



# **GRA**

## **GHANA REVENUE AUTHORITY**

**Practice Note On  
Mortgage Interest Loan Deduction  
under the Income Tax Act, 2015 (Act 896)**

**Practice Note Number: DT/2021/003**

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## **1.0 PREAMBLE**

This Practice Note is issued in respect of the deduction of mortgage interest on residential premises by individuals under paragraph 4, subparagraphs (3) and (4) of the Sixth Schedule to the Income Tax Act, 2015 (Act 896) as amended.

## **2.0 INTERPRETATION**

In this Practice Note, the word "Act" means the Income Tax Act, 2015 (Act 896) as amended. Definitions and expressions used in this Practice Note have the same meaning as in the Act.

## **3.0 THE PURPOSE**

The Practice Note provides direction and guidance on the interpretation and application of paragraph 4, subparagraphs (3) and (4) of the Sixth Schedule to the Income Tax Act, 2015 (Act 896) as amended, for the deduction of mortgage interest for individuals in respect of residential premises.

## **4.0 APPLICATION OF THE LAW**

Sections 8 and 9 of Act 896 provide the legal bases for deductions for the purpose of ascertaining the income of a person from employment, an investment or business.

The sections state that the Commissioner-General shall not allow a deduction for the purpose of ascertaining the income of a person from employment except as provided for in paragraph 4, subparagraphs (3) and (4) of the Sixth Schedule to the Act; and also specifically disallows any expense that is not wholly, exclusively or necessarily incurred in the production of income.

#### 4.1 MORTGAGE INTEREST DEDUCTION

The Income Tax Act, 2015 (Act 896) as amended, allows mortgage interest deduction in respect of individuals who have taken loans to construct or acquire **ONLY ONE** residential premises.

#### 4.2 CONDITIONS FOR MORTGAGE INTEREST DEDUCTION

To qualify for mortgage interest deduction, the following conditions must be satisfied;

- 1) The property must be a residential premises acquired in the name of the applicant;
- 2) The residential property must be situated in Ghana;
- 3) The applicant is entitled to deduct the mortgage interest in respect of **only one residential premises** during the lifetime of that individual;
- 4) The loan taken must be employed in the construction or acquisition of only one residential premise during the lifetime of that individual;
- 5) The loan must be denominated in Ghana Cedis. Any interest denominated in a currency other than the Ghana Cedis shall be converted into Ghana Cedis at the Bank of Ghana interbank exchange rate applied on the date the amount is to be considered;
- 6) The loan must be secured from a recognised financial institution as defined in Act 896 as amended, an employer or a registered lender;
- 7) The individual employee must prove that the interest is paid on a periodic basis to qualify for the deduction;

- 8) In the case of a self-employed person, the deduction should be taken into consideration when filing the statement of estimated tax payable and/or the annual tax returns;
- 9) Deductions should be restricted to the amount of interest paid in the year;
- 10) Where the property is partly used for commercial purposes, the mortgage interest deduction would be apportioned; and
- 11) Where the property is disposed of before the end of the mortgage period, the deduction would cease.

#### **4.3 PROCEDURES FOR MORTGAGE INTEREST DEDUCTION**

- 1) The individual must notify the Commissioner-General in writing of the existence of a mortgage arrangement.
- 2) The individual, as an employee, must furnish the relevant documents in respect of the mortgage arrangement to his/her employers.
- 3) Where the applicant is either self-employed or an employee whose employer is not required to withhold tax under the Act, the relevant documents in respect of the mortgage must be submitted to the Commissioner-General.
- 4) The employer shall notify the Commissioner-General in writing employees who have applied for the mortgage interest deduction.
- 5) An employer who has deducted mortgage interest from an employee's income shall maintain the relevant documentation of proof of the loan and deductions made for the period in accordance with the Revenue Administration Act, 2016 (Act 915).

- 6) A self-employed person may deduct the mortgage interest when determining the chargeable income for the year and shall maintain the relevant documentation of proof.
- 7) The employer shall deduct the mortgage interest when ascertaining the periodic income tax payable by the employee.

