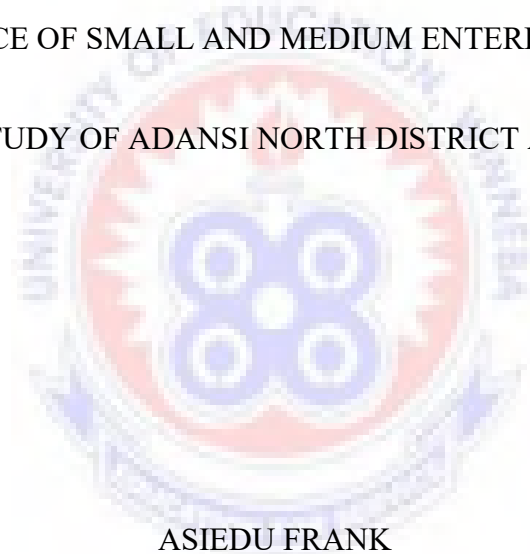


UNIVERSITY OF EDUCATION, WINNEBA

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TAX COMPLIANCE OF SMALL AND MEDIUM ENTERPRISES IN GHANA.

A CASE STUDY OF ADANSI NORTH DISTRICT ASSEMBLY.



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JUNE, 2017

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**A Thesis in the Department of Accounting Studies, Faculty of Business Education,
submitted to the School of Graduate Studies, University of Education, Winneba in partial
fulfilment of the requirements for award of Master in Business Administration
(Accounting) degree.**

JUNE, 2017

CHAPTER ONE

1.0 Introduction

This chapter talks about the background and the motivation for the study, the statement of **the** problem, purpose of the study(objectives), research questions, significance of the study, limitation and delimitations of the study and organization of the study.

1.1 Background to the Study

African countries have it as a priority to raise more domestic revenue (Drummond et al., 2012).

Revenue mobilization may be defined as a way for governments to provide money for essential public services like water, houses, schools, hospitals, roads and many others and reduce foreign grants, aids, loans and single resource dependence.

The domestic tax bases in most African countries such as Ghana are undermined by high tax avoidance and evasion (IMF 2011). Tax evasion limits the amount of revenue available for the government. Tax evasion can also have bad effects on economic efficiency (Chand and Moene, 1999; Tanzi, 2000a) and income distribution, implementation and outcomes of economic policies (Tanzi, 2000b) and reduces government's authority.

In Ghana, a public figure and a leader of political party in the person of Mr. OPESIKA AGUDE have been sentenced by an Accra circuit court for nonpayment of tax and social security of his employees. This is evidence of people refusal to adhere to their tax obligations.

Carroll, (2011) in her study into “taxing Ghana’s informal sector: the experience of women”, revealed that more than half (65 percent) of the women surveyed are aware that they have to pay taxes, but more than half do not feel well informed as to why they pay tax and more than 50 percent of the respondents say they do not enjoy the benefits of paying it.

The economy of Ghana is largely made up of individual and small-scale enterprises that provide diverse sources of income which, if taxed, could increase government internally generated revenue. The Institute of Statistical, Social and Economic Research (ISSER), 2003, stated that “the main source of employment in Ghana is the informal sector.

Therefore, there is the need for stakeholders to understand tax payment attitudes of traders (small and medium size) in Adansi North District Assembly so as to make very good recommendations to improve tax payment attitudes of traders. Some of the attitudes of traders towards tax payment are unwillingness to pay tax, lack of knowledge about tax and many others. These attitudes will reduce revenue mobilization in terms of taxes in the district which will affect the development of the district negatively.

1.2 Statement of the Problem

The informal sector is an obvious choice of attention in terms of revenue mobilization as it forms an important and growing proportion of the economy in the developing countries like Ghana, yet contributes little or nothing in the form of taxes.

Ghana recorded in 2009 a revenue shortfall equivalent to 1.9% of GDP, while in the case of expenditures, the wage over-run and domestic interest cost exceeded budgeted targets by 0.6% of GDP in each case. The excess expenditure over revenues was financed by borrowing from the domestic banking system, proceeds from divestiture and external sources. Government borrowings from the banking sector tend to crowd out the private sector. Divestiture proceeds have also been used to finance recurrent expenditure (IMF Ghana Report, 2012).

Taxation is essential and we should pay taxes. The development of a country depends on taxation and without adequate revenue, development efforts will be hampered. In the 2016 budget statement, tax revenue from the IRS, CEPS and VAT Service along is projected to be GHS29, 129.04 billion that is about 21.5 percent of GDP.

The study, evasion, nonpayment, non filling of returns, understating income, collusion with officers, etc of traders (small and medium size) towards tax payment in the Adansi North District Assembly is not only of academic interest, but also vital for policy makers. Efforts to widen the tax base of any District should be strategized on insights into how tax payers experience and perceive the tax administration and enforcement and whether their tax payment attitude is correlated with their level of education on direct benefit from tax payment.

The main problem of this research was to find out the attitudes of traders (small and medium size) towards tax payment in the Adansi North District Assembly, how these attitudes affect tax payment and how these attitudes can be changed for better tax payment.

1.3 Purpose of the study

There could never be a development without substantial revenue. Payment of tax is one of the major sources of funding for state development, however most income earners believed that tax payment is an avenue for the government to take advantage of the citizens. This normally occurred when basic amenities like, water, schools, hospitals, roads and many others are not provided by the government.

1.4 Objectives of the Study

The general objective of the study is to know the attitudes of traders towards tax payment in the Adansi North District Assembly. The specific objectives are to:

- i. Know the level of knowledge of traders on taxes.
- ii. Identify the problems that the traders face in tax payment.
- iii. Know the direct benefit of tax and effect on tax payment.
- iv. Know the relationship between the traders and the tax officials.
- v. Know whether all the traders pay taxes.
- vi. Identify the role of revenue officers towards improving tax payment by traders in Adansi North District Assembly.
- vii. Identify ways that will help increase the number of tax payers in the Adansi North District Assembly.

1.5 Research Questions

- I. What is the level of knowledge of traders on taxes?
- ii. What are some of the problems traders face in tax payment?
- iii. What is the relationship between the traders and the tax officials and the compliance of tax payment?
- iv. What are the roles of tax officers towards improving tax payment by traders in Adansi North District Assembly?
- v. What can be done to increase the number of tax payers in the Adansi North District Assembly?
- vi. How direct tax benefit influence payment?

1.6 Significance of the Study

Effective tax collection and tax administration system is achieved through clear knowledge of the essence of tax payment by tax payers as well as properly managed tax collection system. Tax administrators in the Adansi North District Assembly will find this research a useful document in their plans to strategize and improve tax payment by traders.

This study is certainly not the ending literature on the subject of tax payment attitudes of traders, but will serve as a reference material for future students, researchers and government officials who will want to build knowledge in the same study area.

Also, findings of this study will help to improve tax payers' attitudes towards tax payment and this will increase revenue for the government.

1.7 Limitations of the Study

The simple random sampling method used by the researcher did not allow all the members in the population to be selected. Had there been enough time the sample size would have been increased from one hundred (100) to a larger sample in order to give a larger sample views and better generalization to the larger population.

Also, the questionnaires will be misunderstood and most likely affect the true reflection of findings. However, the researcher will take time to explain the questions to the respondents to prevent this problem.

The researcher wish to point out that despite all these limitations, the findings of the researcher remains unbiased.

1.8 Delimitations of the Study

The study was restricted to only Adansi North District Assembly in the Ashanti Region of Ghana. There are many large businesses in the study area but the research was restricted to only small and medium size businesses.

Also there many sampling methods such as systematic random sampling, stratified sampling and many others but the study was limited to only simple random sampling. Besides, the study was restricted to only one hundred (100) sample sizes.

1.9 Organization of the Study

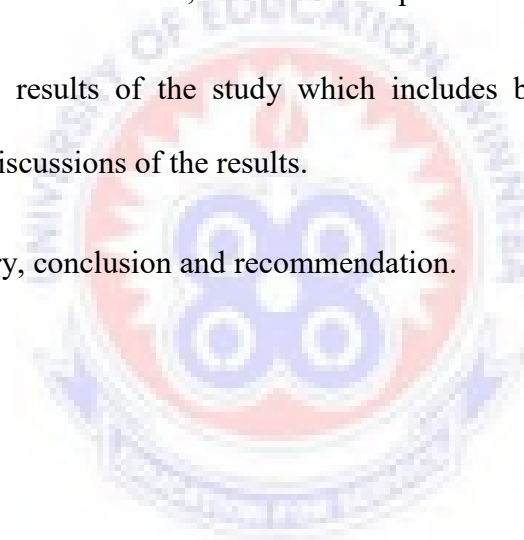
In order to present a systematic and consistent research, the study was grouped into five chapters. Chapter one consists of introduction, background of the study, statement of the problem, purpose of the study, objective of the study, research questions, significance of the study, limitations of the study, delimitations of the study and organization of the study.

Chapter two is the literature review. This include theoretical framework of the study, empirical basis of the study.

Chapter three covers the methodology of the study which includes research design, population and sampling, data collection instruments, data collection procedures and data analysis.

Chapter four presents the results of the study which includes background analysis of data, findings of the study and discussions of the results.

Chapter five is the summary, conclusion and recommendation.





CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter is devoted to the review of available literature on the topic taking into consideration theoretical framework of the study, empirical basis of the study and the author's conceptual framework. The chapter is organized according to the objectives of the study and other details which have the potential to help the discussions of the study findings, conclusions and recommendations.

2.1 Theoretical Framework of the study

According to Ghana Revenue Authority (GRA), small business is any business whose turnover is below GHS 90,000.00(source: Ghanaian Times Tuesday October 16, 2012. Page 25). A book

entitled; Business, the American challenge for Global Competitiveness, business is all activities involve in the production and distribution of goods and services for profit to satisfy consumer needs and wants.

2.1.2 Definition and History of Taxation

Taxation is the compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services and transactions (Oxford Dictionaries, 2011). This definition is only a piece of the bigger picture of tax and state building.

Taxation is often defined as the levying of compulsory contributions by public authorities having tax jurisdiction, to defray the cost of their activities. No specific reward is gained by the taxpayer. (Abdallah Ali- Nakyea, 2014 page). The money collected is used for the common good, that is , for the production of certain social amenities which are more efficiently provided by the state rather than by individuals, for example, the maintenance of law and order at home, and defence against external aggression. In this sense, then, a tax can be said to be a payment to support the cost of government. Taxes can thus be considered as a compulsory payment from households and firms to government to enable government to finance its projects and programmes. Taxes are compulsory because anyone subject to a tax is not free to choose whether or not to pay, hence sanctions by way of penalties and interest payment await tax defaulters.

Taxation is also regarded as a compulsion on the individual to surrender his or her control over private goods and services so as to enable government to rechannel the inputs (monetary or physical) into the production of public goods and services. You can avoid tax but you cannot

evade it. Avoidance could be by refusing to consume an item on which tax has been imposed, in the case of indirect taxes, and by successful tax planning aimed at taking advantage of tax incentives and reliefs in the case of direct taxes.

A taxpayer is any person or organization required by law to pay a tax to governmental authority. The term ‘person’, in taxation, refers to natural person (individuals), companies, partnerships and bodies of persons. This definition is accepted in Ghana’s Tax Law.

