

Practitioner viewpoint: Income recognition rules, tax justice, and tax revenue mobilization: a practitioner's perspective on taxing bank deposits

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1. Introduction

Taxation is a key economic governance tool through which nations impose levies on property, entities and individuals to generate revenue for infrastructure, social services, development and running of government machineries (Gbadago, 2018). In this regard, we argue that beyond revenue generation, taxation directs investments and can be used to promote industrialization, create jobs and drive economic growth. However, it is often imposed against the will of the people and may be resisted, avoided or evaded. To ensure efficiency, tax authorities enforce compliance and assess taxable income. When conventional collection methods fall short, revenue targets are used to measure effectiveness. Tax audits serve as crucial tools for verifying income accuracy, detecting non-compliance and enforcing tax laws, ensuring fairness and adherence to regulatory frameworks.

However, tax audits present challenges for practitioners, requiring a clear understanding of business revenue recognition for tax determination. We believe that with the advent of the Independent Tax Appeals Board and judicial tax dispute resolution, accurate income recognition is crucial for consistent determination of chargeable income. Business income reflects gains from operations contributing to profitability. Under GAAP and IFRS, income is recognized on an accrual basis, recorded when earned rather than when cash is received, ensuring accurate financial reporting.

Accordingly, over-relying on cash flows, particularly bank deposits, distorts revenue recognition and contradicts accrual and matching principles. This approach excludes cash transactions used for business purposes and may misclassify non-revenue sources such as loans, shareholder contributions and refunds. Accurate income recognition must align with accounting principles and legal frameworks to ensure fairness and compliance. Many tax laws, including Ghana's Income Tax Act, 2015 (Act 896), Section 19, follow GAAP to enhance tax accuracy, ensuring assessments reflect actual business income rather than cash flow misinterpretations.

Tax administrators often prioritize revenue mobilization over business-friendly income recognition, impacting SMEs and startups. They sometimes treat total bank deposits as taxable

income, disregarding business challenges and strategic financing. This approach raises concerns about tax compliance, financial reporting accuracy and ease of doing business.

Wrongful tax assessments can burden businesses, hinder capital accumulation and slow economic growth. Many SMEs rely on bank financing, shareholder contributions and interbank transfers, which appear in bank deposits but are not taxable income. In emerging economies, businesses rotate supplies and funds to build creditworthiness for banking facilities. If tax authorities misclassify these transactions as revenue, firms may face inflated tax obligations, reducing reinvestment capacity and stifling job creation and economic sustainability.

Despite Adam Smith's taxation principles, research gaps persist in applying GAAP to tax compliance in emerging economies. Business income recognition challenges affect revenue mobilization and tax-to-GDP ratios. Most studies focus on tax avoidance and evasion, with limited research on GAAP-based assessments. This paper offers insights for aligning tax audits with best practices.

Efficient tax authorities in advanced economies uphold fair, transparent systems rooted in sound accounting principles, fostering trust and compliance. However, in emerging economies like Ghana, tax authorities often misclassify bank deposits as taxable income, contradicting equitable taxation and hindering sustainable revenue mobilization.

This paper offers a practitioner's perspective on income recognition in tax administration within emerging economies, comparing it to global best practices. It provides actionable recommendations to align tax audits with GAAP principles, ensuring fair, predictable and business-friendly tax assessments. By fostering compliance, enhancing financial planning and improving tax-to-GDP ratios, we support a tax environment conducive to economic growth.

Regulatory bodies, tax professionals and businesses will find insights on balancing revenue needs with sustainability. The *World Bank's Ease of Doing Business Report (2022)* underscores that equitable income recognition rules promote tax justice, attract FDI and enhance economic stability. Accordingly, all stakeholders, especially tax practitioners and tax auditors, should understand the implications of these rules on business operations and capital accumulation.

Building on the foregoing assertions, we argue as practitioners that refining business income recognition rules and tax assessment methods to achieve tax justice in emerging economies like Ghana is more beneficial than short-term revenue gains from misclassified bank deposits. A fair, well-structured tax system promotes accurate assessments, business growth and sustainable development, ultimately strengthening the tax base. This approach enhances revenue mobilization while expanding income-generating opportunities, broadening the tax net and bolstering economic stability. By prioritizing equitable taxation, policymakers can create a more predictable and investor-friendly environment that supports long-term economic resilience and sustainable public finance.

Few practitioner viewpoint papers address business income recognition for tax assessment. The limited available papers mainly focus on tax avoidance, overlooking its impact on tax justice, compliance and economic stability. Bridging this gap is crucial for fair taxation, investor confidence and revenue mobilization.