#### **4.4 EXCEPTIONS TO MORTGAGE INTEREST DEDUCTION**

- 1) A non-resident individual shall not be entitled to deduct a mortgage interest as per Regulation 2 of L.I. 2244.
- 2) A mortgage not secured from a recognised financial institution, mortgage financing company, a registered lender or an employer shall not qualify for deduction.
- 3) Interest in excess of the arm's length principle shall not be deducted.
- 4) A mortgage from a non-resident financial institution shall not be deducted.

#### **4.5 GROUNDS FOR DISQUALIFICATION OF MORTGAGE INTEREST DEDUCTION**

- 1) A mortgage employed in the construction or acquisition of any additional residential premises shall not qualify.
- 2) Any residential premises other than one used by the individual as his/her only place of residence shall not qualify for deduction.
- 3) Where the property in question is jointly owned and the names of any one of the individuals involved is **not** on the mortgage deed, the unnamed individual shall not qualify for deduction of his or her respective share of the mortgage interest.

- 4) Where the residential property is converted to a commercial property during the subsistence of the mortgage interest deduction, the applicant shall forfeit the remaining interest deduction.
- 5) Where a residential premise on which mortgage interest is claimed is disposed of, the subsequent owner does not qualify for the unrelieved part of the interest.

## **ILLUSTRATIONS**

### **EMPLOYEES' DEDUCTION OF HOME LOAN INTEREST**

**Scenario 1: Solely-owned dwelling exclusively used as residence throughout the year**

#### **Facts**

Mr. Kofi Asare an employee of ABC Limited, wholly owns a dwelling which is used exclusively as his only place of residence. The dwelling was acquired on 1<sup>st</sup> January, 2020 financed by a mortgage from a bank resident in Ghana which is repayable by monthly instalments on the 28th day of each month over a 10-year period. The monthly interest payable on the mortgage loan is GH¢2,000.00. He claims a deduction for the interest paid monthly. His employer, in computing the monthly tax to be withheld from his income, granted the monthly amount paid as an allowable deduction.

#### **Required**

Determine whether the deductions being made by the employer of Kofi Asare is allowable?

#### **Decision**

Mr. Kofi Asare is entitled to a mortgage interest deduction of GH¢2,000.00 paid each month on the mortgage loan.

In processing the claim, the assessor (employer or Ghana Revenue Authority) must be in possession of the following documents:

- proof of ownership;
- proof of the dwelling being used as his only place of residence.
- loan agreement or mortgage deed; and
- evidence of payment of the interest amount.

**Scenario 2: Change of dwelling during the year (where two (2) mortgage loans are executed)**

**Facts**

Mr. Asante is a 50-year-old employee of ABC Ltd. On 26<sup>th</sup> March, 2018 he purchased from an estate developer a property which was under construction. On 1<sup>st</sup> May, 2018, he took out a mortgage from his employer to pay for part of the purchase price. The loan is repayable by monthly instalments for 10 years from 1<sup>st</sup> June, 2018 onwards. The monthly interest payable on the mortgage loan is GH¢2,000.00.

The property was ready for occupation on 1<sup>st</sup> September, 2018. Mr. Asante used it as his place of residence from the same day onwards. He claims a deduction for the interest paid in 2018 year of assessment. On 1<sup>st</sup> August, 2019 Mr. Asante went on voluntary retirement after disposing of his dwelling and purchased another property with another loan.

**Required**

- (i) Whether Mr. Asante is entitled to the mortgage interest deduction in 2018 and 2019 Years of Assessment?
- (ii) Whether or not Mr. Asante would be entitled to deduct mortgage interest after his retirement?

## Solution

- (i) Mr. Asante would be entitled to deduct mortgage interest for up to August 2019. This is because Mr. Asante may deduct mortgage interest in respect of only one residential premises in his lifetime. Since Mr. Asante disposed of the property in August 2019, he would not be entitled to mortgage interest deduction from September 2019.
- (ii) Mr. Asante has disposed of his only residential premise in respect of which the mortgage interest was claimed and therefore he is **not entitled** to any mortgage interest during his lifetime.

