POLITICAL PARTIES
TAX POSITIONS
ELECTION 2020
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Prepared by
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Contents

POLITICAL PARTIES TAX POSITIONS FOR ELECTION 2020............................................................... 1

Introduction........................................................................................................................................... 5

SECTION ONE – THE NPP’S TAX POSITION FOR ELECTION 2020. .............................................. 7

1.0. General approach to taxation post 2020. ................................................................................... 7
1.1. Approach to increase DRM ....................................................................................................... 7
1.2. Corporate/Business taxation....................................................................................................... 8
1.3. Trade Taxes .................................................................................................................................. 9
1.4. VAT ................................................................................................................................................ 9
1.5. Property taxes / Local Revenue ................................................................................................... 9
1.6. Informal sector taxation.............................................................................................................. 10
1.7. Tax exemption ........................................................................................................................... 10
1.8. Personal Tax Reliefs – Individual incentives for the working poor ........................................... 11

SECTION TWO – NDC’S TAX POSITION FOR ELECTION 2020..................................................... 12

2.0. General approach to taxation post 2020. ................................................................................... 12
2.1. Approach to increase DRM ....................................................................................................... 12
2.2. Corporate/Business taxation....................................................................................................... 14
2.3. Trade Taxes .................................................................................................................................. 15
2.4. VAT ................................................................................................................................................ 15
2.5. Property taxes / Local Revenue ................................................................................................... 16
2.6. Informal sector taxation.............................................................................................................. 16
2.7. Tax exemption ........................................................................................................................... 16
2.8. Personal Tax Reliefs – Individual incentives for the working poor ........................................... 17

SECTION THREE – RECOMMENDATIONS & CONCLUSION......................................................... 18

3.0 Recommendations ...................................................................................................................... 18
3.1 Conclusion ..................................................................................................................................... 20

References ........................................................................................................................................... 22
EXECUTIVE SUMMARY

Ghana has a National Development Planning Committee (NDPC) established by an Act of Parliament (Articles 86 and 87 of the 1992 Constitution) with the core mandate among others, to work with the president and other stakeholders to oversee long terms national development. However, over the years, the country’s development agenda has been shaped by a four-year political parties’ manifesto. The desire to win or retain power means that national development planning is usually short termed for political expediency.

In terms of DRM, Ghana has one of the lowest tax to GDP ratios in Africa. The Sub-Saharan average tax to GDP is 17%, but Ghana is averaging around 13% in the last few years. Ghana collects less taxes, than it should and therefore rely heavily on external financing – IMF and World Bank loans, Bonds etc.

This report aims at assessing the tax positions as per the official manifestos of the two leading political parties in Ghana (i.e., NDC and NPP) ahead of the 2020 presidential and parliamentary elections.

The NPP’s Tax Position for Election 2020

The NPPs manifesto was very silent on direct taxes, which are usually seen as the best way to promoting equality and fairness in the system. Apart from proposal to ‘introduce a specific tax regime for small and medium scale businesses (p.178), no new taxes is being proposed.

The NPP intends to improve domestic revenue through three key pillars;

1. broadening the tax base,

2. simplifying the filing process, and

3. improving collection process to reduce leakages (corruption).
On corporate taxation, the party intends to reform the taxes paid by small and medium scale enterprises.

On property taxes, the NPP intends to support local assemblies with valuation of properties by setting up branches of Land Valuation Division of the Lands Commission in all MMDAs.

The NPPs position on tax exemptions is very weak. Despite having an exemption bill before parliament over a year ago, no reference is made to passing it. Three specific references are made on tax exemptions, and they all intend to grant new ones (see pages 158, 175 and 176).

