

**AN EXAMINATION OF TAX EVASION IN GHANA: A CASE STUDY OF SEKYERE  
EAST DISTRICT OF THE ASHANTI REGION**

KNUST

By

Mary Serwaa Afari, B.Ed Accounting Studies (Hons)

A Thesis submitted to the department of Accounting and Finance, Kwame Nkrumah University  
of Science and Technology in partial fulfillment of the requirements

for the degree of

**MASTER OF BUSINESS ADMINISTRATION (ACCOUNTING OPTION)**

School of Business, KNUST

College of Humanities and Social Sciences

July, 2015



## ABSTRACT

This study examines tax evasion in the Sekyere East District of the Ashanti Region, using a sample size of 86 respondents consisting of 83 taxpayers and 3 revenue officials. Employing descriptive statistics, the results of the study revealed that, the following factors as the cause of tax evasion in the district; absence of tax education, high tax rates, non-application of sanctions, perceived inappropriate use of taxes by the government and businesses not being profitable. Inadequate staff and logistics, inability of tax officials to reach all liable taxpayers and absence of database, were the challenges that tax officials face in collecting taxes. Tax education and team work among others are recommended as means of helping to minimize tax evasion in the district and the country at large.



## ACKNOWLEDGEMENT

In moment like this, I will lift up my hands and say glory, honor and adoration to the Alpha and the Omega God for how far he has brought me right from day one of climbing the academic ladder to this point. I duly appreciate the gift of life good health, grace, favour and the knowledge that he has bestowed on me throughout this journey.

I deeply express my appreciation to my supervisor, Dr. Daniel Sakyi and his assistant, Eric Osei Opoku who I always boast of for their patience, time, encouragement, and support and more especially for being approachable and expressing the best form of human relations to me. All I say is that may the good Lord bless you in abundance.

I do extend appreciation to Hon. Solomon Agyei Mensah (District Chief Executive-Sekyere East) Mr. Owusu Amoako Micheal (District Coordinating Director), Mr. James John Dotse, (District Internal Auditor), William Akasah (HRMD), Mr. Richard Donkor (District Information Officer) Mad. Margaret Oduro (Revenue), Paulina Boakyewaa Agyri, Ellen Afra Boampong, Charles all at Sekyere East District Assembly for their good human relations and for assisting me.

To my lovely brothers, Frank Appiah Afari and Benjamin Amoako Boahen I say may God bless you. I say kudos to my forever memorable group members for their massive support throughout these years. I sincerely acknowledge these blessed friends, Betty Agaliga, Evans Howusu-Kumi Fedelis Oheneba Osei, Baffour Awuah Isaac, Frank Mensah and all other friends for their support. I sincerely acknowledge the writers of the various journals, articles and books which contributed in diverse ways in the fine turning of this research.

Thanks to all those who contributed to this work in diverse ways since I was unable to capture every name.

# KNUST



**DEDICATION**

To the Afari family

# KNUST



## TABLE OF CONTENT

<b>DECLARATION</b> .....	i
<b>ABSTRACT</b> .....	iii
<b>ACKNOWLEDGEMENT</b> .....	iv
<b>DEDICATION</b> .....	vi
<b>LIST OF TABLES</b> .....	x
<b>LIST OF FIGURES</b> .....	xi
<b>LIST OF ABBREVIATION</b> .....	xiii
<b>CHAPTER ONE</b> .....	1
<b>INTRODUCTION</b> .....	1
1.0 Background of the Study.....	1
1.1 Statement of the problem .....	4
1.2 Objectives of the study .....	5
1.3 Research questions .....	6
1.4 Justification of the study.....	6
1.5 Brief Methodology .....	6
1.6 Scope of the Study.....	7
1.7 Limitations of the Study .....	7
1.8 Organization of the Study.....	8
<b>CHAPTER TWO</b> .....	8
<b>LITERATURE REVIEW</b> .....	8
2.0 Introduction .....	8
2.1 Overview of Taxation.....	9
2.2 Brief History of Taxes in Ancient Days.....	9

2.3	Brief History of Taxes in Ghana .....	10
2.4	Evolution of Ghana Revenue Authority.....	11
2.5	Types of Tax.....	12
2.6	The Role of Taxation in the National Economy.....	15
2.7	Attributes of a Good Tax System.....	16
2.8	The concept of tax evasion.....	19
2.9	The extent of tax evasion in Ghana.....	22
2.10	Estimates of tax avoidance and tax evasion in developing countries.....	23
2.11	Reasons why people evade tax in Ghana .....	24
2.12	Challenges faced by Ghana revenue authority in tax collection .....	30
2.13	Measures to mitigate tax evasion in Ghana.....	31
<b>CHAPTER THREE .....</b>		<b>34</b>
<b>METHODOLOGY.....</b>		<b>34</b>
3.0	Introduction .....	34
3.1	Research design.....	34
3.2	Sources of data .....	35
3.3	Population of the Study.....	35
3.4	Sampling Techniques .....	36
3.5	Sample Size.....	36
3.6	Data Collection Instrument .....	36
3.7	Data Analysis Techniques.....	37
3.8	Ethical Consideration .....	37
3.9	Profile of the District.....	37
<b>CHAPTER FOUR.....</b>		<b>40</b>
<b>DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS.....</b>		<b>40</b>
4.0	Introduction .....	40
4.1	Gender distribution.....	40
4.2	Age distribution of respondents .....	41
4.3	Educational Background of Respondents.....	42
4.4	Marital Status of Respondents.....	43
4.5	Type of Business Engaged in by Respondents.....	43

4.6	Period that Respondents have operated so far .....	45
4.7	Respondents' response as to whether they know they are to declare their income to ...46 GRA .....	46
4.8	Response to duty to pay tax on income generated from business .....	47
4.9	Rate of payment of tax by respondent.....	48
4.10	Response to whether they have evaded tax before.....	49
4.11	Extent of Tax Evasion in Effiduaase.....	50
4.12	Respondents' perception about how much they pay as tax .....	51
4.13	Respondents' view about the reasons for tax evasion .....	52
4.14	The resultant effect of tax evasion to the Country as a whole .....	54
4.15	Response to length of service as tax officials .....	55
<b>CHAPTER 5 .....</b>		<b>58</b>
<b>SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS.....</b>		<b>58</b>
5.0	Introduction .....	58
5.1	Summary of Findings .....	59
5.2	Conclusion.....	62
5.3	Recommendation.....	62
<b>REFERENCE(S) .....</b>		<b>63</b>

**LIST OF TABLES**

Table 4.9.1:	Rate of payment of tax .....	48
Table 4.13.1:	Reason for tax evasion .....	53
Table 4.15.1	Respondents response to length of service with tax officials .....	55

**LIST OF FIGURES**

Figure 4.1.1:	Gender Distribution of respondents .....	40
---------------	--	----

Figure 4.2.1: Age Distribution of Respondents .....	41
Figure 4.3.1: Educational Background of respondents .....	42
Figure 4.4.1: Marital status of respondents .....	43
Figure 4.5.1: Type of business engaged in by respondents .....	44
Figure 4.6.1: Period that respondents have operated so far .....	45
Figure 4.7.1: Knowledge of requirement to declare income to GRA .....	46
Figure 4.8.1: Response to knowledge of duty to pay tax on income generated. ....	47
Figure 4.10.1: Any Record of Tax evasion .....	49
Figure 4.11.1: Extent of Tax Evasion in Effiduase .....	50
Figure 4.12.1: Perception about current tax rate .....	51
Figure 4.14.1: Resultant effect of tax evasion .....	54

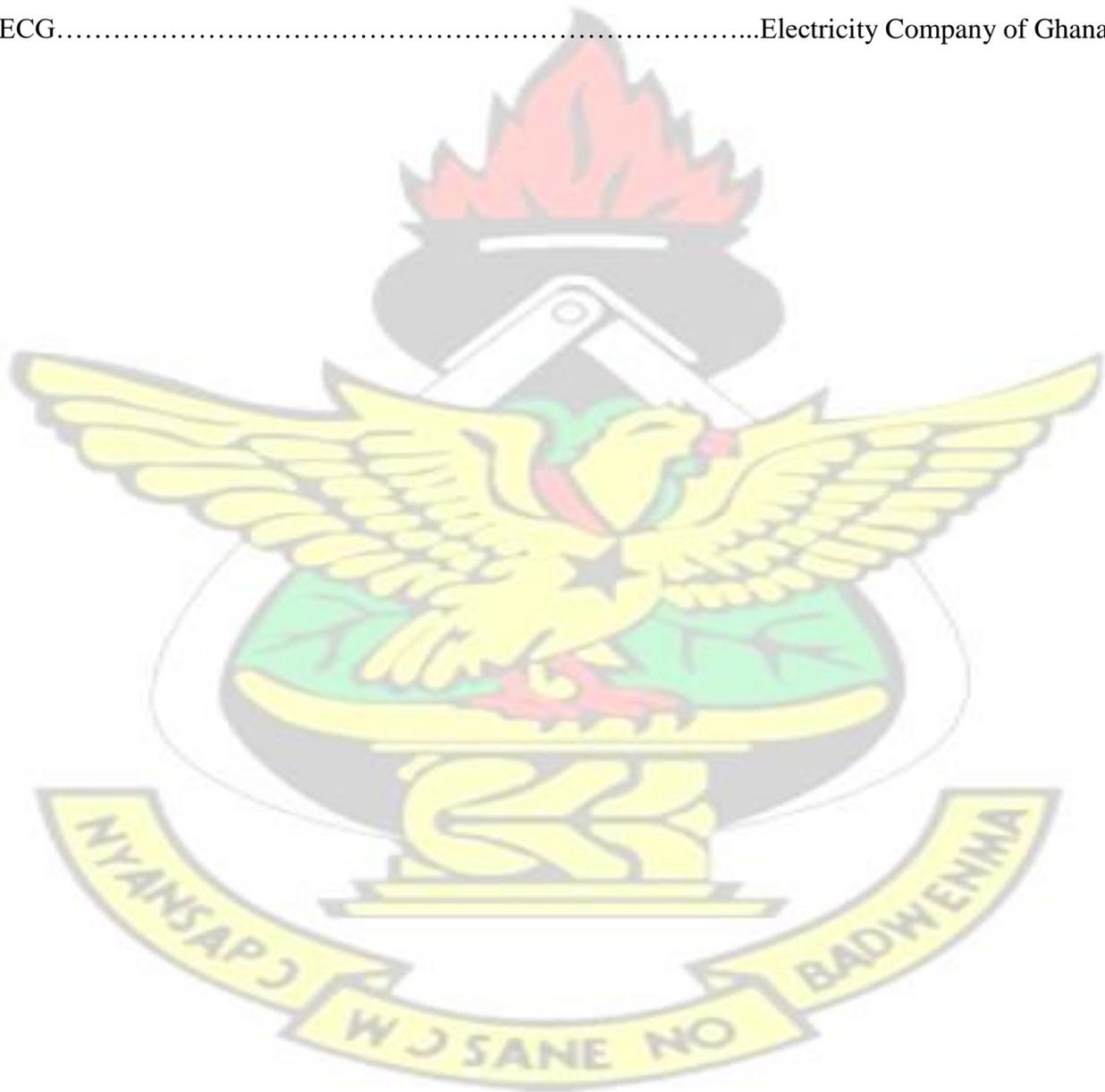
**LIST OF APPENDICES**

Appendix A.....	69
Appendix B.....	73

**LIST OF ABBREVIATION**

GRA.....	Ghana Revenue Authority
VAT.....	Value Added Tax
CST.....	Communication Service Tax
PTC.....	Personal Income Tax
CGT.....	Capital Gains Tax
MNE.....	Multinational Entity
SMEs.....	Small and Medium Scale Enterprise
CEPS.....	Customs, Excise and Preventive Service

IRS.....Internal Revenue Service  
RAGB..... Revenue Agencies Governing Board  
ICAG.....Institute of Chartered Accountant Ghana  
S.E.D.A.....Sekyere East District Assembly  
NGO.....Non-governmental Organization  
ECG.....Electricity Company of Ghana



## CHAPTER ONE

### INTRODUCTION

#### 1.0 Background of the Study

Revenue is much needed by all governments to develop every aspect of their nations. Common to every nation, there are so many sources of government revenue either internally or externally. A few among them are borrowings, grants, service charges from state owned organizations and most commonly, tax. There is no country without a tax system in place. A tax is a legal and compulsory monetary payment or contribution to a nation, which is levied by the central government on the nation's citizens.

To a very large extent, the development of every nation depends mainly on taxation. A solid revenue base is one of the foundations of every great nation and this includes Ghana. Revenue gained from taxes is very important in developing every economy. According to the World Bank Report on the finances of government of Ghana in 2011, percentage of tax revenue to GDP in Ghana was measured at 14.87%. Also, according to the Bank of Ghana Monetary Policy Report on fiscal developments, preliminary fiscal data from the ministry of finance and economic planning showed that for the first quarter of 2012, total revenue and grants amounted to GHC 3.5billion, representing 5% of GDP (BoG report, 2012). Tax revenue is thus an important issue of concern in Ghana.

Ghana has a corporate income tax rate of 25% compared to 30% or 35% in some other African countries. Value Added Tax (VAT) is chargeable at 15% on all supply of services imported except those goods and services exempted, all imports of goods and all supply of taxable goods and

services made within Ghana (Agaliga 2014). Communication service tax (CST) is applicable at 6% on charges for the use of communication services in Ghana. The rate of import duty ranges from nil to 20% depending on classifications in the harmonized Code. Excise duties are generally applicable on the ex-factory price of goods and range from 10% to 17.5% depending on the type of goods. Personal Income Tax (PTC) is also relatively low with the marginal tax rate being 25% on incomes earned over GHS 1,350 each month for resident individuals (Pwc Country Study: Ghana, 2014). Non-resident individuals are taxed at a flat rate of 15% on their total assessable income derived from or accruing in Ghana. Capital Gains Tax (“CGT”) is applicable at 15% on capital gains accruing to or derived by any person from the realization of a chargeable asset owned by that person. Gift tax is charged at 15% of the total value of taxable gifts received within a year of assessment (Pwc Country Study: Ghana, 2014).

Multinational entities (MNE) contribute significantly to the tax revenue of Ghana in the form of corporate income tax, VAT, personal income taxes and withholding taxes. Pwc’s discussions with some GRA officials confirm that multinational entities make up approximately 5% of the total number of registered traders for VAT purposes but contribute 80% of the total revenue collected. It is obvious that the importance of the contributions of MNEs to Ghana’s economy cannot be overemphasized. Thus, taxation contributes so much to the revenue of the country and as such taxation issues are top priority issues in the development of the nation. There are two main systems or types of taxation levied by every government including Ghana, which are direct and indirect taxes. (Pwc Country Study: Ghana, 2014)

Without discounting the importance of tax to every government, there are several problems surrounding its collection. Bird (2003) opines that, even though tax laws propel citizens of a

country to contribute to the government's revenue, it is the effectiveness of its tax administration that will determine the revenue amount that flows into the national revenue coffers. Inadequate collections of tax are the result of some weaknesses in the revenue collections. Kangave (2005) is of the opinion that, even though some countries have the problem of driving its citizens and businesses into the taxation process, governments also faces such problems as inadequate administration staff who also possess low skills. Other problems faced by the government tax officials are the huge percentage of illiterate tax payers, inadequate working equipment and lack of reliable data. Again, one great challenge in the administration of tax is the inadequate resources to alleviate and aid the operation of tax officials. In this regard, the resources of tax administration can be classified into two main groups: human resources and physical resources.