2.1.3 History of Taxation

Taxation was first introduced in Ghana, the then Gold Coast, in 1943 by the British Colonial Government at the time when World War II was raging. It should be noted, however that before the introduction of income tax in 1943, several attempts had been made, for example as far back as April, 1852, the Poll Tax Ordinance was passed to raise money to finance the increased cost of British Administration. Under the Ordinance, every man, woman or child residing in districts under British protection was to pay one shilling per head per year.

These early experiments of the introduction of direct taxation failed because of weaknesses inherent in the system of collection and the fact that the first proceeds were mainly used to pay the increased salaries of British Officials and not for the construction of roads and schools.

The first Income Tax Law was thus the Income Tax Ordinance (No. 27), 1943. This Ordinance was modeled to a large extent on the general principles underlying the Income Tax Act then in force in the United Kingdom. It imposed the tax generally on incomes having their sources in Ghana so that foreign source income was not liable unless it was remitted in Ghana. One characteristic feature of this Ordinance was the numerous personal reliefs and deductions that it contained.

Over the years the Income Tax Law has seen several changes through amendments and modifications such as the Income Tax (Amendment) Ordinance 1952. The first consolidated edition of the Income Tax Ordinance was published in March, 1953. The following Acts then introduced amendments to the Consolidated Edition Act 68 in 1961, followed by Acts 178 and 197 in 1963 and Act 312 in 1965. The second consolidated edition was published in September, 1966, i.e., the Income Tax Decree, 1966 (No.78). The Income Tax Decree 1975, SMCD (Supreme Military Council Decree) 5 which was published in December, 1975, was the third consolidated edition. The current Income Tax Law is the Internal Revenue Act, 2015 (Act, 896).

Value Added Tax was introduced in Ghana in 1995 but had to be withdrawn following agitations against its implementation. It was successfully reintroduced in 1998 by the Value Added Tax Act, 1998 (Act 546) which has now replaced with Value Added Tax Act, 2013 (Act 870) (Abdallah Ali-Nakyea 2014).

Taxation is part of a fiscal social contract between the state and its citizens, in which citizens pay taxes to the state in exchange for services, infrastructure and a guarantee of some kind of law and

order. It is thought that states relying on revenue from their own citizens will eventually build up their capacity to fulfill this fiscal social contract. To achieve this, each state must engage with its citizens and make the taxes-for-services exchange clear. The state must reduce its revenue from donors and natural resources and rely more on its citizens. One of the keys to this theory is that a government has different incentives depending on where its revenue comes from: if revenue comes from donors, governments focus on pleasing donors; if it comes from citizens, the authorities will focus on ensuring citizens have their basic needs addressed. Tax –paying citizens have the rights to demand services and debate tax rates with the government in order to ensure their needs are met. Taxation becomes a source of healthy conflict between citizens and the state (Brautigam, Fjeldstad and Moore, 2008).

The word ‘tax’ first appeared in the English language only in the 14th century. It derives from the Latin tax which means to assess. Before that English used the related word ‘task’ derived from old French. ‘Task’ and ‘tax’ were both in common use, the first requiring labour, the second money. ‘Tax’ then developed its meaning to imply something worrisome or challenging.

China has one of the longest of all written records and we know that taxes were levied here some 3,000 years ago as the Empire was being established. Powers (usually military) that were able to impose taxes created the first bureaucracies to collect and administer them. Under the Egyptian Pharaohs ‘scribes’ were charged with raising funds in any way practicable, including a tax on household cooking oil. Regular audits were conducted to ensure that oil was not recycled- perhaps the first historical record of ‘avoidance’.

Early taxation is also described in the Bible. In Genesis (chapter 47, verse 24 – the New International Version), it states ‘but when the crop comes in, give a fifth of it to Pharaoh. The

other four-fifths you may keep as seed for the fields and as food for yourself and your households and your children'. Joseph was telling the people of Egypt how to divide their crops, providing a portion to the Pharaoh. A share (20%) of the crop was tax.

Ghana, since independence has depended partly on taxes for its national development. Successive governments have instituted tax administrative structures to administer the various tax regimes in order to increase tax revenue for national development. These structures cover both the formal and informal sectors alike (Otioku, 1988).

However, taxation of the informal sector (i.e. the largest employer of the active Ghanaian labour force) has been extremely difficult for all past and present governments. With the growing pressure on the government to meet the socio-economic and infrastructural developmental needs of the society, there is an important need for government to generate more local revenue. One potential source of the much needed revenue is the large informal sector which largely remains untaxed. Ghana government continues to lose billions of cedis, if not trillions, in tax revenue from the informal sector (World Bank Report, 2002).

2.2 Knowledge of Taxation

Empirical evidence suggests that educating tax payers about the tax system (Vogel 1974, Song and Yarbrough 1978, Wartick 1994), tax laws (Eriksen and Fallan 1996, Palil and Mustapha 2011) and informing them about negative effects of tax evasion (Holler et al. 2008), sanctions and fines (Schwartz and Orleans 1967, Park and Hyun 2003) is a useful policy in order to

increase trust in authorities, conveying to significantly more tax compliance. The present study contributes to this literature by investigating how knowledge issues such as tax and its importance, specific taxes expected of traders, how much to pay and where to pay, could contribute to effective tax payment by traders.

Merima, Fjeldstad and Sjursen, (2013) stated in their studies that among other factors, knowledge base of individuals regarding the types of taxes to pay may also matter in affecting compliance attitude. Carroll, (2011) found in her study that women in Ghana's informal sector do not have enough knowledge of tax to engage actively with the process. In Carroll's study she found that more than half of the women interviewed do not feel well informed as to why they pay tax, and more than 50% of them say they do not 'enjoy' the benefits of paying tax. Carroll also found that 73% of women interviewed did not know the fundamental difference between national and local taxes. However, in the focus group discussions, more women could state the difference between local and national taxes than in the survey but most were not able to distinguish between the types of taxes they are asked to pay as individuals. It was in Carroll's study that some women suggested that tax authorities should use radio programmes in local languages to educate people on taxes. Other key suggestions include holding public meetings, meeting with various market groups and women on market days and education on record keeping.

Otioku, (1988) in his study established that about sixty percent of the informal sector entrepreneurs are uneducated. Associated with this problem (illiteracy) is the problem of filing out of income returns, preparation of accounts and in general the lack of voluntary compliance.

Generally, income returns forms are complex to complete and hence calls for one to be fairly educated to enable one peruse the return and complete it correctly. Again, the income return form does not come in the local languages that the illiterates can easily understand, hence the non-declaration of income form of tax evasion. Carroll (2011) also affirmed that this lack of knowledge can be attributed both to a lack of formal education and lack of civic education. In her study, 61% of women interviewed have either basic or no formal education, just under a quarter have secondary education, 9% have tertiary education and 7% have vocational or technical education.

Education efforts have been complimented with the introduction of taxation in the Ugandan school curriculum and the translation of tax education material into eight local languages. The education programmes organized are needed to enhance taxpayers' ability to understand assessment policies and to increase their confidence in fulfilling their responsibilities as taxpayers (Kasipillai and Mustafa, 2000). Educating tax payers about tax system has a direct impact on reducing the propensity to evade thus improving compliance. Similarly, citizens who access greater tax education may be aware of non compliance opportunities such as tax loopholes and hence a reduced likelihood of deliberate noncompliance (Kasipillai, Aripin and Amran, 2003).

2.3 The Classification of Taxes

Tax is a compulsory contribution, imposed by government, while taxpayers may receive nothing identifiable in return for their contribution, they nevertheless have the benefit of living in a relatively educated, healthy and safe society. Taxes can be classified in the following ways:

2.4 Tax Base

Taxes have to be levied on some basis or other and a convenient way of classifying a tax is to do so according to what is being taxed. There are three main tax bases in the present Ghana tax system.

Using the tax base is a convenient classification for economic analysis, for instance, in examining who exactly bears the burden of a tax, known as the incidence of taxation; but the tax base can cause problems in terms of defining how for example should income be defined?

2.4.1 Direct/ Indirect

A direct tax is one levied directly on the person who is intended to pay the tax whereas an indirect tax is borne by a person other than the one from whom the tax is collected. This classification can prove to be misleading at times as the incidence of some direct taxes for instance, corporation tax can easily be shifted.

2.4.2 Distribution of the Tax Burden

The way in which the burden of tax is distributed among the taxpaying community is another way in which taxes may be classified. The rates of tax can be set in such a way so that they are:

a. progressive: Progressive taxes take an increasing portion as the value of the tax base rises depend on the marginal rate of tax being greater than the average rate of tax.

b. Proportional: Proportional taxes take a constant portion of the value of the tax base and depend on the marginal and average rates of tax being equal.

c. Regressive: Regressive taxes take a declining portion as the value of the tax base rises and depends on the average rate of tax being greater than the marginal rate of tax.

The Marginal Rate of Tax= $\frac{\text{change in tax paid}}{\text{change in income}}$

The Average Rate of Tax= $\frac{\text{total tax paid}}{\text{total income}}$

2.4.3 The Principles of an Idea Tax

Nobody likes paying taxes, yet they are inevitable for the provision of social welfare. Despite the need for taxes in a modern society, the tax system adopted must be acceptable to the general public if dissension is to be avoided. An instance is the unrest caused by the introduction of the community charge in the UK in 1990. In his book, *The Wealth of Nations*, Adam Smith (1776) proposed that a 'good' tax should display the following characteristics:

- I. It should reflect a person's ability to pay;
- ii. It should be certain;

iii. It should be convenient

iv. It should be administratively efficient and not cause economic distortion.

2.4.4 Flexible

The structure and rate of a tax should be capable of being altered without too much difficulty to cope with changes in circumstances if the system of taxation is to be used as a means of regulating the economy which is one of the stated aims of taxation.

2.4.5 Simple, Certain and Convenient

The tax should be relatively simple for taxpayers to understand their liability and it should be administered in such a way that they are aware of the amount they should pay and the due date for payment. The method of payment should be convenient.

2.4.6 Equitable

Taxes must not only be fair they must also be seen to be fair if the taxpaying public is to find them acceptable. There is greater tendency for tax evasion when the tax system is perceived to be inequitable. It is often said that if there is widespread tax evasion, then the system of taxation is at fault and not the taxpayer. There are two types of equity to be considered:

- a. Horizontal equity- this requires that people in similar situations be treated in a similar way.
- b. Vertical equity- this requires that people in unequal situations be treated with the necessary

degree of inequality. Vertical equity would require the rich to pay more than the poor which advocates a progressive system of taxation.

Horizontal equity is easier to achieve through the tax system than vertical equity, as there are different attitudes as to what is a necessary degree of inequity. Equity is concerned with the distribution of the tax burden

2.4.7 Economy

A good tax should be economical to the government. The administrative cost of collecting and enforcing the tax should be reasonable in comparison with the total revenue generated by the tax. Every tax ought to be so contrived as both to take and keep out of the pockets of the people as little as possible over and above what it brings into the Consolidated Fund.

