GHANA REVENUE AUTHORITY

Practice Note on

Capital Allowance under the Income Tax Act, 2015 (ACT 896)

Practice Note Number: **DT / 2016 / 010**

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1.0 TAX LAW

The Commissioner-General is empowered under paragraph 2 of the Seventh Schedule of the Income Tax Act 2015, Act 896 to issue Practice Notes setting out the interpretations placed on provisions of Act 896 by the Commissioner- General. Accordingly this Practice Note is issued in respect of capital allowance for depreciable assets under section 14 of the Act and calculated in accordance with provisions specified in the Third Schedule.

2.0 INTERPRETATION

In this Practice Note the word "Act" means the Income Tax Act, 2015 (Act 896).
Definitions and expressions used in this Practice Note have the same meaning as they have in the Act.

3.0 THE PURPOSE OF THIS PRACTICE NOTE

The purpose of this Practice Note is to give clarity and provide guidance to officers of the Ghana Revenue Authority, Tax Practitioners, Consultants, Taxpayers and the general publicon the provisions that deal with Capital Allowance under the Third Schedule of the Act, in order to ensure consistency in its implementation.

4.0 APPLICATION OF THE LAW

4.1 Capital Allowance (CA)

This is a standardised deductible allowance in place of Financial Accounting depreciation. It is granted in respect of depreciable assets owned and used in the production of income of a person from business.

It is calculated in accordance with the provisions specified in the Third Schedule of the Act.

4.2 Definition of the term Depreciable Assets

"Depreciable asset" means an asset to the extent to which it is used in the production of income from a business and which is likely to lose value because of wear and tear, obsolescence or the passage of time; and

Depreciable assets do not include goodwill and interest in land, a membership interest in an entity and trading stock. This means that Capital Allowance shall not be granted on cost incurred in acquiring goodwill and interest in land.

4.3 Base Rules for granting of Capital Allowance

1. Capital Allowance is granted on Depreciable Assets.
2. The Depreciable Assets must be owned by the person.
3. The Depreciable Assets must be used in carrying on the business of the person during the relevant basis period.
4. The Depreciable Assets must be owned at the end of a basis period of the person <u>ending within the year of assessment.</u>
5. Capital Allowance granted in respect of a particular year of assessment shall not be deferred by a person entitled to that Capital Allowance as provided in section 14 (3) of the Act.

This means that capital allowance granted should be treated like any other expense deductible against Income by actually deducting the entire capital allowance amount from the assessable income in arriving at the chargeable income of that person for the relevant year of assessment.

4.4 How the pooling system works

(i) Description of the Pooling System:-

(ii) Depreciable assets of the same class are put together for the purpose of capital allowance.

(iii) The identity of the asset is lost the moment it is placed in the pool.

(iv) Assets are placed in their respective pool(s).

(v) Class 1-3 depreciable assets follow the pooling system

(vi) Class 4 and 5 depreciable assets are placed in a pool of their own, separately from other assets of that class or any other class

(vii) Only that part of the assets which is used in the production of the income shall be placed in the pool.

4.5 4.5 Classification and pooling of depreciable assets and the applicable tax rates

<u>CLASSIFICATION OF DEPRECIABLE ASSETS</u>

Depreciable assets are classified as follows:

CLASS	DEPRECIABLE ASSETS	RATE
1	Computers and data handling equipment together with peripheral devices.	40 percent
2	(i) Automobiles, buses and minibuses, goods vehicles; construction and earth-moving equipment, heavy general purpose or specialised trucks, trailers and trailer-mounted containers; plant and machinery used in manufacturing. (ii) Assets resulting from expenses incurred by a person in the production of income of that person; a) in respect of planting vegetation from which timber, rubber, oil palm or other crops are derived; and b) where the business is a timber concern or a large scale rubber, oil palm or other long term crop plantation. (Note: such expense shall be treated as if the expense was incurred in securing the acquisition of a depreciable asset used by the person in the production of income).	30 percent
3	Railroad cars, locomotives and equipment; vessels, barges, tugs and similar water transportation equipment; aircraft; specialised public utility plant, equipment and machinery; office furniture, fixtures and equipment; any depreciable asset not included in another class.	20 percent
4	Buildings, structures and similar works of a permanent nature	10 percent
5	Intangible assets	1 divided by the useful life of the asset in the pool

(1) A Class 1, 2 or 3 depreciable asset owned and used by a person during a year of assessment in the production of income from a particular business shall, at the time the asset is first owned and used by that person, be placed in a pool with all other assets of the same Class owned and used by that person in the business.

(2) A Class 4 or 5 depreciable asset owned and used by a person during a year of assessment in the production of income from a particular business shall, at the time the asset is owned and used by the person, be placed in a pool of its **own separately** from other assets of that Class or any other Class.