**The NDC’s Tax Position for Election 2020**

The NDC intends to reform the tax system by:

- introducing a low tax regime/system (p.19)
- making the whole tax system fair/progressive (p.22)
- broadening the tax base to make the rates lower (p.22)

On ways to improve revenue, the party intends to:

- Broaden the tax base and lower tax rates
- Reduce discretionary tax exemptions
- Improve tax collection and improve systems and processes
- Integrate domestic tax database with other institutional databases
- Revise income and corporate tax rates

Most of the NDCs proposed tax measures are within the ambit of corporate/business taxation, especially tax incentives ‘to support businesses - revise corporate tax rates (p.22), reduce MSMEs tax rate from 25% to 15%.
On trade taxes, NDC proposes to exempt commercial vehicles and other equipment imported into the country for commercial, industrial and agricultural purposes from import duty (p.23).

Again, the party intends to introduce a Rural Investor Incentive (RII) to exempt rural investors employing more than fifty people from import duties on capital equipment imports (p.23).

The NDC plans to reverse the VAT to the old 17.5% (p.23), so qualified businesses can reclaim all VAT expenses, instead of the current 12.5% VAT and 5% straight line levies (NHIL & GETFUND).

Furthermore, the party plans to reduce ‘discretionary tax exemption’ (p.22), although the strategy to implement this is not disclosed.

The party intends to introduce a number of exemptions:

- special tax incentives for indigenous value chain industries (p.23).
- no corporate taxes up to one year for newly established medium-sized companies that employ up to twenty people (p.23).
- special tax incentives for Export-Oriented Industries (EOI) to stimulate exports (p.24).
- shipping industry special tax incentives to support Ghana’s objective of becoming a world-class cargo hub on the West African coast (p.24)
- real estate (p.24), tourism (p.54), sports (p.85), technology-led businesses (p.98) tax incentives
NDC plans to provide tax reliefs for working parents with special needs children to enable them pay for 24-hour care for the children while they are at work (p.73).
POLITICAL PARTIES TAX POSITIONS FOR ELECTION 2020

Introduction
Ghana has a National Development Planning Committee (NDPC) established by an Act of Parliament (Articles 86 and 87 of the 1992 Constitution) with the core mandate among others, to work with the president and other stakeholders to oversee long terms national development. However, over the years, the country’s development agenda has been shaped by a four-year political parties’ manifesto. The desire to win or retain power means that national development planning is usually short termed for political expediency.

Again, due to the short-term planning strategies, successive governments have invested little on promoting efficient and sustained domestic revenue mobilization (DRM). The country has mainly relied on external financing sources. Debt to GDP for 2019 was 63%. The overall public debt for the same period was GHC217,990.7 million. The debt to GDP ratio is anticipated to hit 76% by the end of 2020 according to the IMF as the public debt currently stands at GHC263bn\(^1\), although Moodys projects 70%\(^\text{ii}\).

Despite the high possibility of debt distress and growing public concern for a return to the IMF for a seventeenth bailout, the leading political parties keep making huge infrastructural, jobs and other development promises with no clear financing approaches for these projects after the 2020 elections.

Research has shown that developing countries like Ghana cannot fully into an industrialised or a ‘Western-like’ economies without and effective and efficient sustained domestic revenue mobilization strategy\(^\text{iii}\). Ghana’s tax to GDP stands at 13%, compared to the sub-Saharan Africa’s average of 17%. Therefore, without an
efficient DRM strategy, Ghana’s development will be hindered by expensive external financing sourcing.

This report aims at assessing the tax positions as per the official manifestos of the two leading political parties in Ghana (i.e. NDC and NPP) ahead of the 2020 presidential and parliamentary elections. Although references are made to previous tax policies, there is deliberate attempt to ignore previous tax positions, and rather concentrate on proposals put before electorates for the 2020 elections.

The report is divided into three sections – Section one assesses the various tax proposals in the NPP manifesto; section two evaluates that of the NDC, and finally, section three provides the recommendations (and alternative proposals) and conclusions.

1.0. General approach to taxation post 2020.
Rather than having a dedicated section to explain its tax position after the election, the NPP’s tax proposals are embedded in the various policy objectives which run through the manifesto document. For example, there are specific tax proposals embedded in the party’s approaches to improving DRM (p.153)\textsuperscript{iv}, solving the housing sector challenges (p.157-8); supporting business growth (p.178) etc.