2.5 Purpose of Taxation

The definition of taxation given above shows the main purpose of taxation that is to raise revenue to defray the cost of goods and services provided by the state. Other purpose of taxation are to reduce inequalities arising from the distribution of wealth; to restrain certain types of consumption for instance alcoholic beverages and cigarettes for health purpose; to protect local industries and to control certain aspects of the country's economy e.g. balance of payment, employment ,saving, investment and productivity. Government has a lot of responsibilities which include economic infrastructure (roads, legal tender, enforcement of

contracts, etc.), enforcement of law and public order, protection of property, public works, social engineering, welfare and public services including education systems, health care systems, pension for the aged and public transportation. Also energy, water and waste management systems are common public utilities and the operation of government itself. There are a number of revenue sources available to a government to execute these responsibilities. Among the many sources is tax. Tax consists of one prominent, prudent and feasible sources of revenue for the government. Government therefore taxes the people in their country as they produce to earn income for themselves. Taxes form greater percentage of revenue to nations. Funds provided by taxation have been used by states and their functional equivalents throughout history to carry out many of these functions mentioned above. Governments use different kinds of taxes and change the tax rates. This is done to distribute the tax burden among individual's classes of the population involved in taxable activities such as businesses or redistribute resources among individuals or classes in the population.

Historically, the nobility were supported by taxes on the poor; modern social security systems are intended to support the poor, the disabled or the retired by taxes on those who are still working. Also taxes are applied to fund foreign and military aid, to influence the macroeconomic performance of the economy. The government's strategy for doing this is called fiscal policy. Taxes are use to modify patterns of consumption or employment within an economy by making some classes of transaction more or less expensive.

2.6 Tax Educations and Tax Compliance

The influence of knowledge on compliance behavior has been proven in various researches Mohamad Ali et al (2007). Harris (1989) divided tax knowledge into two aspects namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. In the first case, the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the laws and regulations of taxation Eriksen and Fallan (1996). Previous studies have evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation and their ability to comply with them. Eriksen and Fallan (1996 p387) claimed that 'knowledge about tax law is assumed to be important for preferences and attitudes towards taxation'.

There is little research that explicitly considers how attitude towards taxation is influenced by specific knowledge of tax regulations. The research done by Eriksen and Fallan has explained the importance of tax education in a tax system. They suggested that fiscal knowledge correlates with attitudes towards taxation and tax behavior can be improved by a better understanding of tax laws. Eriksen and Fallan's study is divided into three main parts. Firstly, the investigation is focused on taxpayers' knowledge. Secondly, the research tries to reveal the overall impact of tax knowledge on tax compliance behavior among individual taxpayers and thirdly, the research involves tax agents in order to determine their influence in determining taxpayers' behavior. Tax agents are assumed to be involved more in preparing, declaring and calculating tax liability on behalf of individual taxpayers than in the directly assessed system. Eriksen and Fallan (1996) attempted to determine the relationship between the level of tax knowledge and attitudes toward taxation; whether specific tax knowledge influences attitudes in general (not only tax attitudes) and investigate people's behavior toward traditional

crime. The study was conducted through quasi-experiment with pre-testing and post-testing of two student groups in Norway. The results of the study suggested that tax knowledge has a positive correlation with perceptions of fairness, tax ethics and attitudes to others' tax evasion.

2.7 Perceptions of the Self- employed on Tax Administration

Studies on the relationship between the specifics of actual government spending and tax compliance, particularly on tax evasion are very limited. Taxpayers especially those who pay high amount of tax will be sensitive to what the government spends their money on. Although there is limited empirical evidence, it is reasonable to assume that taxpayers will tend to evade tax if they perceive that the government spends tax money unwisely. However, in most developed countries like the United Kingdom which implement Pay as You Earned (PAYE), it is quite difficult to evade much of their tax liability as deductions are made at source for the majority of taxpayers. In developing countries such as Ghana where PAYE is not extensively used, taxpayers have a larger opportunity to under report their income and therefore pay less tax.

Lewis (1982) suggested that attitudes should be examined for the degree to which they are a product of myth and misperception. He argued that when myths and misperceptions are replaced by knowledge, a change in attitudes towards taxation would occur even if the taxpayers' basic ideology and values remain unchanged and the tax law is unchanged.

2.7.1 Perceptions of Equity or Fairness

As mentioned by Adam Smith (1776), one of the main principles of taxation system design is equity or fairness which can be perceived via two-dimensional views –horizontal equity (people

with the same income or wealth brackets should pay the same amount of taxes) and vertical equity (taxes paid increase with the amount of the tax base). The driving principle behind vertical equity is the notion that those who are more able to pay taxes should contribute more than those who are not. Wenzel (2003) suggested three areas of fairness from the taxpayers, point of view (social psychology):

- 1) Distributive justice (viewed as the exchange of resources i.e. cost and benefit);
- 2) Procedural justice (viewed as the process of resource distribution) and
- 3) Retributive justice (viewed as the appropriateness of sanctions when norm- breaking occurs).

In distributive justice, an individual is concerned about the fairness of their actions and wants to be treated in relation to his merits, efforts and needs (Kirchler et.al, 2008). If individual feels that his or her tax burden is higher than other people within the same income group, his or her tax compliance probably decreases more widely at group levels; taxpayers want a fair treatment of their group relative to other income groups. If a specific group perceives that their tax liability is higher than other groups, then tax evasion might occur among the group members.

At a society- wide level, tax compliance is less likely if the perception is held that the tax system is unfair; wide scale tax evasion is likely to occur.

In contrast, if the society perceives that the tax system is equitable and fair, voluntary compliance is expected to increase. With regard to procedural justice, the main elements for perceived fairness are neutrality of procedures used, trustworthiness of the tax authorities and the polite, dignified, respectful treatment of taxpayers as individuals or groups. Retributive justice,

unreasonable and intrusive audits and unfair penalties lead to stressful and dissatisfied taxpayer (Spicer and Lundsted, 1976). Unfavorable retributive justice perceptions could lead to non-compliant behavior and consequently increase tax evasion and inflate the tax gap.

2.7.2 Attitudes towards Payment of Tax

Braithwaite, (2001) defines attitude and relate it to taxation as positive or negative views of an attitude object that is a person, behavior or event. In relation to taxation, taxpayers' attitudes may be defined as positive or negative views of tax compliance behavior. The outcome of positive views is tax compliance and negative view is tax non-compliance. These views may be explained by psychology-based theories which reveal that taxpayers' attitude may be influenced by the following factors which eventually influence taxpayers, behavior.

Taxpayers' perceptions in the tax system and commitment in paying taxes; commitment in this instance reflects beliefs about the desirability of the tax systems and feelings of moral obligation to act in the interest of the collective and pay one's tax with goodwill. Peoples attitude would be shaped by whether or not they think doing something is likely to be relevant to their work (the outcome of the behavior) and whether or not you think learning something new that could be relevant to your work would be beneficial to you and to your organization (your evaluation of the outcome). Fjeldstad, Katera and Ngalewa,(2009) carried out a study in Tanzania and found that there is evidence that citizens' attitudes and tax-paying behaviours changed, ecollection was introduced. They carried out a study first in 2003, then again in 2006, to gauge people's opinions. In 2003, attitudes resembled those seen in researches by Fjeldstad, Katera and Ngalewa(2009),- many citizens were dissatisfied with services, endured unpleasant interactions

with tax collectors, paid tax mostly to avoid disturbances or were simply unaware of their obligation.

In 2006, citizens were much more willing to pay taxes and did so because they anticipated adequate service provision rather than wanting to avoid disturbances. These changes are attributed to better service provision and an improved and more cordial method of tax collection. For some time before and between the 2003 and 2006 studies, the local and national governments made significant efforts to increase their tax take and provide better services.

To do this they increased the number of local taxes and levies and in urban areas they broadened the property tax and service levy base. Efforts to improve services included: after 2003, implementation of Education Development Plans for the different levels of education; and entering into public/private partnerships in order to provide more and better education. Respondents in most districts were very satisfied with educational improvements. There were more mixed results with health service provision where some services (such as child and maternal health) registered huge improvements, but the public was less satisfied with other areas (such as the cost and availability of drugs). Citizens also started demanding more transparency from the government regarding revenue collected and services provided.

In her study, Carroll, (2011) realized that the women interviewed had behavior towards tax payments which was linked to benefits they wanted to see after paying tax. The women said benefits they would like to see from paying their taxes (yet half say they currently do not see) include reliable drinking water/utilities, hospitals and schools, roads, good sanitation and the provision of adequate toilets, clean markets with the necessary infrastructure such clean toilets

and clinics. This is a clear indication that effective tax payment had relationship with benefits that people get after paying their tax.

2.8 The Role of Ghana Revenue Authority

Despite huge improvements in tax collection and the success of Ghanaian tax collection relative to its neighbours, there is little doubt that taxation remains subject to very large leakages. These leakages are more a question of administration than of policy which is a reflection of the claim that in developing countries 'tax administration is tax policy' (casanegra et.,1990).

With respect to system of local taxation like most countries in Africa, local taxation accounts for only a tiny share of total tax revenue in Ghana. A recent paper estimated that the share amounts to less than 0.2% of GDP or less than 1% of total tax revenue. Despite official enthusiasm for decentralization both nationally and internationally, districts in Ghana continue to be overwhelmingly fiscally dependent on central transfers and donors revenues with internally generated funds averaging only 16.5% of local government revenue (IMF, 2012). This weak revenue performance is as a result of multiplicity of factors, among which three are regularly cited: limited local government administrative capacity, extremely small tax bases available to local governments and disincentives resulting from large transfers from central government and donors (Mogues, Samuel and Godsway, 2009).

However, Guyer, (1992) explains that while evidence from Ghana is limited on this topic, studies in other countries in the region suggest that many types of local taxation also tend to be highly coercive and arbitrary and thus extremely unpopular and costly to collect.

Despite these issues and the comparatively low revenue yield, it is nonetheless true that local taxes are the most salient form of taxation for the majority of citizens. Most citizens fall below the threshold for national taxation while any VAT or import taxes are paid higher up the value chain and are thus largely invisible. Yet, despite the importance of local taxes to low-income citizens and official support for fiscal decentralization, local taxation receives little attention from international observers, researchers and the central government alike.

Lack of attention has given rise to ineffective and poorly coordinated taxation. Section 86 of the Local Government Act, 1993 (Act 462) provides a catalogue of items on which a Metropolitan, Municipal or District Assembly could impose local taxes and levies. A survey conducted by the National Commission for Civic Education (NCCE) in 1997 revealed a long list of taxes paid. Among them are: Basic Rate (head tax), Income Tax, License/Store fees, Kiosk Rent, Property Rate, Market Toll, Hawkers License, Toilet Fees, Bar Operation License, Lorry Park Tolls, Street/Light/Water Levy, Special Levy and Birth and Death Registration. The most popular of these taxes is the Basic Rate which was reportedly paid by 41-96% of citizens, but at an extremely low rate and with consequently low revenue yield.

The enormous range of different tax payments implies three major concerns. First, there is no reason to believe that these taxes are the most efficient or equitable means to raise revenue as they almost certainly reflect ease of collection first and foremost.

Second, there appears to be remarkably little coordination between local authorities and the national tax authorities. Citizens are consistently confronted with two distinct and uncoordinated sets of tax collectors and tax demands, while some national tax officials report that local tax officials sometimes seek to increase local collection by encouraging the evasion of national taxes.

Third, such a dispersed and uncoordinated system almost certainly undermines the credibility of the system as a whole, thus damaging prospects for any improvement. An obvious short-term solution to increasing revenue generation at the local level is to increase pressure of local governments to become self-reliant. The formula for distributing the District Assemblies Common Fund (DACF), which accounts for the largest share of transfers to localities from the central government, applies a weight of only 5% to own revenue generation in determining revenue eligibility (NCCE Ghana, 1997).