(3) Where a depreciable asset owned by a person is partly used in the production of income from a business, only that part of the asset which is used in the production of the income shall be placed in the pool of depreciable assets and capital allowance granted thereon. The portion of the cost of a depreciable asset not used for business is not included in the pool. Capital allowance is therefore not granted on that portion of the cost of that depreciable asset.

4.6 Depreciation basis of a pool of depreciable assets

(1) The depreciation basis of a pool of depreciable assets at the end of a basis period in respect of a Class 1, 2 or 3 asset is:

(i) The depreciation basis of the pool at the end of the previous basis period (after deducting depreciation for that previous basis period);

(ii) *Plus* additions to the cost of assets in or added to that pool

(iii) *Minus* consideration received for the assets in that pool or that has been in the pool during the basis period

(Note: The depreciation basis after deducting the consideration received must not be less than zero. Refer also to item 4.8 below)

(2) The depreciation basis of a pool of depreciable assets at the end of a basis period in respect of a Class 4 or 5 assets is:

(i) The depreciation basis of the pool at the end of the previous basis period after deducting depreciation for that previous basis period;

(ii) Plus additions to the cost of assets in or added to that pool

(iii) Minus consideration received for the assets in that pool during the basis period

(Note: The depreciation basis after deducting the consideration received must not be less than zero. Refer also to item 4.8 below)

(3) Where, only part of an asset is placed in a pool of depreciable assets because the asset is not entirely used in business, the Commissioner General shall apportion the cost of that asset and the consideration received for that asset according to the market value of the part of the asset which has been included in the pool and the part which is not placed in the pool.

(4) In granting Capital Allowance on depreciable assets with respect to a road vehicle other than a commercial vehicle, the cost to be placed in the pool of depreciable asset shall not exceed seventy-five thousand Cedis in respect of a single road vehicle.

(5) "Commercial vehicle" means

(a) a road vehicle designed to carry a load of more than half a ton or more than thirteen passengers; or

(b) a vehicle used in a transportation or a vehicle rental business.

Examples of non- commercial vehicles include:

Sports Utility Vehicles (SUVs) and the following brands – Landcruisers, Nissan Patrol, Prados, etc.

4.7 Depreciation Allowance

Description of Depreciation Allowance

This is an allowance granted to a person for using depreciable assets in the production of the income of the person during the person's basis period ending in a year of assessment.

Method of Calculating Depreciation Allowance

Depreciation for the year of assessment for each pool of depreciable asset is computed as follows:

(i) Classes 1-3 pool is calculated using the **Reducing Balance method**.

(ii) Classes 4 & 5 pool is calculated using the **Straight line method**.

Depreciation Allowance is calculated using the formula:

A x B x C/365 where

A –is the depreciation basis of the pool of depreciable asset at the end of the basis period.

B –is the depreciation rate applicable to the pool of depreciable assets; and

C –is the number of days in the basis period of the person.

ILLUSTRATION 1

Robirto Limited started business on 1st January 2016 preparing accounts to 31st December each year. The company acquired the following assets:

5 computers on 1st January, 2016 valued at GHS20,000.00.

Compute Capital Allowance for Robirto Limited for 2016 year of assessment.

SOLUTION

Year of Assessment	–	2016
Basis Period	–	01/01/2016 to 31/12/2016
Depreciation Allowance	=	$\frac{AxBxC}{365days}$

Where A= GH 20,000.00 B= 40% C= 365 days

Depreciation Allowance = $\frac{\text{GHS } 20{,}000.00 \times 40\% \times \cancel{365\text{days}}}{\cancel{365\text{days}}}$

= GHS20,000.00 x 0.40

= GHS8,000.00

Year of Assessment (Y/A)	Basis Period (B/P)	
Class 1 (40%)		
2016	01/01/16-31/12/16	GHS
	Depreciation Basis	20,000.00
	Less: Depreciation Allowance	8,000.00
Written Down Value to be carried forward (WDV$^c/_f$)		12,000.00

Additions and Disposals of Depreciable Assets:

(i) CLASS 1, 2, or 3 Depreciable Assets

When a newly acquired depreciable asset is purchased and put into use in the production of the income with respect to a Class 1, 2 or 3 depreciable asset, the asset is placed in the pool and the Depreciation Allowance granted on its value

ILLUSTRATION 2

Robirto Limited started business on 1st January 2016 preparing accounts to 31st December each year. The company bought 5 computers on 1st January, 2016 valued at GHS20,000.00

The company purchased an additional computer on 20th November, 2017 at the cost of GHS4,000.00

Required: Compute Capital Allowance for Robirto Limited for 2016 and 2017 years of assessment.