With regards to human resources, the focus is on the number of quality tax officials available. Physical resources can be seen in a wide perspective, ranging from office buildings and equipment to vehicles and communications systems. Tanzi and Zee, (2000) suggests that because of financial limits, some tax officials lack the key principles of accounting necessary to analyze business returns which in turn is aggravated by inadequate training facilities and opportunities. One of the other challenges faced by tax officials is high levels of illiteracy on the part of taxpayers in the country. According to the Ghana Statistical Service in a survey conducted in 2010, 51.5% of the adult population in the country is illiterates. This high illiteracy rate shows that most taxpayers are not able to file their returns or even record their sources of income and expenditures, and thus tax authorities are usually to collect appropriate taxes from such people (Bird, 2003).

In Ghana tax evasion is also a major problem bedeviling the tax system (Aba, 2013). Tax evasion is an illegal practice where a person, organization or corporation intentionally fails to pay a tax liability truly owed or in other words, an unlawful attempt to minimize tax liability through

fraudulent techniques to circumvent or frustrate tax laws. In Ghana, it is known that the informal sector accounts for a major source of employment. There is no gainsaying the fact that most informal sector operators are self-employed and they often operate from homes, while some others use any public space available. Thus, with a table and a chair one could easily start up his/her own business with family assistance (Farrell et al, 2000). How to tax the informal sector remains a pressing issue. The informal sector is an obvious focus of attention as it forms a significant and growing proportion of the economy in the developing countries, yet pays little in the form of taxes (Anuradha and Ayee, 2002). The Minister of Finance and Economic Planning in 2007 expressed concern that widening the tax net remains one of the main problems that Ghana is facing. The simple fact that a greater percentage of Ghanaians are all engaged in informal private sector businesses makes the generation of revenue a tedious task. (Budget of Ghana, 2007)

### **1.1 Statement of the Problem**

It has been noticed that most businesses in Ghana are found in the informal sector and are made up of small and medium scale enterprises (SMEs). A report in 2008 by Christian Aid drawing on a research by Raymond Baker estimates that low-income countries, like Ghana, lose over \$22.4 billion in tax revenue annually to tax evasion, which was comparable to the total amount of foreign aid received by these countries. It is estimated according to same report that, with regards to economic activity, the self-employed sector constitutes about 86.3% and these self-employed mostly operate in informal facilities. Out of the total registered informal sector self-employed operators, a little below 30% are duly registered and are assessed to tax. Although tax payment is compulsory some SMEs are able to evade tax. This is the case of various businesses in Effiduase, the district capital of Sekyere East District in the Ashanti Region. In evading tax payment, the nation loses the revenue it would have earned from them.

Tax evasion has a negative impact on the economy. According to Franzoni (1999), the resulting tax revenue loss due to tax evasion may impede the proper functioning of the public sector, and as such threaten its ability to finance its basic expenses. As Soos (1991) rightly said, though tax evasion leads to a loss in revenue, a tax system that is characterized by some widespread noncompliance places an unfair burden on the honest taxpayers.

Notably in Ghana, it is realized that there have been several times the government, having supposedly conceded that the revenue from taxes is very low with regards to the expectation of growth and development, and decided to introduce another form of tax, or shift focus to one already existing by way of increasing such taxes. Despite this it has been very difficult to collect all the taxes due from the informal sector (SMEs). Regarding this, this study wishes to find out why there is such a large extent of tax evasion and the challenges the Ghana Revenue Authority (GRA) faces in collecting taxes from these businesses.

## **1.2 Objectives of the Study**

The general objective of the study is to ascertain the reasons why SMEs in the Effiduase in the Sekyere East District of the Ashanti Region evade tax and the challenges the Ghana Revenue Authority faces in collecting taxes from these businesses.

The specific objectives of the study are as follows;

1. To assess the extent of tax evasion among SMEs in Effiduase.
2. To examine why SMEs in Effiduase evade taxes.

3. To investigate the challenges the GRA faces in collecting taxes from the SME operators in Effiduase.

### **1.3 Research Questions**

This study seeks to provide the answers to the following questions to aid in finding a solution to the problem identified:

1. To what extent do SMEs evade tax in Effiduase?
2. Why do SMEs evade taxes in Effiduase?
3. What are the various challenges that GRA faces in collecting taxes from SME operators in Effiduase?

### **1.4 Justification of the Study**

By far a lot of research has been done but regarding the aim of this study, the government's attention will be drawn to the fact that a lot is being lost and as such appropriate measures will be put in place to that effect. GRA on the other hand, will strengthen its systems by way of employing all the necessary strategies probably going beyond what they do to close the loop holes thereby reducing the rate of tax evasion. The informal sector will realize the benefits of paying taxes, the reasons why they should not evade tax and how they can contribute to the building of the of the entire economy when they pay tax.

### **1.5 Brief Methodology**

This study would adopt the case study strategy for its research design. This is because case study approach has a considerable ability to generate answers to the questions „why“? as well as „what“? and „how“? To be successful in doing this, the qualitative method of data collection would be

vastly used because it would allow the researcher to understand and explain tax evasion. Cooper and Schindler (2006) describe qualitative research as one conducted to find out what people do, think, know and feel. At some instances, the quantitative method of data collection will also be employed. According to Henning (2004), the qualitative method of inquiry allows one to understand the respondents in terms of their opinion, feelings, and provide a detailed and deeper understanding of phenomena.

Non-probabilistic methods of convenient and purposive sampling technique would be used because of the need to obtain responses from a particular group of respondents. Questionnaire and face-to-face interview would be used to obtain primary data from the respondents. Data obtained shall be analyzed through the use of descriptive statistics.

### **1.6 Scope of the Study**

This study will be focusing on the SMEs in Effiduase of the Ashanti region, the district capital of Sekyere East District. This study will cover those businesses in the informal sector considering people who are into manufacturing, service oriented businesses, retailing and distribution, and among others. The study will as well cover the district as a whole involving the work of the Ghana Revenue Authority at the Sekyere East District Assembly

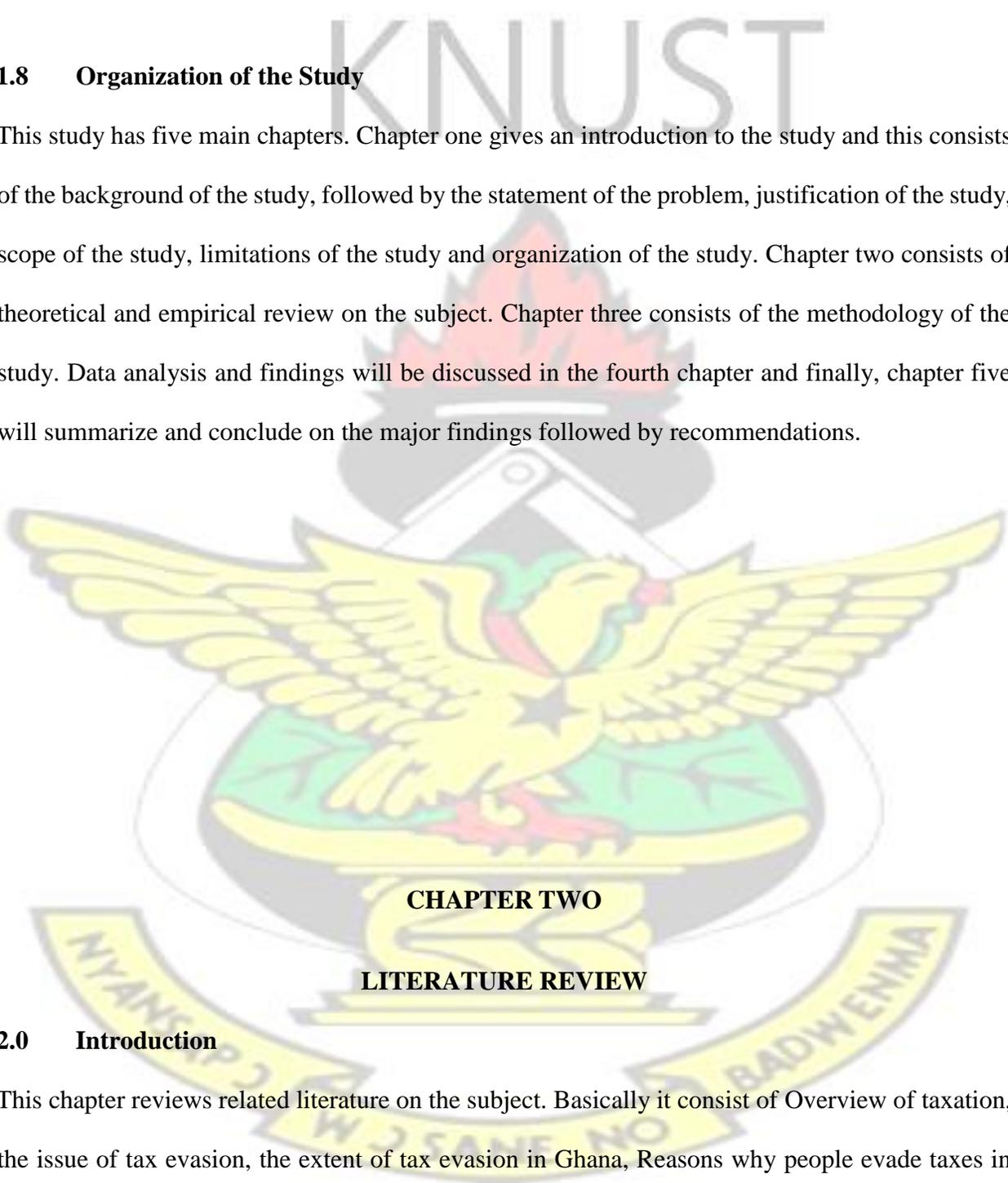
### **1.7 Limitations of the Study**

It was the researcher's objective to cover the entire district but time and resources could not permit this and as such only the district capital, Effiduase could be captured. In addition, the researcher's objective to interview at least five tax officials could not be achieved due to their busy schedules.

However, the researcher intended going out with the tax operation team to make some observations but time could not permit this.

## **1.8 Organization of the Study**

This study has five main chapters. Chapter one gives an introduction to the study and this consists of the background of the study, followed by the statement of the problem, justification of the study, scope of the study, limitations of the study and organization of the study. Chapter two consists of theoretical and empirical review on the subject. Chapter three consists of the methodology of the study. Data analysis and findings will be discussed in the fourth chapter and finally, chapter five will summarize and conclude on the major findings followed by recommendations.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter reviews related literature on the subject. Basically it consist of Overview of taxation, the issue of tax evasion, the extent of tax evasion in Ghana, Reasons why people evade taxes in Ghana, Challenges faced by GRA in tax collection, Measures to mitigate tax evasion in Ghana.

## **2.1 Overview of Taxation**

A tax is a levy imposed by government or a legal entity in a country, on its citizens (Altus Directory, 2006-2010). Pratt et al (2001) sees tax as an exaction to support the government, which means, that tax provides a way for government to obtain a greater portion of revenue needed to keep it in operations. It can thus far be seen that tax is not just a source of revenue; though it has become a great instrument that policy makers use to achieve socio-economic goals.

Selma et al, (1951) defines taxation as „the process by which a government obtains supports from its citizens to maintain the economy. Louis (1991) is of the opinion that, governments use taxation to raise money for public spending. It can thus be understood that government uses taxation to raise revenue to fund development projects in the country.

## **2.2 Brief History of Taxes in Ancient Days**

Everyone considers taxes as a problem. It comes as no surprise that taxation issues date back to ancient times. According to Adams (1998), in the numerous reigns of the Egyptian Pharaohs, tax collectors were referred to as scribes. There was a time that these tax collectors introduced a tax on cooking oil. To ensure this tax compliance, the tax collectors audited various homes to make sure that actual amount of cooking oil were consumed and that citizens did not use the generated remains from other cooking processes as alternative to the cooking oil. Rehnquist et al (1992) said the earliest taxes in Rome were called portoria; customs duties on imports and exports. At the time of Julius Caesar, sales tax of 1% was instituted. At the time of Caesar Augustus the 4% sales tax was for slaves while 1% was for everything else.

### **2.3 Brief History of Taxes in Ghana**

According to Randolph (2011), taxation was introduced in Ghana in the year 1943. Despite this, prior to its introduction in 1943, governments had made some attempts to introduce it already.

For example, in April 1852, in order to obtain revenue to fund the increased cost of British Administration, the government introduced what it called the Poll Tax Ordinance. Men, women, and children living in districts under British protection were made to pay one shilling (1/-) per head per year as a poll tax ordinance.

Some weaknesses in the system of tax collection made these attempts of direct tax introduction fail, coupled with the fact that the first revenue collected were not used for the purpose for which they were introduced. That was how taxation begun in Ghana and since then there have been important amendments in the tax laws over the past years. From Abdallah, (2008), Income Tax Ordinance was introduced in 1943 and it was the first income tax law. Since there was an Income Tax Act already in United Kingdom, our ordinance was modeled on that act. Our ordinance levied the tax primarily on incomes that had their source in Ghana which meant that income from foreign source was not taxable unless it was remitted in Ghana. Our ordinance contained some numerous personal reliefs and deductions and these were one important feature of the ordinance.

Since its inception, Income Tax Law has seen diverse changes and modifications, and a clear example is the Income Tax (Amendment) Ordinance 1952. The initial consolidated edition of the Income Tax Ordinance was released in March, 1953. Subsequent to it was the amendment to the consolidated edition Act 68 in 1961 and this was preceded by Act 178 and Act 197 in 1963 and Act 312 in 1965. In September 1966, the second consolidated edition, Tax Decree 1966 (No.78) was released. Again, in December 1975, the Income Tax Decree 1975, SMCD 5, the third consolidated edition was released. In the year 2000, the prevailing government introduced new tax

laws to manage the administration of income tax, capital tax and gift tax in Ghana and thus make tax administration generally better in Ghana.

#### **2.4 Evolution of Ghana Revenue Authority**

The Ghana Revenue Authority is the government of Ghana agency responsible for the overall oversight of the all the taxation agencies in the country. The authority was established in 2009 as a merger of the Internal Revenue Service (IRS), Customs, Excise and Preventive Service (CEPS), Value Added Tax Service (VATS), and the Revenue Agencies Governing Board (RAGB) Secretariat.

