

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**SCHOOL OF BUSINESS, KNUST**

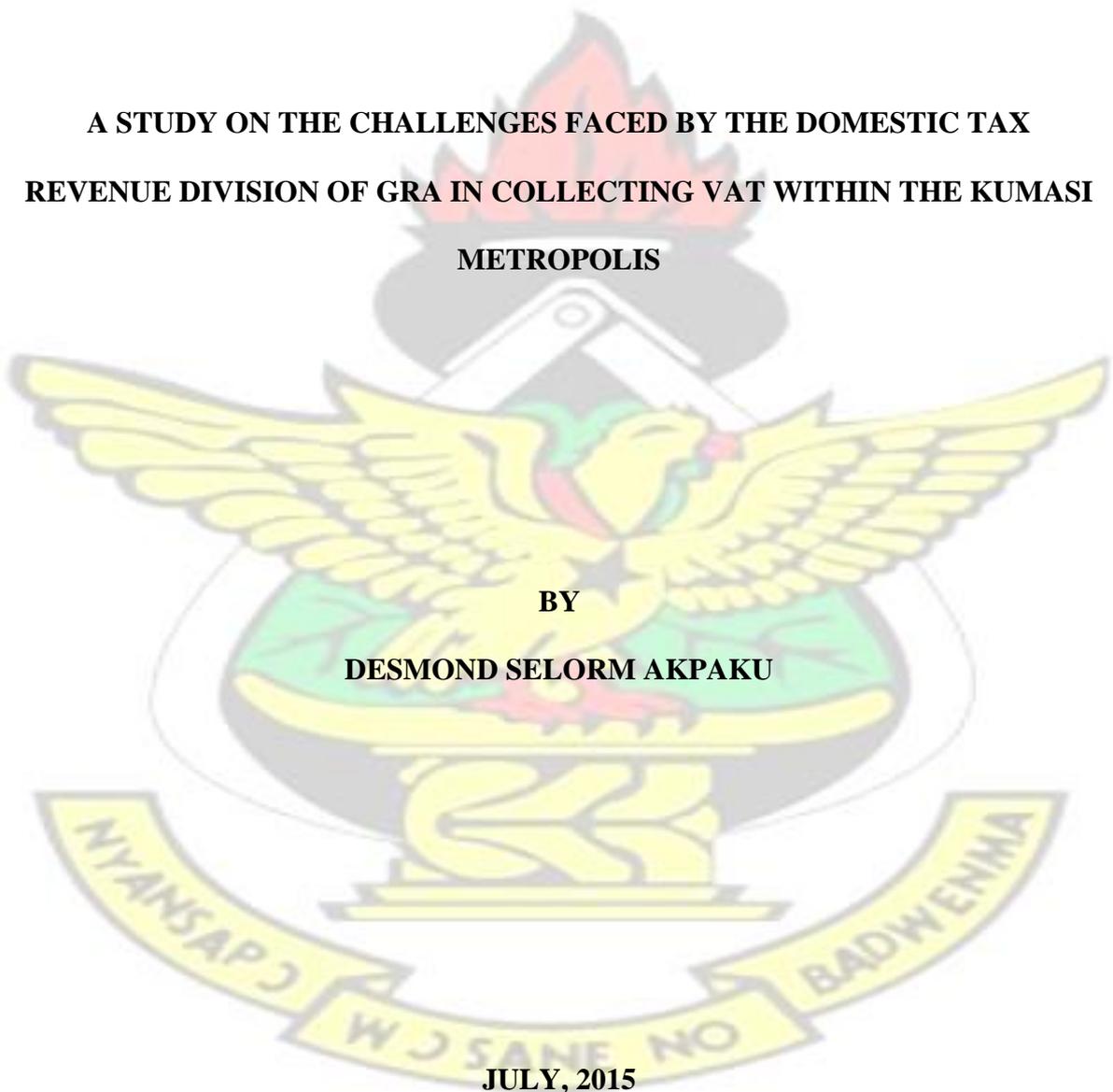
**COLLEGE OF HUMANITIES AND SOCIAL SCIENCES**

**KNUST**

**A STUDY ON THE CHALLENGES FACED BY THE DOMESTIC TAX  
REVENUE DIVISION OF GRA IN COLLECTING VAT WITHIN THE KUMASI  
METROPOLIS**

**BY**

**DESMOND SELORM AKPAKU**



**JULY, 2015**

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METROPOLIS**

**KNUST**

BY  
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A Thesis Submitted to the Department Of Accounting and Finance, Kwame Nkrumah  
University of Science and Technology in Partial Fulfilment of the Requirement Of

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

JULY, 2015

# KNUST



## DECLARATION

I hereby declare that this submission is my own work towards the fulfilment of the requirements of the award of Master of Business Administration (Finance Option) and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

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## DEDICATION

I wish to dedicate this work to my Dad, Ben Bonny Coffie Akpaku, my Mum, Peace Ahianyo Akpaku and to my siblings, Seyram, Senyo, Delali, Sika, Xornam, Abigail, and Emmanuella and especially to my uncle Emmanuel Akpaku and his wife Dora Kpogo Akpaku for their sacrifices, motivation, encouragement and support throughout my educational career.