SOLUTION

Year of Assessment – 2016

Basis Period – 201601/01/2016 to 31/12/2016

$$\text{Depreciation Allowance} = \frac{AxBxC}{365days}$$

Where A= GH 20,000.00 B= 40% C= 365days

$$\text{Depreciation Allowance} = \frac{GHS\ 20{,}000.00 \times 40\% \times \cancel{365days}}{\cancel{365days}}$$

$$= GHS20{,}000.00 \times 0.40$$

$$= GHS8{,}000.00$$

Year of Assessment (Y/A)	Basis Period (B/P)	
Class 1- 40%		
2016	**01/01/16-31/12/16**	**GHS**
	Depreciation Basis	20,000.00
	Less: Depreciation Allowance	8,000.00
Written Down Value to be carried forward (WDV$^{c}/_{f}$)		12,000.00
2017	**01/01/17-31/12/17**	
Written Down Value brought forward (WDV$^{b}/_{f}$)		12,000.00
	Addition	**4,000.00**
	Depreciation Basis	16,000.00
	Depreciation Allowance (40%)	6,400.00
Written Down Value to be carried forward (WDV$^{c}/_{f}$)		9,600.00

(ii) CLASS 4 and 5 Depreciable Assets

In the case of Class 4 & 5 depreciable assets, any addition to a specific class should be placed in a pool of its own separately from other assets of that class or any other class.

Disposal of Depreciable Assets:

When an asset is realized for a consideration, the consideration received is deducted from the sum of the written down value brought forward and the cost of any new assets introduced before depreciation allowance is computed.

ILLUSTRATION 3

ABC Limited started business on 1st January 2016 and prepares Accounts to 31st December each year.

The company bought 5 computers on 1st January, 2016 valued at GHS20,000.00

The company purchased an additional computer on 20th November, 2017 valued at GHS4,000 and sold 2 computers on 15th December of the same year for a consideration of GHS3,000.00

Required: Compute Capital Allowance for ABC Limited for 2016 and 2017 years of assessment.

SOLUTION

Year of Assessment – 2016

Basis Period – 01/01/2016 to 31/12/2016

Depreciation Allowance = $\frac{AxBxC}{365days}$

Where A= GHS20,000 B= 40% C= 365 days

Depreciation Allowance $= \frac{\text{GHS20,000.00 x 40\% x } \cancel{\text{365days}}}{\cancel{\text{365days}}}$

= GHS20,000.00 x 0.40

= GHS8,000.00

Year of Assessment (Y/A) Basis Period (B/P

Class 1 - 40%

2016	**01/01/16-31/12/16**	GHS

Depreciation Basis	20,000.00
Less: Depreciation Allowance	8,000.00
Written Down Value to be carried forward ($WDV^{c}/_{f}$)	12,000.00

2017 **01/01/17-31/12/17**

Written Down Value brought forward ($WDV^{b}/_{f}$)	12,000.00
Additions	4,000.00
Depreciation Basis	16,000.00
Less: Consideration received	3,000.00
	13,000.00
Depreciation Allowance (40%)	**5,200.00**
Written Down Value to be carried forward ($WDV^{c}/_{f}$)	7,800.00

THE DEPRECIATION BASIS OF A POOL OF DEPRECIABLE ASSETS:

(i) The Depreciation Basis of the assets in a pool form the basis for calculation of depreciation allowance

(ii) Disposals are deducted from the Depreciation Basis of the respective pools

(iii) Additional assets bought are added to the Depreciation Basis of the respective pools

(iv) Consideration received (on disposal of assets) in excess of the Written Down Value is treated as income of the person.

(v) Additional Depreciation Allowance is granted (to bring down the value of the pool to zero if all the assets in the pool are realised.

"Where there is a private element in the usage of a depreciable asset (assets used partly to generate the income and partly for private purposes)".

The cost of the assets should be apportioned according to market value of the part of assets which have been included in the pool and part which has not been placed in the pool.

Upon disposal of the Assets so apportioned, the consideration received should be apportioned according to the market value of the part of assets which have been included in the pool and part which has not been placed in the pool.

The cost base of the road vehicle other than commercial vehicle for capital allowance purposes should not exceed GH¢75,000.00 under paragraph 3(4) of the Third Schedule of the Act.

ILLUSTRATION 4

(NON COMMERCIAL VEHICLE)

XY Company Limited purchased a Nissan Patrol Vehicle valued at GHS250,000.00 on 1st June 2017 for use in its business. Compute the depreciation allowance for 2017 year of assessment for XY Limited.

