022)

IMPORT EXEMPTION (2021-2022)		
	2021	2022
	GHS Billion	GHS Billion
G.N.P.C.	0.16	0.36
Government, and priviledged persons	0.27	0.46
GIPC	0.05	0.09
General	0.51	0.80
ECOWAS	0.14	0.27
Parliamentary	1.34	1.49
Special Permits	0.00	-
Othres		0.01
Total	2.46	3.47
Source: GRA/MOF Computation		

9.6. A cursory look at the 2022 amount showed Parliamentary exemptions contributed about 43%. The rising trends in this kind of exemption could be attributable to the numerous project agreements with tax waiver clauses which is a burden to government.

Figure 2 – Exemptions 2022

9.7. The main challenge with the Parliamentary exemptions was the opportunity they provide for potential misuse. In addition, the waiver of customs duties makes it more attractive for contractors to import inputs rather than using those that are available in Ghana.

9.8. General exemption constituted 23% of total TE for the period. This covers miscellaneous exemptions from various laws encapsulated in the Third Schedule of the Customs Harmonized Code. It includes amongst others: machinery and equipment designed for use in agriculture or fishing, personal effects, jute bags for Ghana Cocoa Board and educational, cultural, or scientific materials.

9.9. Government and Privileged Organisations is the third greatest contributor, constituting about 13% of CTE over the period shown. These entities include the Office of the President, Government Machinery, and National Security.

9.10. The fourth largest on the list was Ghana National Petroleum and upstream exploration rated activities. This constituted 8% of the TE.

9.11. The rest was ECOWAS exemptions, Ghana Investment Promotion Centre (GIPC) exemptions and others.

10.0 DISCUSSION OF FORECAST FOR 2023-2026

10.1. Table 4 provides the tax expenditure forecast for the period 2023-2026. The forecast indicates a general rise in tax expenditures. It is envisaged that there will be more government projects and more 1D1F projects which will require significant number of exemptions.

Table 1: Tax expenditure forecast for the period 2022-2026

Table 4	Tax Expenditure (TE) estimates to Gross Domestic Product (GDP) 2023-2026								
Description		2023		2024		2025		2026	
	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%
GDP		726,625.40		867,967.31		996,801.13		1,135,335.02	
Domestic Indirect	0.16%	965.13	0.13%	1,013.39	0.12%	1,064.06	0.11%	1,117.26	0.10%
Domestic Direct	0.07%	524.21	0.07%	666.48	0.08%	864.28	0.09%	979.59	0.09%
International Trade (Customs)	0.59%	3,856.34	0.53%	4,461.25	0.51%	5,167.64	0.52%	5,167.64	0.46%
Grand Total	**0.82%**	**5,345.68**	**0.74%**	**6,141.12**	**0.71%**	**7,095.99**	**0.71%**	**7,264.49**	**0.64%**

Source: TE Team computation

10.2. For Direct Tax, eleven tax expenditure areas were covered. The tax expenditure was derived by categorizing the expenditures, calculation of the tax payable at 25% standard rate and 35% for the mining sector, less the tax payable under the various tax dispensation, (i.e., TE = Standard rate * C/I – less Tax rebate).

10.3. Direct tax expenditure for the 2023 fiscal year is estimated at GHS524.21 million. It is expected to increase to GHS666.48 million in 2024, and subsequently increase to GHS864.28 million and GHS979.59 million by 2025 and 2026 respectively.

10.4. It is to be noted that the direct tax expenditure is expected to increase because of the mining firms which have Development Agreements.

10.5. In the case of domestic indirect taxes (VAT, NHIL & GETFUND Levies and Excise Duty), tax expenditure is administered either through the Refund process or by upfront relief. The estimates were based on project exemptions, technical assistance exemptions, domestic zero-rating and differential excise rates for manufacturers who use local raw materials in the production of excisable goods. Export zero-rated and diplomatic reliefs do not form part of tax expenditure. The tax expenditure for Excise Duty is derived by computing the tax payable at the standard rate less the tax paid using the differential rate.