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In spite of the above acknowledgements and authors acknowledgements in the body of this work, the sole responsibility of the work remains mine alone.

## ABSTRACT

For any country to achieve its developmental goals it would have to domestically generate its own revenue through usual taxes and this was the main reason for the introduction of VAT in Ghana to improve revenue collection. However the GRA which is charge of revenue mobilization just like other revenue institutions in developing countries have faced challenges in their operations. This study therefore sought to determine the various challenges faced by D.T.R.D's of GRA in VAT collection and administration. The non- probability sampling technique specifically the purposive sampling technique was used to select 100 tax officials within the Kumasi Metropolis which were used as case study. Based on this, questionnaires were used to gather relevant data from respondents. Research findings indicated that, the D.T.R.D's faced challenges such as improper records and bookkeeping by taxpayers, lack of tax education, high rate of VAT, unprofessional attitude of some tax officials, inadequate staffs to collect tax, high illiteracy level among taxpayers, lack of infrastructure and logistics, technological constraints as well as improper filing of returns. Also, results showed that training for tax officials are insufficient and that both tax education and tax system would have to be improved to make revenue mobilization efficient. The study therefore recommends that, the GRA should undertake recruitment and adequate training for tax official, massive tax education, provision of improved infrastructure and logistics as well as implementing tougher punishments for taxpayers as these would improve revenue mobilization and boost national growth and development.

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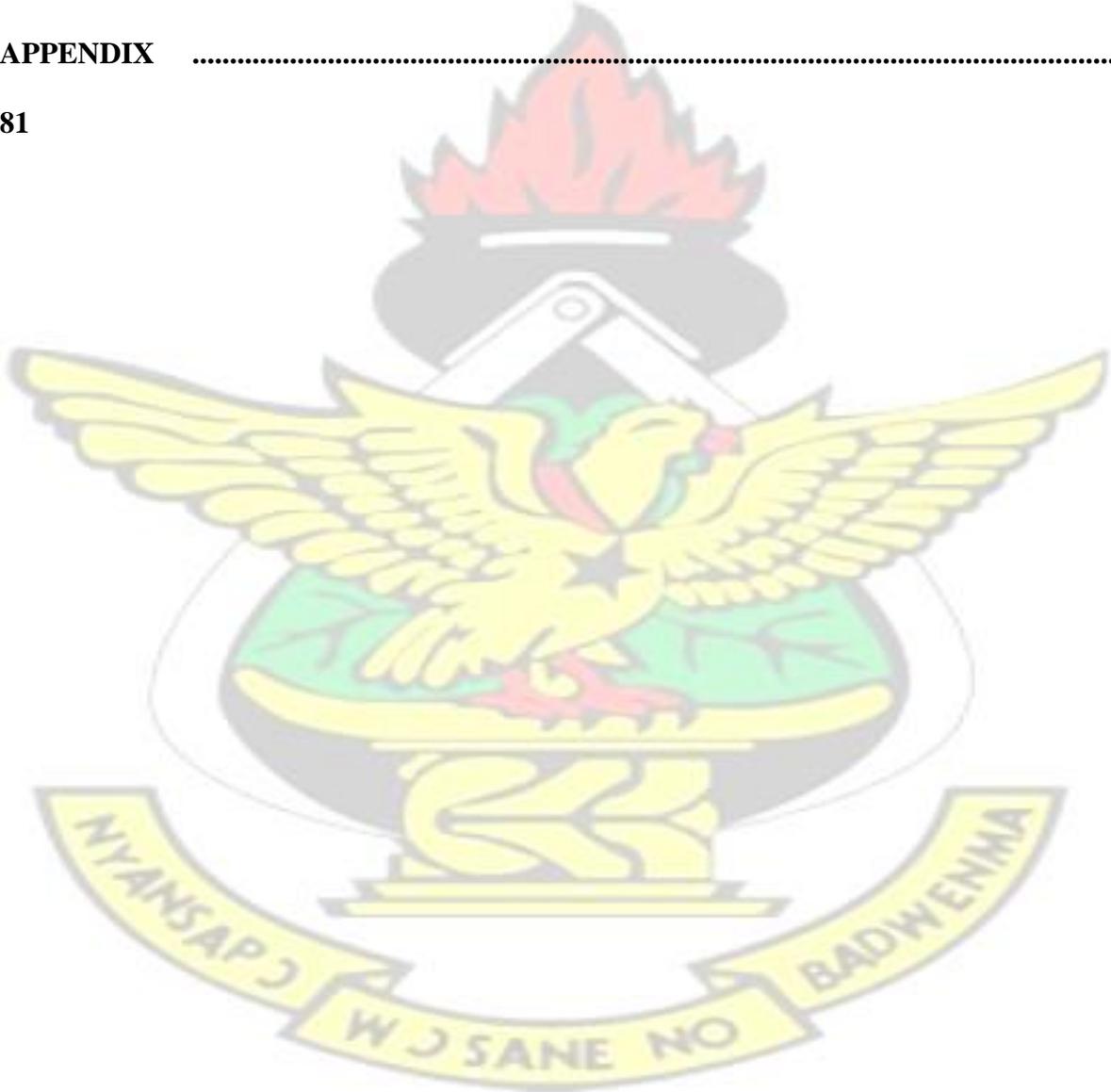
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## CHAPTER ONE

