DEON & NOED INTERNATIONAL
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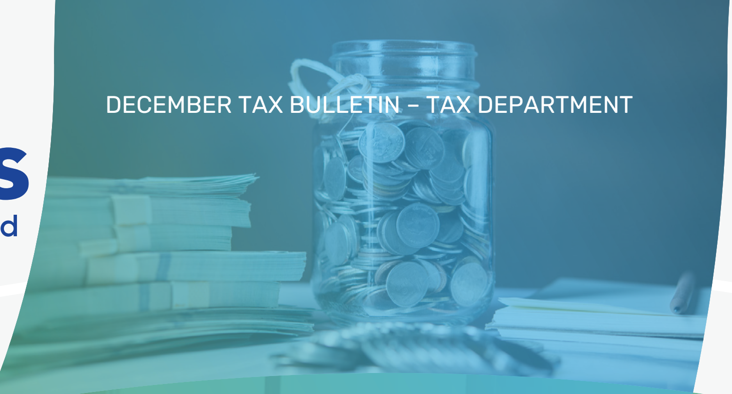
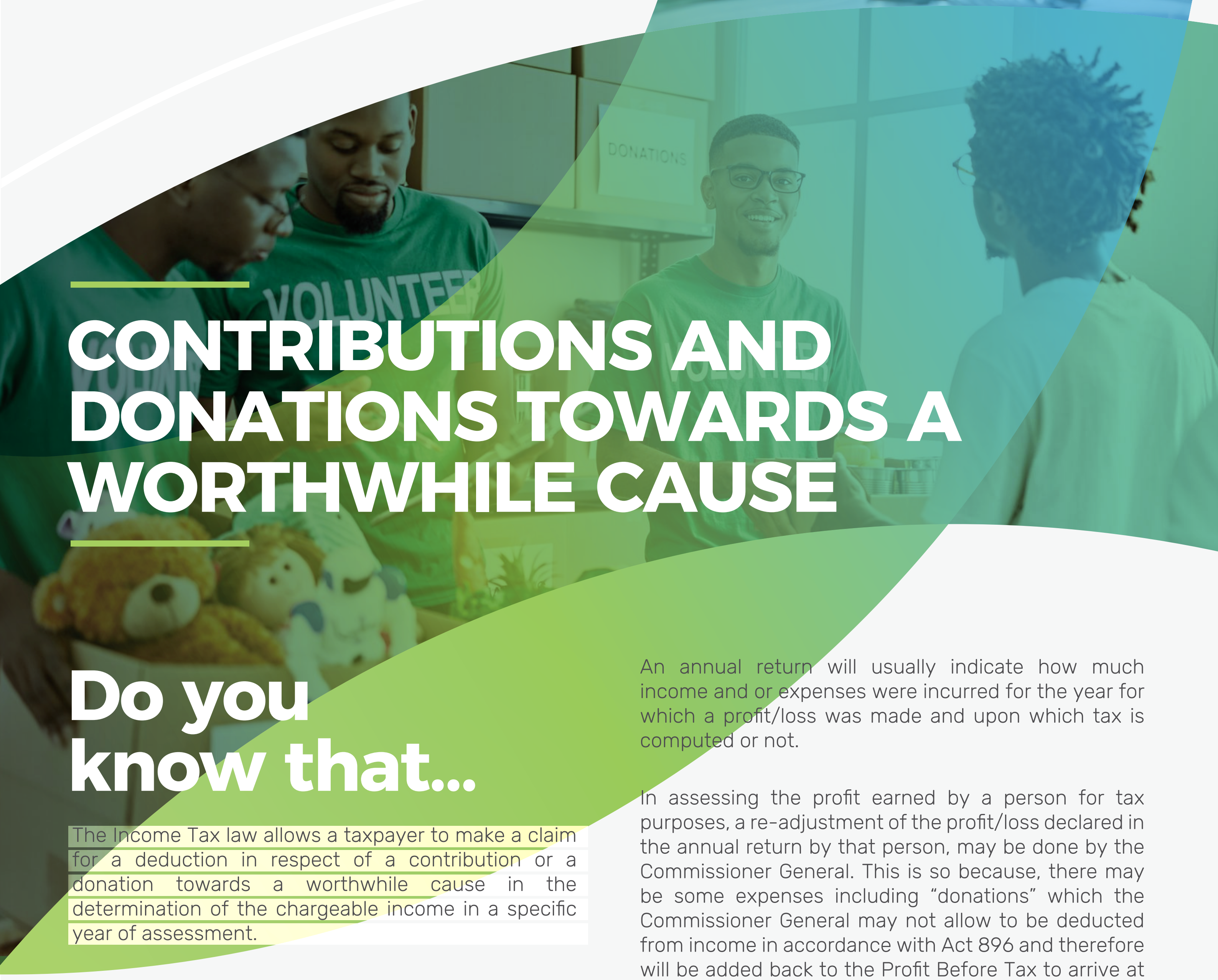
TaxFocus
By Deon & Noed







# CONTRIBUTIONS AND DONATIONS TOWARDS A WORTHWHILE CAUSE

## Do you know that...

The Income Tax law allows a taxpayer to make a claim for a deduction in respect of a contribution or a donation towards a worthwhile cause in the determination of the chargeable income in a specific year of assessment.