Upon its establishment, the GRA issued a statement to the effect that the revenue agencies would therefore cease to exist and be subsumed up into the Ghana Revenue Authority with the passage of GRA Act 2009, (Act 791). This Act established the GRA as a body corporate to replace CEPS, IRS, VATS and RAGB for the administration of domestic tax and customs revenue in Ghana.

In that regard, Mr George Blankson, Commissioner-General of GRA explained that under the newly established GRA, the operations units of IRS and VATS had been integrated into the Domestic Tax Revenue Division (DTRD) while the operations and preventive units of the CEPS now formed the Customs Division.

As such, all the Finance, Human Resource, Administration, Information Technology and Research Planning and Monitoring, which all constituted the management support functions which used to be performed under the erstwhile CEPS, IRS, VATS and RAGB were merged to form a new division called the Support Services Division (SSD).

Each of these divisions were then headed by a Commissioner while the remaining management support functions, including Communication and Public Affairs, Internal Audit, Internal Affairs, Modernization Program Office and Board Secretariat and Legal Affairs were headed by Deputy Commissioners, who all reported directly to the Commissioner-General.

In accordance with the provisions of the GRA Act, 2009 (Act791), all dealings and businesses with the former revenue agencies were to be redirected to the Ghana Revenue Authority with immediate effect.

## **2.5 Types of Tax**

There are two basic different types of tax namely direct taxation and indirect taxation.

### **Direct Taxation**

Direct taxes refer to that form of taxes collected from the individual or organization on which they are apparently imposed. For example, income taxes are taken from the person who earns the income or in the case of paying gift tax.

Direct tax is that tax which is levied on organizations and businesses and as such is paid by such organizations. Direct tax includes capital gain tax, corporate tax, gift tax and income tax. In Ghana, the Domestic Tax Revenue Division has the authority to administer this taxation (ICAG Taxation Study Manual, 2014). Direct tax is very important given that, it is a kind of progressive tax and takes more from the people who have more. This decreases the consumption of luxury goods by the rich and facilitates the diversion of resources from luxury goods production to that

of capital construction. According to Ali, (2001) this ensures a degree of flexibility in the system of tax, increasing the possibility of tax revenues rising as income increases.

The progressive ability direct tax makes it ideal for developing countries. For this reason, it promotes distributive justice in developing countries. As Akakpo (2009) said, inequalities are prevalent in developing countries, and with economic development these inequalities tend to become broader. One can understand that the development of a nation relies on the citizens, though it should be based on each citizen's capability to pay tax. It is easy to determine the incidence and yield in direct tax when one makes a comparison with indirect tax. In direct that, there is that certainty which means each taxpayer clearly knows what he is expected to pay, and according to (Akakpo, 2009) yield rises automatically as wealth and population rises. Despite these positives, there is huge administration cost and also the "effect on incentive, enterprise and savings in the case of those with large income, may be considerable" (Ali, 2001).

### **Indirect Taxation**

Indirect taxes are opposite of direct taxation. Indirect taxes are collected from someone other than the person responsible for paying the taxes, and are collected by an intermediary body, for example retail store, which collects the sales taxes from the proceeds during the purchase. The intermediary body later files a tax return and forwards the tax proceeds to government. Simply put, indirect tax is that tax levied on expenditure.

Basically, this is a tax that is imposed on one person with the expectation that, the tax will be transferred to another person. In this case the impact and incidence are on different persons

(Akakpo 2009). Examples of these are custom duty, excise duty and value added tax (VAT). Authorities assigned for this tax are the CEPS and VATS (Ali, 2001). It is called indirect because, the tax authorities do not directly deal with the consumer as in tax collection but rather do so indirectly through importers, manufacturers or other intermediaries. The transfer of this tax liability is effected by levying the tax element on the selling price of the commodities to the next person in the commercial chain until it is finally borne by the consumer (ICAG Manual: Taxation and Fiscal Policy, 2015)

With indirect tax, the value of the goods determines the rate of duty. Here, the attributes of the commodity determines the tax rate which is also based on a fixed amount. (Akakpo 2009). Example, weight, bag of rice may be taxable at GHS 20.00 per kg and drinks may be taxed based on their volume. There are many advantages of this type of taxation. First and foremost, an increased indirect taxation allows for labor market incentives due to the fact that the government can decrease the whole tax on income and capital. This is especially true as income tax and corporate tax rates have been reduced in Ghana over the years. Most people prefer indirect tax to direct tax as in the case of indirect tax, employees are able retain more of their income (Ali, 2001). This explains why returns on working extra hours rise when income tax rates are reduced. However, in the case of income tax, people are able to earn a particular target post-tax income with relatively fewer working hours compared to previous working hours before the tax cut (Ali 2001). If leisure is regarded as a normal good, employees would choose not to work and in order to enjoy more leisure time and still earn the same income. Secondly, since indirect taxes are only collected from businesses, it is cheaper to administer than direct tax. Government gets more control over its use of fiscal policy with indirect taxation. Also, even without parliamentary approval some indirect

taxes can be altered between budgets. A particular example is VAT and excise duty. On the opposite, direct taxes can only be altered in the annual budget.

Despite all these positives, one may argue that an indirect tax is regressive. With indirect taxation, each taxpayer pays the same rate of tax, and considering the different levels of income, it means those who earn low income pay more as compared to those that earn more income. On the part of direct tax, those that earn more income pay more tax as compared to low income earners. That is, as earlier said, direct taxes are progressive.

## 2.6 The Role of Taxation in the National Economy

According to Altus Directory, (2006 - 2010) the reasons for Taxation from the viewpoint of the authorities can be classified as follows:

**Revenue:** The taxpayers' money serves as the source of government revenue for the provision of social amenities like hospitals, clinics and infrastructure like roads and also provide quality education systems.

**Redistribution:** This is a very debatable yet arguably an important purpose of taxation. It aims at properly distributing the wealth among all sections-the well to do and not so well offs. It is a common practice in any democratic nation, but the way and the proportion it is changes from one country to another.

**Reprising:** It is known that most industries emit toxic carbons during production. This contributes to global warming and since this is threatening to the society, various governments and activists suggest the imposition of taxes on such industries. This means some taxes can be imposed in order to address certain externalities also.

## 2.7 Attributes of a Good Tax System

The attributes of a good tax system are referred to in many books as the canons of a good tax system. Notable amongst them is Adam Smith's book titled "Wealth and Nations". These attributes represents the basis of all discussions on the principles of a good tax system. The attributes of a good tax system gives a vital framework for reviewing any system of tax in the world. Significantly, these canons have their basis on a very vital precedent that a tax system is only effective if the taxpayers willingly pay the tax instead of being forced to pay. Thus, any good system of tax which possesses the attributes outlined by Adam Smith will introduce efficiency in the administration of tax and ensure that taxpayers willing comply with tax laws. Based on the concept of equity, certainty, convenience and economy, Adam Smith gave out four attributes of taxation and these are explained below.

### **Equity**

A good system of tax must exhibit fairness to the taxpayers who are expected to pay. That is the first canon that Adam Smith emphasized. With this canon, each person is expected to pay the tax according to his or her strength to pay. This means that each person pays tax according to the amount of income received. In this regard, those who earn higher incomes will pay high taxes and those that earn low incomes pay low tax. This is referred to as equality. Adam Smith argued on

this foundation that taxes should be levied in proportion to income earned, that is, each taxpayer is supposed to equal tax rate of tax.

However, economists of this century see the equality differently as compared to Adam Smith. Based on the assumption of diminishing marginal utility of money income, modern economists argue that the principle of ability to pay is of progressive income tax, that is to say the rate of increase in tax as income increases. In most economies, this progressive tax system has been adopted to make sure that there is equality in the system of taxation.

There are two different views of the ability to pay principle. There is the concept of horizontal equity and vertical equity. Horizontal equity principle says that, people who are equally situated should be treated alike. That is, those who have equal income should pay the same amount of tax and thus there should be no discrimination between people of such equality.

Vertical equity explains that people with different abilities to pay should be treated for the purposes of division of tax burden. Thus, various tax rates should be charged on people with different income levels. A good tax system should ensure both horizontal and vertical equity.

### **Certainty**

Adam Smith said that „The tax which each individual is bound to pay ought to be certain and not arbitrary.“ This is to say that the payment manner, time of payment and quantity to pay should all be plain to the taxpayer and all other persons. A good economy requires that taxpayers should be certain on the tax they have to pay on their income. In this regard, a good tax system should be such that tax authorities should not arbitrary fix tax rates. In deciding the amount of investment to

make in risky circumstances, he must know with certainty how much tax he is liable to pay on his income. If the sum of tax payable by him is subject to much arbitrariness of tax authorities, this will weaken his incentive to work or invest more.

Again, certainty in the tax system, as Adam Smith puts it, there will be corruption in the tax administration. Therefore in a good tax system, „individuals should be secure against unpredictable taxes levied on their wages or other incomes. The law should be clear and specific; tax collectors should have little discretion about how much to assess tax payers, for this is a very great power and subject to abuse.“

### **Convenience**

Adam Smith's third canon states that the sum, time and/manner of payment of a tax should not only be certain but the time and manner of its payment should also be convenient to the contributor. For example, if land revenue is collected at a time farmers are harvesting and selling their produce, it will be very convenient.

### **Economy**

There should be economy in the tax administration. The fact cannot be discounted that governments spend money in tax collection. It must be noted however that since costs incurred in tax collection do not add anything to the national product, such costs should be minimized as far as possible. If the cost incurred in collecting taxes is greater than the amount of tax itself, then indeed it is not prudent to levy the tax.

### **Simplicity**

To ensure such economy in tax collection, taxes should be as simple as possible and the tax laws should not have different interpretations. A good tax system should be simple and clear. Tax laws and administration must not be complex or complicated. If it does, it becomes difficult to understand and this will subject it to different forms of interpretations and this makes tax administration very tedious.

### **Elasticity/Flexibility**

This canon explains that a good tax system should be fairly elastic should the government need additional funds; it would simply increase its financial resources without incurring any additional cost of administration and collection. Examples of elastic taxes are income tax and postal rates. Once there is a rising demand for government revenue, these rates or taxes are also raised a little.

### **Productivity**

This canon also explains that when a tax is levied, it should produce enough revenue to the government for development. If few taxes are imposed and they are able to yield enough funds for the development of the country, then it should be preferred to imposing a large range of small taxes which will produce less revenue and may even be expensive in collection.

## **2.8 The Concept of Tax Evasion**

The payment of tax demonstrates the desire of every citizen to develop the country. Tax payment is a civic responsibility and this is imposed by governments on its citizens to help the government develop the country by providing such things like infrastructure and utilities for the people. Revenue derived from the tax payment forms a greater part of government revenue. Despite this,

tax evasion is a nightmare for many countries including Ghana. Tax evasion refers to the intentional failure by taxpayers to fulfill their tax obligations. Tax evasion causes a loss in national revenue, and this is a great set back in the public sector and economic development. Investigation into tax evasion can be traced as far back as the work of one of the pioneers of „law and economics“, Cesare Beccaria (1797). This issue of tax evasion has long been separated to stand alone, in order to appeal to the attention of tax authorities and ensure that much effort is put into finding its solution.

Rynoids (1963) is of the opinion that because tax forms a greater part of government revenue, when taxpayers evade tax or otherwise avoid it, there is not equity in that tax system. The evasion of tax denies government the revenue on taxation due to her, and this creates a hole between the real amount of tax collected and what ought to have been collected. A related concept is the avoidance of tax, by which individuals decrease their tax liability in a way that may be unintended by tax legislators but is allowed by law. In order to avoid tax, people structure their business transactions in order to decrease tax liability.

Legally, tax evasion is different from tax avoidance in that, tax evasion is unlawful, and hence it is punishable if revealed. Avoidance is legally accepted while evasion is an offence. Tax avoidance is the modification or arrangement of one's financial affairs, in order to decrease tax liability in a way permitted by law. According to Muhammed and Muhammed (2012), even though government protest against tax evasion and avoidance, taxpayers use tax avoidance strategies or at times willfully use fake strategies with some form of help from tax officials to eventually evade tax.

Tax evasion is an outright dishonest action whereby the taxpayer endeavors to reduce his tax liability through the use of illegal means. Tax evasion is achieved by intentional omission or commission, and these two are offensive as far as the laws guiding taxation are concerned. For example, a person may either intentionally or ignorantly decide not to declare his income to tax authorities or even if the income is declared, certain items may be omitted in order not to reveal the true financial position of such businesses. Furthermore, a person may also include certain category of persons in his family data so as to gain a tax relief. All these are criminal offenses as far as taxation is concerned.

Thus it can simply be explained that tax evasion is a situation where the taxpayer pays less tax as compared to what he is legally mandated to pay, using illegal means. Abdallah, (2008) puts it simply by defining it as employing illegal strategies to decrease tax.

Thus tax evasion is a term used to describe efforts by some individuals, firms and other entities to evade the payment of taxes by illegal means. It basically entails taxpayers who intentionally misrepresent or conceal the true state of their affairs to tax authorities in order to reduce their tax liabilities. It includes several ways like declaring less income and profits or inflating expenses. Mirrles (1971) opined that tax evasion deserved to be a topic for theoretical investigation. And thus in 1972, Allingham and Sandmo reviewed the topic income tax evasion in their article “Income Tax Evasion: A Theoretical Analysis”. In that regard, the objective of that paper was to analyze the reasons why the taxpayer decides to evade or not to evade and afterwards to determine the extent to which taxes are evaded by for example an intentional underreporting. Tax evasion has a damning effect on the revenue of the country and usually when it is detected, leads to the imposition of crime proceedings against the defected taxpayer.

Thus it can be explained that the issue of tax evasion is not a new phenomenon because it has existed for a very long time and various authorities continue to find issues on it very challenging due to its nature.

## **2.9 The Extent of Tax Evasion in Ghana**

The importance of developing a theoretical understanding of tax evasion can only be assessed by estimating the actual extent of evasion (Myles 2000). An article on Today Ghana News website on February 18<sup>th</sup>, 2015, quoted that „Information reaching Today Ghana News from the corridors of power indicates that the Special Operations Unit on Tax Evasion at the Presidency has uncovered about two hundred and eighty (280) public and private companies which had evaded taxes in the country.“ This indeed shows the worrying situation of tax evasion in Ghana.

According to the news article, „This illegal act, has caused the state to lose a whopping US\$367 million within seven years (from 2005-2012) and as such this has prompted the police to investigate the said companies which were alleged to have evaded taxes and process those purported companies for court. The article further revealed, “...nine more dockets have reached advance stages of investigations and will soon be sent to court. More dockets are being built and will be forwarded for prosecution.” It would be recalled that in October 2013, the presidential taskforce uncovered that over \$367 million was lost to the state as a result of the tax evasion.

This clearly shows that tax evasion is not a matter that needs to be ignored in Ghana.