### INTRODUCTION

#### 1.1 BACKGROUND TO THE STUDY

Governments all over the world need revenue to expend, that is, to undertake projects such as the provision of social amenities, infrastructure development, and security among others for its citizens and to ensure equitable distribution of state resources. These revenues are usually generated from two main sources: internal and external. According to Obawana (1996) externally generated revenue leaves huge debt payments that take a long time to settle hindering development and growth. Mobilizing revenue domestically to a large extent helps to reduce the countries dependence on donors and as well narrow down the level of external control on the developmental agenda of government however this internal option also comes with a high feeling of anger or displeasure from citizens as most consider it unfair (Boakye 2011).

As a result of the conditions attached to external funding, it is not usually preferable to most governments. The government of Ghana for example, generates most of her revenue through taxes. Revenue generated from taxes are usually central to the activities of government as it helps to sustain the existence of the state and providing the needed funds for the developmental projects ranging from social programs to infrastructural investments. It also promotes good governance as it creates some form of a channel through which populace are joined to a country as well as provides government with needed capacity to be accountable and responsive to the needs of its citizens.

It was as a result of the assertion above that led to introduction of VAT by the government of Ghana to reduce its fiscal deficit through domestic revenue generation and to overcome the

inefficiencies associated with the tax system as no single government could succeed or overcome her infrastructural and economic growth challenges without levying taxes. VAT defined by Pritchard (2009) as a tax on end users and imposed on the supplies of commodities and services made by a taxable individual in the course of any business he/she undertakes was introduced in Ghana to widen the tax base by bringing all supplies of goods and services under the tax net so as to increase tax revenue after the country had suffered from overdependence on limited sources of tax revenue. It was also to serve as a remedy to the deficiencies such as the narrowness of tax base, weaknesses in tax collection system among others of the consumption based taxes that had existed earlier. According to AliNakyea (2006), the main reasons for which VAT was introduced in Ghana was to create some level of competence and impartiality in tax collection, develop the tax base, take on a standardized basis for collecting the general consumption taxes, curb smuggling, enlarge revenue for growth, control inflation and to reduce government borrowing.

Governments do not collect VAT directly from its citizens but do so through intermediaries who are VAT registered traders task with the responsibility to charge VAT on their supplies and services within the country. These intermediaries usually businesses, companies and individuals are in return required to complete and file monthly returns providing detailed information on the VAT that had been charged on inputs (input tax) and what has been charged on output (output tax). This to a large extent helps the government to raise the needed funds for its development. VAT is charged on both exports and imports but only applied on the value added portion of imports.

Despite the above, one could realise that the GRA which is the institution charged with the responsibility of administering the tax are usually confronted with some challenges in collecting the budgeted amount of VAT and other domestic revenues needed by government to undertake its projects and to run the country (Ghana budget statement 2014 and 2015).

As a result of the shortfall, in a speech presented on behalf of the Finance Minister Seth Terkper on the 8<sup>th</sup> of February, 2015, the GRA was tasked to do their possible best to meet the target of GHc 22 billion for 2015 because failure to do so would increase governments reliance on external donors who usually provide funds with strict conditions and restrictive covenants bringing adverse effects upon citizens. It is as a result of these that, the researcher wants to find out the various challenges faced in the collection of value added tax in Ghana and the possible measures that could be introduced to rectify the situation.

## **1.2 STATEMENT OF THE PROBLEM**

The success of any government depends, to a large extent, on the amount of revenue it generates domestically. The introduction of VAT in Ghana in 1998 was to widen the tax base to help generate enough tax revenue for the growth and development of the nation.

It must however be noted that the introduction of VAT as a more efficient and effective way of collecting the general consumption taxes has not achieved its objectives to a large extent. Projected domestic revenue keeps deviating from the actual VAT revenue almost every year. This was reported in a newspaper publication by Essel (2014) which stated that the authority failed to meet its target of GHc 15.61 billion by 17% thus collecting a total of GHc 12.96 billion. In a similar publication by Bokpe (2015) it was reported that the GRA missed its target by 3% thus collecting a total of GHc 17.07 billion instead of GHc 17.61 billion

(graphic.com.gh). Furthermore, most businesses are not registered and even the registered ones fail to pay required amount of VAT intensifying the yearly budget deficit challenge faced by government of Ghana. For example, African Automobile Limited (AAL) and Data Bank Limited had to be closed down for owing the GRA GHc 6.5 million and GHc 8.23 million respectively.