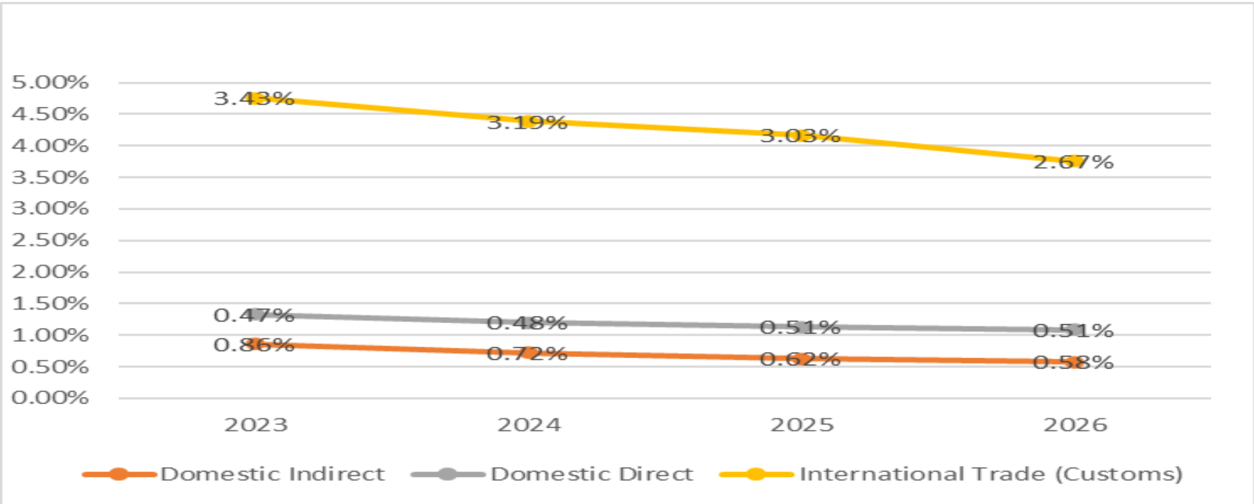
10.6 Indirect tax expenditure for the 2023 fiscal year was estimated at GHS965.13 million. It is expected to increase to GHS1,013.34million in 2024, and GHS1,064.06 million in 2025 and GHS1,117.26 million in 2026.

10.7 In the area of International Trade, data extracted was categorized under six tax expenditure areas using the Customs Procedure Codes (CPC) which is in line with the Third Schedule of the Customs Harmonized Systems Code.

10.8 The tax expenditure forecast for the 2023 fiscal year was estimated at GHS3,856.34million. It is expected to increase to GHS4,461.25 million in 2024, GHS5,167.64 million and GHS5,167.64 million in 2025 and 2026 respectively.

10.9 Tax Expenditure (TE) to Total Tax Revenue (TTR) – Fig 3

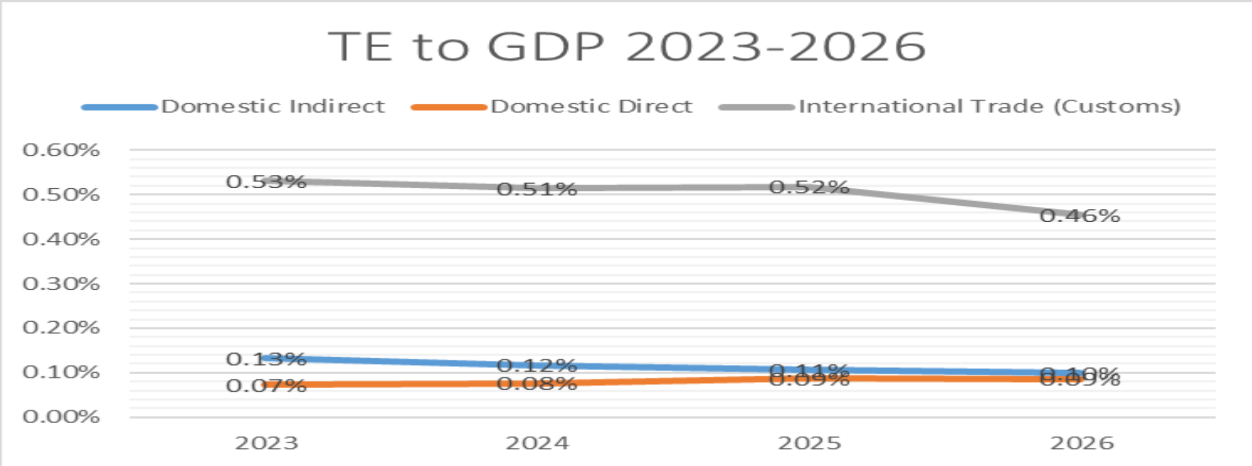
Tax Expenditure (TE) to Total Tax Revenue (TTR) is expected to trend downward by 2026 and trend downward by 2025.



Source: TE Team computation

10.10. Tax Expenditure (TE) to Gross Domestic Product – Fig 4

The estimated Tax Expenditure to GDP is expected to decrease in 2022 and rise by end 2026.