## Scenario 3

Mrs. Francisca Morrison was employed in October 2012 by XYZ Bank Ltd as the Operations Officer on a salary scale of GH¢560,000.00 x GH¢3,500.00 - GH¢577,500.00. As part of her conditions of service, she was entitled to the following benefits;

<u>Allowance &amp; Loan</u>	GH¢
Clothing Allowance (Monthly)	5,000.00
Risk Allowance (Monthly)	15,000.00
Professional Allowance (Monthly)	5,000.00
Mortgage loan	200,000.00

The management of the bank approved the loan for her on 1<sup>st</sup> January, 2016 at an interest rate of 8% per annum payable over a period of 10 years which is the same as the Bank of Ghana statutory rate. Mrs. Morrison employed the whole amount of the loan during that same year for the construction of her first residential premises but the loan amount was insufficient to complete the project.

In September, 2016, she approached her employer for a top up to enable her complete the project. The Management of the bank approved an additional GH¢150,000.00 on the same terms. She however used only GH¢50,000.00 to complete the project. She used the remaining GH¢100,000.00 to buy a second hand vehicle for her personal use. The interest payable per the loan agreement on the total amount spread over the tenure of the loan is GH¢280,000.00.

The Commissioner-General has been notified and approved the following personal reliefs for Mrs. Morrison.

	<b>GH¢</b>
Child Education Relief	1,800.00
Marriage Relief	1,200.00

The case has been referred to you as a Tax Auditor. You are required to calculate the monthly chargeable income and tax payable for January 2017 year of assessment.

## Solution

MRS. FRANCISCA MORRISON

COMPUTATION OF CHARGEABLE INCOME AND TAX PAYABLE FOR  
THE MONTH OF JANUARY 2017

*\*Since Mrs. Morrison was employed in 2012, by applying the incremental rate of GH¢3,500.00 annually, her annual basic salary by the end of 2017 shall amount to GH¢577,500.00.*

Annual Basic Salary .....		GH¢577,500.00
Monthly Basic Salary		
2017 Y/A (1/1/2017-31/01/17)		
Monthly Basic Salary		GH¢48,125.00
Clothing Allowance	GH¢5,000.00	
Risk Allowance	GH¢15,000.00	
Professional Allowance	<u>GH¢5,000.00</u>	<u>GH¢ 25,000.00</u>
Assessable Income		GH¢ 73,125.00
Less Allowable Deduction		
Child Education Relief	GH¢1,800.00	
Marriage Relief	GH¢1,200.00	
Mortgage Interest*	<u>GH¢1,666.67</u>	<u>GH¢4,666.67</u>
Chargeable Income		<u>GH¢68,458.33</u>

**Note:**

Since Mrs. Morrison used only GH¢250,000.00 out of the approved GH¢350,000.00 granted for the construction of her residential premises, she would not be entitled to an interest deduction on the total amount of loan granted by her employer.

The mortgage interest calculated on the GH¢250,000.00 at the same interest rate would translate to GH¢200,000.00 for the ten-year period or GH¢20,000.00 annually. The mortgage interest of GH¢1,666.67 shall be deducted monthly as an **allowable deduction**.

Mortgage Interest deduction **shall not be granted** on the portion of the loan amount used to purchase the vehicle.

**Scenario 4**

Rich K financed the purchase of his house by taking out a conventional mortgage of GH¢500,000.00 which required a down payment of 10% at 24% per annum interest for fifteen (15) years from Abrabopa Financing Limited. He duly notified his employers, Good Faith Limited about the mortgage. It was observed that the employer deducted GH¢12,000.00 per month in favour of Rich K, charged as mortgage interest in the monthly P.A.Y.E Return (Annual amount of GH¢144,000.00) for the year 2019.

**Required**

Confirm the amount charged as interest by Rich K for 2019 year of assessment.