Studies such as ( Adjei et al (2011), Egyin (2011), Kwarteng et al (2012), Ohene (2011), Aggrey (2011), Sekyere (2011), Gyasi (2014) and Wawire, (2011) conducted in this area of research have not helped either as most of them failed to identify uniquely the challenges faced by the revenue authority (GRA) in its operations. Also studies conducted on this topic were undertake on Value Added Tax service as an organisation and the integration of all the revenue institutions, it is believed that the challenges might be quite different. It is therefore as a result of these and many other reasons that the researcher intends to find out the challenges faced by the Ghana Revenue Authority in collecting value added Tax in Ghana.

### **1.3 RESEARCH OBJECTIVES**

The main purpose of the study is to determine the various challenges faced by the DTRD's in collecting Value Added Tax in the Kumasi metropolis.

Specifically the study seeks to,

- To assess the challenges faced in collecting and administering VAT
- To evaluate the measures put in place to ensure tax compliance
- To examine the perception of tax officials on the tax system in the country.

## **1.4 RESEARCH QUESTIONS**

- What are the challenges faced in VAT collection?
- What measures are enforced to prevent non compliance?
- What is the perception on the current tax administration system?

## **1.5 SIGNIFICANCE OF THE STUDY**

Revenue mobilization plays a very crucial role in the success of any government as they are able to raise the required amount of financial resources they need in order to increase the standard of living and improve the lifestyle of its citizens as well as meeting financial obligations. Failure to do so puts extra pressure on government to borrow from external donors. Funds from donors usually bring hardship upon the beneficiary country as conditions attached to them sometimes determine how funds should be used. Arguably, most of the challenges being faced by Ghana in the educational, health, security and social service sectors as well as the increase in unemployment rate are due to the fact that she is not able to raise funds internally to fill the gaps in those sectors.

Despite all these, the rate at which people evade tax keeps increasing day in day out especially in the informal sector. The researcher therefore intends that findings and recommendations from the research will help policy makers, government and other stakeholders to know more about challenges facing the collection of VAT in Ghana. This to a large extent will help in making policies that will ensure efficiency in the administration and collection of VAT in the country as well as restructuring the current tax administration system if the need arises. The researcher also envisages that findings and recommendations would broaden the knowledge

base of interested parties on VAT, current administration systems and its challenges as well as to serve as the basis for future researches.

### **1.6 SCOPE OF THE STUDY**

Ghana Revenue Authority offices in Kumasi have been selected for this study. The researcher would have wished to study all GRA offices across the country but due to time and financial constraints, the Kumasi Metropolis was chosen. Also, the researcher would have loved to undertake the study from the point of view of both the taxpayer and the officials of the revenue collection agency however time and finance were limiting factors.

As a result, questionnaires would be administered to 100 tax officials working with STO's and MTO's in the metropolis. The research lasted for five months and that was from February 2015 to July 2015.

### **1.7 LIMITATIONS OF THE STUDY**

In every research activity, it must be noted that, constraints cannot be overlooked as they influence the outcome of the research. For this research, the possible limitations are attributed to the lack of time as well as insufficient funds and logistics. Another limitation of the study would be the difficulty in obtaining the required amount of data from respondents because the nature of their jobs would not give them the opportunity to provide detailed information on issues.

### **1.8 METHODOLOGY**

The researcher used both primary and secondary data in this research. The primary data were collected based on responses provided by tax officials who have previously worked with the

VAT Service to the questionnaires. These respondents were considered as experienced in this area of the study and the purposive sampling method was used.

Secondary data however were collected from books, journals and public notices from GRA.

## **1.9 ORGANISATION OF THE STUDY**

This research is in five chapters. Chapter one consisted of the background of the study, statement of problem, research objectives, research questions, scope of the study, limitations of the study, significance of the study and organization of the study. Chapter two takes a look at literature review. In chapter three, the researcher centred attention on research methodology, whilst analysis of data was undertaken in chapter four. Chapter five of the study was based on the findings, recommendations and conclusions.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

This chapter is a review of all related literature on diverse issues which serve as starting point for this work. The review is in actual fact structured into theoretical and empirical literature review as well as explanation of terms. The empirical literature review looks at work done by various authors in the field, and draw lessons from those studies.

## **2.1 WHAT IS TAX?**

According to Dalton (1920), a tax is an obligatory payment inflicted by a public authority, without any consideration of the precise amount of service rendered to the taxpayer in return and not as punishment for any officially permitted offence. Oxford dictionaries further defined tax as an unavoidable contribution to state income charged by governments on workers' earnings and business proceeds, or attached to the cost of various commodities, services and transactions. Danquah (2007) also defined tax as the imposition of compulsory payments by public authorities charged with the responsibility of tax administration to settle up the cost of their activities. Kwame et al 2013, further defined tax is an essential levy on individuals or commercial entities paid either once or periodically when due and enforceable by law.