Thus poor revenue performance does little to affect access to larger funds from the local government, while sparing local governments the political struggle to raise taxes. But the reality is that simply changing this weighting is unlikely to change much without a realistic assessment of the actual revenue raising potential of local governments. As importantly, anecdotal evidence from both Ghana and elsewhere in Africa suggests that sudden decisions to put pressure on local governments to raise additional revenue tend to lead to inefficient, arbitrary and coercive taxation, or to revenue shortfalls and the contraction of public services (Juul, 2006).

What is needed is an entirely new model for expanding the fiscal capacity of local governments. This model should only increase revenue generation, with its expected benefits in terms of service provision and public accountability, but should also lay the foundations for greater

equity, efficiency and transparency in local revenue generation. While this is a topic that warrants much more research, it minimally appears that such a model would demand significant investment in research and capacity, much improved coordination between national and local level tax administrators and the expansion of the tax bases available to local governments.

The defining feature of tax systems across the developing world is their inability to collect a significant share of revenue through income taxation of individuals and corporations. Developing countries overwhelmingly collect far less direct tax than developed countries, both as share of total taxation and as share of GDP (Bird and Zolt, 2005). They continue that it is not all elements of direct taxation that are equally problematic. Whereas corporate taxation comprises a modest share of total income tax collection in most developed countries, in most developing nations corporate tax collection is comparable to or even higher than personal income tax collection. This indicates that formal sector firms in developing countries often bear significant tax burdens despite the high level of tax avoidance and evasion in the rest of the economy. By contrast, it is personal income taxes that perform particularly poorly. While data is very problematic, Bird and Zolt make the general claim that: In developed countries personal income tax revenues are about 8-10% of GDP. In developing countries personal income tax revenues are often less than 1-2% of GDP.

It is possible to point to four general areas of significant revenue loss, though precise estimates of tax incidence are notoriously problematic. The first is a general inability to tax large informal sectors that have most recently been estimated at between 30% and 60% of total economic activity in most developing countries (Schneider, F and Klinglmaier, R., 2004).

Tendler also explains the practical challenges of tax collection in this manner; that in practice there are three major reasons why taxation of the informal sector has been almost universally unsuccessful. The first is capacity constraints. Informal sector operators are actively seeking to avoid taxation and even at the best of times have limited capacity to keep high quality financial records for tax purposes. Meanwhile, tax administrators lack the manpower to effectively enforce taxation within the sector and face significant challenges of income estimation even after identifying potential tax payers.

The second challenge relates to notions of equity. The vast majority of informal sector operators have very low incomes and this creates a strong argument for near total exemption from taxation. On the other hand, many informal sector operators have very substantial incomes and should rightly be asked to pay significant income taxes. In the absence of effective record keeping, the need for equity in the treatment of the low-income group almost certainly makes it more difficult to target those with higher incomes.

The final challenge is political. Since low-income taxpayers contribute relatively little revenue but a potentially large political voice, politicians have potentially strong incentives to exempt low-income individuals from taxation in exchange for political support. Put another way, efforts to tax the informal sector are expected to have high political costs for relatively modest revenue benefits. Tendler has termed this the “devil’s deal”, and it likely goes a long way to explaining the disproportionate focus on taxing a smaller number of formal sector operators (Tendler, 2002).

In their study into ‘The Impact of Tax Knowledge and Budget Spending Influence on Tax Compliance’ Behnud and Fahr, (2013) regard two tax systems, one with low and the other high power of authorities. The power of authorities is implemented by changing the audit probability to a low or a high rate. For each tax system they gradually increase trust in authorities in the form of tax knowledge about public expenditures and taxpayer’s influence on budget spending. By doing so, they are able to investigate the degree of trust which is necessary to have an effect on taxpayer’s behavior. When power is low, the practice of evading taxes becomes more attractive for taxpayers as authorities lack the resources to legitimately enforce compliance and as such the expected punishment is at a minimum.

According to Kirchler et al. (2008), a climate between taxpayers and tax authorities which is characterized by high trust is of major importance. If the taxpayers have the impression that tax authorities align the limited resources to community needs responsibly and strive to achieve community goals consistently, tax payers will contribute their share by paying their taxes more dutifully. When power is low, higher compliance can only be achieved on this voluntary basis.

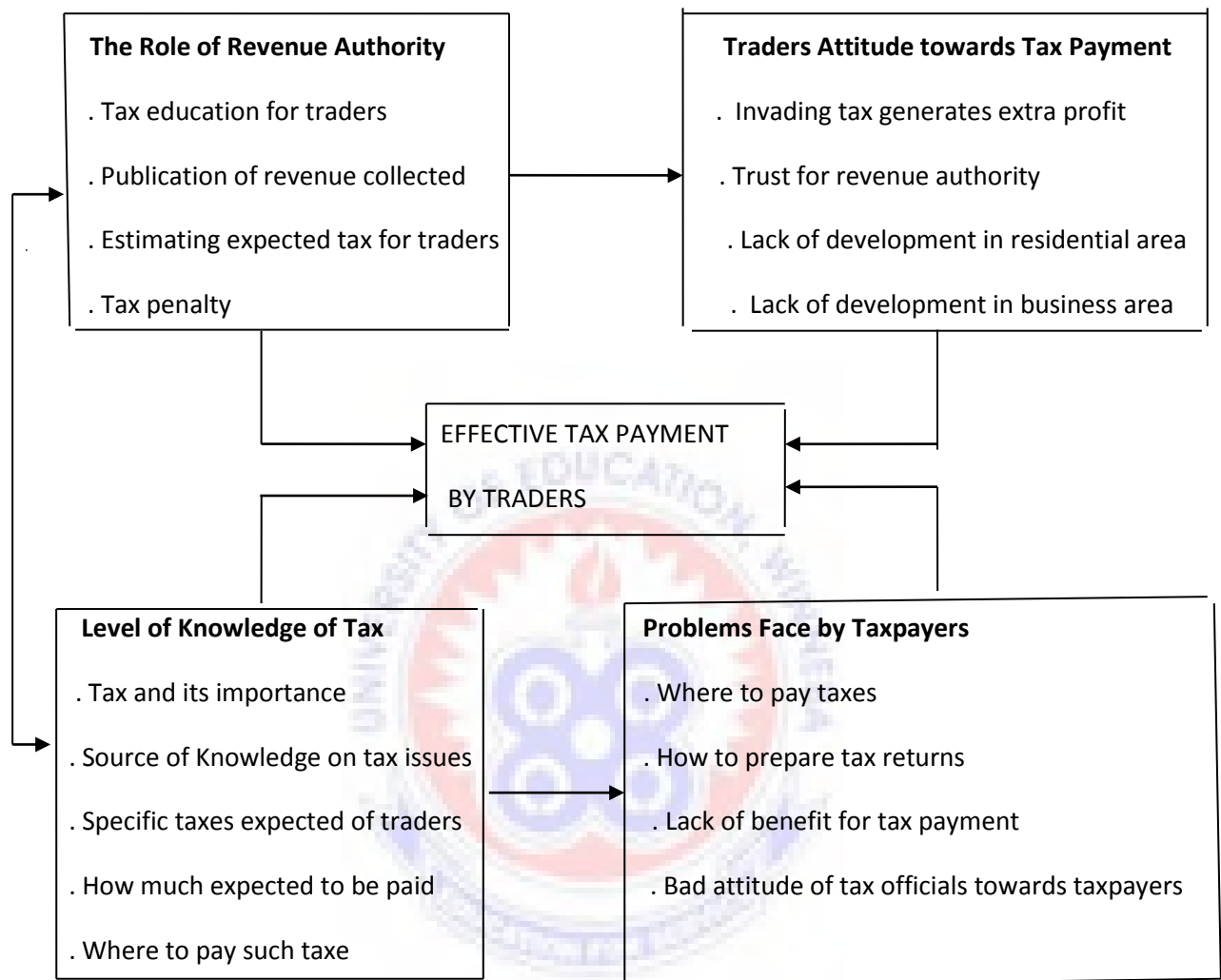
The tax systems in many African countries are characterized by an excessive number of different taxes with different rate structures that are difficult for taxpayers to understand (Odd- Helge and Lise, 2004). Odd-Helge and Lise, (2004) affirmed that it’s amidst these tax reforms that to a limited extent they have succeeded in widening the tax net and that only formal business corporations appear visibly affected by the central government tax reforms. Coercive methods have been used in tax collection as they yield higher taxes per capita but the need for coercion also reflects higher levels of distrust in the governmental system and dissatisfaction with service delivery. If taxpayers do not understand what their obligations are, any intervention to enforce compliance will be perceived as unfair (OECD, 2004).

It is best practice for revenue agencies to provide taxpayers with detailed information on the tax system and how to comply with the obligations, including making returns, payment modalities and sanctions relating to non-compliance. According to Kuteesa et al, (2010), Taxpayers education has been enlisted as one of the key elements that have been used to address Uganda's very poor taxpaying culture.

Carroll also said that less cordial interaction with tax collectors and a perception that services are not provided in exchange for paying tax could lead to apathy towards taxation and the government as a whole. In Tanzania, when the effort was made to increase revenue and provide better services, there was a marked positive change in the attitudes of the taxpayers. There appears to be similar potential in the entire informal sector in Ghana. With concerted efforts to educate the public about tax, a more customer-service-oriented staff, advertised links between taxes paid and services rendered and greater overall transparency around revenue collected and allocated, there could be a real shift in attitudes toward the entire process (Carroll, 2011). In a study on tax compliance in the business sector in

South Africa, Wang (2010) concluded that generally, taxpayers' decisions to comply (or not comply) are determined by the following direct factors:

- 1) The complexity of the tax system;
- 2) taxpayers' confidence in government generally but more specifically government service provisions and the cost-effectiveness of the provision of public goods and services as well as the level of fraud and corruption within government;
- 3) taxpayers' perception regarding the fairness of the entire tax system;
- 4) the social setting and societal norms;
- 5) the effectiveness of tax authorities in detection and punishment of non-compliance



Conceptual Framework of Effective Tax Payment (Kaplow, 2008)

2.9 Explanation to the Conceptual Framework

The author is of the view that effective tax payment by traders could be achieved through the interplay of traders' level of knowledge, attitudes, problems faced by taxpayers and the role of revenue authorities.

Eriksen and Fallan, (1996) have affirmed that there is strong influence of increased tax knowledge on the respondents' perceptions of the fairness of the tax system, that is the respondents perception of fairness increases with improved tax knowledge. According to Harris and Associates (1988), there are groups of taxpayers whose reporting behavior is affected by the perceived fairness of the tax system. Chung (2002) also explains that the magnitude of the effect of exchange on reported income will depend on the extent to which the taxpayers use the perception of equity in their tax reporting decisions. They further assert that by enhancing the level of general fiscal knowledge, tax compliance improves because of more positive perceptions about taxation. However, increased knowledge of tax evasion opportunities has a negative influence on tax compliance as it helps non-compliance (Jackson and Milliron, 1986).

In this study the author believes that if traders have better understanding of tax and its importance, specific taxes expected of traders, how much to pay and nearness to payment points could influence positively on tax payment. Most literature explained that providing adequate knowledge increases chances of positive compliance to tax payments as a result of improved attitudes. For example, if traders' attitude towards tax evasion is improved, there is a positive chance that their practices towards tax payment will be positively influenced. The role of revenue authority in ensuring effective tax payment could never be underestimated. If they provide the needed tax education, publicize revenue collected periodically, estimate expected tax for traders and enforce tax regulations, tax payment will greatly improve.



CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter covers the methodology of the study which includes research design, population and sampling, data collection instruments, data collection procedures and data analysis.

3.1 Research Design

This research work is descriptive cross-sectional. With descriptive cross-sectional design, the researcher intends to understand the knowledge, attitudes and practices of respondents which influence tax payment in order to make appropriate recommendations to authorities within the same study period. Descriptive cross-sectional is the method of choice because the characteristics of the respondents were studied just at a point in time not for a period of time (Brink and Wood, 1998) and produces descriptive data from the respondent own written or spoken words was used to analyze their characteristics (Streubert and Carpenter,1999).

Both quantitative and qualitative methods will be used to assess the attitudes of traders towards payment of tax. While quantitative method provides the basis for assessing relationships and likelihood events, the qualitative methods helps to assess certain aspects of the human experience related to values, culture and relationships which cannot be described fully by using numerical methods (Thorne,1997).

3.2 Population and Sampling

Adansi North District Assembly was established in 2004. Its head office is at Fomena in the Ashanti Region of Ghana. The district was formally under Adansi West District Assembly

currently called Obuasi Municipal Assembly. Since it is an infant district, most of its offices are still at Obuasi. The Ghana Revenue Authority (GRA) office of the District is at Obuasi. The Obuasi office of the Ghana Revenue Authority tax boundaries start from Santasi (near Kumasi) through Adansi Praso to River Offin (near Central Region) and covers Amansie West and Amansie Central districts(source: GRA Office-Obuasi). The Office serves a very wide area.

Some of the big towns in the Adansi North District Assembly are: Akrokerri, Bobrase, Dompase, Fomena, Asokwa, Fumso, Kyekyewere, Kwapia and many others. The district has a population of about 50,000 people (source: Adansi North District Assembly).

3.2.1 History of the Area

The name” Adansi” came from the ward (Adansiefo) which means house builders. According to Nana Osei Kwaku (Afenasoafo Hene of Adubiase), the Adansi people were first to build houses in the Gold Coast around 17th century. During that period, people were sleeping in rocks, caves and on trees. It was very dangerous to sleep in these places because they were attacked by animals like Lions, Tigers, etc. Some of the people who settled in this area which is now called Adansi put up six (6) mud houses and slept in. Other people from different parts of the Gold Coast came to learn how to build houses from the people of Adansi. So people who came to learn how to build houses from them gave them the name “Adansiefo”, hence the name Adansi. Today, there are many beautiful buildings in the area. Adansi Kingdom was the last to join the Asante Kingdom. They decided to rule themselves and stay away from Asante Kingdom. During that time in the 17th century, the then” Asantehene” was Nana Osei Bonsu. He led a war against Adansi. When the People of Adansi were defeated at Bodweseango, they joined the

Asante Kingdom. The traditional towns in Adansi are Fomena, Ayaase, Adubiase, Dompoase, Akrofuom, Akrokerri and Bodwesango.

Adansi North District is the traditional area of Adansiman. It has the paramountcy in the person of Omanhene. Currently, the king of Adansi (Adansihene) is Nana Opagyakotwere Bonsra Afriyie

3.2.2 Religion

With regard to religion, the people of Adansi North District Assembly believed in ancestral worship. This is manifested in the practice of putting the first morsel of food or the first drops of water or drink on the floor for the ancestors before satisfying oneself.

Christianity has also come to stay in the district. Almost every space is taken over by one church or the other. It is interesting to note that most of the worshipers in these churches are women. There are other religions like Islam, Hindu and others. Christians believe in tax payment. It is known in the bible that one-tenth of your income is to be brought to the house of the Lord and the popular quote “so give back to Caesar what is Caesar’s, and to God what is God’s “(Matthew 22:21). It is expected that since most of the people are Christians, they will have good attitude toward tax payment.

3.2.3 Economic Activities

Adansi North District Assembly is located amidst the agricultural area of the moist semi-deciduous forest. The major crops of the area are cocoa, palm oil interspersed with some citrus,

maize, pepper, garden eggs, onion and other crops. There are also a lot of petty trading activities in stores, containers, kiosks and table tops that generate income for the people. Ghana's largest gold mine is located at Obuasi (Anglo Gold Ashanti) in the Adansi area so most of the people are miners. Anglo Gold Ashanti do not function as it used to be. Anglo Gold Ashanti has recently laid off almost all of its staff. However, His Excellency, president Nana Akufo Addo (President of the Republic of Ghana) who took over the reign of government on the 7th January, 2017 has promised to re-open Anglo Gold Ashanti. This will increase the economic activities in the Adansi North District Assembly if the promise by the president is fulfilled.

3.2.4 Education

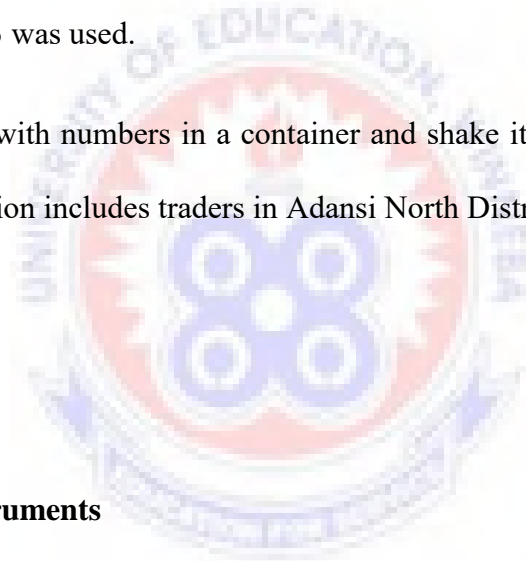
Education can be grouped into formal and informal. Informal education is done through socialization. Children are trained in the accepted modes of behavior in the society. This is the responsibility of the parents. Thus children are trained to abide by the norms and rules of the society. By formal education, I mean classroom education. There are a lot of schools at Adansi North District Assembly. Mention can be made of the Akrokerri College of Education which has a population of about 2000 students. There are about four Senior High Schools in the district. The district also has many nursery, Kindergarten, primary and Junior High Schools.

There are Police Stations, Post Offices, Health Centres, Banks and other Financial Institutions in the district. There are a lot of small businesses in the district to serve the need of the people.

3.2.5 Sampling Strategy

The researcher used simple random sampling to sample 100 traders and 10 revenue collection authorities. Revenue collection authorities (GRA) were interviewed because they are rich in information. In using this method the researcher followed the following steps:

- i. Made a list of all the members of the population. This was to ensure that each member will have an equal chance of being included in the study.
- ii. Give each member a number and wrote them on pieces of paper.
- iii. Decided on a sample size that will be representative of the population. Thirty percent (30%) of the population of about 333 was used.
- iv. Put the pieces of paper with numbers in a container and shake it and then picked the desired number. The study population includes traders in Adansi North District Assembly.



3.3 Data Collection Instruments

Questionnaire was used to collect the data. Questionnaire is a document that contains questions items and that is given to the research participant for them to answer the questions.

How the researcher established validity and reliability for the use of questionnaire:

- i. The researcher used vocabulary that is simply, direct and familiar to the respondents.
- ii. The researcher was clear and specific.
- iii. The researcher avoided leading questions.

iv. The researcher avoided questions that are likely to embarrass the respondents.

v. The researcher avoided bias questions. The questionnaire will be analysed at an error margin of 5%.

3.4 Data Collection Procedures

The researcher used questionnaire to collect the data. Forty five (45) questions items were answered by the research participants. The researcher used self administered questionnaire. Open-ended questions were used. Here the researcher writes the questions and the respondents answered it. Closed ended questions were also used. Here the researcher provided possible answers to the respondents. The researcher took his time to explain some of the question items to the respondents. Those respondents who are illiterates, the researcher interviewed them. The researcher used the same questionnaire for the interview.

Duration: Each respondent used about 30 minutes to complete the questionnaire

Period: Some respondent's answered the questions in the morning at around 8:00 am. Others also answered it in the evening around 4:30 pm.

Approach: The questions were structured. After the respondents have answered the questions, the researcher collected the questionnaire. The reasons why the researcher used questionnaire for data collection are that:

i. The questionnaire allows the researcher to cover a large number of respondents within a short period of time.

- ii. It is less expensive relative to the interview because it takes a shorter period of time to administer thereby reducing transport cost.
- iii. Respondents can also take more time to think about the questions and this may result in more meaningful answers being given.

3.5 Ethical Consideration

Ethical issues come up at every stage of academic work. Ethics are norms for conduct that distinguish between acceptable and unacceptable behavior. The researcher addressed ethical issues in his study through the following ways:

i. Research participants were given as much information as might be needed to make an informed decision about whether or not they wish to participate in the study. The researcher did this to address ethical issues called lack of informed consent.

ii. Confidentiality: The researcher knows who has provided the information or are able to identify participants from the information given, he will in no way make the connection known publicly; the boundaries surrounding the shred secret will be protected.

iii. Anonymity: The researcher protects the anonymity of research participants and keeps research data confidential.

iv. Deception: The researcher avoids deception by disclosing the true purpose of the research to the respondents.

Issues of plagiarism were addressed by acknowledging all sources of information appropriately.

Letter of introduction was also obtained from the Head of Accounting Department which was

used to introduce myself to the Adansi North District Assembly to seek for permission to carry out the study.

3.6 Data Analysis

The researcher recorded the data on the questionnaire. He presented the results in a table form and bar charts in chapter four. The researcher used percentages, average and mode in analyzing the data. The reason why the researcher used these descriptive and or inferential statistics was that it is easy to understand these descriptive statistics.



CHAPTER FOUR

RESULTS OF THE STUDY

4.0 Introduction

This chapter consists of the gathering of data using questionnaires, coding, analysis of data and interpretation of the results obtained. The survey was made on 100 traders in Adansi North District Assembly and 10 revenue agency officers from Ghana Revenue Authority (GRA) and Adansi North District Assembly (ANDA). The contents of the chapter are results and findings and discussion of the results.

4.1 Results and Findings

Socio- Demographic Characteristics

The respondents were asked to indicate their ages. This was to find out the ages of the respondents since it may affect their attitude towards tax payment. Table 4.1 shows the ages of the respondents.

Table 4. 1:

Frequencies and Percentages of Ages of Traders (Small and Medium Size)

<u>Age</u>	<u>Frequency</u>	<u>%</u>
18- 28	11	11
29- 39	17	17
40- 50	35	35
<u>51 and Above 61</u>	<u>37</u>	<u>37</u>
Total	100	100

Source: Field Data, 2017

Table 4.1 shows that majority of traders (small and medium size) are between the ages 51 and above 61. Those between the ages 18- 28 are the lowest.

Table 4.2:

Trading activities and Sex of the Respondents.

<u>Trading Activities</u>	<u>Male</u>	<u>Female</u>	<u>Totals</u>
Food vending	3	17	20
Drinking bar	6	4	10
Artisans	3	2	5
General provisions	10	17	27
Stationary	2	1	3
Petty trading	-	18	18
Computer and electronics	10	-	10
<u>Building materials</u>	<u>5</u>	<u>2</u>	<u>7</u>
Total	39	61	100

Source: Field Data, 2017

Table 4.2 shows that majority of males' trade in Computer and electronics and general provisions. Most of the females are petty traders. There is no male in petty trading and no female in Computer and electronics trading.