Source: TE Team computation

11.0. CHALLENGES WITH CURRENT TAX EXPENSITURES

- Lack of complete digitisation of the domestic tax revenue data

12.0 PROPOSED POLICY CHANGES ON TAX EXPENDITURE

i. Limit or discontinue exemption of local taxes
ii. Prepare Petroleum List applying local content rules
iii. Discontinue exemption clauses in commercial contracts
iv. Restrict exemption clauses and conditions in loan agreements to only interest on the loans
v. Eliminate exemptions provided for levies and fees (provided along with exemptions for VAT and customs duties) and eliminate exemptions where tax relief is no longer justified.
vi. Review exemptions provided for the mining industry and repeal exemptions for consumption goods (i.e., goods that are not directly related to production).

13.0 CONCLUSION

Increases in Tax Expenditure continue to pose a threat to government's revenue mobilisation efforts and growth. Every effort to reduce the ever-increasing levels is critical for economic growth and development.

14.0. APPENDICES

14.1. Tax Expenditure actuals from 2017 to 2022

Tax Expenditure (TE) to Gross Domestic Product (GDP) 2017-2022

Description	2017		2018		2019		2020		2021		2022	
	(GHS'M)		(GHS'M)		(GHS'M)	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%
GDP	256,671.37		289,988.20		332,228.60		378,030.92		439,381.00		562,690.07	
Domestic Indirect	86.56	0.03%	90.39	0.03%	753.38	0.23%	776.37	0.21%	750.76	0.17%	919.18	0.16%
Domestic Direct	96.96	0.04%	106.55	0.04%	193.17	0.06%	665.97	0.18%	342.35	0.08%	415.30	0.07%
Customs TE	3,078.51	1.20%	2,771.73	0.96%	2,564.58	0.77%	1,714.21	0.45%	2,388.04	0.54%	3,470.10	0.62%
Grand Total	**3,262.03**	**1.27%**	**2,968.68**	**1.02%**	**3,511.13**	**1.06%**	**3,156.55**	**0.83%**	**3,481.15**	**0.79%**	4,804.58	0.85%

Table 1-Tax Expenditure to Total Tax Revenue (TTR) 2017-2021

Description	2017		2018		2019		2020		2021		2022	
	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%
TTR	**33,434.21**		**39,109.33**		**43,764.89**		**45,315.93**		**67,879.00**		**75,265.00**	
Domestic Indirect	86.56	0.26%	90.39	0.23%	753.38	1.72%	776.37	1.71%	750.76	1.11%	919.18	1.22%
Domestic Direct	96.96	0.29%	106.55	0.27%	193.17	0.44%	665.97	1.47%	342.35	0.50%	415.30	0.55%
Customs	3,078.51	9.21%	2,771.73	7.09%	2,564.58	5.86%	1,714.21	3.78%	2,388.04	3.52%	3,470.10	4.61%
Grand Total	**3,262.03**	**9.76%**	**2,968.68**	**7.59%**	**3,511.13**	**8.02%**	**3,156.55**	**6.97%**	**3,481.15**	**5.13%**	4,804.58	6.38%

Table 2-Tax Type to Tax Expenditure 2017-2021

Description	2017		2018		2019		2020		2021		2022	
	(GHS'M)	%	(GHS'M)	share %	(GHS'M)	share %	(GHS'M)	share %	(GHS'M)	share %	(GHS'M)	share %
Domestic Indirect	86.56	2.65%	90.39	3.04%	753.38	21.46%	776.37	24.60%	750.76	21.57%	919.18	19.13%
Domestic Direct	96.96	2.97%	106.55	3.59%	193.17	5.50%	665.97	21.10%	342.35	9.83%	415.30	8.64%
Customs	3,078.51	94.37%	2,771.73	93.37%	2,564.58	73.04%	1,714.21	54.31%	2388.04	68.60%	3,470.10	72.22%
Grand Total	**3,262.03**	**100%**	**2,968.68**	**100%**	**3,511.13**	**100%**	**3,156.55**	**100%**	**3,481.15**	**100.00%**	4,804.58	100.00%

14.2. Tax Expenditure estimates 2023 to 2026

Table 4	Tax Expenditure (TE) estimates to Gross Domestic Product (GDP) 2023-2026								
Description		2023		2024		2025		2026	
	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%
GDP		726,625.40		867,967.31		996,801.13		1,135,335.02	
Domestic Indirect	0.16%	965.13	0.13%	1,013.39	0.12%	1,064.06	0.11%	1,117.26	0.10%
Domestic Direct	0.07%	524.21	0.07%	666.48	0.08%	864.28	0.09%	979.59	0.09%
International Trade (Customs)	0.59%	3,856.34	0.53%	4,461.25	0.51%	5,167.64	0.52%	5,167.64	0.46%
Grand Total	**0.82%**	**5,345.68**	**0.74%**	**6,141.12**	**0.71%**	**7,095.99**	**0.71%**	**7,264.49**	**0.64%**