SOLUTION

Year of Assessment (Y/A)	Basis Period (B/P)	
Class 2 - 30%		
2017	01/01/17-31/12/17	GHS
	Cost Base	250,000.00
	Restricted to	75,000.00
	Less: Depreciation Allowance (W1)	22,500.00
	Written Down Value to be carried forward (WDV c/f)	52,500.00

WORKINGS 1

Year of Assessment – 2017

Basis Period	–	01/01/2017 to 31/12/2017
Depreciation Allowance	=	$\frac{AxBxC}{365days}$
Where A= GH 75,000.00	B= 30%	C= 365 days

Depreciation Allowance = $\frac{\text{GHS75,000.00 x 30\% x } \cancel{\text{365days}}}{\cancel{\text{365days}}}$

= GHS75,000.00 x 0.30

= GHS22,500.00

WHERE THE DEPRECIATION BASIS IS LESS THAN GHS500.00

Where at the end of the basis period the Depreciation Basis of the pool after deducting depreciation allowance for that year of assessment is less than GH¢500.00 an additional depreciation allowance equal to that amount is granted to reduce the value of the pool to zero.

ILLUSTRATION 5

The written down value of class 3 depreciable assets of XY limited brought forward from 2015 year of assessment is GHS600.00. Compute the depreciation allowance for 2016 year of assessment.

SOLUTION

Year of Assessment (Y/A) Basis Period (B/P

Class 3 - 20%

2016	01/01/16-31/12/16		GHS
	Written Down Value brought forward ($WDV^{b}/_{f}$)		600.00
	Depreciation Allowance		120.00
			480.00
	Additional Depreciation Allowance		**480.00**

Written Down Value to be carried forward ($WDV^{c}/_{f}$) NIL

4.8 Realisation of Depreciable Assets

Brief Description: - Realisation refers to a situation where a person parts with ownership of a depreciable asset for a consideration. This may result in:

(i) Gain on Realisation

(ii) Loss on Realisation

4.8.1 Gain on Realisation:

The portion of consideration received from realization of depreciable assets to be deducted from the pool to which the depreciable assets relate must not be more than the written down value of the pool. The excess of the consideration received over the written down value of the pool (if any) must be added to income of the person.

ILLUSTRATION 6

Realization in excess of the WDV:

ABC Limited started business on 1st January 2016 preparing accounts to 31st December each year.

The company bought 5 computers on 1st January, 2016 valued at GHS20,000.00

The company purchased an additional computer on 20th November, 2017 valued at GHS4,000.00 and sold 2 computers the same year for a consideration of GHS3,000.00

Company then sold three (3) out of the four (4) remaining computers for GHS20,000.00 in June, 2018.

Required: Compute the Depreciation Allowance for 2016 to 2018 Years of Assessment

SOLUTION

Year of Assessment	–	2016	
Basis Period	–	01/01/2016 to 31/12/2016	

$$\text{Depreciation Allowance} = \frac{A \times B \times C}{365\text{days}}$$

Where A= GH 20,000 B= 40% C= 365 days

$$\text{Depreciation Allowance} = \frac{GH¢\ 20{,}000.00 \times 40\% \times \cancel{365\text{days}}}{\cancel{365\text{days}}}$$

$$= GHS20{,}000.00 \times 0.40$$

$$= GHS8{,}000.00$$

Year of Assessment (Y/A) Basis Period (B/P

Class 1- 40%

2016	**01/01/16-31/12/16**	GHS
	Cost Base	20,000.00
	Less: Depreciation Allowance	8,000.00
Written Down Value to be carried forward (WDV c/f)		12,000.00
2017	**01/01/17-31/12/17**	
Written Down Value brought forward (WDV b/f)		12,000.00
	Additions	4,000.00
	Depreciation Basis	16,000.00
	Less: Consideration received	3,000.00
		13,000.00
	Depreciation Allowance (40%)	**5,200.00**
Written Down Value to be carried forward (WDV c/f)		7,800.00

2018	**01/01/18-31/12/18**	
Written Down Value brought forward (WDV $^{b}/_{f}$)		7,800.00
Less:		
Consideration received (restricted to written down value of the pool)		**7,800.00**

The excess of the consideration received over the WDV (20,000.00 - 7,800.00) of GHS12,200.00 should be added to income and taxed.

LOSS ON REALISATION:

If all assets in the pool are realized at a loss, then additional Capital Allowance should be granted to reduce the value in the pool to zero.

ILLUSTRATION 7

REALIZATION LESS THAN THE WDV:

XXY Limited started business on 1st January 2016 preparing accounts to 31st December each year.

The company bought 5 computers on 1st January, 2016 valued at GHS20,000.00

The company purchased an additional computer on 20th November, 2017 valued at GHS4,000.00 and sold 2 computers that same year for GHS3,000.00

Company then sold the remaining computers for GHS5,000.00 in June, 2018.

