

# Hike in Ghana's VAT can deter foreign investment

Following the announcement by the Ghanaian government that Value Added Tax (VAT) for banking services, amongst others, will be increased by 2.5% to 17.5%, foreign investors have expressed concern that the increase will make it harder for them to do business.



© Joop Hoek - Fotolia.com

"It could deter foreign investors and risk them setting their sights elsewhere," says Joe Hyde Junior, managing partner of one of Ghana's leading accounting firms, Lobban Hyde & Co, which is part of the Moore Stephens network.

The Ghanaian government is to charge 17.5% VAT on some financial services rendered by banks. This has generated great concern in Ghana, which is battling a downturn in economic growth.

"One of the attractions of Ghana used to be the ease of doing foreign currency transactions and banking. Regulation was kept to a minimum, but this has changed," says Hyde Jr, who assists foreign investors who want to invest in Ghana.

## Harsh regulations

"Ghana has a substantially large cash economy. These kind of regulations promptly introduced without consultation and with harsher regulations, tend to reduce confidence in the banking sector."

The Ghanaian government hiked VAT by 2.5% to 17.5% earlier this year and brought several formerly exempt sectors into the tax net. They include financial services, real estate, local flights and gyms and spas.

VAT will be charged on legal, accounting, actuarial, notary and consulting services, feasibility studies and investment project evaluation, as well as other services relating to the maintenance of accounts for individuals and companies.

Hyde Jr has called for more consultation with seasoned business leaders and experienced consultants who are in sync with government's intentions and can prescribe measured and holistic solutions suitable for key stakeholders.

"Transacting forex deals in dollars in the banking sector for example is good for exports. Over half of London's global financial services are transacted in US dollars - the world's trading currency. We need policies that reduce our risk profile and attract capital into our infant industries," says Hyde Jr.

## **Adjusting operations**

He says many banks have revised their fees and charges, while it is expected that businesses will adjust their operations in response to some of these new taxable products. "The banks have an inelastic product and will continue to pass on costs. Already we note that small and medium size businesses are doing more cash business. This way they stay under the radar and avoid any banking shocks.

"We are seeing a trend towards paying suppliers with cash. If you have ten medium or small size suppliers to pay, businesses are using one cheque to draw cash and then paying everyone from that. This means that there is no record of vendors and suppliers. Instead of bringing businesses into the formal sector, they are being pushed further away."

The changes are having an impact on consumers as well as companies. "Some cash payments, such as for electricity and water bills, are being demanded and expected. We believe the whole idea of banking is confidence and we need to make it easier and desirable for people to use banks, rather than do otherwise," says Hyde Jr.

The VAT Act was amended on 1 January this year in an attempt to raise revenue to address the shortfall in government finances. The government has missed its budget deficit target, due partly to falling gold and cocoa prices and rising government wages.

## **Rating revised**

Recently, international credits rating agency, Fitch revised the outlook on Ghana's rating from stable to negative, citing concerns about the ability of the government to service its debts. It said Ghana's fiscal situation had worsened over the past six months.

However, Hyde Jr believes various sectors of the Ghanaian economy are ripe for higher stakes and rewards. The energy, rail and agro-processing sectors are ready to expand, and with these come heavy industrial development. Construction and housing are also expected to benefit from the growing middle class. This means that policy makers should not neglect the need to review policies in these areas to boost growth.

"It is time for government to engage think tanks such as the Association of Ghana Industries and proceed to implement key growth programmes they have outlined over the years, just as Nigeria is doing."

For more, visit: <https://www.bizcommunity.com>