

GHANA REVENUE AUTHORITY

Our Ref. No.

Your Ref. No.



GRA

OFFICE OF THE COMMISSIONER-GENERAL, GHANA REVENUE AUTHORITY

**IN THE MATTER OF AN APPLICATION FOR A CLASS RULING BY
GHANA ASSOCIATION OF BANKERS FOR ITS MEMBERS'
EMPLOYEES FOR EXEMPTION FROM CLOTHING ALLOWANCE IN
LINE WITH SECTION 4 (B) (III) OF INCOME TAX ACT, 2015 (ACT 896)
AS AMENDED**

TIN: C0010760164

PR.NO: CR.001

FACTS

The Ghana Association of Bankers has applied for class ruling for exemption from clothing allowance for its members' employees in line with section 4 (b) (iii) of Income Tax Act, 2015 (Act 896) as amended.

The Association claims that their employees are enjoined to apply the entire allowance toward the purchase of appropriate clothing for the business of banking. They claim that they compel their employees to use on the average thirty-five percent (35%) of the clothing allowance towards the purchase of branded T-shirts, banks' branded clothes which cannot be used for any other programme outside the office use.

The Association also claims that since the staff of its members are enjoined to use these branded clothes as official attire during working hours, the cost incurred by the staff serves as proper business expenditure of the employees in performance of their banking duties, hence, the cost incurred is reimbursed expenses.

ISSUES FOR DETERMINATION

Whether or not clothing allowance paid to employees enjoined by the employer to use a proportion of the clothing allowance on the bank's branded T-shirts and branded cloth is subject to tax.

We evaluate the issue as follows:

The provisions of Sections 4(2) in respect of Profits and Gains of an individual from employment and 130(1)(c) of the Act in respect of Domestic Expenditure shall apply.

Section 4(2)(a)(iii) of the Act, provides that a person who is ascertaining the profits or gains of an individual from employment for a Year of Assessment or part of that year shall include in the calculation personal allowances including cost of living allowance, subsistence, rent, entertainment, or travel allowance. Personal allowances, as used, includes clothing allowance.

Section 130(1)(c) and (2) of the Income Tax Act, 2015 (Act 896) further provides that:

- “(1) Where an individual incurs expenditure in respect of that individual, the expenditure is domestic expenditure to the extent that it is incurred in acquiring clothing for the individual, other than clothing that is not suitable for wearing outside of work;
- (2) Where an employer incurs expenditure in making a payment to or providing any other benefit for an employee, the expenditure is domestic expenditure except to the extent that
 - (a) the payment or benefit is included in the calculation of the income of the employee;
 - (b) the employee provides consideration of an equal market value for the payment or benefit; or
 - (c) the amount of the expenditure is so small as to make it unreasonable or administratively impracticable to account for.”

Tax Implication of Clothing Allowance

Clothing allowance is a personal allowance and therefore should be subject to tax.

It should be noted all cash allowances are taxable.

Where an employee receives cash payments for the purpose of acquiring clothing for the individual, it is considered a domestic expenditure and therefore should be included in ascertaining the employment income of

the individual unless the clothing is not suitable for wearing outside of work.

Clothing Not suitable for Wearing Outside of Work

For the purposes of Section 130(1)(c), clothing would be considered **not suitable for wearing outside of work where**

- (i) The employer's logo is clearly embossed on the uniform, dress or clothing (a detachable badge is not sufficient to make it a uniform).
- (ii) It is customised with the name of the employer written on it.
- (iii) It is a safety clothing.
- (iv) It is a ceremonial clothing of the employer/organisation (E.g. Friday wear)
- (v) The employee would readily be recognised as wearing a uniform by a person in the street.

Some official attire may be worn off-duty and therefore cannot be considered as clothing not suitable for outside work unless the rules of the employer/organisation restricts its usage outside of work or has duality of purpose.

Uniform provided by the employer and worn by Police Officers, Army Officers, Fire Officers, Prison Officers, Custom Officers, Nurses, Pilots, Cabin Crew, Immigration Officers, and such institution with prescribed uniforms and dress code, such as gowns and wigs of Judges, would be examples of clothing not suitable for wearing outside of work.

CONCLUSION

From the foregoing analysis, the proportion of clothing allowance enjoined by the employer to be used on branded T-shirt and cloth can be described as the clothes that have employer's logo clearly embossed on the uniform, dress or clothing. Also, the branded T- shirt and branded clothes can be considered as a customised clothes since the names of the employer are written on them.

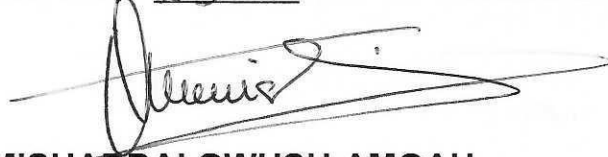
Based on the analysis made, we rule that proportion of the clothing allowance that the employer enjoins the employees to be used on branded T-shirts and branded clothes to be treated as a discharge or

reimbursement of an expense incurred by an individual on behalf of the employer of that individual that serves the proper business purposes of the employer.

However, we rule that we allow twenty percent (20%) of the clothing allowance as the reimbursed expenses that serves the proper business purposes of the employer but shall not exceed 5% of the basic salary.

This ruling is strictly between employees of members of Ghana Association of Bankers and Ghana Revenue Authority up to December, 2023

DATED THIS 23RD DAY OF DECEMBER, 2020.

A handwritten signature in black ink, appearing to read 'Ammishaddai Owusu-Amoah', is written over a horizontal line. The signature is stylized and cursive.

**AMMISHADDAI OWUSU-AMOAH
AG. COMMISSIONER-GENERAL**