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All News Editors

For Immediate Release

**GRA RESPONDS TO CONCERNS BY ABOSSEY OKAI SPARE PARTS TRADERS
ASSOCIATION ON THE NEW VAT REGIME**

The Ghana Revenue Authority (GRA) has noted with concern statements attributed to the Abossey Okai Spare Parts Traders Association suggesting that the new Value Added Tax regime under the Value Added Tax Act, 2025 (Act 1151) will lead to higher consumer prices, distort market competition, and impose an unfair burden on spare parts traders.

The GRA takes the concerns of all taxpayers seriously and remains open to constructive engagement. However, the claims made in the Association's statement reflect a fundamental misunderstanding of how the new VAT system operates. The Authority wishes to place the following facts on record:

1: The change from the 4% Flat Rate to 20% will not result in increased prices

Under the Flat Rate Scheme, traders paid input VAT of 21.9% on every purchase, and that was **not deductible**. Under the new regime, input VAT of 20% is **fully deductible** as the trader can claim it back from the GRA resulting in lower costs.

The illustration below uses ₵500 base price as an example, and a profit margin of 20%:

	OLD Regime (4% Flat Rate)	NEW Regime (20% Standard VAT)
Input VAT paid on GH₵500 purchase	GH₵109.50 (21.9%)	GH₵100.00 (20%)
Input VAT deductible?	NO	YES
Trader's actual cost	GH₵609.50	GH₵500.00
20% profit margin	GH₵121.90	GH₵100.00
Selling price before VAT	GH₵731.40	GH₵600.00
Output VAT charged	4% = GH₵29.26	20% = GH₵120.00
Final price to customer	GH₵760.66	GH₵720.00
VAT remitted to GRA	GH₵29.26	GH₵120 – 100 = GH₵20.00

When input VAT deductibility is properly accounted for, **the customer's final price under the new regime (GH¢720) is GH¢40.66 lower than under the old regime (GH¢760.66).** This advantage holds at any profit margin because the new regime's lower cost base (GH¢500 vs. GH¢609.50) more than offsets the higher output VAT rate. The appearance of higher prices is the result of traders applying the new 20% output VAT on top of a cost base that still includes non-deductible input VAT.

Under the new regime, traders simply enter the input VAT they paid on purchases alongside the output VAT they charged on sales, and remit only the difference to the GRA. The deduction happens automatically as traders file their returns.

2: Increase in the VAT registration threshold does not lead to price and market distortions

A non-registered trader still pays 20% VAT on every purchase but cannot claim any of it back. VAT is permanently embedded in their cost. By contrast, a registered trader claims back all input VAT and builds pricing on a lower cost base. Using the same GH¢500 item with a 20% profit margin: a non-registered trader bears a cost of GH¢600, adds a 20% margin of GH¢120, and sells at GH¢720 (with no output VAT). A registered trader on the other hand, bears a cost of GH¢500, adds a 20% margin of GH¢100, and sells at GH¢720 (GH¢600 plus GH¢120 output VAT). **The final price to the customer is identical: GH¢720.**

The threshold has always been a feature of Ghana's VAT system. Its increase to GH¢750,000 is a deliberate relief measure to free smaller traders from the administrative burden of VAT registration and filing. It does not create a meaningful competitive distortion.

Benefits of the New VAT Regime to Businesses

- **Lower effective tax rate.** The overall rate has been reduced from 21.9% to 20%, saving 1.9 percent on every transaction.
- **Abolition of the COVID-19 Health Recovery Levy.** The 1% COVID-19 has been permanently removed, reducing the cost burden on both businesses and consumers.
- **Full input VAT deductibility.** VAT-registered businesses can claim back the entire 20% input VAT, including the NHIL and GETFund levies, which were previously non-deductible.
- **Elimination of cascading taxes.** The old system charged levies on top of other levies, creating a tax-on-tax effect. The new regime calculates VAT, NHIL, and GETFund on the same base, removing this hidden cost escalation.
- **Reduced cost of doing business.** With input VAT no longer forming part of the cost base, businesses operate on lower costs. Using the GH¢500 example, the trader's cost drops from GH¢609.50 under the old system to GH¢500 under the new system — a reduction of nearly 18%.

- **Simplified and unified structure.** The abolition of the flat rate scheme means one transparent system for all VAT-registered taxpayers, therefore improving compliance.
- **Higher registration threshold.** Small traders with annual turnover below GH¢750,000 are freed from VAT obligations entirely, reducing their administrative costs.
- **Frictionless input VAT recovery.** Claiming back input VAT is built into the existing self-reporting process. Traders declare input and output VAT on the same return form they have always used, retain the input VAT, and remit only the net amount.

The GRA reiterates that the new VAT regime, when properly applied, does not increase prices for consumers and does not distort competition in the marketplace. The price increases currently being observed are the result of a transitional pricing error - the failure to remove now-deductible input VAT from cost calculations - and not a consequence of the policy itself.

The Authority has already established a joint technical team with the Ghana Union of Traders' Associations (GUTA) to support businesses through this transition, including practical guidance on VAT record-keeping, input tax claims, and correct pricing. The GRA stands ready to extend this support to the Abossey Okai Spare Parts Traders Association and any other trade group that requires assistance.

We call on all stakeholders to engage constructively and to take full advantage of the benefits this reform offers.

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