Ghana 2019 budget commentary and tax highlights

November 2018

Ghana's Minister of Finance, Hon. Ken Ofori-Atta, presented the 2019 budget statement and economic policy to Parliament on Thursday 15 November, 2018. The 2019 budget statement and economic policy is under the theme "A Stronger Economy for Jobs and Prosperity". Accordingly, the budget is centered on accelerating government's programme of growing the economy, protecting the vulnerable, and creating jobs and prosperity for the Ghanaian people over the next financial year.

The budget statement also includes a number of tax policy proposals focused on enhancing domestic revenue mobilization. Where legislative enactments are required, the proposals are expected to be submitted to Parliament for approval and subsequent amendment/enactment of legislations to make them effective.

In this publication, we provide commentary on the key policy initiatives for 2019 and highlights of the main tax proposals in the budget statement and economic policy.

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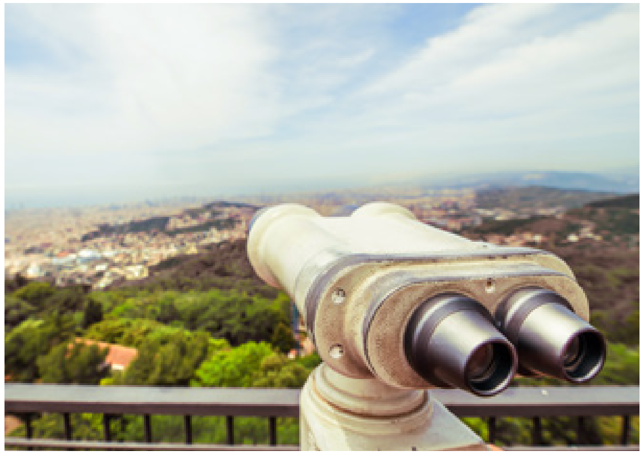

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With growth in government revenue and propelled productivity for local industries being key considerations for the 2019 budget, government has proposed a number of tax policies.

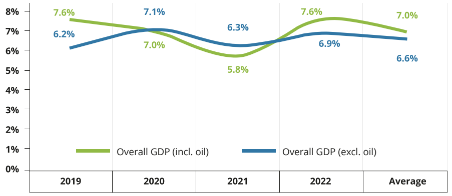
Budget at a Glance

Economic Growth

GDP growth

- IMF's forecast for global GDP growth in 2019 is expected to remain at 3.7%.
- Overall GDP for Ghana is projected to grow by 7.6% in 2019, up from 5.6% in 2018.
- Non oil GDP growth is estimated at 6.2% in 2019.

GDP growth forecast (2019 - 2022)



Source: 2019 Budget Statement and Economic policy

Inflation targets

End of period inflation

Sept. 2018 **9.8%**

2019 Target **8.0%**

Inflation expected to remain in single digit and decline further to 8.0% in 2019.

Exchange rate

Exchange rate development - end of october

Exchange rate development - end of October

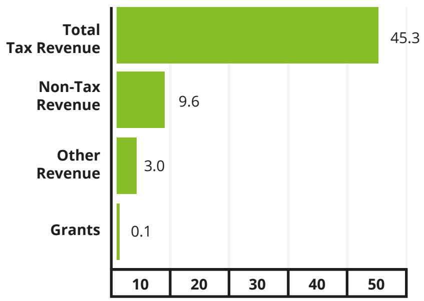
Description	2018	2017
Cedi/dollar depreciation	7.6%	4.4%
Cedi/pound depreciation	4.0%	11.9%
Cedi/euro depreciation	4.4%	14.6%

Source: 2019 Budget Statement and Economic policy

Revenue Trends

Revenue outlook for 2019

Projected domestic revenue for 2019 (GHS billions)



Source: 2019 Budget Statement and Economic policy

Full year domestic revenue collection is projected GHS 57.79 billion, representing an annual growth of 25.5% over the projected outturn for 2018 driven mainly by tax revenue.