Table 5									
Description		2023		2024		2025		2026	
	%	(GHS'M)	%	(GHS'M)	%	(GHS'M)	%		
TTR		112,358.00		139,975.00		170,426.00		193,296.00	
Domestic Indirect	1.22%	965.13	0.86%	1,013.39	0.72%	1,064.06	0.62%	1,117.26	0.58%
Domestic Direct	0.55%	524.21	0.47%	666.48	0.48%	864.28	0.51%	979.59	0.51%
International Trade (Customs)	4.38%	3,856.34	3.43%	4,461.25	3.19%	5,167.64	3.03%	5,167.64	2.67%
Grand Total	6.15%	5,345.68	4.76%	6,141.12	4.39%	7,095.99	4.16%	7,264.49	3.76%

Source: TE Team computation

Note: It should be noted that the areas identified under tax expenditure could be reviewed with the introduction or amendment of the tax law.

14.3. Explanations to Areas of TE

14.3.1. Tax expenditures on international trade (imports)

In addition to exemptions for imported supplies provided under the VAT Act and Customs Act, other legislation grants tax relief to selected taxpayers on their importation of goods. These are taxpayers under the Ghana National Petroleum Company (GNPC), the Ghana Investment Promotion Centre (GIPC), and taxpayers granted exemptions by the Parliament. Imports from Economic Community of West African States (ECOWAS) countries are also exempt, concessions for manufacturing and mining companies. These benefits are in the form of exemptions from import duties, import NHIL, import GETFUND levy, VAT and other levies and charges collected by the Customs Division.

Please find below the various descriptions covered under the international trade:

14.3.2. Ghana National Petroleum Corporation (GNPC):

These are tax and duty exemptions granted to GNPC and upstream petroleum operators under Section 2 of the Ghana National Petroleum Corporation Act, 1983 (PNDC Law 64) and Petroleum Agreements for the import of approved machinery, parts, and other items necessary for their operations.

14.3.3. Government and Privileged Persons:

This represents exemptions relating to the President, Technical Assistance Schemes, the British Council, Persons with Disability, VALCO, VRA, and Bui Power Authority.

14.3.4. Ghana Investment Promotion Centre (GIPC):

This represents exemptions granted under Section 26 of the Ghana Investment Promotion Centre Act, 2013 (Act 865). The Act provides that the GIPC (acting in consultation with the Minister for Finance, relevant government agencies and with the approval of the President) may grant additional tax incentives to strategic investors that do business in "priority areas" of the economy.

14.3.5. ECOWAS Exemptions:

This covers exemptions granted under the ECOWAS protocols.

14.3.6. Parliamentary Exemptions:

This category covers exemptions granted by way of Parliament Resolutions, including exemptions for public or publicly guaranteed projects, or supplies financed from loans and grants.

14.3.7. General Exemptions:

This covers miscellaneous exemptions from various laws encapsulated in the Third Schedule of the Customs Harmonized Code. It includes amongst others: machinery and equipment designed for use in agriculture or fishing, personal effects, jute bags for Ghana Cocoa Board and educational, cultural, or scientific materials.

14.3.8. Special Permits:

In emergency situations, limited permits are allowed importers to clear goods without the payments of applicable duties and taxes. The importer is however required to complete the process within a stipulated time frame. This special dispensation was extended to projects awaiting Parliamentary approvals. The exemption has since been phased out.

14.3.9. Direct tax expenditures

Sectoral incentives are in the form of reduced rates or tax holidays. These incentives are offered to the farming industry, in particular cocoa production, manufacturing location incentives, exporters of non-traditional goods, construction, and hotels.

14.3.10. Farming

The primary beneficiaries of tax incentives are cocoa producers. Income from cocoa of a cocoa farmer is exempt from corporate income tax (CIT) with no sunset provision (indefinite tax holiday). Income of cocoa by-product businesses and agro-processing are taxed at 1 percent. The nominal 1 percent rate, which also applies to farming cash-crops, tree crops and livestock, applies for a concessionary period of 5 years, after which the standard rate applies.

14.3.11. Manufacturing location incentives

Reduced corporate tax rates are available for manufacturing businesses, depending on the location of the business. In particular, the CIT rate is reduced from 25 percent to 18.75 percent for taxable income from a manufacturing business located in regional capitals other than Accra and Tema. The CIT rate is reduced further to 12.5 percent for taxable income from a manufacturing business located outside of the regional capitals.