The NPPs manifesto was very silent on direct taxes, which are usually seen as the best way to promoting equality and fairness in the system. For example, despite the global call for the strengthening or introduction of Wealth Taxation to help bridge the inequality gap and provide funding opportunity during and after the Covid-19 pandemic, the NPP did not have any direct policy position to taxing the rich individuals in Ghana. In addition, there is no policy proposal to adjust the tax band (to tax the higher earners more) or reduce the burden on those at the lower end of the bracket.

Overall, apart from proposal to ‘introduce a specific tax regime for Micro, Small and Medium Enterprises (MSMEs) with specialised, flexible provisions’ (p.178), there is no intention to introduce any new form of taxes.

1.1. Approach to increase DRM
The NPP recognised the need to raise more revenue domestically to finance Ghana’s development, and its position is anchored in three key pillars – (1) broadening the tax base, (2) simplifying the filing process, and (3) improving collection regime.
To improve DRM, the party stated ‘..consistent with our vision of building a Ghana Beyond Aid, we will leverage the growing formalisation of the economy to deepen and widen our ability to mobilise domestic revenues by continuing to broaden the tax base, simplifying the filing of taxes, and improving collection regimes’ (p.153).

Broadening the tax base is very important to ensure that all incomes, property, assets, consumption, transactions, or other economic activity subject to taxation by a tax authority are fully captured in the tax codes (laws). Increasing the tax base will promote fairness in the system, which will subsequently impact on compliance and finally improves DRM.

The proposal to introduce a simplified tax filing system is necessary and will have a positive impact on the tax revenue. One of the reasons for tax evasion is complexity of the tax system, especially the complying process. Cost and ease of payment which make up the tax compliance processes are important determinants of tax compliance, as many studies have identified these as key factors for the individual’s tax compliance decision making process’.

Improving the collection process is equally important due to problem of under collection and the high potential for tax revenue leakages in the country, although details of the proposed reforms is not provided.

1.2. Corporate/Business taxation
The manifesto suggests that the NPP does not intend to introduce any new taxes for the corporate community. However, there are proposals to ‘reform’ taxes paid by the Micro, Small, and Medium Enterprises (MSMEs) (p.157-8).
The party plans to ‘introduce regulatory flexibility for MSMEs to improve compliance post COVID-19’ by:

- introducing a specific tax regime for MSMEs with specialised, flexible provisions
- offering online tax filing and payment for MSMEs
- reducing the time required for VAT refunds, and
- Introducing a risk-based system to make tax audits more efficient.

(p.178)

Although the NPP is not specific about the type of regulatory changes for the MSMEs, however, it has recognised the need for a reform.

1.3. Trade Taxes
There is no specific policy proposal for trade taxes.

1.4. VAT
There is no specific policy proposal for Value Added Taxes.

1.5. Property taxes / Local Revenue
The NPP intends to support local revenue through property taxes. To achieve this, the party proposes to complete property valuation and digitisation of valuation rolls across the country by devolved offices of the Land Valuation Division of the Lands Commission in all MMDAs

The main challenge to effectively designing a property taxation systems in developing countries like is the lack of reliable data about properties and their owners, and poor and often inconsistent property valuation records.
1.6. Informal sector taxation
Although there is a proposal to amend and adopt more favourable tax regime for micro and small-scale enterprises (p.178), there are no specific tax policies for the informal sector operators, most of whom are not captured by these classifications.

1.7. Tax exemption
Despite the growing tax exemptions in the country, the NPPs position on tax exemptions ahead of the elections is very weak. Three specific references are made on tax exemptions, and they are to grant new ones for;

- prospecting and reconnaissance by mining companies (p.176);
- private developers to build more social housing and local manufacturers supporting the housing sector (p.158); and
- private contractors undertaking Government of Ghana funded projects (p.175).

The party makes no provisions for general policy reforms/laws amendments to deal with the growing tax exemptions issue, which the president, during the State of the Nation’s Address (SONA) on 21st February 2019 described as an ‘Achilles’ heel and a growing menace to fiscal stability and revenue generation vi.