Myjoyonline, in the month of February 2015, also published an issue regarding officials of five companies to be persecuted for tax evasion. The news article quoted, „Police will by close of this week put officials of five Ghanaian companies alleged to have evaded tax before court for prosecution. This follows investigations by the special operations unit on tax evasion at the presidency. The unit has so far retrieved more than one billion cedis from some companies engaged in the illegal act.“ The article went on to explain that, „the police have investigated a number of companies which have evaded custom duties and tax. The police have meanwhile refused to disclose the identities of the companies involved but Joy News checks indicate that over 280 public and private companies were involved.

The Ghana Revenue Authority on numerous occasions has expressed concern on the issue regarding tax evasion and its crippling effect on Ghana. In a news publication by adomonline in the month of December in 2014, GRA spoke on the matter of evasion. According to the news agency, Mr. Adogla Bessah who is the Assistant Commissioner at the Takoradi Medium Tax Office of GRA urged the media to join forces with the tax authorities in educating the general public regarding their need to pay taxes liable to them in order to help in nation building. The assistant Commissioner in that interview revealed that 80% of people who work in the informal sector of Ghana’s economy were not paying taxes and this he asserts, was the result of the lack of historical database to track such people and he also advised on the need to come up with computerized database to capture the informal sector as a developing nation.

## **2.10 Estimates of Tax Avoidance and Tax Evasion in Developing Countries**

Quantitative estimates of the tax revenue lost due to tax avoidance and evasion face the difficulty that, due to the nature of these activities, they escape normal statistical registration and

documentation. Attempts to estimate the amount of tax avoidance and tax evasion therefore have to build on concepts which exploit correlations between observable and statistically documented variables and evasion. Estimates for developing countries face the additional challenge that the availability of economic data in general is much more restricted than in developed countries. These data problems may explain why there is very little reliable empirical evidence on tax avoidance and evasion in developing countries. The existing studies mostly rely on highly restrictive assumptions and have to make use of data of mixed quality.

In the following, we discuss existing estimates of tax avoidance and tax evasion. We start with a recent study by Cobham (2005), which focuses on tax evasion, rather than avoidance. We do so for the following reasons. Firstly, this is a frequently cited paper. Secondly, Cobham (2005) is transparent about the approach used, so that his results can, in principle, be replicated using publicly available data. Thirdly, most studies on tax evasion and avoidance in developing countries focus on the international component only whereas Cobham (2005) addresses the combined impact of domestic and international tax evasion, with a focus on the domestic component.

## **2.11 Reasons why People Evade Tax in Ghana**

### **The Decision to Evade**

When one decides to comply with tax laws, it means the person will correctly reveal his tax base and calculate tax liability correctly, file returns on due times, and subsequently pay the tax due. Many decisions to evade tax emanates from these simple points. Those who evade tax first of all may decide not to correctly reveal their tax base, and as such will not give a correct determination

of their tax liability. Most evaders too decide not to file their correct returns and thus subsequently evade tax.

For the problem of tax evasion to be tackled properly, it is imperative to ascertain some factors behind people's decision not to pay tax. In order to come out with methods and instruments to fight tax evasion, it is vital to first of all establish a broad understanding of the different reasons why people evade taxes. Some causes of tax evasion are specific to some countries, by and large; the various causes of tax evasion are general and can be applied to almost all countries.

“Pommerehne et al. (1994) conducted study in order to recognize the determinants of tax evasion. They used the presence of grievance in absolute terms in their study. Results indicated that as the sentiments of grievance increased in absolute terms, the level of tax evasion also increased and the level of tax moral belief decreased”. In 1957, a researcher called Orewa scrutinized the features of tax evasion. At the end of his investigation, it was revealed that because people can move from one district to another easily and continue with their business, there was the chance of saving that legal money. He also found out that some operators do not keep proper or adequate records of their transactions and as such submit on their interim income to tax authorities for tax purposes. Again, it was revealed that people who earn wages or salaries freely dislocate at certain times in order to prevent tax authorities from locating them and thereafter collecting tax revenue.

Some basic reasons why people evade taxes can be outlined below.

### **The Absence of a “Quid Pro Quo”**

Basically, people do not like the idea of paying taxes. This is mostly because people feel they do not receive anything of value in return for the tax they pay. Most people always argue that why should they pay tax when those taxes are not used to provide the basic things they need? Instead of paying, they would rather use that money to provide those amenities to themselves.

### **Inequitable Distribution of Amenities**

It is common in most countries- and Ghana is not an exception- that people always chastise the government for being partial in the distribution of amenities. Mostly, evaders feel that since a certain part of the country enjoys a greater share of amenities, those working there should be taxable. It is understandable given the fact that one pays tax and still do not have the amenities others enjoy in their part of the nation.

### **Perceived Mismanagement of Tax Revenue by Government**

Everyday there are issues of corruption and misuse of public money on radio stations and televisions. There are evidences of how people in government positions have been carelessly using public funds mostly to their personal benefit. Typical in Ghana is the issue of judgment debt. Various projects for which government assigned huge sums of money have reportedly failed and these issues are always discussed by the media. On this grounds, people decide either not to pay the tax at all or pay just a small portion of the real amount, bearing in mind that these mismanagement of public funds will not stop.

### **Remoteness of Taxpayers from the Government**

Most people believe that taxes are paid to cater for the well-being of government officials who already belong to that class higher than that of the tax payers. People in government in most cases

become enemies to the average Ghanaian, given the way of life, which is wholly apart from the average tax payer. Most tax payers are aware of the various tax reliefs given to these people who already live rich lives. The taxpayer lives quite apart from the government specially and thus feel no need to pay tax to those government officials living in big cities. Probably, a little education will be able to help taxpayers understand this issue very well.

### **Absence of Spirit of Civic Responsibility**

A greater percentage of the adult population in Ghana is illiterates as indicated earlier on. For this reason, most people do not comprehend that they are liable to certain obligations like payment of tax. Regardless, anytime the government tries to educate the public on such poor attitudes, these same public try to suggest that government rather prints enough currencies to alleviate the challenges faced by the country. The absence of this form of patriotism accounts for increased tax evasion in Ghana.

Other writers in other countries have also come out with several other causes of tax evasion. For example, Orewa (1957) in Nigeria contended that partial evasion may occur because of the improper bookkeeping and accounting records maintained by traders and also the belief by some illiterate taxpayers that only those workers who earn wages or salaries should be taxable. This belief however is a wrong perception.

Kiabel (2001) is of the opinion that various entrepreneurs and business operators do not understand the need to pay taxes even though they earn much in their business. It clearly shows signs of unpatriotic citizens. Some people just decide to keep their income to themselves just for that sole reason.

Song and Yarbrough (1978) conducted a study in 1975 to explore both attitudinal and behavioral aspects of tax ethics. After their studies, it was revealed that whilst most people feel that the tax laws should be obeyed, they do not regard violations as serious crime meriting a severe punishment.

Kaldor (1962) suggests a good link between tax evasion and the perception of inequality in the payment of tax. That's, the higher people's perception of tax inequality, the higher the incidence of tax evasion. Spicer (1976) also opined in one of his dissertations dubbed, „the behavioral modern of income evasion“ that, there is a positive relationship between those who evade tax and the rate of tax evasion among such evaders' friends. Dean, Keenan and Kenny (1980) also conducted a survey on taxpayers' attitudes in 1977. Majority of the respondents representing 93% thought that „income tax is (much/little) too high“ while a substantial proportion of 62% also asserted that the government do not spends taxpayers' money wisely.

With this latter point, most people feel that the taxpayers' is not correctly spent by government. The survey also showed that many respondents felt they were paying too much income tax compared with other people, even when compared with those on same incomes. Excerpts of the survey also showed that „two thirds of respondents thought that all or most taxpayers would exploit an opportunity for small scale evasion if they thought they could get away with it. Likewise, nearly a quarter of respondents thought that all or most taxpayers would attempt large scale evasion if they felt that it would go undetected“.

Beattie (2010) suggests that, people evade taxes probably because of the motive of amassing more income. This is because every businessman's aim is to get a greater net income after deducting all expenses incurred and these expenses include tax. His ultimate objective is to minimize cost and obtain huge sales by decreasing sales price and thus increase the cash balance of the business at the end of the accounting period. From an ordinary perspective, one can understand that people evade taxes because governments do not provide enough tax incentive to tax payers.

As Ablordeppey (2005) puts it, „the tax incentives offered by government have neither hind up to the expectation or motivating investors into the country nor influencing the location of business““. It can thus be deduced that, if government gives enough tax incentives, people will be willing to pay taxes rather than evading it.

Again, people who are relatively poor, try the best they can to evade taxes. This is because they always want to gather enough money to support their standard of living. The little income they get at the end of their sales is not so huge that they would be willing to use part of that money to pay taxes. Loopholes in tax laws implementation, is another reason why people evade taxes. On the average, where law enforcements are weak, people are tempted to take advantage. At some times, inadequate tax personnel results in a situation where tax officials mistakenly omit some tax payers' name from the tax list. At some odd times, some people also evade taxes without a clear knowledge of it. Nightingale (2001) puts it well, that „When a loyal taxpayer gets to know of the rate of tax evasion in the country, he may also try to employ some strategies, mostly legal, to ensure that he reduces his tax liability or tax burden.

## 2.12 Challenges Faced by Ghana Revenue Authority in Tax Collection

Despite the fact that there are taxes laws that compel people to pay tax to enable government embark on developmental projects, the effectiveness of tax laws will determine the tax revenue realized by the tax officials. (Bird, 2003). At some points, inadequate tax officials accounts for some weaknesses in the revenue collections. Kangave (2005) is of the opinion that, even though developing countries have the problem of ensuring tax compliance in businesses and individuals, there are other problems of insufficient administration staff that in some ways possess low skills, high illiteracy rate among tax payers, lack of equipment and lack of reliable data.

One of the major challenges in the administration of tax is the lack of adequate resources to sustain and facilitate the operation of tax officials. In this regard, the resources of tax administration can be grouped in two main categories: human resources and physical resources. With regards to human resources, the focus is on the number of quality tax officials available. Human and physical resources work hand in hand. Physical resources can be seen in a wide perspective, ranging from office buildings and equipment's to vehicles and communications systems. Thus, the human resources require physical resources to ensure tax laws compliance.

Tanzi and Zee, (2000) is of the opinion that, „financial limitations have caused many tax officials to lack the accounting concepts necessary to analyze returns and this situation is worsened by lack of adequate training facilities and opportunities.“

One of the other challenges faced by tax officials is high levels of illiteracy on the part of taxpayers in the country. According to the Ghana statistical service in a survey conducted in 2010, 51.5% of the adult population in the country is literates.

### **2.13 Measures to Mitigate tax Evasion in Ghana**

In the light of the above, the following basic recommendations are made at face:

The Government should embark on various means advertisement to educate the public on the need to pay taxes. In the case of Ghana, since the government has a state-owned television station, the government should seize that opportunity to use that platform to education the public especially on some misconceptions about the use of the taxpayers' money. Also, qualified personnel should be employed and trained occasionally as time pass on, so that they become abreast with various dynamics. There should also be enough motivation to prevent officials from conniving with some taxpayers to evade or avoid tax.

Also, there should be proper review and evaluation of the assessment and collection process to encourage tax compliance. Usually tax officials send printed parts of tax laws to taxpayers and most of these laws are written in legal language and this makes it difficult for the average taxpayer to understand. Improving the design of the printouts can be a great step in improving tax assessment and collection processes. It is the sole responsibility of government therefore to look at the trend of inflation to ensure equality in tax payment.

Furthermore, the government should try as much as possible to provide certain basic utilities and amenities to all individuals and citizens in the country. Again, employment opportunities should be provided for all, so that people will feel the value they get in return for the payment of tax. The taxable population should be determined occasionally and relevant documents duly updated to cover all taxpayers and make the tax data reliable. Once most if not all taxpayers including businesses are captured in the data, tax evasion would be greatly decreased.

The Ghana Revenue Authority must ensure that systems are put in place to determine each employee's needs and the efforts needed to prevent regression. According to Hoe (2010), to enhance tax efficiency, tax administrators must follow these recommendations;

- **Simplification:** The administration of taxes should not be as complicated to assess and collect as is necessary which invariably result in lower cost to tax administrators and tax payers.
- **Shorter audits:** A tax audit should as far as possible begin as soon as possible after a return is filed. This gives the taxpayer the ability to respond quickly to the needed information.
- **Transparency:** Transparency is key in all endeavors. The average taxpayer should be well informed about all the rules of engagement regarding tax payments. Any document that relate to tax administration should be made public and assessable to all taxpayers so as to give them the needed understanding in their part of the taxpaying.
- **Training:** Various tax officials should be updated, or trained so to say in carrying out their various duties. This will ensure also they are informed about all emerging issues in tax administration.
- **Cost of Compliance:** Tax payers should be educated to keep proper books and records in order to reduce the cost of tax compliance. This is because at most times, only the records kept are essential for the prerequisites of tax compliance.
- **Confidentiality:** Most taxpayers at times feel that their returns information will be leaked to the public domain. For this reason, tax officials should ensure utmost confidentiality in handling taxpayers information. This will ensure that taxpayers willing provide information requested on hand.

- **Impartial Appeal Process:** When there are disagreements amongst taxpayers and tax officials, an impartial appeal process should exist to be responsible for the publication of its decisions, bearing in mind the confidentiality of those affected.

One can therefore conclude that, to improve tax compliance, tax rate should be reduced, and there should be strong surveillance system in place. Again, tax laws should be simplified, and all should be covered so that people do not take undue advantage.



## CHAPTER THREE

### METHODOLOGY

#### 3.0 Introduction

This chapter gives a description of the methods as well as instruments employed in conducting the research. It thus presents the research design, sources of data, description of the target population, sample and sampling techniques, the instruments employed in collecting the data, data analysis techniques and the profile of the district under study.

#### 3.1 Research Design

Research design deals with the type of research and the procedure for carrying out data collection and analysis. It thus gives a general plan of how research questions will be answered.

The study adopted the case study research strategy. Robson (2002: 178) defines case study as „a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence“. The case under this study is an examination of tax evasion in the Sekyere East District of the Ashanti Region.

Out of the various research strategies, the study found the case study approach to be the most appropriate for achieving its objectives in that, this very approach has a considerable ability to generate answers to the question „why?“ as well as „ what?“ and „how?“ questions. The case study strategy will be relevant if you wish to gain a rich understanding of the context of the research and the processes being enacted (Eisenhardt and Graebner, 2007).

However, the study blended both the qualitative and the quantitative methods in both data collection and analysis in getting to the bottom of issues. The study used interview and

questionnaires in arriving at the collection of data. Case study approach is characterized by data triangulation. According to Saunders et al., (2007), triangulation refers to the use of different data collection techniques within one study in order to ensure that the data are telling you what you think they are telling you. For example, qualitative data collected using semi-structured group interviews may be a valuable way of triangulating quantitative data collected by other means such as questionnaire.