According to IRS ACT 2000, (ACT 592), it is the duty of every citizen in Ghana to pay a portion of their income as tax. This goes to stress the point that tax is an important aspect of the economy and it's mandatory for all citizens to contribute towards it.

From the above definitions, tax could be seen as a financial burden which is placed by the government of any country on its citizens rather than a contribution or payment that is made willingly by an individual to the nation. Failure or default on the part of any citizen leads to punishment or penalty since it is an act backed by law. Paying tax (from the latin *taxo*, "rate") means that, one is redeeming a financial charge or burden impose by the government or the state for which a default or failure to pay is punishable by law.

### **2.2.1 DIRECT TAXES AND INDIRECT TAXES**

A direct tax may be seen as a tax paid by a person or business directly to the imposing entity. It connotes that, the burden of tax cannot be transferred from one person or entity to another

person or entity as it is paid by individuals and firms on their incomes, profits and consumptions. The tax burden is therefore borne by the entity or individual upon whom the tax is levied. Examples of direct taxes include: gift tax, capital gain tax, vehicle income tax (VIT), rent tax, mineral royalties, personal income tax, corporate tax and pay as you earn (PAYE). The direct taxpayer is always aware of the tax amount he is expected to pay. It is also progressive in nature.

According to Danquah (2007), indirect taxes conversely are charged on individuals and firms with the expectation that they will pass it further on to others. In this particular case, the prices of goods and services are inflated and in so doing, consumers pay the tax by paying more for the goods and services. Ali- Nakyea (2006) stated that, the shifting of the burden or incidence of tax is done by including the tax amount paid by a firm or individual in the price of the commodities and services being sold to the consumer. This is an indication that, the burden or the incidence of tax is borne by a different person or firm other than the one upon which the tax was charged. Examples include VAT, excise duties, customs tax (import and export duties) and sales tax among others. They are mostly regressive in nature.

### **2.3. PROGRESSIVE, PROPORTIONAL AND REGRESSIVE TAXES**

Progressive tax is a form of tax in which lower income individuals and firms are made to pay a lower portion or percentage of their earnings as tax as compared to the higher income group which are made to pay higher taxes from their earnings. It shows that, the higher ones income or earnings, the higher the amount payable as tax.

Proportional tax is also type of tax in which all levels of income earners thus, both lower and higher income earning firms and individuals are made to pay the same amount of tax. It means that, tax amount payable is the same regardless of your income. Both marginal and average tax rate are the same.

Finally, regressive tax refers to the kind of tax in which the lower income groups of individuals and firms are made to pay higher taxes from their earnings as compared to the higher earning classes.

## **2.4 PRINCIPLES OF AN IDEAL TAX (CANNONS OF TAXATION)**

Adam Smith (1776) proposed some principles also known as cannons of an ideal tax which are basic principles which are to guide tax institutions in the development and operation of an effective and efficient tax system (cited in Frimpong 2012). It must be noted that, these principles till date are very important in operating an efficient tax system.

### **2.4.1 ABILITY TO PAY**

It states that, taxes must be proportionate to people or firms income or one's ability to pay tax. It goes further to state that, higher tax levies should be charged on the income or earnings of those who earn more income and could afford to pay more tax than those with meagre incomes provided all other things remain constant. This to a large extent helps to redistribute income in a country.

### **2.4.2 CERTAINTY**

It means that the amount of tax to be paid by the taxpayer must be certain because uncertainty creates the opportunity for individuals or firms to evade tax and for tax officials to manipulate

the taxpayers. It also helps to compromise the importance of taxes. The time, mode of payment as well as the tax amount payable must all be comprehensible and known to the taxpayer. Taxpayers must therefore be aware of when of when, what, how and where to make tax payments. In other to achieve this, yearly fluctuations in tax rates must be eliminated. Certainty allows individuals and firms to budget for their tax liabilities since they have a fair idea of what they are supposed to pay.

### **2.4.3 CONVENIENCE**

Adam smith (1776) stated that, all taxes must be imposed at the time or the manner in which it would always be suitable for the taxpayer. This indicates that, in each tax system, the time and manner under which payments are made should not inconvenience the taxpayer.

### **2.4.4 SIMPLICITY**

This principle states that, the tax systems or mechanism of tax collection being employed in revenue collection must be plain and very easily understandable to the taxpayer. Taxpayers must be able to calculate and determine their tax values without any difficulties. Simple tax systems motivate people to pay because they believe that each and every one is paying a fair share of tax.

### **2.4.5 EFFICIENCY**

The principle of efficiency also posits that, an action is said to be beneficial to society when the marginal social cost involved in the allocation of resources is equal to the social benefits

derived from the allocations. This means that, an activity could only be considered as efficient when it creates enough benefits that supersede the cost involved.