14.3.12. Export of non-traditional goods

Income of companies derived from the export of non-traditional goods is taxed at a preferential 8 percent rate. Non-traditional goods include horticultural products; processed and raw agricultural productions grown in Ghana other than cocoa beans; wood products other than lumber and logs; handicrafts; and locally manufactured goods.

14.3.13. Construction

Income derived from the construction of low-cost affordable residential property is taxed at a nominal 1 percent CIT rate within a concessionary period of 5 years. In addition to the construction industry, the accommodation industry enjoys a reduced CIT rate of 22 percent against the standard rate of 25 percent.

14.3.14. Banking incentives

Income of a rural banking business is taxed at a nominal 1 percent CIT rate, for a period of 10 years. This policy measure is an attempt to address the general lack of access to financial services and capital in rural areas of Ghana, which has long been recognized as a major impediment to the government's growth and poverty reduction goals. In addition to rural banks, income of financial institutions from loans to farming enterprises, and to leasing companies is taxed at a 20 percent CIT rate.

14.3.15. Tax incentives for savings and investment institutions

The Income Tax Act (Act 896) includes two provisions that subsidize savings. Both (one for mutual funds and unit trusts, and another for 'venture capital finance companies') tax portfolio income at a nominal 1 percent CIT rate. The venture capital finance company regime cannot be considered as being targeted at venture capital, given its design.

14.3.16. Mutual funds

Income of an approved mutual fund or unit trust is taxed at a nominal 1 percent CIT rate for 10 years. Also, at the level of the holder of an investment in an approved mutual fund or unit trust, tax is limited to final withholding tax at 1 percent on interest, dividends paid, or dividends credited (capital gains) to the investor. Mutual funds and unit trusts (collective investment funds) are emerging as a popular investment vehicle in Ghana. There are now over 30 registered mutual funds (up from 27 in 2014), regulated by the Securities and Exchange Commission of Ghana.

14.3.17. Venture capital finance companies:

The mandate of the venture capital finance companies (VCFCs) is "to provide financial resources for the development and promotion of venture capital financing for Small and Medium Enterprises (SMEs)". Other major investors in VCFCs are financial institutions.

The VCTF is exempt from the payment of all taxes (Venture Capital Trust Fund Act, 2004 (Act 680)), while VCFCs pay CIT on investment returns at a nominal (1 percent) rate during a concessionary period. In addition, investors in a VCFC do not pay tax on interest, dividends or capital gains earned on their investment in a VCFC. These provisions allow private investors to escape tax on income derived through a VCFC. While CIT is payable at 1 percent on the taxable profit of a VCFC, the ability of a VCFC to deduct interest payments to the VCTF on debt finance from the VCTF could be used, in practice, to reduce the CIT base to zero.

According to W. Steven Clark & et Tax Expenditure Reporting and Data Requirements for Tax Reform for Ghana, December 2016), stated that over half of the capital of VCTF is invested in local banks. This partly reflects limited demand by VCFCs themselves for capital from the VCTF, many of which are also predominantly invested in relatively safe assets (e.g., treasury securities). see table 7 of appendix 7 of the report.

14.3.18. Free zone enterprises

The free zone regime provides companies with a 10-year holiday for corporate income tax, VAT, customs duties, excise taxes, levies, and fees on imports. The 10-year CIT holiday is provided to free zone enterprises and developers. The Income Tax Act (ITA) stipulates a post-holiday CIT rate of 15 percent for taxable income from exports of a free zone enterprise; and a post-holiday CIT rate of 1 percent for taxable income from exports of a free zone developer. Further, dividends paid out of exempt profits of free-zone enterprises are exempt from shareholder-level taxation (no withholding tax).

14.3.19. Indirect tax expenditures

The Third Schedule of the Value Added Tax Act, 2013 (Act 870) provides relief on some VAT supplies. The Second Schedule of the Act also provides a zero rate for some domestic supplies. The Excise Duty Act, 2014 (Act 878) provides differential excise rates for manufacturers who use local raw materials in the production of excisable goods. Data used in estimating domestic indirect tax expenditure were based on the above provisions.

The Value Added Tax Act, Customs Act and other legislations grant tax relief to selected taxpayers on the importation of goods. In addition, all imports from Economic Community of West African States (ECOWAS) countries are also exempt.

15.0. REFERENCES

- 2022 budget statement and economy Policy
- Tax Policy Unit Revenue Performance Report
- Customs Exemption data 2017-2022
- Tax Expenditure Report 2008-2015 by the Tax Expenditure Team of MOF and GRA
- W. Steven Clark & et Tax Expenditure Reporting and Data Requirements for Tax Reform for Ghana, December 2016)
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