Table 4.3:

The level of knowledge of traders on taxes

<u>Question</u>	<u>Response</u>		
	<u>YES (%)</u>	<u>NO (%)</u>	<u>Total</u>
Do you know that every trader has to pay tax?	55	45	100

Source: Field Data, 2017

Table 4.3 shows that 45% of the respondents (traders) do not know that every trader has to pay tax. Fifty five percent (55%) of the respondent know that every trader has to pay tax.



Table 4.4:

Frequencies and Percentages of religious background of the Traders.

<u>Religion</u>	<u>Frequency</u>	<u>%</u>
Christian	89	89
Muslim	11	11
Traditional	0	0
<u>Others</u>	<u>0</u>	<u>0</u>
	100	100

Source: Field Data, 2017

Table 4.4 shows that 89% of the traders are Christians. None of the traders are either traditionalist or others. The “others” means those who are not Christian, Muslim or traditionalist.

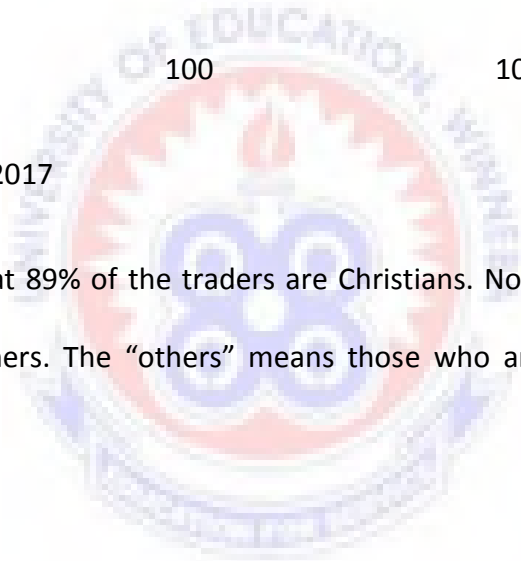


Table 4.5: Tax Payment Attitude of Traders in Adansi North District

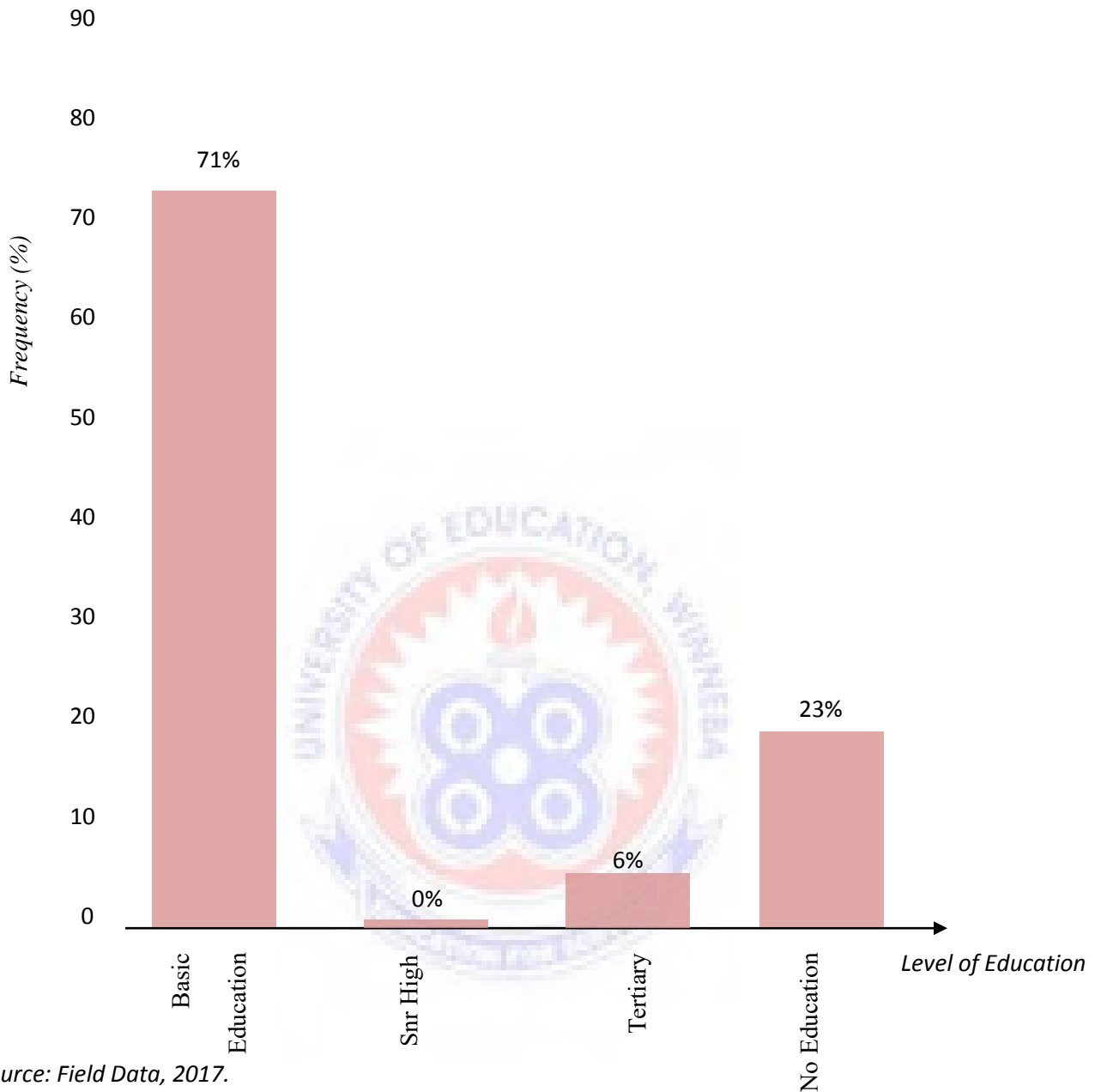
Variables	Yes (%)		No (%)	
1. Are you a registered tax payer?	46	46	54	54
2. Do you pay tax?	28	28	72	72
3. Do you know the uses of tax?	10	10	90	90
4. Do you benefit from tax?	5	5	95	95
5. Do you think it is important for you to pay tax	5	5	95	95
6. Do you trust tax Officers?	23	23	77	77
7. Do you feel happy by not paying tax?	82	82	18	18
8. Do you feel that tax payment is punishment?	72	72	28	28
9. Do you think all taxes are paid into government chest?	15	15	85	85
10. Do you have social amenities in your area?	9	9	91	91

Source: Field Data, 2017

Table 4.5 shows that there was a very high negative attitude toward the payment of tax. Apart from traders registered as tax payer that pulled close to half (46.0%), nine out of the ten factors used to assess traders' attitude toward the payment of tax showed a negatively skewed response. Almost all the traders do not pay tax with 72% responding no. Most of the traders (90%) do not know the uses of tax with 95% of the traders responding that they do not benefit from tax. Consequently, 95% of the traders feel that it is not important for them to pay tax with 77% of the traders responding that they do not trust tax Officers. Traders attributed their poor attitude toward tax payment to the

perception that not all taxes are paid into government chest (85% of traders responding no 15% yes). Most of the traders (91%) feel that they do not have social amenities in their area. About 82% of the traders feel happy by not paying tax while 72% felt that tax payment is punishment.



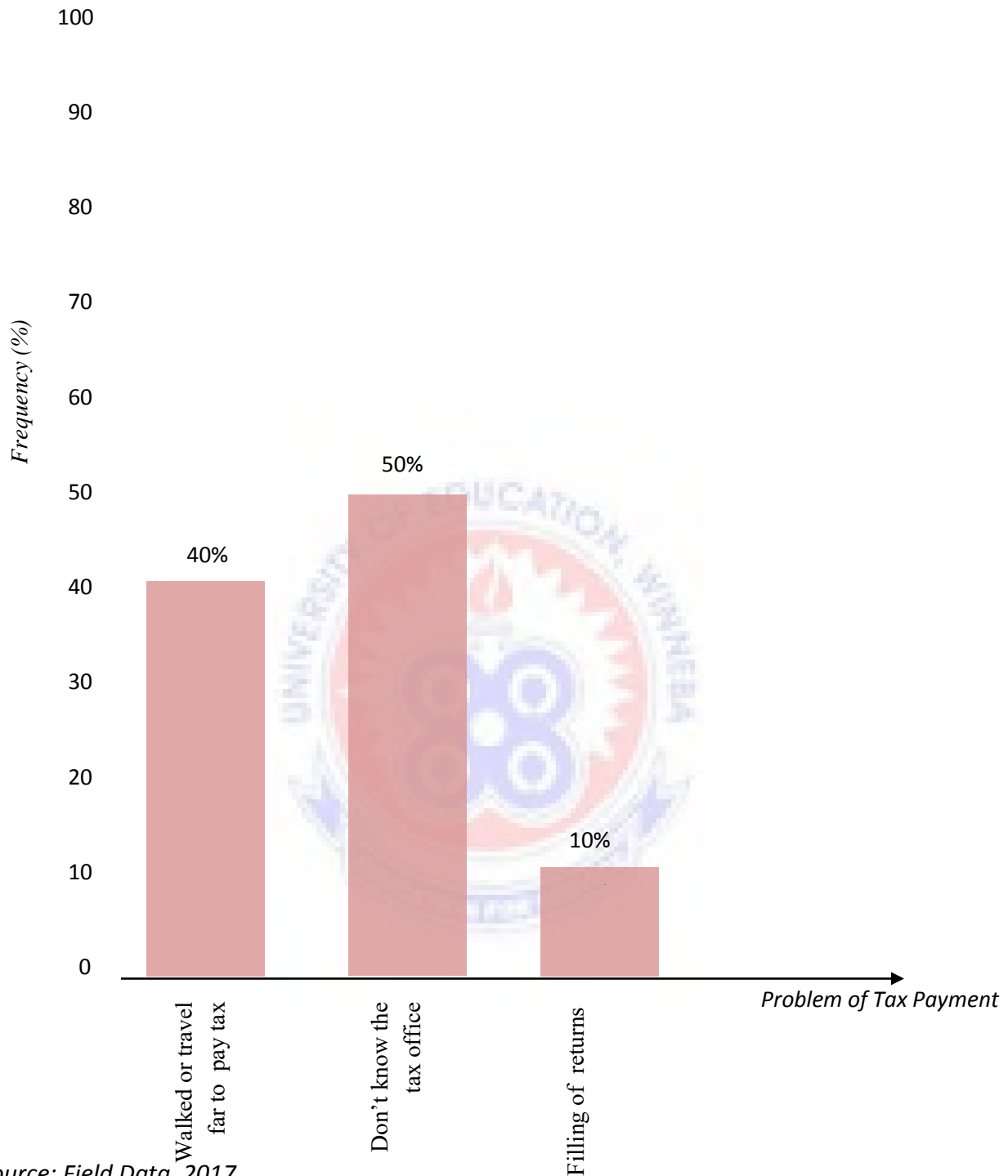


Source: Field Data, 2017.

Figure 4.1: Bar chart showing frequencies and percentages of level of education of traders (small and medium size) at Adansi North District.

Figure 4.1 shows that 71% of the traders have basic education. None of the respondents have senior high school education and 23% of the respondents have no education.