Required: Compute the Depreciation Allowance for 2016 to 2018 Years of Assessment

SOLUTION

Year of Assessment – 2016

Basis Period	–	01/01/2016 to 31/12/2016	
Depreciation Allowance	=	$\frac{AxBxC}{365days}$	
Where A= GH 20,000.00	B= 40%		C= 365 days
Depreciation Allowance	=	$\frac{GHS20,000.00 \times 40\% \times \cancel{365days}}{\cancel{365days}}$	
	=	GHS20,000.00 x 0.40	
	=	GHS8,000.00	
Year of Assessment (Y/A)		Basis Period (B/P	

Class 1- 40%

2016	01/01/16-31/12/16	GHS
	Cost Base	20,000.00
	Less: Depreciation Allowance	8,000.00
	Written Down Value to be carried forward ($WDV^{c}/_{f}$)	12,000.00

2017	**01/01/17-31/12/17**	
Written Down Value brought forward ($WDV^{b}/_{f}$)		12,000.00
	Additions	4,000.00
	Depreciation Basis	16,000.00
	Less: Consideration received	3,000.00
		13,000.00
	Depreciation Allowance (40%)	**5,200.00**
Written Down Value to be carried forward ($WDV^{c}/_{f}$)		7,800.00

2018	**01/01/18-31/12/18**	
Written Down Value brought forward ($WDV^{b}/_{f}$)		7,800.00

Less: Consideration received	5,000.00	
	Written Down Value	2,800.00
	Additional Depreciation Allowance	**2,800.00**
Written Down Value to be carried forward ($WDV^{c}/_{f}$)		NIL

NOTE: The Pool will be dissolved

ISOLATED CASES UNDER CAPITAL ALLOWANCE

- **Where an asset is destroyed by natural disaster, accident, theft or burglary.**

Treatment: - If the person is able to show proof (e.g. by means of a Police report and a report from the Ghana National Fire Service), the asset would be considered as realized for zero consideration. The person may be granted additional capital allowance. However, where the assets are insured and compensation paid, the compensation received will be considered as a consideration received and deducted from the WDV before depreciation allowance is granted as illustrated earlier.

Where depreciable assets are used in the production of exempt income or incomes under temporary concessions:-

Capital allowance shall be computed and deducted in calculating those incomes.

EXPIRATION OF TEMPORARY CONCESSION PERIOD:-

Capital allowances may only be claimed with respect to the depreciation basis of the pools at the time of the basis period of the year of assessment in which the period of exemption or temporary concession ends.

4.9 Treatment of capital allowance- Petroleum Operations

SUMMARY:

(1) Capital allowance expenditure is to be placed in a separate pool

(2) Rate of depreciation is 20% using the straight line method

(3) Consideration received in respect of disposal of an asset shall be included in assessable income

(4) Where an asset is partly used in two or more separate petroleum operations and other business, capital allowance shall be apportioned by the Commissioner – General.

(5) Where a person assigns a petroleum right to another person, the written down value (WDV) of any capital allowance expenditure is transferred to the assignee at the beginning of that year of assessment.

(6) Where a person assigns part of the petroleum right to another person, the WDV of the capital allowance expenditure shall be apportioned by the Commissioner – General in proportion to the percentage of the interest retained and the percentage of the interest assigned.

(6) Where for the purpose of calculating the income of a person, a deduction is made in respect of capital allowance expenditure, there shall be no further deduction in respect of the same capital allowance expenditure under any other provision of the Act.

ILLUSTRATION 8

Songe Enterprise Limited commenced operation in the year 2015 preparing accounts to 31st December. In 2016 the company produced oil in commercial quantity for sale.

The following data is relevant:

Total exploration and development expenditure stood at $80,000,000.00 as 31st December 2015.

In January, 2016 the company acquired and put to use an asset (a drilling machine) at a cost of $200,000.00.

Required: Compute the capital allowance due Songe Enterprise Ltd for 2016

SOLUTION

	POOL	POOL	TOTAL
	20%	20%	
Y/A 2016	PRE-PROD. COST	OIL ASSETS	
	$	$	$
COST INC	80,000,000.00	200,000.00	
CAPITAL ALL'CE	16,000,000.00	40,000.00	16,040,000.00
WDV %	64,000,000.00	160,000.00	

In 2017, the company sold the asset it bought in 2015 for a cash price of $220,000.00.

Required: Compute the Capital Allowance due for 2017..

	POOL	POOL	TOTAL
	20%	20%	
Y/A 2017	PRE-PROD. COST	OIL ASSET	
WDV B/F	64,000,000.00	160,000.00	
CAPITAL ALL'CE	16,000,000.00	40,000.00	16,040,000.00
WDV C/F	48,000,000.00	120,000.00	

The proceeds from the disposal amounting to $220,000.00 shall be added to Income. By implication capital allowance shall continue to be granted even though the asset is sold.

ILLUSTRATION 9

Otuzeal Limited assigned its Petroleum rights to Ocareey Limited in December 2016. The written down value of the assets of Otuzeal Limited was $1,200,000.00 after granting Capital allowance for 2 years.