For individuals and corporate entities donating or considering donating towards helping the flood victims in some parts of the country, do you know that, if such a donation is approved by Government as supporting a worthwhile cause, the whole amount could be an allowable deduction in determining your chargeable income by the Commissioner General?

According to section 124(1) of the Income Tax Act, 2015 (Act 896) "...a person shall file with the Commissioner General not later than four months after the end of each year of assessment a return of income for the year".

An annual return will usually indicate how much income and or expenses were incurred for the year for which a profit/loss was made and upon which tax is computed or not.

In assessing the profit earned by a person for tax purposes, a re-adjustment of the profit/loss declared in the annual return by that person, may be done by the Commissioner General. This is so because, there may be some expenses including "donations" which the Commissioner General may not allow to be deducted from income in accordance with Act 896 and therefore will be added back to the Profit Before Tax to arrive at the new profit.

However, section 100(1) of Act 896 stipulates that, "Where the income for a year of assessment in respect of a person who has made a donation or contributed to a worthwhile cause is to be ascertained under section 2, the person may claim a deduction that is equal to the contribution and donation made by that person during that year for a worthwhile cause approved by Government under subsection (2)".

Section 100(2) sets out the criteria for determining the type of donation or contribution towards a worthwhile cause that would be allowed as deductible expense from income as follows:

- A charitable organization which meets the requirements of section 97 of Act, 896;
- A scheme of scholarship for an academic, technical, professional, or other course of study;
- Development of any rural area or urban area;
- Sports development or sports promotion; and
- Any other worthwhile cause approved by the Commissioner-General'.

Eligibility Criteria:

- Complete a "Claim form for deduction for contribution or donation to a worthwhile cause" and submit the said form to the Commissioner-General through the applicant's Tax Office.
- Claims should be supported by a written acknowledgement from the beneficiary such as; a receipt from the beneficiary or signed sheets. Photographs can also be taken as evidence for such donations.
- Donations and contributions should be towards a worthwhile cause as defined under Section 100 of the Income Tax Act, 2015 (Act, 896). For instance; A scheme of scholarship for an academic, technical, professional, or other course of study; Development of any rural area or urban area; Sports; and any other worthwhile cause approved by the Commissioner-General'.

The Commissioner-General may make reference to the following issues in considering any other activity or event for approval as a worthwhile cause for the purpose of Section 100 of the Act:

- The activity or event addresses clearly identifiable socio-economic needs at the national, regional, community or other local levels of the country;
- The need can be quantified in terms of cost;
- The benefits derived from the activity or event are non-discriminatory in nature;
- The activity or event is not intended whether knowingly or consequentially to disrupt social life or cause environmental pollution or degradation.

## KEY NOTE

Donations and contributions made by persons to support the communities and individuals affected by the Volta Dam Spillage could be eligible for deductions in the computation of Corporate income Tax (CIT) and Personal Income Tax (PIT) for the 2023 year of assessment, subject to compliance with the Commissioner General's specified eligibility criteria and approval, including the provision of adequate evidence and documentation, as well as meeting any other relevant requirements.

Returns for the 2023 year of assessment must be filed on or before 30th April 2024 for individuals, partnerships and companies whose accounting year end in December. Entities (Companies and Trusts) whose accounting year does not end in December must filed their returns on or before 4 months after the end of their accounting year.

## ILLUSTRATION

Assuming a company reports in its financials that it incurred an amount of GHC 50,000 as donation to the flood victims as part of its total expenses resulting in a profit before tax of GHC 300,000, with a corporate tax rate of 25 per cent, the company would be liable to a tax of GHC 75,000.

If this donation expense of GHC 50,000 which is charged to the financial statement does not meet the conditions as stated under section 100(2) of Act 896, the Profit Before Tax (PBT) will be re-adjusted by adding back the GHC 50,000.

The adjusted PBT of GHC 350,000 (i.e., GHC 300,000+GHC 50,000) will result to payment of higher tax liability of GHC 87,500.

**DISCLAIMER**

***The information should not be substituted for professional advice, however, if you have any questions or guidance contact DNI or the senior partner***

| TAX TYPE | DATE | PENALTY FOR NON-FILING |
|---|---|---|
| Pay As You Earn (PAYE) | On or Before Wednesday, 15th November, 2023 | GHS 500 plus GHS 10 any other day |
| Withholding Taxes (WHT Taxes) | On or Before Wednesday, 15th November, 2023 | GHS 500 plus, GHS 10 any other day |
| Excise Tax | On or Before Tuesday, 21st November, 2023 | GHS 500 plus, GHS 10 any other day |
| Value Added Tax (VAT) | On or Before Thursday, 30th November, 2023 | GHS 500 plus, GHS 10 any oth er day |
| Levies (NHIL; GETFUND; COVID - 19) | On or Before Thursday, 30th November, 2023 | GHS 500 plus, GHS 10 any other day |
| Communication Service Tax (CST) | On or Before Thursday, 30th November, 2023 | GHS 2,000 plus, GHS 500 any other day |

## TAX ADVISORY AND COMPLIANCE UNIT

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