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The Impact of the New Value Added Tax Act (VAT) Act 2025, Act 1151, on the Final Consumer and Businesses

The Value Added Tax Act 2013, Act 870, has been repealed and replaced with the Value Added Tax Act 2025, Act 1151. This is the third successive VAT law following the repeal of the Sales and Service Tax law in 1998. This current law repealed about 13 amendments of Act 870, including the VAT Flat rate scheme, and it came into force on January 1, 2026.

Per the new law, taxable supply attracts VAT at 15%, and National Health Insurance Levy at 2.5% and Ghana Education Trust Fund Levy at 2.5%. This makes an effective tax rate of 20%. All these qualify as deductible input tax regarding direct purchases and inputs relating to the supply.

The new registration threshold is set at Seven Hundred and Fifty Thousand Ghana cedis (GHS750,000.00) per annum, far above the previous threshold of Two Hundred Thousand Ghana cedis (GHS200,000.00). Thus, any registered business supplying goods with a turnover exceeding GHS750,000.00 is required to register compulsorily and account for the tax. What is conspicuously missing is the threshold for suppliers of services.

The new VAT Act eliminates the cascading effect of the levies and abolishes the Covid-19 levy of 1%. As a result, the effective rate of the VAT regime has reduced from 21.90% to 20%. This will lead to the reduction of the final price for consumers and lessen the burden on businesses. Government revenue from this tax handle may be reduced if the tax base is not expanded.

Will this new VAT Law lead to a reduction in the prices of goods?

Suppose you buy goods with a unit cost of GHS100.00, and you decide to add a 10% profit mark-up. Ignoring input tax on expenses that may arise, your prices and VAT will be as follows:

Description	Under Act 1151 (GHS)	Under Act 870 (GHS)
Cost of product	100.00	100.00
GetFund levy	100 × 2.5% = 2.50	100 × 2.5% = 2.50
NHI levy	100 × 2.5% = 2.50	100 × 2.5% = 2.50

Description	Under Act 1151 (GHS)	Under Act 870 (GHS)
Covid-19 levy	–	100 × 1% = 1.00
Total (excluding VAT)	105.00	106.00
VAT 15%	100 × 15% = 15.00	106 × 15% = 15.90
Total Cost (Amount paid)	120.00	121.90
Selling price / Output VAT		
Cost	100.00	106.00
10% mark-up	100 × 10% = 10.00	106 × 10% = 10.60
Selling price	110.00	116.60
GetFund levy	110 × 2.5% = 2.75	116.60 × 2.5% = 2.92
NHI levy	110 × 2.5% = 2.75	116.60 × 2.5% = 2.92
Covid-19 levy	–	116.60 × 1% = 1.17
Total (excluding VAT)	115.50	123.61
VAT 15%	110 × 15% = 16.50	123.61 × 15% = 18.54
Selling price including VAT	132.00	142.15

**The cost of 106 is arrived at as a result of the non-deductibility of the levies. A typical entrepreneur will pass on this cost to the final consumer.

With a 10% markup to cover overheads and profit, the VAT-inclusive selling price, which is the cost to the final consumer, will increase by 12% under the new Act 1151, but by over 20% under the old Act 870 and its amendments. Businesses and consumers are the beneficiaries of this VAT overhaul.

The price of the above product has reduced by GHS10.15 or 7.1%. Thus, prices will only reduce for taxable goods.

VAT PAYABLE TO GRA

So, does this new VAT overhaul increase revenue to the government? Let's consider the revenue position of the two regimes of the above example as follows:

Details	Under Act 1151 (GHS)	Under Act 870 (GHS)
VAT		
Out VAT	16.5 + 2.75 + 2.75 = 22.00	18.54
Input VAT	15 + 2.5 + 2.5 = 20.00	15.90
Net VAT to GRA	2.00	2.64
Plus Levies	Nil	7.01
Total Tax	**2.00**	**9.65**

Net VAT payable to the government through GRA reduced from GHS9.65 to GHS2.00. The reduction of GHS7.65 is a result of the deductibility of input taxes related to the levies and the abolished Covid-19 levy, and the cascading effect as part of the VAT reform. From the above net tax position, the government under the new VAT Act 1151 releases over 79% of the tax to the economy. This huge reduction can only be recovered by ensuring mass compliance by expanding the VAT-compliant entities. Consumers also have to demand the tax invoice for all purchases. Compliance by all will encourage the government not to introduce further amendments towards increasing revenue to the level of the repealed ACT 870.

The levies from NHIL, GetFund and Covid-19, which were non-deductible, added to the cost and reduced profit margins, and in effect, revenue from Corporate Income Tax under the old system. Now, those levies are input deductible, and we expect profit margins to increase, so is revenue from Corporate Income Tax.

There are other pertinent issues in the new VAT Act 1151 that affect various business sectors. For any assistance, contact us at info@ralservicesgh.com

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