Calculate the Capital allowance to be included in the accounts of Otuzeal Limited and Ocareey Limited. (Ocareeylimited does not intend to acquire any new assets).

SOLUTION

The Capital allowance of Ocareey Limited

PROPOSED CAPITAL ALLOWANCE

Y/A		PETROLEUM RIGHTS	
	20%		
			$
WDV FROM OTUZEAL LTD			1,200,000.00
CAPITAL ALL'CE		1,200,000/3	400,000.00
WDV C/D			800,000.00

(II) Otuzeal Limited assigned 50% of the Petroleum right to Ocareey Limited

Share of Petroleum Right

50% to Ocareey Limited

50% × 1,200,000.00= 600,000.00

PROPOSED CAPITAL ALLOWANCE

OTUZEAL LIMITED

	20%
	$
WDV B/F (50% SHARE)	600,000.00
CAPITAL ALL'CE (600,000 /3)	200,000.00
WDV C/D	400,000.00

OCAREEY LIMITED	
	20%
	$
WDV TRANSFERRED	600,000.00
CAPITAL ALL'CE (600,000/3)	200,000.00
WDV C/D	400,000.00

4.10 Treatment of capital allowance- Mineral and Mining Operations

SUMMARY:

(1) Capital allowance expenditure is to be placed in a separate pool

(2) Rate of depreciation is 20% using the straight line method

(3) a. Excess of consideration received over written down value of the asset is added to assessable income

b. Additional capital allowance shall be granted if the written down value of the asset exceeds the consideration received for the disposal

(4) Where an asset is partly used in separate mineral operation, capital allowance shall be apportioned by the Commissioner – General.

(5) Where a person assigns a mineral right to another person, the written down value (WDV) of any capital allowance expenditure is transferred to the assignee at the beginning of that year.

(6) Where a person assigns part of the mineral right to another person, the WDV of the capital allowance expenditure shall be apportioned by the Commissioner – General in proportion to the percentage of the interest retained and the percentage of the interest assigned.

(7) Where for the purpose of calculating the income of a person, a deduction is made in respect of capital allowance expenditure, there shall be no further deduction in respect of the same capital allowance expenditure under any other provision of the Act.

ILLUSTRATION 10

Gane-Songe Ltd, a Mining Company located at Nangodi in the Upper East Region, commenced operations in 2013 and incurred the following costs from inception of operation

	GHS
Reconnaissance cost	120,000,000.00
Prospecting cost	140,000,000.00

The company started commercial production in January 2016. The following assets were acquired in December 2015

Computers	400,000.00
Plant and Machinery for Mining	500,000.00
Furniture and Fittings	600,000.00
Building	400,000.00

Compute the capital allowance for Gane-Songe Ltd for 2016 year of assessment.

SOLUTION

GANE-SONGE LTD

PROPOSED COMPUTATION OF CAPITAL ALLOWANCE

		POOL PRE-PRODUCTION COST	POOL OTHER ASSET COST	CAP. ALL
Y/Asst:	2016	BP - 1/1/2016-31/12/2016		

	GHS	GHS	GHS
Cost	260,000,000.00	1,900,000.00	
Capital Allowance	52,000,000.00	380,000.00	52,380,000.00
Written Down Value C/d	208,000,000.00	1,520,000.00	

NOTES:

i. The reconnaissance and prospecting costs (pre-production costs) are pooled separately

ii. The other assets are put together and capital allowance granted as they relate to the same period.

iii. There are no separate classes of assets as we was the case under the provisions of the repealed Internal Revenue Act, 2000 (Act 592)

4.11 Transitional provisions

All Persons with un-utilized capital allowance before 2016 year of assessment certified by tax audit carried out by the Commissioner-General will be converted into tax loss and carried forward. While the carry forward of such unutilized capital allowance is available to all persons, no business can carry forward the unutilized capital allowance for periods exceeding the number of years it is entitled to carry forward tax losses under Section 17 of the Act.

Other Matters

(i) Intangible assets as stated under class 5 category of assets entitled to capital allowance in the Third Schedule of the Act do not include goodwill and interest in land. This is because only depreciable assets are entitled to capital allowance and depreciable assets exclude goodwill and interest in land.

(ii) Although expenses of a capital nature incurred on depreciable assets are ordinarily only deductible by way of capital allowance, under Section 12 of the

Act, repairs and improvement costs of capital nature may be deducted from income directly. The repair and improvement cost deductible is however limited to five percent (5%) of the written down value of depreciable assets of the pool at the end of that year of assessment.

This means that the basis of computing the five percent (5%) cost of repair and improvement deductible from income, is the written down value of the depreciable assets of the pool excluding the portion of the repair and improvement costs required to be capitalized and included in the depreciable assets of the pool under Section 12(3) of the Act. Any repairs and improvement cost in excess of 5% of the written down value of the depreciable asset pool is added to the pool containing the asset repaired or improved and capital allowance granted as they relate to the same period.