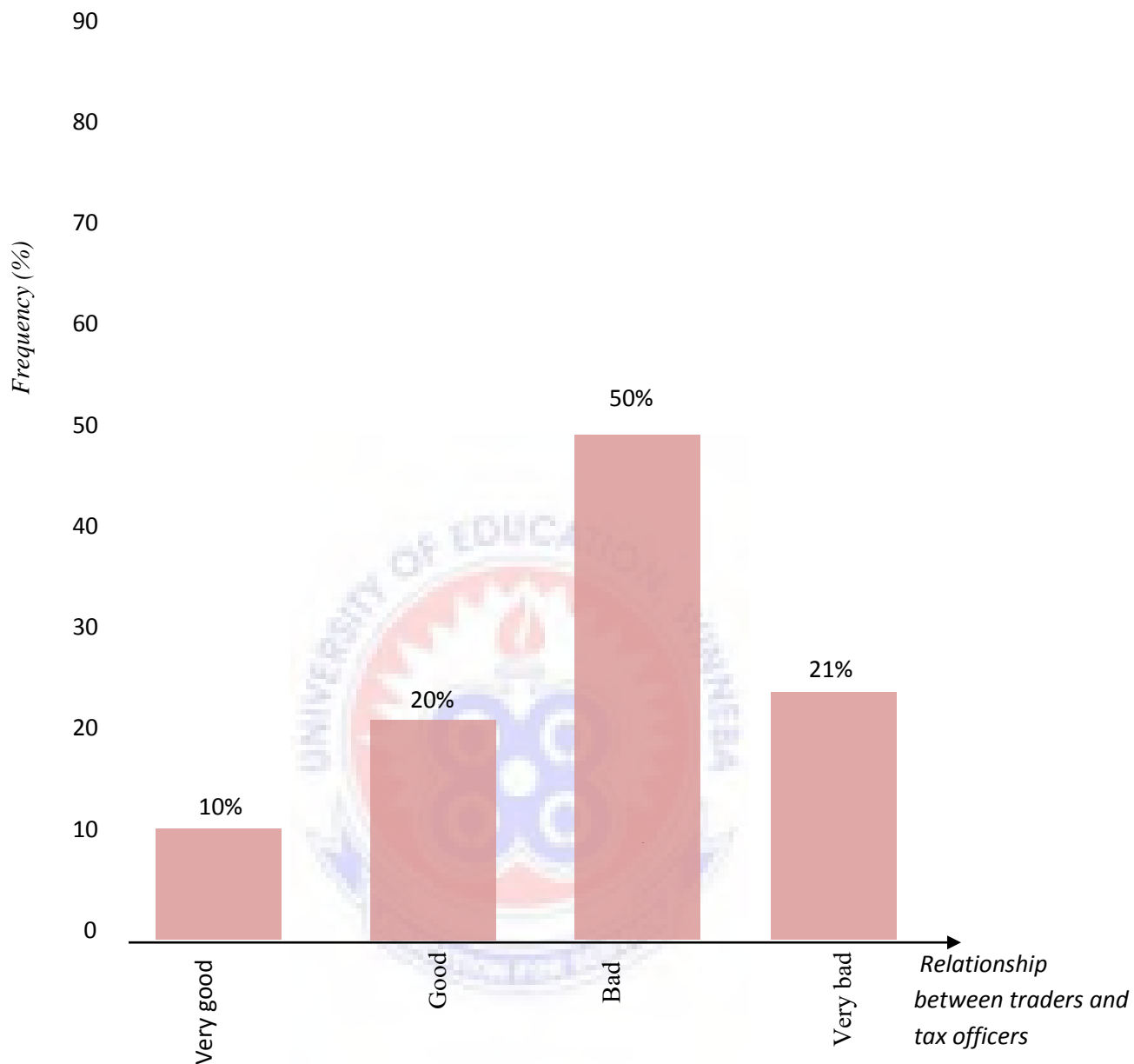


Source: Field Data, 2017.

Figure 4.2: Bar chart showing frequencies and percentages of problem traders face in tax payment at Adansi North District.

Figure 4.2 indicates that 50% of the traders do not know the tax office, with 40% walked or travel far to pay tax. Filling of returns is another problem traders' face in tax payment (10%).





Source: Field Data, 2017

Figure 4.3: Bar chart showing frequencies and percentages of the relationship between traders and tax officers at Adansi North District.

Figure 4.3 indicates that the relationship between the traders and the tax officers is bad (50% of the respondents). Only 10% of the respondents feel that relationship between the traders and the tax officers are very good

Table 4.6:

Frequencies and Percentages of Respondents' Views on ways that will help increase the Number of Tax Payers in Adansi North District Assembly.

<u>Response</u>	<u>Frequency</u>	<u>%</u>
Provision of social amenities	52	52
Cleaning of the environment	22	22
Tax education	15	15
Tax reduction	11	11
	100	100

Source: Field Data, 2017

Table 4.6 shows that majority of the traders (52%) are of the view that provision of social amenities will help increase the number of tax payers in Adansi North District Assembly. Eleven percent (11%) of the traders are of the view that tax education will help increase the number of tax payers in Adansi North District Assembly.

Table 4.7:

Frequencies and Percentages of Traders views on the role of Tax Officers towards improving tax payment by traders in Adansi North District Assembly

<u>Variables</u>	<u>Frequency</u>	<u>%</u>
Educating traders on tax	63	63
Going to the traders 'premises to collect tax	11	11
<u>Enforcing tax laws</u>	<u>26</u>	<u>26</u>
	100	100

Source: Field Data, 2017

Table 4.7 indicates that 63% of the traders are of the view that the role of tax officers towards improving tax payment is educating traders on tax followed by enforcing tax laws with 26%, then followed by going to the traders' premises to collect tax with 11%.

Table 4.8:

Frequencies and Percentages of Average Sales per Day of Traders (small and medium size) in Adansi North District.

<u>Average Sales per Day</u>	<u>Frequency</u>	<u>%</u>
Below GHS 200	56	56
GHS201-500	22	22
GHS501- 1000	4	4
GHS1001-1500	3	3
GHS1501-2000	12	12
GHS2001-2500	2	2
<u>Above GHS2500</u>	<u>1</u>	<u>1</u>
	100	100

Source: Field Data, 2017

Table 4.8 shows that majority of the traders (56%) average sales per day were below GHS200.

One percent (1%) of the traders' average sales per day were above GHS2, 500.

Table 4.9

Crosstab	
Count	do you feel happy by not paying tax

		YES	NO	Total
are you a registered tax payer	YES	46	0	46
	NO	40	14	54
Total		86	14	100

Source: field Data, 2017

Table 4.9 shows that, out of the 100 traders, 46 are registered tax payers and 54 are not registered tax payers. Eighty six (86) percent of the registered tax payers said they feel happy by not paying tax.

Table 4.10

Crosstabu				
Count	Do you pay tax			Total
		YES	NO	
do you benefit from tax	YES	5	0	5
	NO	23	72	95
Total		28	72	100

Source: field Data, 2017

Table 4.10 shows that 95% of the traders do not pay tax and only 5% of the traders pay tax. Out of the 5 traders who pay tax, 72% of them said they do no benefit from tax.

Table 4.11

Crosstabu	
Count	

	Do you pay tax			Total
	YES	NO	Total	
Do you know that every trader has to pay tax	YES	0	55	55
	NO	28	17	45
Total		28	72	100

Source: field Data, 2017

Table 4.11 shows that majority of the traders (55%) know that they are to pay tax and 45% do not know that they are to pay tax. Seventy two percent (72%) of the traders who knew that they are to pay tax do not pay tax.

Table 4.12



Correlations			do you know that every trader has to pay tax	Do you pay tax
SEX	do you know that every trader has to pay tax	Correlation	1.000	.000
		Significance (2-tailed)	.	1.000
		Df	0	97
	Do you pay tax	Correlation	.000	1.000
		Significance (2-tailed)	1.000	.
		Df	97	0

Source: Field Data, 2017.

Table 4.12 shows that there is a strong positive correlation between the level of knowledge of traders and tax payment. The correlation result is positive 1.

Table 4.13

Correlations			Do you pay tax	do you benefit from tax
Control Variables			Do you pay tax	do you benefit from tax
SEX	Do you pay tax	Correlation	1.000	.240
		Significance (2-tailed)	.	.017
		Df	0	97
do you benefit from tax	do you benefit from tax	Correlation	.240	1.000
		Significance (2-tailed)	.017	.
		Df	97	0

Source: Field Data, 2017.

Table 4.13 shows that there is strong correlation between benefit from tax and tax payment.

The correlation result is positive 1.

4.2 Discussions of the Results

The statistics on the age in table 4.1 shows that a high population of the traders fall within the age 51 and 61 consisting 37.0 %, followed closely by 40 and 50 with 35 .0 %. This give the idea that business in the Adansi North District is either fully or jointly own or managed by very adult age group.

On the average, most of the traders make below GHS200.00 sales daily. Evidenced in table 4.8 showed that 56% of the traders make sales below GHS200.00 with the rest making between GHS201.00 and GHS2, 500.00 on daily basis. Evidence in table 4.2 showed that most of the traders trade in general provisions (27%). Women dominated the trade market with 17% followed by men with 10% in general provision trade. Table 4.4 showed that Christians

dominated the trade market with about 89% followed by Muslims with 11%.None of the traders were in the other religions. All the traders were Ghanaians. This gives an idea that Tax Authorities can go to Chapels and Mosques to educate traders on tax payment.

Table 4.3 shows that the level of knowledge of traders on tax payment is high. About forty five (45%) of the traders do not know that traders have to pay tax while about 55% of the traders know that traders have to pay tax. Figure 4.1 indicated that about 71% of the traders had basic education, 23% of the traders had no formal education and 6% of the traders had tertiary education. This suggests that about 94% of the traders do not have Senior High School education where taxation and tax issues are taught. This may account for the lower level of knowledge of traders on tax.

Figure 4.2 shows some of the problems the traders face in tax payment. About 50% of the traders do not know the tax office, 40% of the traders walked or travelled far to pay tax and 10% of the traders had problem in filling of returns.

Figure 4.3 shows that about 50% of the traders' relationships with the tax officers are bad, 21% of the traders' relationship with the tax officers is very bad, 20% of the traders' relationship with the tax officers is good and about 10% of the traders' relationship with the traders is very good. This gives an idea that, the traders' relationship with tax officers in the Adansi North District is bad.

Table 4.5 showed that about 72% of the traders do not pay tax. Table 4.5 also shown that the attitude of traders towards tax payment is very highly negative. Apart from traders registered as tax payers that pulled close to half (46.20%), nine out of the ten factors used to assess traders' attitude toward the payment of tax showed a negatively skewed response. Most of the traders do not pay tax with about 72% responding no. Most of the traders (about 90%) do not know the uses of tax with 95% of the traders responding that they do not benefit from tax. Consequently, 95% of the traders feel that it is not important for them to pay tax with 77% of the traders responding that they do not trust tax officers. The traders attributed their poor attitude toward tax payment to the perception that not all taxes are paid into Government chest (about 85% of the traders responding no and 15% yes). Most of the traders (about 91%) feel that they do not have social amenities in their areas. About 72% of the traders feel that tax payment is a punishment.

Table 4.6 shows that about 52% of the traders are of the view that provision of social amenities will help increase the number of tax payers in Adansi North District Assembly. About 22% of the traders are also of the view that if the Assembly employ cleaners to clean the environment, it will help increase the number of tax payers in the district. About 15% of the traders are of the view that tax education will help increase the number of tax payers while 11% of the traders are of the view that tax reduction will help increase the number of tax payers in Adansi North District Assembly.

