GRA

GHANA REVENUE AUTHORITY

Practice Note on Repairs and Improvement under the Income Tax Act, 2015 (ACT 896)

Practice Note Number: **DT / 2016 / 012**

Date of Issue: **6th October, 2016**

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. Accordingly, this Practice Note is issued in respect of the principles and rules for applyingdeductions relating to repairs and improvements in determining the chargeable income of a person as provided under Sections 2, 8, 9 and 12 of the Act.

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

This Practice Note is issued to provide direction and guidance to officers of the Ghana Revenue Authority, Tax Practitioners, Consultants, Taxpayers and the general public on the interpretation and application of section 12 of the Act which allows a deduction for expenditure incurred on repairs and improvement of depreciable assets in determining chargeable income of a person even if the repairs and improvements are capital in nature. This is intended to ensure consistency in the administration of the Act.

4.0 APPLICATION OF THE LAW

4.1 General Principles and Residual Deduction Rule

Section 8 of the Act sets out the general principles regarding deductions and establishes the principle that a specific deduction rule takes precedence where more than one deduction rule applies.

Section 9 of the Act provides the residual deduction rules applicable in determining the chargeable income of a person from an investment or business conducted for a year of assessment (or part of the year) by which an expense:

(i) is deductible to the extent that the expense is wholly, exclusively and necessarily incurred by a person in the production of income from the investment or business during the year; and

(ii) is generally not allowed as a deduction where the expense is of a capital nature

4.2 Specific Rule on Deductions for Repairs and Improvements.

In spite of the provisions under Section 9, the Act allows a deduction of a percentage of capital expenditure relating to repairs and improvements.

Section 12 of the Act provides specific rules for deduction of expenditure relating to repairs and improvements, which stipulate that:

(i) the expense should have been incurred for the repair or improvement of a depreciable asset

(ii) the repair or improvement expense is incurred wholly, exclusively and necessarily in the production of income from an investment or business in satisfaction of the requirements of subsection (1) of section 9;

(iii) the repair or improvement expense may be of a capital nature.

5.0 RULES FOR DEDUCTION OF EXPENSES FOR REPAIRS AND IMPROVEMENTS

5.1. The deduction allowed in respect of an expense for repair or improvement of a particular asset shall not exceed five percent (5%) of the written down value of the applicable pool of that depreciable asset held at the end of the year.

5.2. This should be approached as follows:

(a) the written down value of the applicable pool shall be the written down value before considering the addition of the excess computed under (5.3) below.

(b) Since the deduction or capitalisation will be made at the end of the year, a taxpayer should:

   (i) Identify the pool in which each asset which is the subject of repairs or improvement belongs;

   (ii) Determine 5% of the written down value of the pool;

   (iii) The amount of the expenditure for repair and improvement of each asset should be matched against the 5% of the written down value of the pool; and

   (iv) the excess amount should be capitalised under 5.3 below

   (v) Deduct the expense or capitalise the excess amount in the order in which the expense is incurred.

5.3. The excess of the expense after deduction under 5.2 above is added to the depreciation basis of the applicable pool for calculation of capital allowance expenditure in the current year.

6.0 ILLUSTRATIONS

6.1 Illustration 1

Mawuko Limited incurred expenses of GHS2,500.00 on repairs and improvement of Plant and Machinery and declared a profit of GHS100,000.00 for the 2016 year of assessment.

NB: The Written down value of the applicable pool before capitalising any excess is GHS60,000.00.

Determine the following:

a) Deductible amount for repairs and improvement.

b) Excess amount of repairs and improvement to be added to the depreciation basis of the applicable pool.

Solution for Illustration 1

Profit as per account	100,000.00
Add back Repairs and improvement	2,500.00
Assessable Income	102,500.00
Less	
Allowable Repair and improvement { 5% of 60,000=3,000}	2,500.00
Adjusted profit	100,000.00

NB: Mawuko Limited is allowed to deduct the entire amount of GHS2,500.00 on repair and improvement because the expense is less than 5% of the written down value of the applicable pool.

6.2 Illustration 2

Mawuko Ltd incurred expenses on repairs and improvement of GHS6,500.00 on a Plant and Machinery and also declared a profit of GHS100,000.00 for the 2016 year of assessment.

NB: The Written down value of the applicable pool before capitalising any excess is GHS60,000.00.

Determine the following:

i) Deductible amount for repairs and improvement
ii) Excess amount of repairs and improvement to be added to the depreciation basis of the appropriate pool.

Solution for Illustration 2

	GHS
Profit as per account	100,000.00
Add back Repairs and improvement	6,000.00
Assessable Income	106,000.00
Less	
Allowable Repairs or improvement {5% of 60,000=3,000}	3,000.00
Adjusted profit	103,000.00

5% of the WDV of GHS60,000.00 is GHS3,000.00 which is allowed as a deduction. The excess amount of the repairs and improvement expenditure of GHS3,500.00 (i.e. 6,500.00 - 3,000.00) for which a deduction is not allowed shall be added to the depreciation basis of the applicable pool for purposes of computing capital allowance expenditure for the 2016 year of assessment .

Signed ....

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

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