### **3.2 Sources of Data**

The study relies solely on the use of primary data. The study needed to collect first-hand information to describe the extent of tax evasion in the Sekyere East District of the Ashanti Region. In view of this, primary data sources were used. According to Busha and Harter (1980) primary source of data involves first-hand information from the field or study population.

### **3.3 Population of the Study**

Just like every research, the study could not be complete without a target population. As such the researcher targeted the informal sector (SMEs) in Sekyere East District basically artisans in the likes of hairdressers/barbers, fashion designers, carpenters, fitters, masons among others. These artisans form 18% of the entire population of Effiduase (Sekyere East District-Planning Unit). The GRA at Sekyere East District Assembly was also targeted. They are made up of twenty two workers.

### **3.4 Sampling Techniques**

“Sampling techniques enable you to reduce the amount of data you need to collect by considering only data from a subgroup rather than all possible cases or elements” Saunders et al. (2007). In view of this, the researcher used the purposive sampling techniques, the most common technique employed in qualitative research, to collect data from various Artisans and the GRA staff.

Purposive sampling method was used so as to select GRA staff that best helped in answering the research questions. Purposive sampling can simply be explained as a kind of non-probability sampling where decisions concerning the individuals to be included in the sample are taken by the researcher, based upon a variety of criteria which may include special knowledge of the research issue. According to Neuman (2003), purposive sampling is often used when working with very small samples such as case study research and when you wish to select cases that are particularly informative.

### **3.5 Sample Size**

Since the entire population could not be reached, there was therefore the need to select a sample. A sample is a finite part of a statistical population whose properties are studied to gain information about the whole. The study selected Ninety five (95) respondents as a sample size.

### **3.6 Data Collection Instrument**

Questionnaires and interview was the main tool used to collect primary data for this study. A questionnaire includes all methods of data collection in which each person is asked to respond to the same set of questions in a predetermined order (deVaus, 2002). The self-completed

questionnaire which is usually completed by the respondents were used but then those who could not complete it by themselves due to the level of literacy or any other reason were assisted by the interviewer. Under this type the delivery and collection questionnaires were used where the questionnaires were delivered by hand to each respondent and were later collected.

### **3.7 Data Analysis Techniques**

The study employed the use of descriptive statistics to analyze the data. The results are presented in tables and charts.

### **3.8 Ethical Consideration**

With the issue of ethical consideration, respondents were assured that, every information that they will provide, would be treated with utmost confidentiality. In view of this, the researcher ensured that things were done in an ethical manner by way of fulfilling her promise to the respondents.

### **3.9 Profile of the District**

Sekyere East District was created on 1<sup>st</sup> November, 2007 by Legislative Instrument (LI) 1900 as one of the thirty (30) administrative districts in the Ashanti Region. The district capital is Effiduase. The district is located in the north-eastern part of the region and lies approximately between latitude 6°45''-7°32'' North and longitude 0°22'' West. The district shares boundaries with other districts like the Sekyere-Afram Plains districts to the north-east, Sekyere South District to the west, Asante-Akim North district to the south-east, Ejisu-Juaben Municipal Assembly to the south-west and Sekyere Central district to the north. It covers an estimated area of about 730.5sqkm and has forty (40) communities of varying sizes. The district has twenty-six

(26) electoral areas and one Parliamentary Constituency known as the Effiduasi/Asokore constituency.

The 2010 population and housing census indicated that the district had a total population of 62,935 (Ghana statistical Service). However, the current estimated population (2014) for the district is 69,164 at a growth rate of 3.5% (Sekyere East District-Planning Unit). The population density is estimated at 113.5 persons per square kilometer. The average household size in the district is 5.8 compared with the national average size of 5.0. The sex distribution of the population according to the 2010 census stands at 30,887 (49.3%) and 32,048 (50.7%) males and females respectively.

The major economic activities in the district are farming and small scale processing of agricultural produce like hair-dressing, tailoring, carpentry and masonry. The agricultural sector employs over 60% of the active population, commerce 18%, manufacturing (industry) 10% and service about 5% (Sekyere East District Assembly-Planning Unit). Cocoa is the major cash crop cultivated by the people. The major food crops cultivated in the district include cassava, maize, yam, cocoyam and vegetables.

The Sekyere East District Assembly is the highest political and administrative body in the district. It consists of the thirty-eight (38) assembly members (consisting of 26 elected members and 12 appointees of the President, one Member of Parliament and the District Chief Executive). The Assembly exercises political and administrative authority in its area of operation. It guides and supervises all other administrative authorities in the districts. As such, the Assembly exercises deliberative, legislative and executive functions.

The District Assembly has three Area Councils, one urban council and twenty six Unit

Committees which enhance effective communication between the Assembly and the indigenes. The sub-district structures oversee the activities of the Unit Committees and also assist the Assembly in the administration of the Towns and Area Councils. The three Area Councils are: Akwamu Area Council, Sekyere Mponua/Seniagya Area Council and Senchi-Nyamfa Area Council and the Effiduasi/Asokore Urban Council. There are two main traditional councils in the district. These are Effiduasi and Asokore Traditional Councils. Apart from ensuring the physical development of their respective areas, they also serve as arbitrators in their areas of jurisdiction. Most people channel their grievances through the Traditional Authorities instead of coming to the District Assembly.



## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

#### 4.0 Introduction

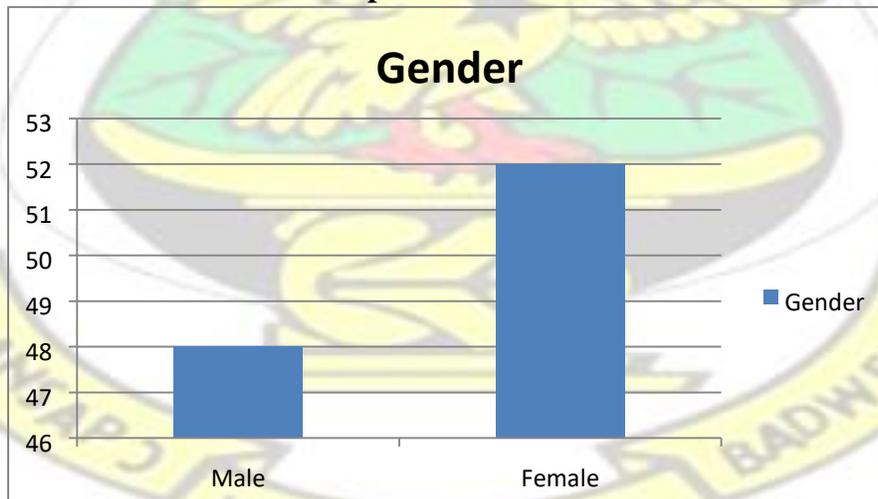
This chapter is concerned with the data presentation analysis and discussion of the various findings obtained from the field of study. Tables and charts were used to analyze the data that was obtained from the questionnaires. In all, ninety (90) questionnaires were administered to respondents out of which eighty-three (83) were valid for the analysis. Only three (3) of the revenue Officials could be interviewed.

#### Responses from Tax Payers

##### 4.1 Gender Distribution

The study revealed that 40 (48%) of respondents were males and 43(52%) of the respondents were females. This data has been represented in Figure 4.1 below.

**Figure 4.1.1: Gender Distribution of respondents**

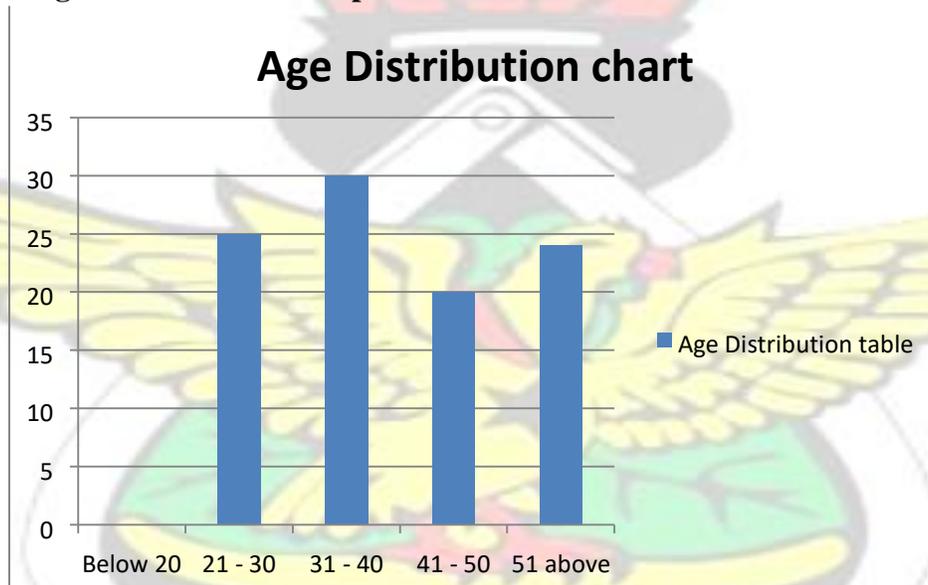


Source: Field survey, July, 2015

## 4.2 Age Distribution of Respondents

The researcher sought to find out the age distribution of the respondents and the following was the findings. The data for the study revealed that 0 (0%) of respondents were below 20 years while 21 (25%) of the respondents were within the age range of 21-30 years of age. Also, 25 (30%) of the respondents fall within 31-40 years while 17 (20%) of the respondents fall between 41-50 years. However, 20 (24%) of the respondents were within the category of 51 years and above. This has been represented in the Figure 4.2.1

**Figure 4.2.1: Age Distribution of Respondents**



**Source: Field survey, July, 2015**

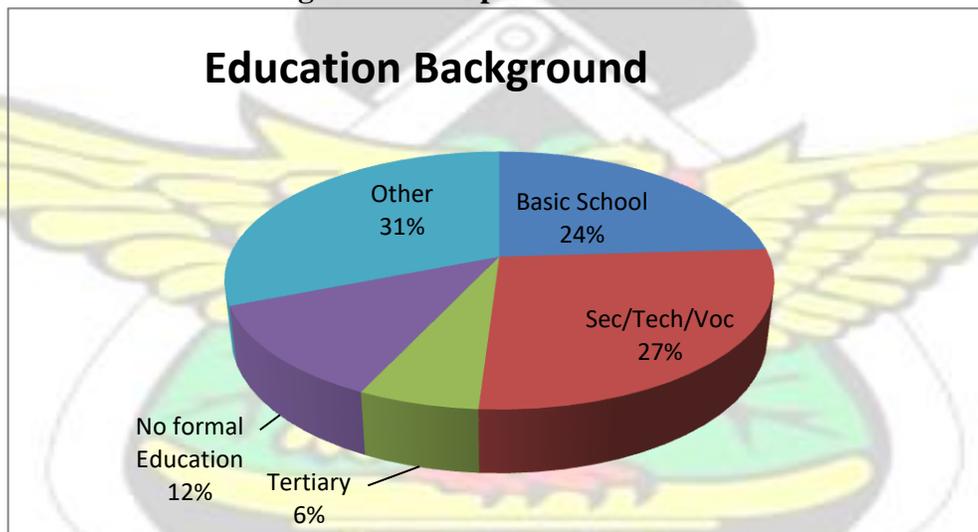
From figure 4.2.1 it could be observed that, 25% of the respondents fall within the ages of 21-30 years. This represents the youth, either those who have completed their schools and have started their own businesses or those that have completed learning a vocation and have started their own business. 17 of the respondents fall within the ages of 41 years to 50 years. This probably represents the men and women who are probable entrepreneurs in their own small businesses. Also,

20 of the respondents who are 51 years and above are probably the old aged men and women who are traders in the Sekyere East District.

### 4.3 Educational Background of Respondents

Education is relevant in all studies and this study is no different. In fact, education has a greater influence in the studies of tax evasion since it is considered an essential key to human development and the foremost agent of empowerment. Figure 4.3.1 presents the educational background of respondents.

**Figure 4.3.1: Educational Background of respondents**



**Source: Field survey, July, 2015**

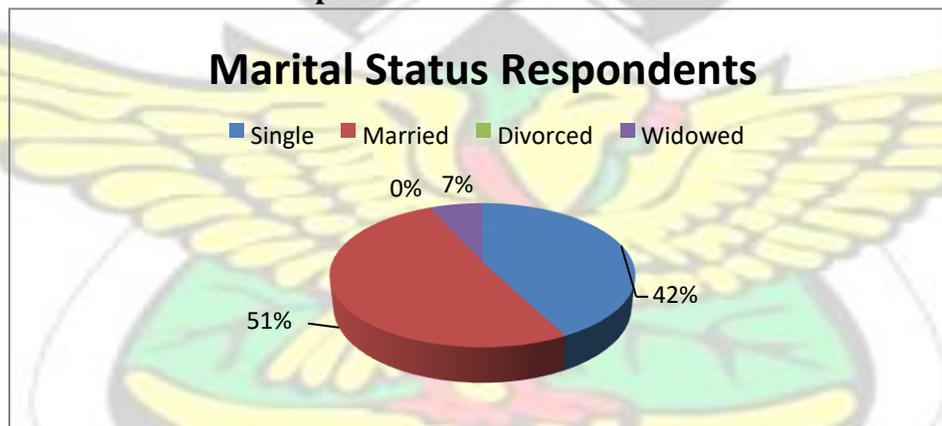
It could be observed that, 20 (24%) of respondents were basic school leavers, 22(27%) were secondary/technical/ vocational leavers. Also 5 (6%) of respondents were tertiary school leavers whilst 10 (12%) of respondents had received no formal education. Then again, 26 (31%) of the respondents fell within other level of education specifically, middle school leavers. This means that only 6% of the respondents who have had tertiary education and probably the 27% who also

received secondary/technical/vocational school education may have a theoretical knowledge in taxation and as such the issue of tax evasion. Thus, 77% of the respondents are likely to have little or no knowledge on taxation and tax evasion, aside what they may have heard in the news or from friends and coworkers. This has a greater influence with respect the issue of tax evasion.