Budget deficit

- The current account deficit of GHS 9 billion is expected to remain low on the back of continued fiscal consolidation and improved revenue prospects from increased oil and gas production.
- The current deficit is projected to end 2018 at 3.2% of GDP and further decline to 3.1% of GDP in 2019 before decreasing further to 2.9% of GDP by 2020

2018 **3.2%**

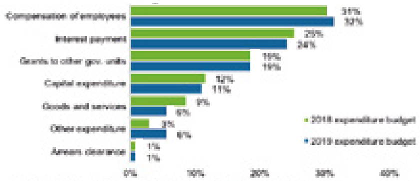
2019 **3.1%**

2020 **2.9%**

Expenditure Trends

Expenditure projections

Summary of government's expenditure 2018 and 2019 budget



Source: 2019 Budget Statement and Economic policy

Summary of Central Government Fiscal Operations (2018 - 2022)

GHS' Million	2018	2019	2020	2021	2022
	Projected Outturn	Budget	Medium-Term		
Total revenue and grants & of rebased GDP	46,813 15.7%	58,905 17.1%	67,818 17.1%	74,746 16.6%	79,405 15.2%
Total expenditure % of rebased GDP	57,828 19.4%	73,441 21.3%	82,365 20.8%	89,263 19.8%	95,368 18.3%
Non-interest expenditure % of rebased GDP	42,910 14.4%	66,347 16.8%	67,818 17.1%	71,264 15.8%	76,550 14.7%
Budget Balance % of rebased GDP	(11,015) (3.7%)	(14,536) (4.2%)	(14,547) (3.7%)	(14,522) (3.2%)	(15,963) (3.1%)

Source: 2019 Budget Statement and Economic policy

- The largest components of the projected expenditure are compensation of employees, interest payments and grants to other government agencies (subventions)
- Interest payments are projected to inch up to GHS 18.6 billion or 25% of total revenue projected for 2019. Interest payments exceeds capital expenditure and goods and services.
- Government has outlined four initiatives which could potentially drive expenditure towards a wider budget deficit. These are summarized below

Top 4 initiatives with likely significant impact on expenditure

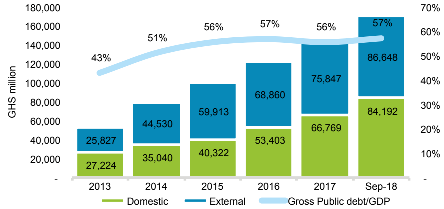
GHS Million	
Free SHS	1,683
Infrastructure for Poverty Eradication Programme	1,320
National Builders Corp	850
Planting for Foods and Jobs	380
Total	**4,233**

Source: 2019 Budget Statement and Economic policy

Public Debt

Trends in public debt and debt accumulation

Trends in public debt and debt accumulation



Source: 2019 Budget Statement and Economic policy

Debt to GDP (2013-2018)

New GDP Series	2013	2014	2015	2016	2017	September 2018
Old GDP Series						
Gross external debt/GDP	27.7%	39.3%	43.8%	41.2%	36.8%	35.9%
Gross Domestic debt/GDP	29.1%	30.9%	29.4%	31.9%	32.4%	34.8%
Gross Public/GDP	56.8%	70.2%	73.2%	73.1%	69.3%	70.7%
New GDP Series						
Gross external debt/GDP	20.9%	28.7%	33.2%	32.0%	29.6%	29.0%
Gross Domestic debt/GDP	22.0%	22.5%	22.4%	24.8%	26.0%	28.2%
Gross Public/GDP	42.9%	51.2%	55.6%	56.9%	55.6%	57.2%

Source: 2019 Budget Statement and Economic policy

Public Debt

2018 **19.8%**

Overall public debt grew by 19.8% in 2018 mainly as a result of the government's bailout of the seven local banks (at about GHS 9.9billion).

Highlights of key tax policy proposals

1. Review of personal income tax band to reduce top marginal tax from 35% on monthly taxable income above GHS10,000 to 30% on monthly taxable income exceeding GHS20,000.

2. Extension of tax stamp policy to include the textile industry to curb smuggling and counterfeiting within the industry.

3. Shift point of withholding tax on income from small scale mining to point of export of minerals.

4. Supply of locally made textiles to be subject to VAT at a rate of zero percent for a period of three years.

5. Creation of special dispensation for companies who commit additional funds to support government initiatives – corporate tax deductions can be made for such contributions to reduce taxable income of the companies.

6. Strict enforcement of the use Tax Identification Numbers (TIN) and application of sanctions against institutions and individuals that flout implementation.

7. Enhance valuation of real properties and collection of property taxes.

8. Intensify tax compliance measures such as audits and prosecution of tax defaulters.

Economy and Sectoral Outlook for 2019

Banking, capital markets and insurance

Education

Energy

Health

Banking, capital markets and insurance

Banking

The Government announced additional policies to improve and sanitise the banking sector.

