GHANA REVENUE AUTHORITY

Practice Note on Change in Accounting Date under the Income Tax Act, 2015 (ACT 896)

Practice Note Number: **DT / 2016 / 007**
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1.0 TAX LAW

The Commissioner-General of the Ghana Revenue Authority 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 the Act by the Commissioner-General. Accordingly, this Practice Note is issued in respect of a change in Accounting Year under subsections (3) and (4) of section 18 the Income Tax Act, 2015 (Act 896).

2.0 PURPOSE

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 public onconditions to be satisfied by Trusts and Companies who apply to the Commissioner General to approve a Change to their Accounting Year, in order to achieve consistency in the administration of the Act.

3.0 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.

4.0 APPLICATION OF THE LAW

4.1 Entities Qualified to Apply to Change Accounting Year

The only types of entitiesqualified under the Act toapply to the Commissioner General to change their Accounting Year are **Trust**s and **Companies**

4.2 Conditions for Approval of Change of Accounting Year

a) The Trust or Company must first apply to the Commissioner General in writing for approval prior to a change in the accounting year.

b) The Trust or Company must specify in the application indicated in (a) above:

(i) how it intends to deal with the transitional period between the “old Accounting year” and the “new Accounting year” to ensure that there is no gap or revenue loss; and
(ii) the reasons for the required change in accounting year.

There are a number of reasons why an entity may want to change its accounting year. These reasons may include:

(i) the need to synchronize the accounting date of a subsidiary with that of the holding company.
(ii) the convenience of stock taking at a particular period of the year.
(iii) a business may take over the operation of another and as a result may need to change the accounting date of the company taken over to that of its own.
(iv) to conform to a regulatory provision.

c) The Trust or Company should have filed all relevant returns up to the old accounting date and also to the new accounting date. This is to avoid any revenue gaps.
d) The Trust or Company must have settled all taxes, interest, or penalties due or must have made satisfactory arrangement with the Commissioner-General to settle the outstanding debts (if any).
e) All Directors of the Trust or Company should have filed and paid all relevanttaxes.

The Commissioner-General may revoke an approval granted, if the Trust or Company fails to comply with conditions attached to the approval.

4.3 Implications for Change of Accounting Year

When there is a change in accounting period, it is important to note that the three (3) relevant years to be considered are:

(i) The twelve (12) month period up to the end of the previous accounting year.

(ii) A second period beginning from the date after the end of the previous period to the end of the new period [Any calculation should be mindful of any overlaps or gaps].

(iii) The next year of assessment following the year of change in which the company has a full basis period which is not overlapping or is without a gap.

4.4 Assessment Procedure on Change of Accounting Year

Whenever a request for a change of accounting date has been approved, the Trust or Company making the change shall be assessed to tax through a special process of determining the basis of assessment. This process requires computations for three (3) relevant years.

Whenever there is a change of accounting date, a normal accounting period may not have ended in the year of change.

This is so because when there is a change of accounting date, it is either that an account is prepared for twelve months to the new accounting date or less than twelve months to the new accounting date.

The Commissioner-General will adopt the following procedures to determine the assessments for the three (3) relevant years.

(i) Identify the twelve (12) month period up to the end of the previous accounting year.

(ii) Identify the second period beginning from the date after the end of the previous period to the end of the new period [Any Calculation should be mindful of any overlaps or gaps].

(iii) Identify the next year of assessment following the year of change in which the company has a full basis period which is not overlapping or is without a gap.

4.5 Illustration with Worked Examples

Example 1

(Where a company or Trust prepares accounts for a short period ending in the year of change)

XYZ Co Ltd prepares accounts to 31 December each year. In January 2016, the company applied to the Commissioner General to change the accounting date to 30 September each year.

The Company presents three accounts as stated below:

		GHS
Year to	31/12/2015	200,000.00
Period to	30/09/2016	300,000.00
Year to	30/09/2017	450,000.00

Determine the Chargeable Income for the relevant years

SOLUTION

Years of Assessment	Chargeable Income
2015 Y/A (1/1/2015 – 31/12/2015)	200,000.00
2016 Y/A (1/1/2016 -30/09/2016)	300,000.00
2017 Y/A (1/10/2016- 30/9/2017)	450,000.00

For the 2016 year of assessment, XYZ Limited submitted a tax return for nine (9) months for the period 1/1/2016 to 30/9/2016. Since the return is only for nine (9) months which is equal to the basis period, there will be no need for apportionment and also there is no gap.

Example 2

(Where a company or Trust prepares accounts for a full year ending on its new accounting date)

XYZ Co Ltd prepares accounts to 31 December each year. In January 2016, the company applied to the Commissioner General to change the accounting date to 30 September each year.

The Company presented three accounts		GHS
Year to	31/12/2015	200,000.00
Year to	30/09/2016	300,000.00
Year to	30/09/2017	450,000.00

Determine the Chargeable Income for the relevant years

SOLUTION

Years of Assessment	Chargeable Income (GHS)
2015 Y/A (1/1/2015 – 31/12/2015)	200,000.00
2016 Y/A (1/1/2016 - 30/09/2016) (9/12 x 300,000)	225,000.00
2017 Y/A (1/10/2016- 30/9/2017)	450,000.00

NOTE: The Income for the 3 months' period from 1/10/2015 to 31/12/2015 (3/12*300,000.00) is taken out of the second years chargeable Income for 2016 before applying the tax. This is because that amount has already been taxed in the 2015 year of assessment.

Example 3

XYZ Co Ltd prepares accounts to 31 December each year. In January 2016, the company applied to the Commissioner General to change the accounting date to 30 June each year.

The Company presents three accounts as stated below

		GHS
Year to 31/12/2015	200,000.00	
Period to 30/6/2016		150,000.00
Year to 30/6/2017		400,000.00

Determine the Chargeable Income for the relevant years

SOLUTION

Years of Assessment	Chargeable Income (GHS)
2015 Y/A (1/1/15-31/12/15)	200,000.00
2016 Y/A (1/1/2016-30/6/16)	150,000.00
2017 Y/A (1/7/2016 -30/06/2017)	400,000.00

For the 2016 year of assessment, XYZ Limited submitted a tax return for six (6) months for the period 1/1/2016 to 30/6/2016. Since the return is only for six (6) months which is equal to the basis period, there will be no need for apportionment and also there is no gap.

Signed ....

Date ....06/10/2016...

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