#### **2.4.6 EQUITY**

Every citizen of a country or state needs to make contributions to support government's development agenda by paying their respective bills (Smith 1776). Based on this assertion, it means that tax allocation must be fairly and reasonably done in a manner that will allow taxpayers to pay based on their abilities thus tax liability should be proportionate to income of the taxpayer. Equity ("æquitas" in Latin) means justice, equality and fairness. Equity therefore means a fair distribution of tax burden among citizens in a country. It takes two forms:

**Vertical equity:** this is based on the fact that, the tax amount to be paid by citizens in a country must be proportionate to their earnings or their ability to pay. That is, the percentage of tax levied by a government on the various income groups in a country must be dependent on their relative ability to pay. As a result, people with higher incomes or earnings must be made to pay higher taxes. Vertical equity therefore seeks tax in proportional or progressive manner (Pettinger, 2008).

**Horizontal equity:** this principle helps to eliminate all forms of discriminations from the tax system. It states that, all taxpayers within the same income group, class, perform same economic activity or have equal benefit or access to specified economic resources and as well experience similar lifestyle should be made to pay equal amount tax. Based on this assertion, people in most deprived communities must pay lower tax amount as compared to those in the cities with access to all the resources (Frimpong, 2012).

## 2.5 TAXATION AND DEVELOPMENT

Governments in most developing countries face challenges in running the affairs as well as meeting the needs of their people because there are always huge gaps between public expenditure and revenue generated domestically. This has led to the over dependence of these nations on foreign aid. The only crucial way to overcome those challenges is for governments to generate revenue domestically through taxation. Taxation is therefore very fundamental to the sustainable development and growth of a country as it helps promote the fundamental functions of successful state and determines the framework for economic growth. According to Danquah (2007), taxation serves as an agent that speeds the expansion of the state and building an accountable and efficient government. In terms of capacity he posited that, administratively, taxation is the bedrock of every government and offers the basis for the supply of public goods and the execution of effective regulations.

The main purpose for governments levying taxes is to raise the needed amount of revenue to fund projects and services it provides for its citizens. Without taxes, no nation or government could survive because there would be no revenue to undertake infrastructural developments as well as the implementation of economic policies that leads to growth of a country. Hellers (1997) stated that, a lawfully and reasonable effort is helpful to finance government's social and economic expenditure obligations. Taxation therefore is a very important concept in the governance of a country.

The connection between taxation and economic development was viewed to be like a connection between collective desire and a form of government act that is deemed to be a means to an end. In that, when actual tax revenue collected falls short of the projected revenue

in a particular year, it affects developmental plans of that nation (Toye (1978) cited in Aggrey, 2011). The major problem tied with the volatility of domestic tax revenue is that, it usually results in the volatility of public expenditure which is a major worry for most third- world countries since it was established to have adverse effect on growth and welfare of citizens (Guillaumont et al., 1999; Fatas and Mihov, 2003; Furceri, 2007; Loayza et al., 2007). In actual fact, unsteady revenues are extremely costly because governments are compelled to consistently reduce public expenses, leading to public spending unsteadiness and poor development of the country.

Ali-Nakyea (2006) stated that taxation is used to reduce inequalities in wealth and income distribution; to prevent consumption of certain goods and services e.g. alcoholic beverages and cigarettes to provide protection for indigenous industries and to regulate certain sectors of countries' economies e.g. balance of payment, employment, savings, investments and productivity. All these are attempts by governments towards the growth of a country. For example, in terms of wealth distribution, taxes help redistribute incomes from the "haves" that is those with the highest income to the "have not" those need money.

Moore (1998) proposed that, the more income a government gets the possibility that the relationship between the state and its citizens are going to be distinguished by accountability, responsiveness and democracy. It means that governments that depend on tax revenue are usually more accountable to their citizens as compared to those that depend on non- tax revenue. This happens because the citizens who are the taxpayers always want to have fair idea on how efficiently their taxes are being used. Moore (2008) further stated that, since governments that rely more on domestic revenue require some degree of voluntary compliance from their citizens, they are put under pressure to use revenue judiciously because payment of

tax by citizens makes them stakeholders in the ownership of the state. However, governments that are less reliant on tax revenue do not face the same demands from their people.

In order to be able to efficiently and effectively collect tax revenue on time, tax laws are put in place to prevent any form of delays because any deficiency would limit the availability of revenue to government. This to a large extent could lead to the increment in government borrowing and public debt. Taxpayers who fail to meet the deadline for payments are punished by the authority in charge. In Ghana, tax is levied by the various Metropolitan, Municipal and District assemblies to raise funds for developmental projects. However, the main agency or body in charge of taxes and revenue mobilisation is the Ghana Revenue Authority (GRA) which is made up of Custom Excise and Preventive Service, Value Added Tax Service (VAT), Internal Revenue Service (IRS) and the Revenue Agencies Governing Board. Upon default, these authorities follow the appropriate procedures and enforcement actions to recover the debt.