- The completion of the implementation of the Basel II/III supervisory framework.
- The revision of the risk-based supervisory framework for bank examination on risk issues.
- Constituting the Ghana Deposit Protection Scheme in 2019.

The implementation of the supervisory framework for Basel II/III (Capital Requirement Directive), will strengthen banks' risk management practices by ensuring that banks only assume risks that are proportionate to their capital.

The Ghana Deposit Protection Scheme would ensure that depositors' funds are safe by providing an additional layer of protection in addition to the Central Bank's oversight.

Capital markets

- The Government of Ghana intends to develop a 10-year Capital Market Master Plan.
- SEC has finalised works on the Real Estate Investment Trust (REIT) guidelines to be implemented in 2019.

The profile of Ghana's capital market has improved significantly over the last few years. In the debt capital markets, secondary market activity have picked up, with strong participation of off-shore fixed income funds. Government issuances and a strong emerging appetite for corporate bonds will continue to drive market activity. The fast growing pensions sector provides a strong captive demand for fixed income securities, and also provides liquidity for secondary market activity.

In the equities market, the listing of MTN has improved overall market outlook. However, challenges over liquidity of the stock market remains unchanged. The proposed Capital Market Master Plan must endeavor to provide incentives for companies especially multinationals and players in specific industries such as banking and insurance to list on the market.

Pension

- The National Pensions Regulatory Authority (NPRA) projected total pension assets will increase to GHS25 billion by end of 2018 and GHS 34 billion in 2019.
- To reach these targets, NPRA intends to build internal capacity in the industry through training, automation of their operations and the adoption of a risk-based supervision framework.

Total pension assets are projected to exceed GHS 25 billion by the end of 2018. Pension funds are increasingly becoming a major source of funded liquidity to the banking sector and the fast growing fixed income market. As the total assets grow, there is the need for improved regulatory oversight in order to guard against potential risk taking by fund managers.

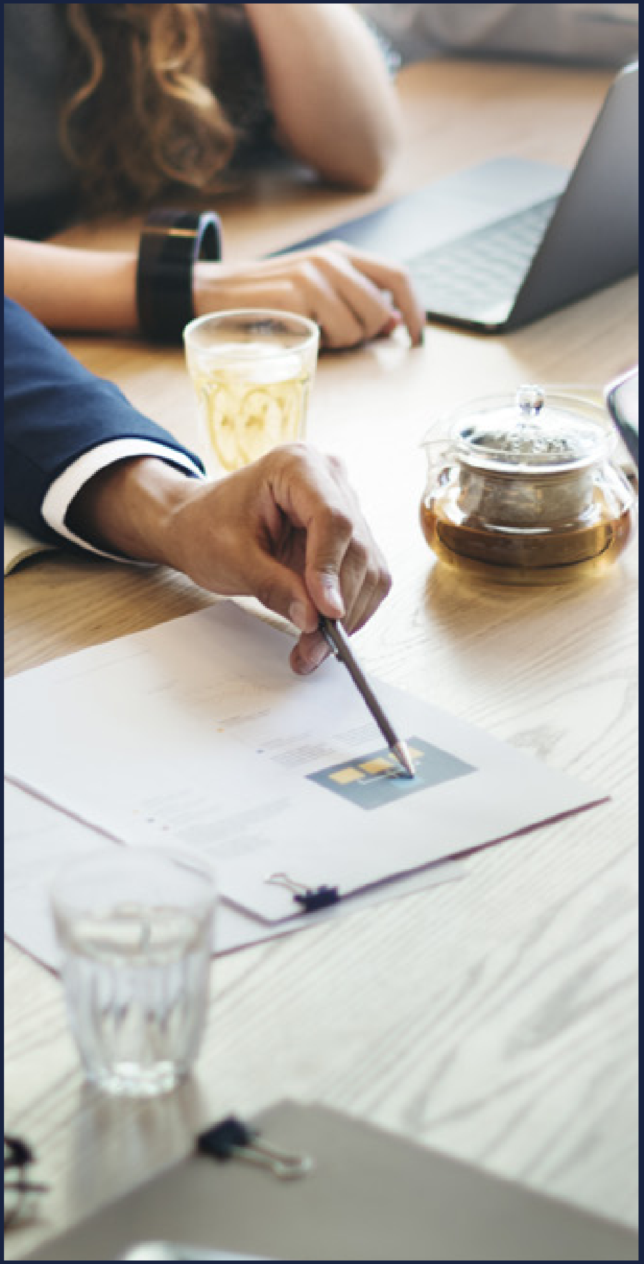
Insurance

- The National Insurance Commission (NIC) will implement the Electronic Motor Insurance Database (EMID).
- NIC will also introduce new minimum capital requirements for the industry.