To this end, this paper addresses the above-identified gaps by providing a practitioner's perspective on proper income recognition, the application of Section 19 of Act 896 of Ghana

and similar laws and the treatment of bank deposits, including cash flow, for tax purposes. It also highlights broader implications for taxpayer trust, tax compliance and revenue mobilization. The discussion draws on relevant tax cases, including *Fan Milk Ghana Ltd v. Commissioner-General of GRA (2020)* and *MTN Ghana v. GRA (2023)*, which provide precedence on tax assessment disputes. These cases illustrate the necessity of aligning tax assessments with GAAP principles to ensure compliance and prevent arbitrary tax liabilities.

2. Business income recognition rules that promote tax justice, accurate assessments and tax revenue mobilization

Tax authorities' income recognition approach influences financial accounting, disclosure and economic stability. Proper recognition fosters tax justice, investor confidence and business growth. As practitioners, we stress equitable income recognition's role in economic expansion. A consistent framework minimizes disputes, builds trust and promotes fair taxation, ensuring sustainable revenue mobilization and a predictable business environment.

In emerging economies like Ghana, voluntary tax compliance and income disclosure remain challenges affecting the tax-to-GDP ratio. Tax authorities' income recognition approaches significantly influence compliance. Some economies establish clear GAAP-based rules governing revenue recognition, accrual accounting and the matching principle, ensuring income reflects actual economic performance rather than cash movements. GAAP-based methods enhance financial reporting reliability by recognizing income when earned, not received. Aligning tax laws with financial reporting standards strengthens tax assessments, promotes fairness and supports accurate income determination for taxation.

Accrual accounting records income when earned, regardless of cash flow circulation. The matching principle ensures expenses align with corresponding revenue, enhancing financial accuracy. Aligning tax policies with GAAP promotes fairness, reduces disputes, boosts investor confidence and expands the tax net. A transparent income recognition framework supports effective tax administration, business growth and economic development, especially in emerging economies where tax policy is vital for revenue mobilization.

In conclusion, as practitioners, we recognize the important role that business income recognition rules and techniques play in tax assessment and revenue mobilization, which impact tax-to-GDP ratio, as well as ensuring tax justice, investor confidence and revenue mobilization. As chartered accountants and tax practitioners, we stress the importance of aligning these rules with GAAP and international best practices to enhance transparency, accurate tax assessments and sustainable economic growth.

It is imperative to note that a structured and consistently applied income recognition framework reduces tax disputes, strengthens compliance and expands the tax base by assessing businesses on their true economic performance rather than arbitrary cash movements. Accrual accounting and the matching principle ensure fairness in determining taxable income, fostering trust between businesses and tax authorities.

Furthermore, we emphasize that equitable and transparent income recognition fosters responsible financial management, economic stability and a broader taxable base, ensuring sustainable revenue mobilization. In emerging economies, GAAP-based tax assessments enhance compliance, boost revenue and create a predictable business environment. Aligning income recognition policies with sound financial reporting standards is crucial for a fair and

efficient tax system. A standardized, transparent framework supports economic resilience, business growth and long-term national development.

3. Tax law provisions and court rulings on income recognition, tax justice and tax revenue mobilization in emerging economies

A clear legal and taxation framework for income recognition enhances tax knowledge, ensuring accurate assessment, compliance and revenue mobilization. While tax administrators prioritize revenue, equity demands well-defined principles for determining the taxable base. This supports fair tax liability assessment, improved compliance and sustainable revenue growth, strengthening the tax-to-GDP ratio.

Furthermore, we argue income recognition should align with GAAP principles, reflecting actual business income for tax assessment. Cash flow movements alone cannot define income but serve as a complementary measure. Court rulings affirm this, as seen in *IRC v. Duke of Westminster* (1936) and *CIR v. Newman* (1947), emphasizing that tax liability must strictly follow legal provisions, not moral arguments. Thus, using cash flow movements as taxable income is legally unjustifiable. A Ugandan court ruling in *ABC Capital Bank v. Attorney General* (2023) reinforced taxpayers' rights, declaring it unconstitutional for tax authorities to compel banks to disclose clients' financial information. This decision highlights ongoing debates in emerging economies on the use of bank statements in tax assessments.

Furthermore, in a tax dispute between the Commissioner-General and Fan Milk Ghana Ltd (2020), *Fan Milk Ghana Ltd v. Commissioner-General Suit No. H1/247/2020*, a Ghanaian court ruled on the reclassification of inappropriately treated transactions that purport to be a trade discount. The court ruled that the transactions did not align with GAAP or the accounting approach in Frank Wood's textbook. It rejected Fan Milk Ghana Ltd's claim of trade discounts and upheld GRA's reclassification as commission payments, subject to a 10% withholding tax, based on the transaction nature and treatment.