## **2.6 THE CONCEPT OF VAT**

Value Added Tax could be seen as a multi-stage tax imposed at every stage of the production and distribution process with terms to permit Input Tax Credit (ITC) on tax payable at a prior stage which could be matched against the VAT liability on consequent sales (Jariwala 2009). This definition was further supported by Akpakpo (2009), when he stated that Value Added Tax could be seen as a universal tax charged on the expenses incurred in purchasing goods and services and as well as on the end user; but practically, it is imposed on value added to the price of supplies at all stages in the production and distribution chain. It means that, VAT unlike many other taxes is not a single staged tax as it is collected on the value added to

supplies and services at several points in the production and distribution process. At each stage of the process, value is added onto the output thereby increasing its value over that of the input. VAT could also be seen as a general consumption tax levied on the expenses incurred in buying goods and services. This assertion was further supported by Bickley (2003) when he posited that so far as VAT is considered to be shifted forward to consumers, it could be considered as a type of general consumption tax. It is usually charged on the difference between domestic sales and expenditure incurred in acquiring inputs (VAT, A Guide For Facilitators, 1998). Value added is determined by subtracting the cost of taxable materials and other inputs from the price charged by the business on its customers. Inputs are materials, machineries, packaging materials, utility bills among others purchase during production and distribution. This differentiates VAT from the sales tax which is collected from only the end consumer when purchases are made and this makes it a single staged tax.

Value added tax (VAT) is imposed by registered businesses (usually businesses with yearly turnover above a specific threshold) and applicable to all sales, whether to individuals or businesses. This is in opposition to the retail sales taxes imposed on sales to final consumers only (Saleheen et al 2013). Shoup (1990, p3) also defined VAT as a tax on the value added by any business venture, through its own actions to the goods and services it procured from other business ventures. In furtherance to this, PKF (2012) also stated that VAT is a form of indirect tax levied or charged on certain goods and services in a country and are collected through registered individuals and business.

Barreix and Roca (2007) emphasised that VAT was an exceptional means by which revenue is mobilised and that it operates best when administered in a simple and neutral manner.

VAT was seen as a major source of revenue accounting for a quarter of the world's tax proceeds (Ebrill et al 2002). However, though VAT is levied on certain goods and services in several countries across the world over, unlike other taxes there is a greater resemblance and conformity in how it operates in the various countries. Here are some similarities

- VAT is a multi-stage, self-assessment and self-clearance based tax the core feature of which is input tax credit mechanism that enables a business to take back the VAT that had been paid on the purchase of its input at the prior stage and tax the value added only. The problem of tax-on-tax or cascading is avoided by the credit mechanism.
- The rate of VAT is generally single along with a zero rate for exports.
- A threshold of annual turnover for mandatory VAT registration is made, which leaves small businesses outside the VAT net for reasons of administrative and compliance cost
- VAT is an ad valorem tax; this means that the tax is charged as a percentage on the price of goods or services bought rather than on the size, quantity and weight. It is assessed on transaction value
- VAT is generally a regressive tax; in most countries. Its regressive nature to some extent is neutralized by differentiating the rates of tax, giving preferential treatment to the pro-poor sectors and exemptions.
- A comprehensive VAT which is a single rate broad-based VAT with no or few exemptions is self-policing as motivation for input tax credit automatically safeguards the confirmation of payment of VAT at an earlier stage.
- VAT is very trade-friendly and trade-neutral as businesses have the opportunity of shifting the tax incidence to consumers. (Due (1970); Tait (1988); Shoup (1990); Ebrill et al. (2001).

However, Bird and Gendron (2007) stressed that there are huge differences between the VAT systems in different countries and that the differences are mostly based on the exemptions, threshold, rates differentials, ease of acquiring refund, services delivery and the accessibility of simplified scheme.

According to Zee (1995) cascading taxes which are taxes levied more than once on goods and services as they move from one stage to another are universally regarded as unpleasant whilst non-cascading taxes such as a comprehensive VAT has become a preferable choice for most policy makers around the world. Based on the fact that the rate of tax are always the same, the revenue collected at the end of the year for a solitary stage retail sales tax and a multi-stage VAT would be similar. However, the VAT is usually more resistant to tax evasion since it is mostly amassed at different stages of the production and distribution chain and in the case that tax evasion occurs, it is just on the value attached at that stage in production or distribution (Mcmorran, 1995). VAT as a general consumption tax has over years proven that it is a very important tax as a result of its universality and general uniformity. It has helped governments to generate the needed amount of revenue to undertake their projects. It is also considered important based on efficiency with which it is levied on imports and relinquished from exports (Williams, 1996).

Two factors are considered as the reason for the growth and development of VAT around the world. These factors include the early adoption of VAT by the EU countries and its demonstrated success; and as well the role played by the IMF in spreading the success stories to the developing countries. This the IMF did by persuading most of the developing countries to adopt VAT in order to efficiently mobilise revenue (Bird et al. 2007).

Arguments have also been raised over the years as to whether income tax is better or VAT.

In response to this McLure (1972) in his work on whether the United States should replace VAT with personal income tax posited that as the VAT was a consumption tax, and a result of that it would certainly be regressive since ones consumption as a percentage of his/her income falls as income rises.