The new minimum capital requirements will strengthen the insurance industry and position insurance companies to assume 'big-ticket' risks. There is the need to give consideration to the timing of the announcement and the time-frame within which insurance companies will be required to meet the new capital requirement.

EMID will enable the Police have access and confirm the authenticity of motor insurance policies. It will also ensure that all vehicles plying the roads are appropriately insured.

These policies could have positive impacts on the industry.



Education

1. The Government announced plans to continue the Free SHS Policy and the double track educational system in 2019. Total of GHS 1.68 billion has been budgeted for the programme.

Successful implementation of the Free SHS programme will be heavily dependent on availability of infrastructure. The double track-system will most likely only address the challenges of infrastructure in the short-term. The cost of the programme could also double by 2020 when the next stream of students enroll.

2. The Government announced its commitment to establish the University of Environment and Sustainable Development as a centre of excellence in Agriculture and Engineering.

Infrastructural capacity of the existing universities should also be pursued alongside the desire to build new universities. Government should consider resourcing Agriculture and Engineering faculties in the existing universities that lack basic infrastructure.

3. The budget emphasised the Ministry of Education's intention to provide continuous professional training to all licensed teachers in 2019.

This initiative is should be designed to cure gaps identified from the licensure examination for teachers across the country.

4. In 2019, the Government intends to put together the necessary regulatory bill with stakeholder consultations, for the National Institute of Communication and Media Arts.

Processes have also commenced to merge Ghana Institute of Languages, National Film and Television Institute (NAFTI) and the Ghana Institute of Journalism (GIJ) into National Institute of Communication and Media Arts. There is the need for continuous engagement with relevant stakeholders and for the incorporation of technologies such as artificial intelligence and blue screen technology which are enhancing creativity and helping to drive down costs.

5. Government commenced the construction of 20 state-of-the-art Technical, Vocational Education and Training (TVET) as well as upgrading of 34 Vocational Training Institutes.

This initiative is essential in repositioning technical and vocational training as an equal alternative to secondary education. If successfully implemented, government could reduce the placement challenges that have characterized the commencement of the Free SHS programme.

6. Roll out of the Basic Science, Technology, Engineering and Mathematics (STEM) Centres

This programme should be implemented together with strengthening existing initiatives such as the retooling of existing science resources centres. STEM education will help our students to become innovative adults with critical thinking and problem solving skills which are needed in an increasingly technological driven world.

Energy

Power generation and distribution

- Installation works of the 340MW CenPower Project have been completed while the installation works on the 147MW Early Power Project is at 40% of completion.

- The Ministry of Energy is also facilitating the relocation of the 450MW Karpowership from Tema to Sekondi to utilise the gas produced from the Sankofa Fields.

- Works on transmission lines by Ghana Grid Company are far advanced.
  - Aboadze-Prestea 330kV Transmission Line (which is 98% complete)
  - The Prestea-Kumasi 330kV Transmission Line
  - The Kumasi-Bolgatanga 330kV Transmission Line.

- In 2019, GRIDCo will initiate the implementation of the following projects:
  - 161kV Aboadze-Takoradi line upgrade project;
  - 161kV Takoradi-Tarkwa-New Tarkwa-Preatea line upgrade project; and
  - 330kV A4BSP (Pokuase) - Nkawkaw-Anwoma so line project.

Power sector developments

- 122 out of the targeted 1,796 communities were connected to the national grid, increasing the national electricity access rate to 84.3%. 1,250 communities are expected to be connected in 2019.

- The 225kV Bolgatanga-Ouagadougou Inter connection project, which is a component of the West African Power Pool (WAPP) Inter-zonal Transmission Hub Project, was completed and inaugurated by the Presidents of Ghana and Burkina Faso. This is currently allowing the export of 70MW power from Ghana to Burkina Faso.

The CenPower project which has been in development since 2012 is a significant addition to the generation capacity. The relocation of the Karpower barge is highly strategic, and could create a demand for up to 90 million standard cubic feet per day (mmscfd) from the West African Gas Pipeline Company for the plant.

Renewable and alternative energy development programme.