(iii) Where a person uses asset partly for business and realizes the asset in a year of assessment, that person is required to include in its capital allowance computation, the portion of the total consideration received or receivable (arm's length) which directly relates to the extent that the realized asset is used in the business.

(iv) Where a person realizes all the depreciable assets in the pool, that person shall dissolve the pool and any consideration received or receivable under the Act, which exceeds the written down value of that pool is added to the income of that person for that year of assessment.

Conversely, where the written down value of the pool is less than the consideration received or receivable for the asset(s) under the Act, the excess costs is treated as additional capital allowance.

Piipscompany limited deals in the wholesale of Pharmaceutical products for several. The company decided to construct three warehouses for the storage of its products in 2016. Below is the information relating to the warehouses:

		WARE HOUSE-A	WARE HOUSE- B	WARE HOUSE-C
1/2/2016	COST	10,000	20,000	30,000
2/6/2016	ADDITION	1,000	2,000	3,000
15/5/2017	ADDITION	5,000	6,000	7,000
20/9/2018	ADDITION	4,000	2,000	10,000

REQUIRED:

COMPUTE THE CAPITAL ALLOWANCES DUE THE COMPANY FOR 2016 TO 2026 YEARS OF ASSESSMENTS

SOLUTION:

CAPITAL ALLOWANCE SCHEDULE – CLASS 4 PRACTICENOTES

ASSETS	**BUILDING-A**	**BUILDING-B**	**BUILDING-C**	**SUMMARY**
YEAR 1 (2016 Y/A)				
DEPN BASIS				
AT 1/1/2016	10,000	20,000	30,000	
ADDITIONS	1,000	2,000	3,000	
AT 31/12/2016	**11,000**	**22,000**	**33,000**	**66,000**
DEPN ALLOWANCE				
AT 1/1/2016	-	-	-	
DEPN. ALLOWANCE	1,100	2,200	3,300	6,600

FOR 2016				
CUMM. DEPN ALLOWANCE	**1,100**	**2,200**	**3,300**	**6,600**
WDV AT 31/12/2016	**9,900**	**19,800**	**29,700**	**59,400**
YEAR 2 (2017 Y/A)				
DEPN BASIS				
AT 1/1/2017	11,000	22,000	33,000	66,000
ADDITIONS	5,000	6,000	7,000	18,000
AT 31/12/2017	**16,000**	**28,000**	**40,000**	**84,000**
DEPN ALLOWANCE				
AT 1/1/2017	1,100	2,200	3,300	6,600
DEPN. ALLOWANCE FOR 2017	1,600	2,800	4,000	8,400
CUMM. DEPN ALLOWANCE	**2,700**	**5,000**	**7,300**	**15,000**
WDV AT 31/12/2017	**13,300**	**23,000**	**32,700**	**69,000**
ASSETS	**BUILDING-A**	**BUILDING-B**	**BUILDING-C**	**SUMMARY**
YEAR 3 (2018 Y/A)				

DEPN BASIS				
AT 1/1/2018	16,000	28,000	40,000	84,000
ADDITIONS	4,000	2,000	10,000	16,000
AT 31/12/2018	**20,000**	**30,000**	**50,000**	**100,000**
DEPN ALLOWANCE				
AT 1/1/2018	2,700	5,000	7,300	15,000
DEPN. ALLOWANCE FOR 2018	2,000	3,000	5,000	10,000
CUMM. DEPN ALLOWANCE	**4,700**	**8,000**	**12,300**	**25,000**
WDV AT 31/12/2018	**15,300**	**22,000**	**37,700**	**75,000**
YEAR 4 (2019 Y/A)				
DEPN BASIS				
AT 1/1/2019	20,000	30,000	50,000	100,000
ADDITIONS	-	-	-	-
AT 31/12/2019	**20,000**	**30,000**	**50,000**	**100,000**
DEPN ALLOWANCE				
AT 1/1/2019	4,700	8,000	12,300	25,000
DEPN. ALLOWANCE FOR 2019	2,000	3,000	5,000	10,000

CUMM. DEPN ALLOWANCE	**6,700**	**11,000**	**17,300**	**35,000**
WDV AT 31/12/2019	**13,300**	**19,000**	**32,700**	**65,000**
YEAR 5 (2020 Y/A)				
DEPN BASIS				
AT 1/1/2020	20,000	30,000	50,000	100,000
ADDITIONS	-	-	-	-
AT 31/12/2020	**20,000**	**30,000**	**50,000**	**100,000**
DEPN ALLOWANCE				
AT 1/1/2020	6,700	11,000	17,300	35,000
DEPN. ALLOWANCE FOR 2020	2,000	3,000	5,000	10,000
CUMM. DEPN ALLOWANCE	**8,700**	**14,000**	**22,300**	**45,000**
WDV AT 31/12/2020	**11,300**	**16,000**	**27,700**	**55,000**
ASSETS	**BUILDING-A**	**BUILDING-B**	**BUILDING-C**	**SUMMARY**
YEAR 6 (2021 Y/A)				
DEPN BASIS				