In practice, to support tax administration, most jurisdictions supplement GAAP, IFRS and accounting principles with specific income recognition rules. In Ghana, Section 19 of the Income Tax Act, 2015 (Act 896), aligns with GAAP, requiring income determination based on accepted accounting standards. However, tax authorities often misinterpret cash inflows as taxable income, contradicting legal provisions and best practices. In fact, such misclassifications distort financial reporting, affecting the income that forms the tax audit base for determining tax liability. This can lead to potential disputes, significantly undermining taxpayers' trust in tax administration and ultimately influencing their attitude toward tax compliance. In the long run, such uncertainties hinder business growth and long-term sustainability.

In Ghana and other emerging economies, tax regulations clearly distinguish taxable earnings from non-revenue cash inflows like capital injections, interbank transfers, loans and refunds, which are not taxable income. Tax administrators must distinguish cash flow from taxable income to ensure fair audits. While cash flow reflects money movements, taxable income derives from revenue-generating activities. Misclassifying deposits like capital contributions distorts financial statements, imposes undue tax burdens and hinders business growth.

4. Implications of treating bank deposits as income, tax justice and tax revenue mobilization

The misclassification of bank deposits and other non-revenue items as taxable income has several economic and financial consequences. First, it leads to over-taxation, where businesses are taxed on funds that do not constitute earnings. This not only creates financial strain on businesses but also discourages investment and expansion, particularly for SMEs. Emerging economies such as Ghana, Uganda, Nigeria and Kenya have recognized this issue and are increasingly adopting more stringent auditing mechanisms to prevent undue tax burdens.

Second, misclassifying deposits and non-revenue items as income distorts financial reporting and compliance. Tax assessments based on bank deposits or non-income items can result in inaccurate financial statements, as businesses may have to adjust their books to reflect GRA-imposed tax liabilities rather than true financial performance. This was evident in the *MTN Ghana v. GRA (2024)* case, *Scancom PLC v. The Commissioner-General, Suit No.: CM/TAX/0008/22*, where MTN contested a tax assessment that failed to distinguish between actual revenue and non-revenue transactions. The case emphasized the need for clear tax guidelines that align with accounting standards to avoid arbitrary assessments.

Additionally, such tax practices undermine investor confidence and the business environment. Investors require tax predictability and arbitrary assessments discourage FDI. We argue that emerging economies with transparent tax regimes attract more foreign capital, which reinforces the need for Ghana to refine its tax assessment processes.

5. Practitioners' suggestions for improving business income recognition for tax justice and revenue mobilization

To ensure fair income recognition and tax justice in emerging economies like Ghana, tax administration must align with GAAP principles. First, tax authorities should avoid cash flow-based assessments that misclassify deposits as taxable income. Instead, taxable income should reflect actual revenue earned, following accrual accounting. Countries like South Africa, Malaysia and Nigeria demonstrate that strict adherence to accounting standards minimizes disputes and wrongful tax assessments. Implementing these measures will enhance tax compliance, revenue mobilization and business growth while fostering entrepreneurship.

Second, clear and comprehensive tax guidelines should be developed to distinguish business income from non-revenue cash inflows, including shareholder capital injections, loan proceeds, interbank transfers and refunds. These transactions, though reflected in bank deposits, do not constitute taxable income under standard accounting practices. Such clarity will prevent arbitrary tax liabilities and enhance taxpayer confidence in the tax system.

Third, tax administrators and auditors should modernize tax audits by integrating digital tax administration systems that incorporate real-time income verification tools. Countries such as Ghana, Kenya and Singapore have implemented electronic tax filing systems that streamline audits, ensuring a clear distinction between business revenue and cash inflows.

Finally, collaboration between tax authorities and practitioners should be strengthened through continuous training, stakeholder engagement and tax policy reviews. By adopting best practices, tax authorities can enhance voluntary tax compliance, foster economic expansion

and ensure a fair and transparent tax system that supports long-term business sustainability, which may significantly and positively widen the tax net automatically.

6. Research suggestions for improving actual income recognition for tax justice and revenue mobilization

Future research should empirically examine how income recognition approaches impact tax revenue mobilization, business growth and economic sustainability in emerging economies. Studies should compare accrual-based and cash flow-based models to assess their effects on compliance, revenue efficiency and investment decisions. Additionally, research should analyze the implications of tax authorities' reliance on bank deposits as taxable income. Comparative studies across jurisdictions can offer insights into effective income recognition frameworks. Exploring digital tax systems, AI and blockchain could enhance transparency and accuracy. Finally, evaluating policy interventions like taxpayer education and dispute resolution mechanisms can improve tax fairness and compliance.

7. Conclusion

Accurate income recognition ensures tax justice, revenue mobilization and economic growth. Misclassifying bank deposits as taxable income distorts financial reporting, burdens businesses and weakens investor confidence. Aligning tax assessments with GAAP prevents disputes and ensures fairness. Lessons from tax cases highlight the need for consistent application of accounting principles. Strengthening tax administration through refined auditing standards, digital systems and transparent reporting fosters balanced taxation, enhances compliance and promotes sustainable economic growth in Ghana and other emerging economies.

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