As part of the Government's strategy to increase renewable energy technologies, 24,770 solar lanterns were sold at subsidized rates to rural households. An additional 100,000 lanterns are expected to be distributed in 2019, promoted by the general reduction in demand for kerosene as a source of light in rural areas.

The Solar Rooftop Programme was also initiated and extended this year to most public institutions to reduce utility expenses. Contracts for the installation of the 65kW solar rooftop systems were awarded by the Ministry of Energy.

In pursuit of the green initiatives in 2019, the Ministry of Energy will introduce tax free solutions for Full Electrical Vehicles in order to promote a technology shift from fossil fuel-based vehicles. Fossil fuel is the main source of local air pollution, which poses significant health challenges to our people.

The largest housing estate project in West Africa is currently being constructed at the Dawhenya irrigation site. This greenhouse project currently includes 75 green houses; however, an additional 100 green houses will be added in 2019.

The tax-free and alternative energy development program will serve as a strategic tool to encourage more Ghanaians to use sustainable and renewable energy. Renewable energy will provide access to modern, reliable and affordable energy services. It will also reduce energy related externalities such as greenhouse gas emissions and local pollution. However, the use of Electric vehicles will only be feasible if infrastructure challenges such as the availability of electric charging stations are adequately addressed.

Health

Ghana's health sector has seen significant investments in the last couple of years. Several new hospitals have been built over the last five years – including the 650 bed University of Ghana Medical Centre.

Regardless, hospital bed to population ratio remains very low at 0.9 bed per every 1,000 people as a result of histori-cal under investment in healthcare infrastructure in the last three decades.

The proposed new hospital projects are essential to improving overall access to healthcare and healthcare delivery.

However, there is the need for govern-ment policy to also focus on retooling and rehabilitating existing healthcare infra-structure, as well as enhancing the human resource capacity for healthcare delivery in the country.

1 Ministry of Health's strategy to achieve high-quality care at a lower cost in 2019 includes completing four district hospitals at Twifo Praso, Tepa, Konongo and Salaga as well as one regional hospital at Sewua. In 2019, the construction of seven district hospitals and provision of an integrated IT system will kick-off at Dodowa, Sekondi, Formena, Garu Tempani, Kumawu, Abetifi and Takoradi European Hospital.

2 In 2019, the following projects will contin-ue: completion and equipping of Bekwai district hospital; four district hospital projects at Sawla, Tolon, Somanya, Buipe and a polyclinic at Bamboi; construction of Axim hospital; and rehabilitation of Effia-Nkwanta emergency. The Parliament has also granted a USD50m loan for the completion of University of Ghana Medical Center Phase II.

3 The conversion of Ho Regional Hospital to Teaching Hospital is in progress whereas the process of upgrading the Hohoe Municipal Hospital to a Regional Hospital will commence in 2019.

4 The construction of 15 Community-based Health Planning and Services (CHPS): Greater Accra Region – two CHPS; Brong-Ahafo Region – five; Ashanti Region – two; Eastern Region – three; and Western Region - three.

5 The construction of one district hospital and five Polyclinics will continue in Akon-tombra, Bogoso, Wassa Dunkwa, Mpoho, Elubo and Nsuaem in the Western Region. There will also be an expansion and equipping of facilities at Aburi, Kyebi, Atibie and Mampong.

Tax Policy Proposals

Review of personal income tax band

Extension of tax stamp to textiles

VAT zero-rating of locally made textiles

Withholding tax on small scale miners at point of export

Tax exemptions policy review

Intensified tax compliance measures

Review of personal income tax band

Government in 2018 reviewed the top personal income tax rate and band from 25% on monthly taxable income exceeding GHS3,241 to 35% on monthly taxable income exceeding GHS10,000.

The Minister has proposed that government will review the band to make the top marginal tax rate of 30% on monthly taxable income exceeding GHS20,000. The Minister further proposed that the tax-free income tax band will be reviewed upward to peg it to the new monthly minimum wage.

The proposed review of the personal income tax band is expected to provide relief to employees and all taxable individuals who had additional personal tax liability since the introduction of the **35% tax on income exceeding the GHS10,000.**

Also, the current tax-free tax band of GHS261 per month is expected to be **reviewed upward to GHS288 using the new daily minimum wage of GHS 10.65** to take effect from January 2019. The effect of these reviews will, all other things being equal, be an increase in the net income of employees and other taxable individuals particularly those with taxable income exceeding GHS10,000 per month.