### Solution

#### Principal Balance (PV) after 10% down payment

$$PV = \text{GH}\text{¢}500,000.00 - (\text{GH}\text{¢}500,000.00 \times 10\%)$$

$$PV = \text{GH}\text{¢}500,000.00 - \text{GH}\text{¢}50,000.00 \\ = \text{GH}\text{¢}450,000.00$$

$$\text{Interest} = \text{Principal} \times \text{Interest rate}$$

$$\text{Monthly payment (A)} = PV \times r/[1-(1+r)^{-mt}]$$

Where PV = Principal balance

R = annual interest rate

mt = (n) total months in a given year(s)

$$\text{Principal balance (PV)} = A*[1-(1+r)^{-mt}/r]$$

where m = 12

t = number of years

r = R/12

$$PV = \text{GH}\text{¢}450,000.00$$

$$r = 0.24/12 = 0.02$$

t = 15 years

m = 12

$$n = 12 \times 15 = 180$$

$$\text{Monthly payment (A)} = \text{GH}\text{¢}450,000.00 \times 0.02/[1-(1.02)^{-180}] \\ = \text{GH}\text{¢}9,000/0.9717 \\ = \text{GH}\text{¢}9,262.12$$

$$\text{Interest} = \text{GH}\text{¢}450,000.00 \times 0.02$$

$$= \text{GH}\text{¢}9,000.00$$

Principal payment = Monthly payment - Interest

$$= \text{GH}\text{¢}9,262.12 - \text{GH}\text{¢}9,000.00$$

$$= \text{GH}\text{¢}262.12$$

**Amortization Table to confirm the amount charged by Rich K.**

AMORTIZATION TABLE					
Event	Monthly Payment	Interest	Principal Payment	Total Interest	Principal Balance
<b>Loan</b>					<b>450,000.00</b>
<b>Payment 1</b>	9,262.12	9,000.00	262.12	9,000.00	449,737.88
2	9,262.12	8,994.76	267.36	17,994.76	449,470.52
3	9,262.12	8,989.41	272.71	26,984.17	449,197.81
4	9,262.12	8,983.96	278.16	35,968.12	448,919.64
5	9,262.12	8,978.39	283.73	44,946.52	448,635.92
6	9,262.12	8,972.72	289.40	53,919.24	448,346.52
7	9,262.12	8,966.93	295.19	62,886.17	448,051.33
8	9,262.12	8,961.03	301.09	71,847.19	447,750.23
9	9,262.12	8,955.00	307.12	80,802.20	447,443.12
10	9,262.12	8,948.86	313.26	89,751.06	447,129.86
11	9,262.12	8,942.60	319.52	98,693.66	446,810.34
12	9,262.12	8,936.21	325.91	107,629.86	446,484.42
		107,629.86			

From the Amortization Table, the Lender undercharged the mortgage interest for Rich K in the 2019 Year Assessment.

That is: Interest charged – Interest computed

$$= \text{GH}¢144,000.00 - \text{GH}¢107,629.86$$

$$= \underline{\underline{\text{GH}¢36,370.14}}$$

Tax will be computed on the excess amount of GH¢36,370.140 and charged against Rich K.

**Note:**

1. Microsoft Excel could be used to complete the Amortization Table above. The table was limited to illustrate the total interest for the twelve-month period.
2. The interest payment decreases whilst the principal payment increases with time.
3. Ensure that monthly payments are not deducted as monthly interest deductions. This is because monthly payment has interest and principal payment components, that is, charging GH¢111,145.44 (GH¢9,262.12 x 12) instead of the interest amount of GH¢107,629.86 for the twelve (12) month period creates an excess charge of GH¢3,515.51 (GH¢111,145.44 - GH¢107,629.93).
4. Mathematically,

$$\text{Principal Payment (PP)} = \text{Monthly Amount (MA)} - \text{Interest (I)}$$

$$\text{Therefore, Interest (I)} = \text{MA} - \text{PP}$$

**Interest payment at the end of the mortgage period (180 months) is given by**

$$\begin{aligned} \text{Total Interest} &= \text{Monthly Amount} \times 180 - \text{Loan Amount} \\ &= \text{GH¢}(9,262.12 \times 180) - \text{GH¢}450,000.00 \\ &= \text{GH¢}1,667,181.16 - \text{GH¢}450,000.00 \\ &= \underline{\underline{\text{GH¢}1,217,181.60}} \end{aligned}$$

Signed .....

Date:..... 12/04/21.....

**Ammishaddai Owusu-Amoah**  
**Commissioner-General**