The only reference made to promoting efficient tax exemptions regime is under ‘National Housing Programme’ where it intends to ‘provide targeted, project-based tax incentives (instead of blanket incentives) for private developers to build more social housing, as well as inner city redevelopment and revitalisation scheme’ (p.158).

Overall, except for the reason that there is a pending Tax Exemptions Amendment Bill, it is fair to state that the NPP has no policy or intention to reform the current tax exemptions regime.
1.8. Personal Tax Reliefs – Individual incentives for the working poor
There is no specific policy proposal for personal tax reliefs or tax incentives for the working poor.
SECTION TWO – NDC’S TAX POSITION FOR ELECTION 2020

Ahead of the 2020 elections, the NDC’s position on tax is to ‘institute a low tax regime (p.19) to make the whole tax system fair (p.22) by broadening the tax base whilst making the rates lower (p.22). The party’s proposed tax strategies are structured under its ‘macro-fiscal policy’ targets (section 6.1.1, p.21).

The NDC’s manifesto have no direct/specific proposal on direct taxes. There are several proposed approached to make Ghana a business-friendly country, especially for MSMEs (p.22-24), however, strategy to tax the rich, such as the introduction or the amendment of laws for Wealth-based Taxation, such as property taxes is not provided.

Although it is not explicit what the party will do in terms of reversing the regressive income tax regime in Ghana. However, the NDC intends to revise the income tax and corporate tax rates (p.22)

Overall, there is no specific policy proposal by the NDC to introduce any new taxes aside the ‘incentive-based’ proposed policies to support businesses (p.24, p.40, p.42, p54, and p.98)

2.1. Approach to increase DRM
The NDC’s approach to taxation is to ‘ensure a stable tax system that does not distort production decisions and the distribution of income’ (p.22). The Party intends to implement the following reforms with the view to ‘enhancing revenue mobilization whilst broadening the tax base and promoting business growth’ (p.22):

- Broaden the tax base while containing tax rates
• Reduce discretionary tax exemptions

• Improve tax collection

• Improve systems and processes including integration and interfacing of customs

• Integrate domestic tax database with other institutional databases

• Streamline GRA headquarters along functional lines

• Improve operations in domestic tax offices and customs’ entry points

• Revise income and corporate tax rates

Broadening the tax base is vital to ensure that qualified taxpayers and taxable activities are brought into the tax net. Also, by reducing discretionary tax exemptions, tax revenue would be increased.

Some of the challenges to effective DRM are poor collection systems, such as high human interface, low use of ICT, high compliance cost, weak auditing mechanisms, weak tax law enforcement etc. All these are evident in Ghana and to a large extent contribute to the poor DRM performance over the years. Improving tax collection process could thus help improve tax receipts.

Furthermore, improving systems such as integrating and interfacing of customs, and integrating domestic tax database with other institutional databases are useful proposals to help improve DRM.

The party proposes to revise both income and corporate tax rates. However, it is not clear what this really means in practice – is it to revise the rates up or down? Is it to increase tax-free threshold or to introduce additional tax rate for the high-
income earners? Although a reduction in the corporate tax rate may improve business cashflow it could potentially promote race to the bottom.

2.2. **Corporate/Business taxation**
Most of the NDCs proposed tax measures are within the ambit of corporate/business taxation, especially tax incentives ‘to support businesses. More specifically, the party intends to introduce a;

- revise corporate tax rates (p.22)
- reduce MSMEs tax rate from 25% to 15%
- special tax incentives for indigenous value chain industries (p.23).
- several tax incentives for the MSMEs to aid their recovery (p.23).
- no corporate taxes up to one year for newly established medium-sized companies that employ up to twenty people (p.23).
- special tax incentives for Export-Oriented Industries (EOI) to stimulate exports (p.24).
- shipping industry special tax incentives to support Ghana’s objective of becoming a world-class cargo hub on the West African coast (p.24)
- real estate tax incentives (p.24)
- tax incentives for thermal generators (p.42).
- tax incentives to boost the tourism industry (p.54)
- tax reliefs to promote sponsorship in sports (p.85).
• tax incentives for devices and technologies which digitize ways of doing business (p.98).

