

VAT on electricity consumption: Govt urged to fix ECG revenue leakages

By Emelia Ennin Abbey

ANY attempt by the government to increase electricity tariffs without blocking revenue leakages in power distribution will be an exercise in futility, Policy Lead in charge of Petroleum and Conventional Energy at the Africa Centre for Energy Policy (ACEP), Kodzo Yaotse, has said.

He said the recent imposition of 15 per cent Value Added Tax (VAT) on electricity tariffs for residential consumers would not achieve the desired objectives if a permanent solution was not found to drastically reduce revenue leakages and debt accumulations at the power distribution end.

IMANI Africa Founder, Franklin Cudjoe, has further suggested that the actual impact of the new VAT tariff on electricity would be a 21 per cent increase rather than the advertised 15 per cent, while the Secretary General of the Trades Union Congress (TUC), Dr Yaw Baah, said his outfit would resist the imposition of 15 per cent VAT on electricity tariffs for residential consumers.

Speaking to the *Daily Graphic*, Mr Yaotse cited the revenue leakages of the state-owned power utility, Electricity Company of Ghana (ECG) as stemming from power theft and ineffective revenue collection.

"ECG records about 40 per cent loss of power expected to be generated and sold, and its inability to collect revenue is also a challenge," he said.

VAT on electricity

The government directed the imposition of VAT on electricity effective January 2024 to raise more revenue as part of its separate COVID-19 recovery and IMF programmes.

In a letter dated January 1, 2024, the Finance Minister, Ken Ofori-Atta, instructed the ECG and the Northern

Electricity Distribution Company (NEDCO) to apply the VAT to residential customers exceeding the maximum consumption level for lifeline units.

Finding solution

Mr Yaotse said although the imposition of VAT on electricity was based on the IMF programme, "it is based on the assumption that we are not paying enough for electricity, but that assumption is wrong".

He pointed out that between September 2022 and June 2023, electricity tariffs rose by about 100 per cent.

To find a lasting solution, he suggested a national discussion on the reintroduction of private sector management participation in the operations of the ECG to make it a viable commercial entity.

He said going ahead to impose the 15 per cent VAT on electricity consumption for residential users would rather lead to illegal consumption as power would become too expensive, which could entice people to rather bypass the system to illegally tap power and further compound the revenue challenges of the ECG.

Also, he said, power consumers who could pay would seek competitive alternatives outside the national grid such as renewable power sources, including solar, which would adversely affect the ECG.

Not 15 per cent

Mr Cudjoe of IMANI Africa, in a Facebook post, explained that the actual rate consumers would pay following the imposition of the VAT is 21.9 per cent and not 15 per cent.

In a breakdown, he explained that the cascading effect of the 2.5 per cent National Health Insurance Levy, 2.5 per cent GETFund Levy, 1.0 per cent COVID-19 Levy in addition to the 15 per cent VAT brings the effective VAT rate to 21.9 per cent.

"If you used to pay GH¢100 for

domestic consumption of electricity, you will now pay GH¢121.90," he said.

TUC boss

Speaking at a swearing-in ceremony of a nine-member national executive committee of the Ghana Registered Nurses and Midwives Association in Accra last Wednesday, the Secretary General of the TUC said workers in the country were suffering with an unsatisfactory salary structure.

"If we don't resist this, tomorrow they will come and tax water, so we are not going to sit down for that to continue.

"That is why I am saying we are going to have a baptism of fire. We're going to fight it until it's cancelled," he said.

He charged the new executive to help to resist the tax, adding that "there is a big fight on our hands, so we are going to fight it until we win".

Consumers concern

Some consumers who spoke to the *Daily Graphic* described the measure as too harsh, stressing that it would worsen the economic condition of many people.

The Chief Executive Officer of the Consumer Protection Agency, Kofi Kapito, described the imposition of the VAT on electricity as a bad decision and a ridiculous move by the government.

"It will adversely affect consumers," he said.

The Executive Director of the Chamber of Petroleum Consumers (COPEC), Duncan Amoah, stressed that the measure was avoidable if efforts were put in place to cut transmission losses and reduce revenue losses

pertaining to the ECG.

"This would have prevented the situation of putting pressure on those who are already paying high for electricity," he said.

Mr Duncan said a large part of the power produced by the independent power producers was either wasted or unaccounted for.

"We must not try to find any quick fixing of the power sector; we need to roll our sleeves, get to work and ensure that the challenges of the ECG, which the Millennium Challenge Account (MCA) advanced some funds to, which led to the botched PDS agreement and

led to the MCA withdrawing the funding, is addressed," Mr Amoah said.

He urged the authorities to take the necessary steps to invest adequate funds into the power sector to make it robust and efficient to fix the revenue seepage.

He suggested an arrangement of having contractors who would be dedicated to collecting revenue and accounting for power distribution for specific zones or transmission points of the ECG.

"Unfortunately, the very things we did that led to revenue losses, we still continue to do them and expect to use the backdoor to collect taxes to generate enough revenue. This quick fix will not help the government or the consumer," he said.

Rather, he pointed out that it would

compound the pressure on electricity users.

Already, he said, there were some inbuilt taxes on electricity consumers.

"It is like tax on tax. Government must not get away with this; they will need to explain exactly what they are taxing. Is it the unit consumed before the existing taxes are applied? Or it is just a flat utility tariff?"

"This is government, and this is what it wants to do. It will get away with it. It will be able to get the numbers in Parliament to impose this on the people," he said.

@ a glance



Instead of imposing VAT on electricity, the government has been urged to resolve the revenue leakages associated with power distribution to generate the needed revenue to make the energy sector robust.