#### 4.4 Marital Status of Respondents

The study revealed that, 25 (30%) of the total respondents were single, 55 representing 66% of the respondents were married. None of the respondents had divorced (0%) but 3(4%) of the respondents were widows. The information above is represented in the Figure 4.4.1

Figure 4.4.1: Marital status of respondents

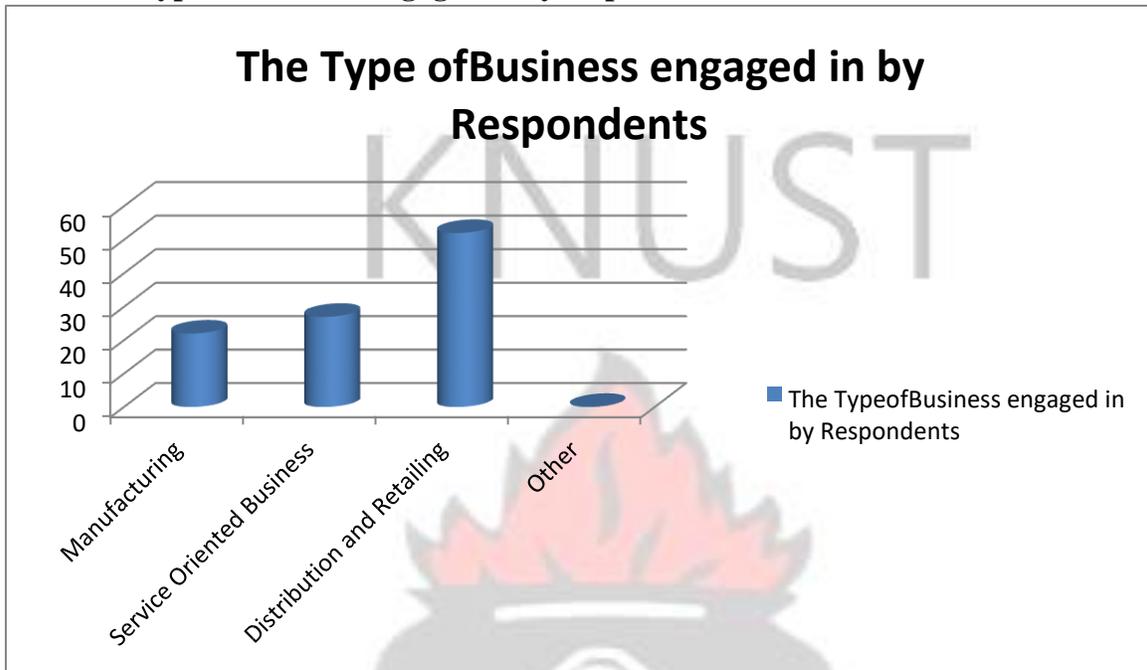


Source: Field survey, July, 2015

#### 4.5 Type of Business Engaged in by Respondents

The researcher then sought to find out the type of business engaged in by the respondents and the following data was retrieved and has been presented in the Figure 4.5.1

**Figure 4.5.1: Type of business engaged in by respondents**



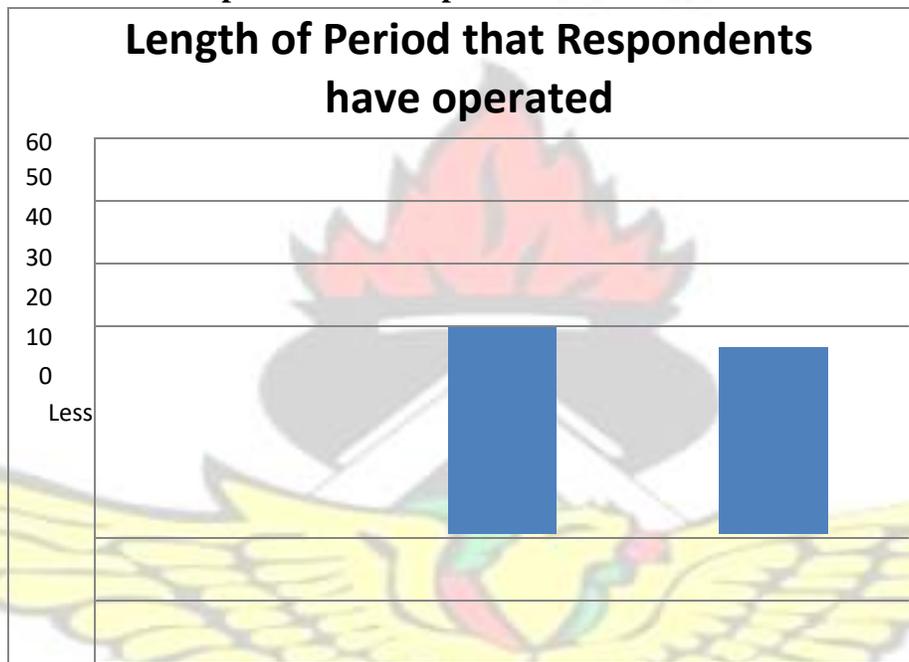
**Source: Field survey, July, 2015**

From the Figure 4.5.1 above, as revealed by the study, 18 respondents representing 22% of the total population were engaged in the manufacturing of goods, with 22 respondents representing 27% were involved in service oriented business. Respondents that are involved in distribution and retailing were 43 representing 52% of total population of respondents. All respondents could find their category of business they are engaged in and as such none (0) responded to „other“. It is a true reflection of the gender results obtained earlier on which showed that the number of females in business in the Sekyere East District is greater than that of males. Women are mostly engaged in a service oriented and retailing business while the men are mostly engaged in manufacturing and distribution as well as service oriented businesses.

#### 4.6 Period that Respondents have operated so far

The researcher sought to find the length of time the respondents have been in operation in the district. The data obtained from the questionnaire have been represented in the Figure 4.6.1

**Figure 4.6.1: Period that respondents have operated so far**



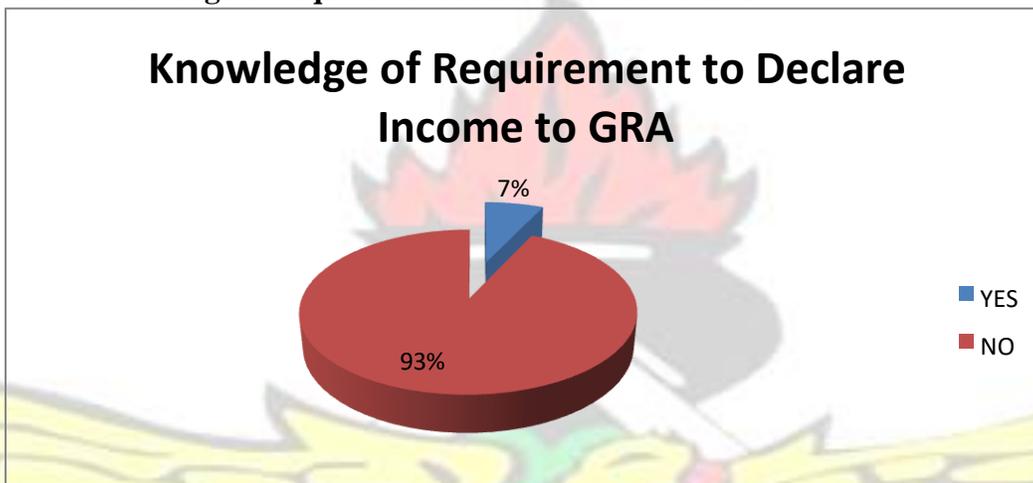
**Source: Field survey, July, 2015**

From the data collected, it is revealed that only 1 person representing 1% out of the respondents had operated for less than one year. Also, 43 respondents representing 52% of the total respondents have traded in the district within 1year to 4years. However, 39 respondents had operated in the district for 5years and above and that represents 47% of the total number of respondents.

#### 4.7 Respondents' response as to whether they know they are to declare their income to GRA

The respondents were then asked about their awareness about the declaration of their income to the Ghana Revenue Authority. Their responses have been presented in the Figure 4.7.1

**Figure 4.7.1: Knowledge of requirement to declare income to GRA**



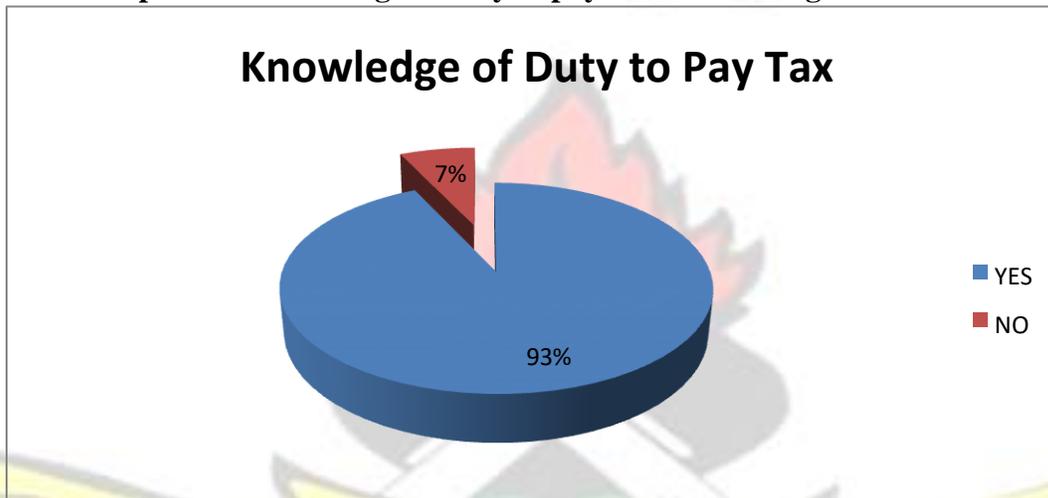
**Source: Field survey, July, 2015**

From Figure 4.7.1, it could be observed that, only 6 respondents representing 7% out of the total respondents do know that they are to declare their income to Ghana Revenue Authority while the remaining 77 respondents representing 93% of the total respondents said they have no idea as to whether they should declare their income to the Ghana Revenue Authority. This result goes a long way to influence the tendency of tax evasion. This is because those that know of such declaration would know about tax payment to tax authorities and its importance.

#### 4.8 Response to Duty to pay Tax on Income Generated from Business.

The respondents were asked whether they know of their duty to pay tax to tax authorities. The responses obtained from the questionnaire are represented on the Figure 8 below.

**Figure 4.8.1: Response to knowledge of duty to pay tax on income generated.**



**Source: Field survey, July, 2015**

Figure 4.8.1 is a clear indication that, 77 respondents representing 93% of the total respondents for the study said they knew of their duty to pay tax on the income they generate from their business. However, 6 respondents representing 7 % of the total respondents said they do not know that they have to pay tax on the income they generate from their business. This comes as surprising taking into consideration the fact that a greater percentage of the respondents are not aware of their obligation to declare their income to the Ghana Revenue Authority but rather know of their duty to pay tax to tax authorities. Probably this happens because revenue or tax collectors are always seen in markets collecting taxes mostly from the retailers. In addition, some respondents could even quote from the bible supporting the fact that it is ones duty to pay tax as a citizen. Again, most tax officials are mostly concerned with only letting these sellers and operators know of their

duty to pay tax and not necessarily their obligation to declare their income to GRA. Thus, some form of education will be required in getting operators and sellers to understand this.

#### **4.9 Rate of Payment of Tax by Respondent**

The researcher sought to find out from the respondents the rate at which they pay tax to authorities and the responses obtained are presented in table 4.9.1 below.

**Table 4.9.1: Rate of payment of tax**

<b>Rate of tax payment</b>	<b>Frequency</b>	<b>Percentage %</b>
Regularly	35	42
Occasionally	48	58

**Source: Field survey, July, 2015**

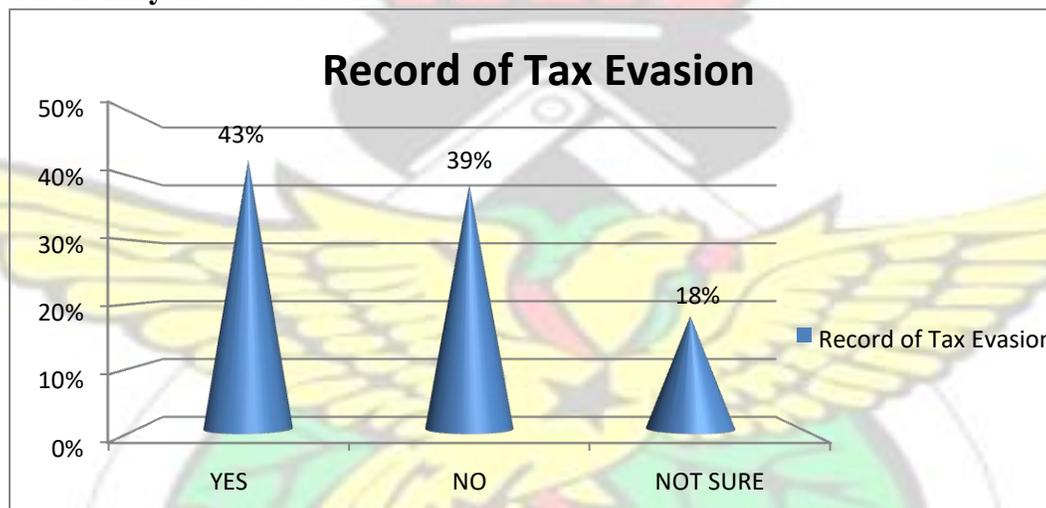
From the table 4.9.1 above, respondents numbering 35 representing 42% said they pay their tax regularly with the remaining 58% responding that they pay it occasionally. The respondents who said they occasionally pay tax made it clear that the tax officials seldom come to collect the taxes and that contributes to their occasional payment of the taxes. Thus, the problem they say, originates from the tax officials. According to them, if the tax officials regularly locate them, they would pay their due tax. Questionnaire number 10 was an open ended question requiring respondents that responded no to the fact that they do not know that they are obliged to pay tax on what they generate from their business.

The responses gathered were that, they rate their business as small and as such not taxable. All they know is that, they don't have to be a burden on society so therefore they are doing something small to make a living though tax officials do come to collect tax from them.

#### 4.10 Response to whether they have Evaded Tax before

The respondents were then asked whether they have ever evaded tax before and their responses are presented in the Figure 4.10.1

**Figure 4.10.1: Any Record of Tax Evasion**



**Source: Field survey, July, 2015**

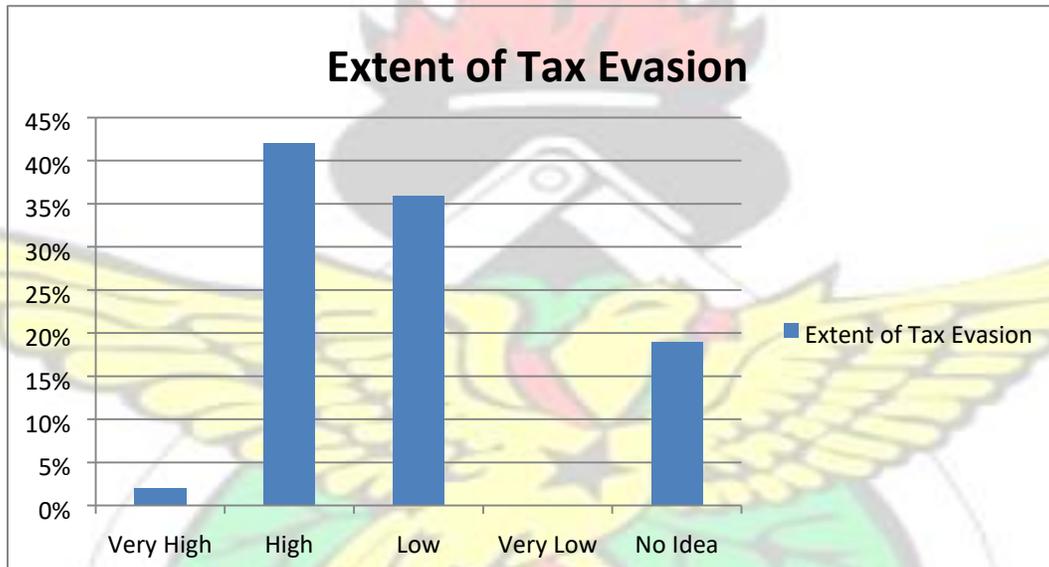
From the figure 4.10.1 above, it can clearly be seen that, 36 respondents representing 43% of the total respondents said they have evaded tax before. Again, 32 respondents representing 39% said they have not evaded tax before while the remaining 15 respondents representing 18% responded that they are not sure that they have evaded tax before. Thus, they could not specifically say whether they have evaded tax before or not in that they cannot recall all their contacts with the

officials. It can thus be concluded about half of the total respondents do not pay taxes in the District. This is of course a worrisome situation for the Ghana Revenue Authority and tax agencies.