AT 1/1/2021	20,000	30,000	50,000	100,000
ADDITIONS	-	-	-	-
AT 31/12/2021	**20,000**	**30,000**	**50,000**	**100,000**
DEPN ALLOWANCE				
AT 1/1/2021	8,700	14,000	22,300	45,000
DEPN. ALLOWANCE FOR 2021	2,000	3,000	5,000	10,000
CUMM. DEPN ALLOWANCE	**10,700**	**17,000**	**27,300**	**55,000**
WDV AT 31/12/2021	**9,300**	**13,000**	**22,700**	**45,000**
YEAR 7 (2022 Y/A)				
DEPN BASIS				
AT 1/1/2022	20,000	30,000	50,000	100,000
ADDITIONS	-	-	-	-
AT 31/12/2022	**20,000**	**30,000**	**50,000**	**100,000**
DEPN ALLOWANCE				
AT 1/1/2022	10,700	17,000	27,300	55,000
DEPN. ALLOWANCE FOR 2022	2,000	3,000	5,000	10,000
CUMM. DEPN ALLOWANCE	**12,700**	**20,000**	**32,300**	**65,000**

WDV AT 31/12/2022	**7,300**	**10,000**	**17,700**	**35,000**
YEAR 8 (2023 Y/A)				
DEPN BASIS				
AT 1/1/2023	20,000	30,000	50,000	100,000
ADDITIONS	-	-	-	-
AT 31/12/2023	**20,000**	**30,000**	**50,000**	**100,000**
DEPN ALLOWANCE				
AT 1/1/2023	12,700	20,000	32,300	65,000
DEPN. ALLOWANCE FOR 2023	2,000	3,000	5,000	10,000
CUMM. DEPN ALLOWANCE	**14,700**	**23,000**	**37,300**	**75,000**
WDV AT 31/12/2023	**5,300**	**7,000**	**12,700**	**25,000**
YEAR 9 (2024 Y/A)				
DEPN BASIS				
AT 1/1/2024	20,000	30,000	50,000	100,000
ADDITIONS	-	-	-	-
AT 31/12/2024	**20,000**	**30,000**	**50,000**	**100,000**

DEPN ALLOWANCE				
AT 1/1/2024	14,700	23,000	37,300	75,000
DEPN. ALLOWANCE FOR 2024	2,000	3,000	5,000	10,000
CUMM. DEPN ALLOWANCE	**16,700**	**26,000**	**42,300**	**85,000**
WDV AT 31/12/2024	**3,300**	**4,000**	**7,700**	**15,000**
YEAR 10 (2025 Y/A)				
DEPN BASIS				
AT 1/1/2025	20,000	30,000	50,000	100,000
ADDITIONS	-	-	-	-
AT 31/12/2025	**20,000**	**30,000**	**50,000**	**100,000**
DEPN ALLOWANCE				
AT 1/1/2025	16,700	26,000	42,300	85,000
DEPN. ALLOWANCE FOR 2025	2,000	3,000	5,000	10,000
CUMM. DEPN ALLOWANCE	**18,700**	**29,000**	**47,300**	**95,000**
WDV AT	**1,300**	**1,000**	**2,700**	**5,000**

31/12/2025				
YEAR 11 (2026 Y/A)				
DEPN BASIS				
AT 1/1/2026	20,000	30,000	50,000	100,000
ADDITIONS	-	-	-	-
AT 31/12/2026	**20,000**	**30,000**	**50,000**	**100,000**
DEPN ALLOWANCE				
AT 1/1/2026	18,700	29,000	47,300	95,000
DEPN. ALLOWANCE FOR 2026	1,300	1,000	2,700	5,000
CUMM. DEPN ALLOWANCE	**20,000**	**30,000**	**50,000**	**100,000**
WDV AT 31/12/2026	**NIL**	**NIL**	**NIL**	**NIL**
NB: CLAUSE 2(7) OF 3RD SCHEDULE OF ACT 896 STATES: The allowance granted to a person under subparagraph (1) for a year of assessment with respect to a Class 4 or 5 pool of depreciable assets shall not exceed the depreciation basis of the pool at the end of the basis period, reduced by all other allowances granted to the person in any previous basis period in respect of that pool.				

Signed ....

Date 06/10/2016..

KWASI GYIMAH-ASANTE
COMMISIIONER – DTRD
FOR : COMMISSIONER-GENERAL