Extension of tax stamp to textiles

The Minister announced that the tax stamp policy would be extended to include the textile industry as part of Government's efforts to address the smuggling and counterfeiting menace facing the textile industry.

One of the key objectives of the tax stamp policy is to check illicit trading, smuggling and counterfeiting of excisable products. The policy currently applies on tobacco products, alcoholic and non-alcoholic beverages and bottled water. Despite initial hitches in implementation earlier in the year, the policy has now been fully implemented with all importers and producers of excisable products expected to affix tax stamps on all products released into the market.

If the extension to textiles is successfully implemented, the tax stamp policy would contribute to protecting the local textile industry from cheap counterfeit textile imports as well as providing assurance for government excise revenue from imported textile products.

VAT zero-rating of locally made textiles

The Minister also indicated that Government intends to make the supply of locally produced textiles subject to VAT at zero rate for a period of three years.

Zero-rated supplies are goods and/or services subject to VAT at a rate of 0%. The effect of making the locally produced textiles zero-rated for VAT would be a reduction in prices to final consumers whiles also allowing the manufacturers to fully recover input VAT incurred in producing the textiles.

This proposal together with the tax stamp policy will form part of government's efforts to curb the well documented struggles of the once vibrant textile industry in Ghana. This should also give local producers a tax leverage to compete with cheaper often counterfeited alternatives threating the industry's survival.

Withholding tax on small scale miners at point of export

The Minister proposed that, as part of Government's efforts to enhance revenue mobilization and simplify the collection of withholding taxes from small scale mining operators, the point of collection of withholding taxes on income of small-scale miners will be shifted to the point of export.

Currently, payments by a resident entity to a small scale operator for unprocessed precious minerals won in Ghana is subject to 3% withholding tax.

This withholding tax was introduced in 2016 when the rate of withholding was 10% and later reduced to 3% in the same year.

Due to the several informal set-ups within the small scale mining sector, government may be feeling that it is not raking in the expected revenue. Thus, shifting the point of withholding tax to the point of export of the unprocessed minerals is likely to be a mechanism to capture as much revenue as possible from the sector as the majority of the minerals won in Ghana is ultimately exported unprocessed. It is however yet to be known whether the withholding tax rate will remain at 3% or would be varied under this new scheme.

Tax exemptions policy review

The Minister mentioned that the Government has completed a draft policy on tax exemptions to be presented to the Parliament for passage into law.

Review of Ghana's tax exemption regime has been a regular feature of Government's budget statements for at least the past 5 years as the percentage of tax revenue to GDP represented by exemptions continue to rise. In March, 2017 for instance, government issued a directive to change the mechanism for exemption for import duties from upfront exemption to a "pay-and-apply-for-refund" regime which was later reversed in the same year.

This year's proposal will mark the first time in the past couple of years that the Government will be seeking to legislate its policy on reviewing the exemption regime. The full details of how the review is to be implemented is still not clear but it remains to be seen how the legislation will seek to tackle exemption regimes with fiscal stabilisation for a period. Ultimately however, legislation of government's intended review around exemption regimes will provide more clarity and certainty to investors going forward.

Intensified tax compliance measures

The Minister also hinted that the government will intensify tax compliance measures, including the prosecution of tax defaulters in the coming year.

We see this as a continuation of an array of tax compliance measures already underway within 2018 including use of third party consultants for tax audits, specialized tax audits of free zone enterprises, and transfer pricing audits.

As hinted by the Minister, the GRA is looking to leverage third party data from other government regulatory agencies such as the National Identification Authority, Driver and Vehicle Licensing Authority, the Lands Registry, Social Security and National Insurance Trust, among others to corroborate information disclosed in tax returns filed. Also, we expect that the fiscal electronic device which could not be implemented in 2018 would be implemented in 2019 to track VAT sales and purchases on real time.

It is therefore imperative that taxpayers take proactive steps to assess their risks and remain compliant to tax obligations to minimize exposures to tax audit penalties and interests.

Contacts

Charles Larbi-Odam
Country Managing Executive
Deloitte Ghana
clarbi-odam@deloitte.com.gh
+233 202 519 894

George Ankomah
Partner, Deloitte Ghana
Tax & Regulatory
gankomah@deloitte.com.gh
+233 501 320 895

Ellen Fayorsey
Partner, Deloitte Ghana
Financial Advisory
efayorsey@deloitte.com.gh
+233 501 320 900

Deloitte.

www2.deloitte.com/gh   Deloitte Ghana