#### 4.11 Extent of Tax Evasion in Effiduase

The respondents were asked concerning their knowledge on the extent of tax evasion in Effiduase. Their responses are presented in the Figure 4.11.1

**Figure 4.11.1: Extent of Tax Evasion in Effiduase**



**Source: Field survey, July 2015**

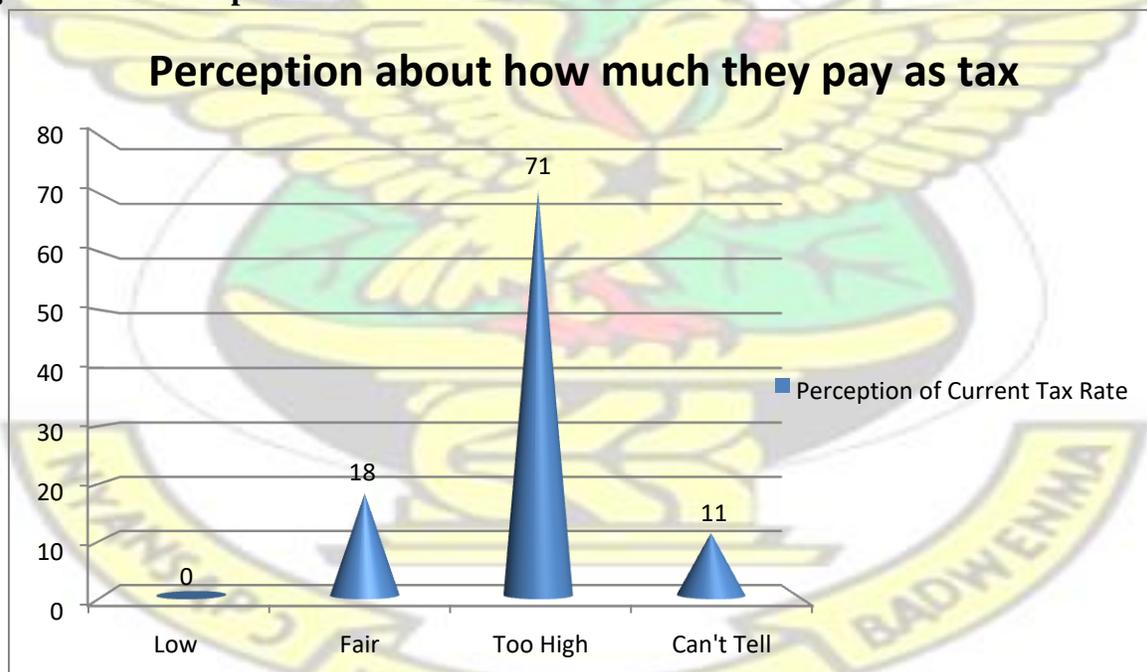
The study revealed that, 2(2%) out of the total respondents said the extent of tax evasion in Effiduase is very high. Thirty five (35) of them representing 42% of respondents responded that the extent of tax evasion in Effiduase is high. Out of the total number of respondents, 30 of them representing 36% said the extent of tax evasion is low as far as they know. None of the respondents opted for the option of very low. However, 19% representing 16 out of the total of

83 respondents said they have no idea of the extent of tax evasion in Effiduase. Thus it can be seen that about 44% of the respondents admit that tax evasion is high in Effiduase. Even though 36% said the extent of tax evasion is low as far as they are aware of, it is a matter to worry about if nearly half of the respondents admit the high level of evasion in the district. The remaining 19% probably in line with the earlier response of having no idea whether their colleagues pay tax or not and cannot clearly ascertain whether they are tax evaders themselves.

#### 4.12 Respondents' Perception about how much they pay as Tax.

The researcher then sought to ascertain from the respondents their perception about the current rate of tax in the country. Their responses are presented in the Figure 4.12.1

**Figure 4.12.1: Perception about current tax rate**



**Source: Field survey, July, 2015**

Figure 4.12.1 above, indicates clearly that none of the respondents perceive the tax rate to be low. This can realistically be understood as no one would embrace the idea of paying so much tax to

the government's revenue collecting agencies. Also 15 respondents representing 18% said they see the tax rate to be fair. These respondents were of the view that, since the country is facing economic challenges, the citizens need to pay taxes to help the government provide the needs of the people and get the economy on its toes. However, 71% representing 59 respondents perceive the tax rate to be too high, with 11% responding that they do not know since that is determined by the officials and as such they cannot specifically tell either it is low or high. Those that are of the view that the tax rate is high gave such reasons that they do not see accompanying benefits derived from the payment of tax and the rate therefore is high. Others also compared the tax rate in Ghana to other countries in similar economic situations and responded that the rates in Ghana are too high. Most of these respondents would probably evade taxes with the least opportunity available.

#### **4.13 Respondents' view about the reasons for Tax Evasion**

Having ascertained the respondents views concerning the extent of tax evasion and their perception about the rate of tax in Ghana, the researcher sought to find out the possible reasons that could be attached to tax evasion, especially in Effiduase. The Figure 4.13.1 represents the data obtained from the respondents.

**Table 4.13.1: Reason for Tax Evasion**

Options	Frequency	Percentage %
Unawareness	3	4
Intentional/ deliberate	5	6
Tax is too huge	9	11
Business not profitable	26	31
Distance difficulty in paying tax	0	0
Unnecessary use of income tax by government	40	48

**Source: Field survey, July, 2015**

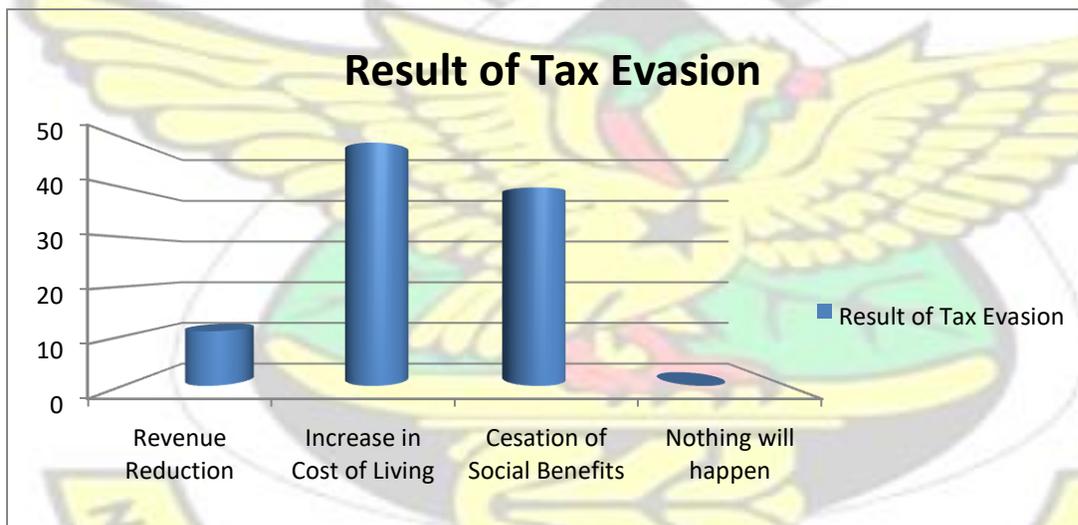
Table 4.13.1, it could be observed that, 3(4%) of the respondents are of the view that they unintentionally evade taxes because they are unaware of their duty to pay tax. This is in line with the earlier responses of some of the respondents that they are not aware of their duty to pay tax. Also, 5 respondents representing 6% said that people deliberately evade taxes due the issues of corruption that have engulfed the country. They are of the view that some government officials are only using their taxes for their individual benefits. Again, 9 respondents representing 11% of the total respondents said they evade taxes due to the high tax rate in the country. They were of the view that if the tax rates were to be low and manageable, they would comply and pay them. Moreover, 26 respondents representing 31% of the total respondents said people evade taxes possibly because they record low incomes in their business and as such see no reason in paying taxes out of that low income. None of the respondents clung to distance problem of tax agencies as possible reasons why people evade taxes even though most respondents earlier on admitted that tax officials do not regularly come around to collect taxes. Finally, 40 respondents representing 48% of total respondents were of the view that people evade taxes because of the unnecessary use

of tax payers' money by government. The concrete grounds for such claims could however not be established in totality, although the respondents said that since they do not enjoy certain basic amenities and their standard of living is very low, they are of the view that government is misusing the tax payers' money.

#### 4.14 The Resultant effect of Tax Evasion to the Country as a whole

The respondents were asked of the view about the resultant effect of tax evasion, given their knowledge on the importance of tax payment to the development of the economy. The Figure 4.14.1 below represents their responses.

**Figure 4.14.1: Resultant effect of Tax Evasion**



**Source: Field survey, July, 2015**

From the Figure 4.14.1, 11% of the respondents admit that tax evasion will reduce government revenue whiles 49% of the respondents also admit that tax evasion will result in high cost of living. Also, 40% of total respondents are of the view that tax evasion will cease or reduce the social

benefits enjoyed by citizens because the government will not get money to provide such amenities. This means that all the respondents were aware of the damning effects of tax evasion to the development of the nation.

### **Response from Tax Officials**

Three (3) of the officials were interviewed.

#### **4.15 Response to Length of service as Tax Officials**

**Table 4.15.1 Respondents response to length of service with tax officials**

<b>Respondents</b>	<b>Length of service (years)</b>
1	10
2	5
3	20

**Source: Field survey, July, 2015**

Table 4.15.1 indicates that, the tax officials have worked for a longer time and as such it is perceived that they are well experienced and knowledgeable enough in the matters of interest to the study.

#### **Response to Compliance level in Sekyere East District**

All the respondents responded that the compliance level in the district average.

The researcher then went further to inquire from officials whether people evade tax in the district and they all gave yes as an answer. With yes as an answer, the researcher went further to find out the extent of tax evasion in the district. The respondents said they can conclude that per statistics, the extent of tax evasion in the district is high.

The researcher went on to find out from respondents why they think people evade tax and their thought as to what brings about tax evasion.

The information gathered from the respondents were that, some people evade tax deliberately while others evade tax because of their unawareness of their obligation to pay tax. Again, the respondents answered that some others evade tax because tax officials are not able to reach them owing to the fact that, the officials are not many and that makes the work tedious hence their inability to reach all tax payers. Further responses were that other tax payers also pretend not to be the owners of the various businesses and always claim they are caretakers in order to prevent tax officials from holding them responsible for tax evasion. However, the respondents also revealed that they have also detected that when some sellers and operators are hinted of the coming of tax officials, they lock up their stores and disappear. Besides, some gave excuses that the problems of the current economy and power crisis make it difficult in recording profits and hence almost unlikely for them to continue paying taxes.

The researcher asked officials the resultant effect of tax evasion on the district and the economy as a whole. The officials said that tax contributes a greater percentage of the government revenue use for the payment of salaries, putting up infrastructure such as roads, schools, etc. Therefore if this situation continues, revenue will reduce which will in turn affect the level of development. The

researcher then inquired of the way forward. One official said that, they are trying to come out with a database that will provide them with information of all business men and women to ease their work. Others also suggested that more revenue personnel should be employed to help ease their work thereby reaching out to those within the various suburbs. They also added that they have tried out outsourcing some part of tax so they are looking forward to its success to see if they can outsource more. He added that it is better to outsource to increase revenue than to lose the entire money though outsourcing comes at a cost and also taken into consideration the pros and cons. The above is a clearly indicates that, measure are being put in place to help solve the issue of tax evasion.

Officials were asked the challenges that they face in carrying out their duties. They responded that the database that they lack makes it difficult for them to be able to locate all the tax payers. Besides, some areas are in accessible. At other times, some tax payers even fight with them as if they are collecting the money for their personal use. Some also lockup their shops as if they did not come to work but for all you know they were hinted this means that they will have to go there another time meanwhile they could have gone to other areas and not withstanding this, it also come at a cost.

They also added that, the workers (total of 22 for the whole district) are not many as a result the work become tedious so they are not able to go regularly as scheduled which also result in tax evasion. Also workers like the masons who do not have fixed location cannot easily be traced also resulting in tax evasion. However, other logistics are not forth coming. This is a clear indication that as long as these challenges exist, tax evasion will continue to increase.

The researcher therefore asked the officials the possible way forward in solving these challenges. They all concluded that once tax generates revenue to the government, all possible measures must be put in place to ease its collecting. Officials are of the opinion that, adequate logistics must be provide, funds must be released to educate tax payers, inaccessible roads must be constructed, more workers must be employed so that vantage points will be created at business centers where they can frequently reach out to tax payers just to mention few.

A conclusion can therefore be drawn that, they are willing to do the work but the government must come to their aid to help make their work successful.



## **CHAPTER 5**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter presents the summary of the research findings, conclusions and well as recommendations.

## **5.1 Summary of Findings**

The research was undertaken to examine tax evasion in Ghana with Sekyere East District of the Ashanti Region as case study. Below are summaries of the findings of the study.

### **Inability of tax Officials in Locating and Reaching Tax Payers**

One of the questionnaire items revealed that some people did not know whether they evade tax or not and that they pay tax as and when tax officials located them. The respondents admitted that they do not often see these tax officials and this obviously has a negative effect on the collection of taxes and as such the increase in revenue in the country. This indirectly relates to the provision of logistics and funds to these officials, and a failure in that regard has the chance of impeding that progress.

### **Tax Officials not Applying Sanctions**

Even though some respondents admitted that the level of evasion was high, none had ever heard of any sanction to anyone found culpable. Most respondents were of the view that since they have stayed in the district with the same tax officials for years, it is sometimes difficult for these officials to mete out any punishment on tax evasion victims. Most especially, the tax officials seen at toll boots and markets rather stop drivers and sellers respectively from operating. This is not any kind of punishment as these sellers and drivers will only have to find another place to continue with their business.