Statistics on the role of revenue officers towards improving tax payment by traders In the Adansi North District Assembly shows that, 63% of the traders are of the view that the role of revenue officers is to educate the traders on tax, 26% of the traders are also of the view that the role of revenue officers is enforcing tax laws while 11% of the traders are of the view that the role of revenue officers is going to the traders' premises to collect tax

Table 4.12 shows that there is a strong correlation between tax knowledge and tax payment. At 97% significance level, the correlation result is positive 1 which shows that there is a strong correlation between knowledge on tax and tax payment. This means that the more traders have knowledge on tax, they will pay the tax.

Moreover, there is a strong correlation between benefit from tax and tax payment. Table 4.13 shows that there is a strong positive correlation between benefit from tax and tax payment. This means that the provision of social amenities like water, toilet, schools, hospitals and many other basic amenities will help the people to pay taxes.

From responses through questionnaire for 10 revenue authority officers revealed that, traders do not understand the concept of tax and are therefore very reluctant to pay tax. There are no strict laws to punish tax evasion especially for those operating as petty traders but government's concentration is only on well established firms allowing a huge chunk of Ghanaians go tax free.

“Some of us also help business men and women to evade taxes”, said one of the officers in charge of revenue, Adansi North District Assembly (ANDA). Throwing more light on this point, the officer said that some people who are supposed to make sure the right things are done, do not but are bribed by business owners under declaring their income. “Besides lack of logistics like

vehicle, we do not have enough resources like labour to do a good job”. The revenue authorities over depend on paperwork help people to take advantage of the loop holes in the system.

Locating businesses is also a major problem faced by revenue collection authorities.” Apart from the well established businesses, it has been difficult for us to locate small businesses doted around Adansi North District to take taxes from them and by human nature most people will not pay tax voluntary”, said one of the officers in charge of revenue, ANDA. All revenue authority officers said that they lack staff and logistics.



CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Introduction

The research seeks to assess tax compliance of small and medium enterprises in Ghana. A case study of Adansi North District Assembly. This chapter talks about the summary of the research findings, conclusions and recommendations.

5.1 Summary

The attitude of traders (small and medium size) towards tax payment in Adansi North District Assembly is not very encouraging. Most of the traders do not pay tax. The traders attributed their poor attitude towards tax payment to the perception that not all taxes are paid into government chest. Most traders avoid paying taxes because they believe they do no benefit from taxes and therefore do not think it is important for them to pay tax.

Traders who even pay taxes are not motivated in paying taxes because they feel that they do not have social amenities in their areas. The relationship between the traders and the tax officers is bad. The traders believe that tax payment is a punishment.

The major problem that the traders face in tax payment is that they do not benefit from tax payment. Traders therefore are of the view that the role of revenue officers towards improving tax payment is tax education by tax officers. Tax education and the provision of social amenities will help increase the number of tax payers in the Adansi North District Assembly.

5.2 Conclusion

The study seeks to assess tax compliance of small and medium enterprises in Ghana. A case study of Adansi North District Assembly. The study was basically a cross-sectional survey which

used interviews and questionnaire to collect the data and the results presented using tables and figures. Base on the findings of the study, the following can be postulated as conclusions:

The attitude of traders (small and medium enterprises) towards tax payment in Adansi North District Assembly is not very encouraging. This is due to the fact that the traders in Adansi North District feel that tax payment is a punishment and therefore feel happy by not paying tax because they do not benefit from it. However, the level of knowledge of traders on taxes is high. This means that the traders are aware that they are to pay tax but because they feel that, tax payment is a punishment since they do not benefit from it, they do not pay. The major problem that traders face in tax payment is that the traders feel that tax payment is not important. However, there is a strong relationship between benefit from tax and tax payment. Moreover, the relationship between the traders and the tax **officers** is bad.

Tax education by tax officers for the traders to disabuse their minds that tax payment is a punishment and make the traders feel that tax payment is an obligation and the provision of basic social amenities by government are the ways that will help increase the number of tax payers in Adansi North District.

5.3 Recommendations

From the tax payment attitude of traders in Adansi North District of Ashanti region based on the empirical evidences from a careful analysis of the findings of the study, the researcher suggest s the followings:

1. There should be a public education on all aspects of tax beginning from why people must pay taxes to the criminal implications of evading taxes. It is difficult for people to change attitude. However, people will develop the interest in paying tax only through educating the public and evidences of taxes being put to effective use by providing basic facilities like water, public toilet, schools and many others needed by the people.
2. There should be revenue collection offices closer to the traders which will make it easier for the tax officers to know all businesses eligible to pay tax and to make the payment of tax very convenient to traders.
3. There should be regular in-service training for tax officers on customer care so that there will be good relationship between the traders and the tax officers. This will help develop the interest of traders to pay taxes.
4. Staff of revenue authorities who aid traders by stealing state money should be brought to book to serve as a deterrent to others. This will help increase the number of tax payers and also increase the tax revenue to the state.
5. Tax Authorities should establish small tables for tax education on filling of tax returns in each community as filling of tax returns is very important in tax administration. This will help increase the number of tax payers.
6. Tax Authorities should make people understand that tax payment is not a punishment but rather an obligation. People are not forced to pay collection and dues in churches, yet they feel obliged to do so because they know what the money is going to be used for. Payment of tax should be made to look likewise.

6.4 Suggestions for further Research

1. The effects of the provision of social amenities on tax payment by people.
2. The relationship between religion and tax compliance of people. The case study of Adansi North District.
3. The level of tax knowledge of traders and the impact of tax payment.
4. Factors affecting payment of tax by artisanal firms in Kumasi.



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APPENDIX A

QUESTIONNAIRE FOR TRADERS

The bearer of this questionnaire is a final year student of University of Education Winneba, Kumasi Campus who is writing his project work in partial fulfillment of the requirements for the award of Master of Business Administration (MBA) Degree (Accounting) on the topic: Tax Compliance of small and medium Enterprises in Ghana. A case Study of Adansi North District Assembly. This study is purely for academic purposes. Please kindly give him the necessary information on this questionnaire. All information will be treated confidential.

INSTRUCTIONS:

Please read these questions and provide answers to them as you think. Some of the questions require Yes or No. Tick one of the boxes against each question either Yes or No

Example Yes

SECTION A

1. Sex: Male Female
2. Age: 18-28 29-39 40-50 51- above 61
3. Marital Status: Married Divorce Single
4. How many children do you have? None 1 2 3 or more
5. Educational Background: Basic School Senior High School
Tertiary No Education
6. What is your trading activity? Food Vending Drinking bar Hairdressing
General Provisions Stationary Petty Trading Computer and Electronics
Building Materials Others (please specify).....
7. How many years have you been in business? 1 2 3 4 and above
8. What is your religious background? Christian Muslim Traditional

Other (please specify).....

9. What is your Average Sales per Day? Below 200 201-500 501-1000 1001-1500
1501-2000 2001-2500 Above 2500
10. Are you a Registered Tax Payer? Yes No
11. Do you pay Tax? Yes No
12. How do you pay your tax? Daily Monthly Quarterly Semi-yearly Annually
13. Do you know that every trader has to pay tax? Yes No
14. Do you know how much you have to pay as tax? Yes No
15. Do you know the percentage taxable on your income? Yes No
16. Do you know that it is a criminal offence not to pay tax as a trader? Yes No
17. Do you know the uses of tax? Yes No
18. Do you benefit from tax? Yes No
19. Do you have social amenities in your area? Yes No
20. Do you think all taxes are paid into government chest? Yes No
21. Do you travelled or walked far to pay your tax? Yes No
22. Do you trust tax Officers? Yes No
23. Do you think it is important for you to pay tax? Yes No
24. Do you feel happy by not paying tax? Yes No
25. Do you feel that tax payment is punishment? Yes No
26. Do you benefit from not paying tax? Yes No
-

27. Have you pay a penalty for not paying your tax before? Yes No
28. Do you think the Tax Officers talk to you politely? Yes No
29. Have the Tax Officers explained to you why you should pay tax? Yes No
30. Do the Tax Officers educate you about tax payment? Yes No
31. Do you think you need tax education from the Tax Officers? Yes No
32. Do the Tax Officers visit you at your work place to advise you about your business? Yes No
33. Do the Tax Officers collect something from you so that you don't pay your tax? Yes No
34. What are some of the problems that you face in tax payment? Filling of returns
Walked/Travelled far to pay tax Don't know the tax office
35. Government cannot provide social facilities without tax? Yes No
36. Do you think that if Government provides more social amenities like toilet, market, etc. it will motivate people to pay tax? Yes No
37. Do you think some traders don't pay tax? Yes No
38. What are some of the roles of revenue Officers towards improving tax payment by traders?
Educating traders on tax Going to the traders premises to collect taxes Enforcing tax laws
39. What is your relationship with tax Officers? Very good Good Bad Very bad
40. What is your average expenditure per month? Below 200 201- 400 401- 600
601- 800
801- 1000 Above 1000
41. Have you over paid tax before? Yes No
42. If yes, who helped you to correct it? Tax Officers Consultant
43. Do you file your tax returns? Yes No
44. Do you think that people do not pay tax because they don't benefit from tax payment? Yes
No

45. Any other suggestion that will help increase the number of traders to pay tax?

.....
.....
.....

Thank You.



UNIVERSITY OF EDUCATION WINNEBA, KUMASI CAMPUS

INTERVIEW GUIDE FOR REVENUE AUTHORITIES

The bearer of this questionnaire is a student of University of Education Winneba, Kumasi campus, and I am working on an academic research "Tax Compliance of Small and Medium Enterprises in Ghana. A Case Study of Adansi North District Assembly". I will like you to grant me an interview on the stated topic.

Please feel free and give responses to the best of your knowledge. Your identity will never be disclosed to any third party. This study is purely for academic purposes.

Age of respondent:

Name of Institution:

1. How long have you been working for the assembly/Authority? Less than 1 year 1 year
2years 3years 4years 5 and above
2. What is your current position? Senior staff Junior staff
3. Are all business in the Assembly registered and pay taxes? Yes No
4. If No, Why? Because Tax Officers can't identify all of them Lack of logistics to go round by tax officers
5. Which businesses categories hardly pay taxes? Carpenters Masons Tailors/Seamstress
Hairdressers Food Vendors Drinking bars General provisions Stationary
Petty Trading Computer and Electronics Building materials
6. Are traders well educated on tax payments issues? Yes No
7. Whose duty is to educate the traders and the general public on tax issues? GRA District Assemblies NCCE
8. What are some of the roles of revenue Officers towards tax payment? Give three(3)

- i.
- ii.
- iii.

9. What are some of the ways that will help increase the number of tax payers in the Assembly?

Tax education provision of social amenities

10. Do you think the traders have enough knowledge on tax? Yes No

11. If No, give reasons. Inadequate tax officers Lack of logistics Lack of tax education

12. What are some of the problems traders face in tax payment? Lack of tax education

No benefit from tax payment Travelled long distance to pay tax

13. What are some of the problems that you face in tax collection? Lack of car to go round

Inadequate wages/salaries Lack of staff

14. Do you meet the traders regularly to educate them on taxes? Yes No

15. Have you received complained from traders about over taxation? Yes No

16. Have you helped traders to solve over taxation before? Yes No

17. Why traders evade tax? They don't benefit from tax The tax is too high Lack of tax education

18. What is your relationship with the traders? Very good Good Bad

19. Any other suggestion that will help increase the number of traders to pay tax?

.....
.....

Thank You.