Although the impact of the covid-19 calls for more support for businesses to aid their recovery, it appears that the NDC position is that ‘tax cuts are the only way to support businesses’. Consideration should be given to other key areas such as research and development, grants and government backed loans.

2.3. Trade Taxes
NDC proposes to exempt commercial vehicles and other equipment imported into the country for commercial, industrial and agricultural purposes from import duty (p.23). In addition, under its proposed Rural Investor Incentive (RII) the NDC will exempt rural investors employing more than fifty people from import duties on capital equipment imports (p.23).

Furthermore, to boost renewable energy, the party proposes to provide tax exemptions for investment into the manufacture of solar panels and accessories by removing import duties on solar equipment and accessories (p.43).

In dealing with the covid-19, the party plans to waive import fees, provide tax waivers and guarantee credit to manufacturers to increase the production of Personal Protection Equipment (PPE) (p.67).

These measures are very commendable as they target local entities and mainly in critical areas such as Healthcare and Agric. If well implemented, they will have direct economic impact on the economy.

2.4. VAT
On Value Added Tax (VAT), the NDC plans to reverse the VAT to the old 17.5% (p.23), to allow for full input VAT claims by businesses instead of the current
system which allows businesses to claim only 12.5% with the remaining 5% (NHIL 2.5% and GETFUND 2.5%) being straight line levy and therefore not subject to the usual Input-Output computations. This according to the NDC increases business operating cost.

The party intends to restore the 2.5% transfer into the Ghana Infrastructure Investment Fund (GIIF) (p.25).

In addition, the NDC proposes to exclude the NHIL from all VAT exemptions (p.66). This is to ensure more revenue to the health sector. Considering the financing challenges in the health sector for the last few years, this is a good initiative to ensure a sustained inflow to support the sector.

2.5. Property taxes / Local Revenue
There is no specific policy proposal or position on property taxation by the NDC.

On local revenue mobilization, the party intends to enhance accountability of local assemblies to the people by instituting monthly local revenue reports (p.40); encouraging chiefs in mining areas to take active interest in community mining for improved local revenue (p.59).

2.6. Informal sector taxation
The manifesto is a bit silent on taxation of the informal sector. There is no specific strategy to taxing the sector. However, the party intends to formalise the informal sector with the view to improving the sector’s tax contributions (p.40).

2.7. Tax exemption
On the growing tax exemption in the country, the party plans to reduce ‘discretionary tax exemption’ (p.22), although the strategy to implement this is not disclosed. Despite the proposal to reduce discretionary tax exemptions, the party
has proposed over ten different types of statutory business incentives. A detailed cost benefit analysis must be undertaken to ascertain the true value (gain-losses) of such reliefs and exemptions.

2.8. Personal Tax Reliefs – *Individual incentives for the working poor*
There is no specific tax policy proposal for the working poor, however, the NDC plans to provide tax reliefs for working parents with special needs children to enable them pay for 24-hour care for the children while they are at work (p.73).
SECTION THREE – RECOMMENDATIONS & CONCLUSION

3.0 Recommendations
The impact of the covid-19 has pushed many people to online business activities including mainstream entities which have set up subsidiaries online. Although the NPP manifesto did not state the segment of the economy, incomes types, assets etc. which will be affected by this proposed base expansion, e-commerce activities may be given the needed attention for an improved DRM. GRA records show that there are over 6 million qualified taxpayers in the country, however, only 1.5 million comply\textsuperscript{vii}. As a complementary strategy, there should be direct policy choice to widen the tax net, particularly the informal sector.

The proposal by the NDC to reduce the tax rate and make it fair is a good initiative as Ghana has one of the expensive tax rates. It’s believed that a low tax rate will improve voluntary compliance as evasion will be less profitable. However, with low tax compliance rate in the country (as explained above), a reduced tax rate will reduce tax revenue. Therefore, the reduction in the tax rate must be aligned with a strategy to rope in more taxpayers.