### **Reasons for Tax Evasion**

Respondents made it clear that they know it is their duty to pay tax and as such the tax they pay help to increase governments revenue but 48% percent of the total respondents said that there is a

high level of tax evasion because they see the government not to be using the taxes collected appropriately. However, 31% responded that, there is evasion because the business they are into is no longer profitable as a result of economic hardship while 11% responded that the tax rate is too high thereby resulting in tax evasion. Few (4%) responded that people evade taxes probably because they may not be aware they are supposed to pay tax with 6% doing that deliberately.

### **Lack of Database**

One of the issues that were also revealed was that the tax officials did not have up-to-date database of all tax payers. The revenue collectors in market areas only collect tax from the sellers and operators they meet and see around. This contribute greatly to the tendencies of tax evasion in that, people are only willing to pay was and when they come into contact with tax officials. This situation is very worrying and must be looked at. The tax officials made it clear that the absence of database is providing room for a lot of people to evade tax.

### **Inadequate Staff**

Looking at the size of the district and the population, all things being equal all the 22 staff are to go out for operation the rate that they can cover the entire district is high so even if people are willing to pay, the inadequacy of staff is in a way enabling people to evade tax.

### **Technological Changes**

With respect to technological changes, the researcher visited the Effiduase fitting zone. The fitters admitted that in some times past, they made lots of income because they were very much

conversant with the technological base of the then cars. Recently, they admit that the current cars are of a different technological base and as such they are not able to operate on them, and this obviously go a long to bring a decline in their income, hence reducing the percentage of tax to be paid.

### **Extent of Tax Evasion**

Tax payers responded that the extent of tax evasion is high in the district and the tax officials confirmed that, the statistics show that tax evasion is high the district. Various reasons for this increase were revealed by the respondents.

### **Knowledge of Duty to Pay Tax**

Majority of tax payers said they know it is their duty to pay tax but they evade due to the reasons they gave. Quite a few number also said they are not aware of their duty to ether declare their properties and let alone pay taxes.

### **Likelihood of Tax Evasion to Increase**

Per findings obtained, the likelihood for tax evasion to increase to a much higher level in the next years all things being equal is high. This is because a huge percentage responded that it is likely they will evade if things continue to remain the same. Most of them gave reasons that the continuous economic hardship so not suggest that they will get any benefit in the taxes they pay and as such will evade the payments as and when the opportunity arises.

## **Rate of Tax**

Tax payers perceive the tax be too high hence wished it could be reduced to help decrease the level of tax evasion. In the sense that, most of them are willing to pay but looking at situations now, they would wish it is adjusted small.

## **5.2 Conclusion**

Taxes do help the government a lot no wonder it forms a greater part of governments revenue. As a matter of fact, the government must do everything possible to make to encourage its payment. Per the findings, tax education has not been enough, inadequate staff and logistics, improper implementation of sanctions, inability of tax collectors to locate some liable tax payers. The researcher concludes by suggesting further studies to focus on increasing tax compliance through tax education.

## **5.3 Recommendation**

### **Embark on Tax Education, relate well with Tax Payers**

Tax officials should embark on tax education to brief tax payers about their duty to pay tax and importance of tax to the nation as a whole. The study revealed that some people had no idea about the declaration of their income to GRA and even the payment of tax. Many respondents alleged without proving that the government misuse the tax payers money at all times. The tax officials should educate the payers so as to convince in going a long run to lead them to some payers who do not always pay taxes.

### **Effective Implementation of Sanctions that will not make evasion attractive**

Another way of ensuring tax compliance and as such reducing tax evasion is the institution of punishment to those who are found to commit tax evasion offence. Most times, it is only those

who evade huge sums of taxes who are convicted but attention must be given to those is small business, retailers and even drivers. This will deter other people from making attempts to evade taxes.

### **Provision of Adequate Logistics to Tax Officials**

The tax officials should be provided with the needed support and logistics to reach out to all tax payers, regardless of distance issues. At some times, tax officials are tasked with going to some remote areas to collect taxes. Certain times, they are not provided with logistics and transportation means. This makes such work difficult and leaves the tax officials with no other choice that to leave certain areas unattended to. The intake of tax officials should also be increased and more so they must be motivated with adequate logistics or probably outsource some of the sub-districts if only the outsourcing turns out to successful.

### **Tax Officials must Team up ECG**

The researcher is of the view that since the ECG has a complete data of all houses here Effiduase, it could furnish the tax officials with that data, to help them in their search for people liable to pay taxes. This will not eradicate the entire problem of tax evasion but will ensure the collection of taxes which have long eluded the tax officials for so long.

### **REFERENCE(S)**

- Aba, J. (2013). *The Impact of Tax Evasion and Avoidance on Ghanaian Economy*
- Abdallah, N. (2008). *Taxation in Ghana: principles, practice and planning*. Accra, Black Mask Publications.
- Ablordeppey, S. D. (2005). Tax incentives have not levied up to expectation. *Daily Graphics*, 32 5-7.
- Adams, C. (1998). *Those Dirty Rotten Taxes*. New York, The Free Press

Agaliga, E. (2014). Public Sector Accounting. EPP Book Services

Akakpo, V. K. A. (2009). Principles, Concepts and Practice of Taxation. Accra, Black Mask Publications

Ali, M. M., Cecil, W. H. and Knobletti, J. A. (2001). “The effects of tax rates and enforcement policies on taxpayer compliance: A Study of Self-Employed taxpayers”. Atlantic Economic Journal, 29(2), 186-202.

Allingham, M. & Sadmo, A. (1972). Income Tax Evasion: A Theoretical Analysis, Journal of Public Economics, 1,323-338.

Altus Directory, (2006-2010), Types of Taxes, (online) [www.altusdirectory.com](http://www.altusdirectory.com) (accessed 12/03/2011)

Anuradha, J. and Aye, J. (2002). Taxing for the State? Politics, Revenue and the Informal Sector in Ghana, IDS Bulletin Vol. 33 No. 3, p 90

Bank of Ghana, (2012). Monetary Policy Report on Fiscal Developments

Beattie, A. (2010). Element of income and capital gain Taxation. Retrieved: December 2, 2011 from <http://www.nmlites.org/standards/social studies>

Beccaria, C. (1797). On crimes and punishment. Indianapolis: Hackett Publishers.

Bird, R. M. and Wallace, S. (2003). Is it really Hard to Tax the Hard-To-Tax? The Context and Role of Presumptive Taxes. International Tax Program Paper 0307. (University of Toronto, 2003).

Budget of Ghana (2007). The Budget Statement and Economic Policy of the Government of Ghana for 2007 Financial Year, Presented to Parliament on Thursday, 16th November, 2006 by Kwadwo Baah – Wiredu, MP., Minister of Finance and Economic Planning,

- Accra: Assembly Press, Ghana Publishing Corporation.
- Busha and Harter, (1980). Research methods in librarianship: Techniques and interpretation.  
New York: Academic Press.
- Cobham A (2005). Tax evasion, tax avoidance and development. United Kingdom: Finance and Trade Policies Research Centre, University of Oxford.
- Cooper, D.R and Schindler, P.S (2006) business research methods; empirical investigation, journal of services research (2) page 108-28
- De Vaus, D. (2000) Survey in Social Research- 5<sup>th</sup> Edition
- Eisenhardt, K. M. and Graebuer, M. E. (2007) “Theory building from cases: Opportunities and challenges: Academy of Manage Journal, vol. 50, No. 1, pp 25-32
- Farrell et al (2000). Conceptualizing Shadow Economy, Journal of International Affairs, Volume. 53
- Franzoni, L. A (1999), Tax Evasion and Tax Compliance. University of Bologna, Italy
- Ghana Revenue Authority Act (2009). (Act 791)
- Ghana Statistical Service. Census (2010).
- Henning E, Van Rensbur, et.al (2004) Analysing Research Methodologies
- Hoe, K. B. (2010). The Role of Excise As A Sin Tax. Available at: <http://thestar.com.my>.
- ICAG Study Manual (2014-2015). Taxation and fiscal policies
- Kaldor, N. (1962). An expenditure Tax. London, Urwin University Books.
- Kangave, J. (2005). Improving tax administration: A case study of the Uganda Revenue Authority. Journal of African Law.

Keenan, F. Kenney and Dean, P. T. (1980). Taxpayers' attitudes to income tax evasion: An empirical study

Kiabel, B. D. (2001). Personal income Tax in Nigeria, Owerri: Springfield Publishers.

Kaplow, Louis. (1991). Optimal Taxation with Costly Enforcement and Evasion, *Journal of Public Economics*, 43(2)

Orewa, G. (1957). *Taxation in Western Nigeria*, London: Oxford University Press.

Mirrlees, J. A. (1971). *An Exploration in the Theory of Optimum Income Taxation*

Myles, G. D. (2000). Wasteful government, tax evasion, and the provision of public goods. *European Journal of Political Economy*, 16(1), 51-74.

Muhammed, M. and Muhammed, A. (2012). „Reasons of Tax Avoidance and Tax Evasion“: Reflection from Pakistan.

Neuman, W. L. (2003). *Social research method*. Boston, Pearson Education.

Nightingale, K. (2001). *Taxation: Theory and practice*. London, Prentice Hall  
Pommerehne et al (1994). „Tax Morale, Tax Evasion and the Choice of Policy Instruments in Different Political Systems“: *Public Finance*, 49, 52-69.

Pratt, W. J, and Kulsrud, N. W, (2001). *Individual taxation*. ARC Publishing Company Inc.

Pricewaterhouse Coopers (2013). *Transfer pricing and developing countries*, Appendix C, Country Study: Ghana

Randolph, et al (2011), "Employee types and endogenous organizational design: An experiment," *Journal of Economic Behavior & Organization*, Elsevier, vol. 80(3).

Rehnquist, W.H, (1992) Inquests: The Historic Impeachments of Justice Samuel Chase and President Andrew Johnson. William, New York, NY, Morrow & Company, Inc.

Robson, C. (2002) Real World Research (2<sup>nd</sup> Edition), Oxford: Black Well.

Rynoids, L. G. (1963). Government Finance and Economic Analysis, London: Heiftan Publications.

Saunders et al (2007). Research methods for business students (4th edition). Financial Times Prentice Hall.

Selma et al. (1951). The Nature and Tax Treatment of Capital Gains and Losses

Song, Y. and Yarbrough, T. (1978). Tax ethics and taxpayer attitudes: A survey: Public administration review, 442-452.

Soos, P. (1991). Self-employed evasion and tax withholding: A comparative study and analysis of the issues. Working paper, University of California.

Spicer, M.W. and Lundstedt, S.B. (1976), „Understanding Tax Evasion“, 31 Public Finance, 295305

Tanzi, V and Zee, Howell H. (2000), Tax Policy for Emerging Markets: Developing Countries. National Tax Journal, Vol. 53, Issue 2

**APPENDIX A**

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**COLLEGE OF ARTS  
SCHOOL OF BUSINESS**

**AN EXAMINATION OF TAX EVASION IN GHANA: A CASE STUDY OF SEKYERE  
EAST DISTRICT**

This study is being conducted in partial fulfillment of the requirements for the award of a Master of Business Administration. All information received would be used only for academic purposes and treated with utmost confidentiality

**QUESTIONNAIRE FOR ARTISANS**

Please tick (✓) in the following questions

1. Gender

(a) Male [ ] (b) Female [ ]

2. Age

(a) Below 20 [ ] (b) 21-30 [ ] (c) 31-40 [ ] (d) 41-50 [ ]

(e) 51 and above [ ]

3. Educational background (current) of respondent

(a) Basic School [ ]

(b) Secondary/Technical/Vocational School [ ]

(c) Tertiary [ ]

- (d) No formal education [       ]
- (e) Other [       ]
4. What is your marital status?
- (a) Single [       ]       (b) Married [       ]
- (c) Divorced [       ]       (d) Widowed [       ]
5. Type of Business engaged in
- (a) Manufacturing [       ]
- (b) Service Oriented Business [       ]
- (c) Distribution and retailing [       ]
- (d) Other [       ] Please specify \_\_\_\_\_
6. How long have you operated?
- (a) Less than 1 year [       ]
- (b) Between 1 - 4 years [       ]
- (c) 5 years and above [       ]
7. Do you know you have to declare your total income to the Ghana Revenue Authority (GRA)?
- (a) Yes [       ]       (b) No [       ]
8. Are you aware that you owe it a duty to pay tax on what you generate from your business?
- (a) Yes [       ]       (b) No [       ]
9. If Yes to question 8 how often do you pay it?
- (a) Regularly [       ]       (b) Occasionally [       ]

10. If no, why? If you answered No, skip to question 14

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

KNUST

11. Have you ever evaded tax?

- (a) Yes [ ]
- (b) No [ ]
- (c) Not sure [ ]

12. Do you think all your colleagues pay tax?

- (a) Yes [ ]
- (b) No [ ]
- (c) Not sure [ ]

13. To what extent do you think people evade tax in Effiduase?

- (a) Very High [ ]
- (b) High [ ]
- (c) Low [ ]
- (d) Very Low [ ]
- (e) No Idea [ ]

14. How do you perceive the current tax rate?

- (a) Inadequate ( )
- (b) Fair ( )
- (c) Too High ( )
- (d) Don't Know ( )

15. Why do you think you or people evade tax?

- (a) They are not aware they are supposed to pay [ ]
- (b) It is intentional/deliberate [ ]
- (c) Tax is too huge [ ]
- (d) Business not profitable [ ]
- (e) Distance difficulty in paying tax [ ]
- (f) Unnecessary use of tax income by government [ ]

Any other if some of your thoughts could not be found in the above.

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

16. What will be the resultant effect if all/majority of Ghanaians decides not to pay tax?

- (a) It will reduce government revenue [    ]
- (b) Cost of living will increase [    ]
- (c) Social benefits enjoyed by citizens will cease [    ]
- (d) Nothing will happen [    ]

Any other.....  
.....

Thank you for your time

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY COLLEGE  
OF ARTS SCHOOL OF BUSINESS**

**APPENDIX B**

**AN EXAMINATION OF TAX EVASION IN GHANA: A CASE STUDY OF SEKYERE  
EAST DISTRICT**

This study is being conducted in partial fulfillment of the requirements for the award of a Master of Business Administration. All information received would be used only for academic purposes and treated with utmost confidentiality

**INTERVIEW QUESTIONS FOR INTERNAL REVENUE OFFICIALS AT THE**

## DISTRICT ASSEMBLY

- 1) How long have you worked as a tax official in the district?
- 2) What is the compliance level in the Sekyere East District?
- 3) Do people evade tax in this district?
- 4) What is the extent of tax evasion in the district?
- 5) Why do you think people evade tax or what brings about tax evasion?
- 6) Should tax evasion continue, what will therefore be the resultant effect on the district and the economy as a whole?
- 7) What can be done to ensure that people do not evade tax?
- 8) What are the challenges that you encounter in carrying out your duty?
- 9) In your opinion, what must be done to do away with these challenges in order to aid your work?

THANK YOU VERY MUCH