3.1 MSMEs tax reform
Both parties recognize the need to reform the MSMEs tax regime. Considering the contribution of the sector (making up 92% of businesses in Ghana) and the impact of the Covid-19, it is vital that ensure that for recovery and business sustainability, a deliberate policy measure including tax incentives are instituted to support the sector.
Again, over the years a number of organizations have proposed reforming the tax regime of the MSMEs, for example the Private Enterprises Federation (PEF) with the support of The Open Society Initiative for West Africa (OSIWA) after two years study of the sector have proposed a ‘tiered tax system’viii. Evidence has shown that reforming the sector can improve compliance and subsequently revenue. Seychelles adopted a Gross Turnover Tax (GTT) for MSME operators making SCR 1 million ($73,000) per annum or less in 2013, and the country has witnessed a high improvement in both compliance and tax revenue.

3.2 Tax Exemptions

According to the Ghana Revenue Authority, the country’s average tax expenditure for the period 2008 to 2015 is estimated to be 2.01% of GDP, (1.68%, 1.82% and 1.98% for 2013, 2014 and 2015, respectively). The amount lost to tax exemptions and concessions in 2014 amounted to GHS3.2 billion, which is higher than the outlay on primary education in 2014 (GHS3.03 billion).

Besides, in 2018 government had to essentially borrow funds at very high non-concessional terms to finance the fiscal deficit of 4.5% of GDP, which could theoretically be reduced to 2.5 percent if no exemptions were granted, saving the country the resultant high borrowing cost of financing the budget deficits which continue to constrain fiscal space. In practice, more tact is required in weighing the trade-offs and harnessing the benefits associated with having lower exemptions and fiscal deficits.

In view of the persistent revenue underperformance over the past few years, a fundamental tax reform that aims at eliminating the most wasteful tax exemptions should become a government priority. A proper analysis and reporting of tax
exemptions in the country is required to assist policymakers in addressing economic and social policy objectives.

3.3 Informal Sector
Studies by the Ghana Statistical services indicates that ‘90% of the employed population of 15 years and older are in the informal sector, with males constituting 45.1% and females, 54.9%’. In echoing this finding, during the launch of the Coronavirus Alleviation Program (CAP) business support, the Finance Minister, Ken Ofori Atta stated that Ghana’s ‘...economy thrives on the informal sector, which employs approximately 89% of the total workforce’. It is obvious that the sector that must be critically looked at is the informal sector.

Whilst both companies emphasized heavily on business taxation and proposing incentives to stimulate business, there was little attempt support poor working people through the tax system. The NPP, for example had no direct proposals on tax reliefs for the poor.

3.1 Conclusion
Overall, both parties have good sets of tax policies for the economy. However, in terms in revenue mobilization the parties have very weak proposals. Whilst there are several calls to pass the tax exemptions bill currently before parliament, there is no political will from both sides to address the continuous revenue losses due to these tax freebies. Instead, both and more specifically the NDC are proposing more tax reliefs and exemptions which will directly impact on the country’s domestic revenue mobilization efforts. On this basis, the business tax positions of both parties do not reflect economic realities of the country. A detailed assessment of the current DRM challenges must be undertaken by both parties to appreciate the danger the country currently faces as both the IMF and the World Bank have
described the country as nearing a debt distress situation. This will have adverse implication on the broader financing including high interest on borrowing and limiting access to the international capital market.

To improve DRM, the time is right for the winner of the upcoming elections to consider hard tax reforms. For example, effective implementation of Wealth based taxation such as taxes property taxes and High Net Worth Individual (HNWIs) taxes. Although not so common within developing countries, such taxes (HNWIs) help bridge the inequality gap and could provide vital resource to help with the growing debt situation due to poor DRM.

Another neglected area which needs attention is ecommerce taxation. The covid-19 pandemic has moved most businesses to trade online. The GRA must engage relevant government agencies such the National Communications Authority (NCA) to track such activities and assess ways of bringing them into the tax net.
References


iv These references represent page numbers within the Manifestos.