VAT usually demands well advanced tax administration system or policy which is one major challenge many developing countries face. As a result of the challenges so many questions have been asked about whether the VAT in most third world and transitional economies are as good as they should be in fiscal, fairness, and clerical terms. Looking at the pros and cons and taking into consideration the cost and benefits of the tax, Bird and Gendron (2005, p. 4) were of the assertion that VAT is still the best form of general consumption tax available to every government. It is also believed that VAT without any doubt has taken over the world within the shortest period of time in reality and that it does not matter whether it is fairly simple or vice versa as is argued sometimes (Bloomfield et al. cited in Williams, 1996). VAT as a multi-staged tax has proved time without numbers that it is a very effective and efficient tool for maximizing revenue than the various taxes it replaced in both the advanced and third-world countries.

## **2.7 VAT IN GHANA**

Before VAT was introduced in March 1995, domestic consumption taxes were charged only at one stage of the production process. Those taxes were either charged at the importation stage or the manufacturing stage of production. This means that the tax was not comprehensive through the retail stage. As a result of the various challenges faced in the collection of revenue and the narrowness of tax base as well as the cascading effects produced by the tax, the

government of Ghana embarked on a tax reform programme which took two years of planning and preparation towards the introduction of VAT. In November 1994, the parliament of Ghana passed the VAT Act and in the following year, the VAT Regulations were also passed and that was in February 1995.

Even though VAT successful started in January 1995, its full operation and administration actually began in March 1995 and the first returns were submitted in April 1995. However, the VAT was written off by the government in June 1995 just three and a half months subsequent to its implementation due to several social and political unrests that went on in the country. Several citizens and political parties rose apprehensive about the impact the new tax (VAT) was having on inflation as it was realised that that tax has led to persistent increase in the price of goods and services. It was realised that when the VAT as a broadbased consumption tax was introduced, major businesses together with exempted businesses increased their prices at the tax rate and resulting in a long-term inflation. This led to the reintroduction of the sales and service taxes as a measure to overcome the drawbacks.

Seth Terkper (1996) came out with other four (4) universal reasons of why the operation of VAT was unsuccessful in Ghana. In the first place, it was identified that there were hindrances in approving the VAT legislation and regulations and as a result preparations towards the operation of VAT was foiled. Terkper (1996) posited that, Parliament placed aside the bill after the draft was presented to them and the management of VAT were demanded to undertake a massive nationwide awareness drive to inform the populace about the purpose of the tax. This request was made because parliament believed that the earlier public education

campaigns were ineffective and had no legal backing and as a result of that had no influence on the public.

Also, most businesses were not given enough time to measure the effect the tax will have on their businesses because it took long before the tax rates were announced. Sales tax rate was increased in the 1995 budget from 15 to 17.5% in January and February 1995 and this made it difficult to fix the single VAT rate. This to a large extent affected the implementation of the tax because it meant that VAT could not be charged at a higher rate than the standard rate of sales tax, which was 15% in 1994. To him also, the Ministry of Finance's inability to come out with a specific coverage for goods and services was seen as a major contributing factor to the increment of tax rate from 15 to 17.5% (Cited in Grandcolas 2005 p3).

In addition, it was realised that the threshold set up by the tax authorities for small traders was so low thus GHC 25 million (approximately USD 14,000). As a result of this, so many small traders were trapped and the end result was too many taxpayers over 10,000. Though it was an encouraging number, the challenge was that the newly established VAT Service was not well equipped and therefore did not have the facility to manage taxpayers. To him, the issue with regards to the registration threshold was never resolved till the VAT law was rescinded in June 1995.

Terkper (1996) further posited that, neither of the revenue collection agencies which included the newly created VATS, Inland Revenue Services and Customs, Excise and preventive Service was ready to administer the VAT. To Terkper, the creation of the VATS alone as a third force created so much tension because it was expected that the three revenue institutions must merge to undertake the collection of domestic indirect taxes such as excise duties. The

tension between the VAT Service and CEPS in particular was a key to the unsuccessful operation of the VAT as most of the CEPS officials' antipathy towards their rivals influenced collection of the tax. This also brought about a delay in the choice of higher-ranking staffs to VAT and the reassignment of officials from CEPS to VAT. As a result of the delay in the passage of the law, the VATS failed to prepare adequately. They therefore lacked the necessary resources such as well-trained staffs or workforce in addition to infrastructure. Also, the inability of the three revenue institutions to come together led to the poor administration of tax because they failed to share information concerning import and export which is a major of VAT among themselves.

Lastly, according to Terkper (1996), there were several complains and criticisms raised by taxpayers and consumers stating that they were unenlightened on the influence of VAT on their businesses and consumptions. Although information material were made available to all with regards to the various aspect of the tax, most businesses established that they had no clear knowledge on how the tax is calculated and how it will affect the prices of their products as well as their purchasing power. Poor public education was undertaken by the officials probably due to the resources challenges being faced by the authorities.

Most of these activities: advertisements, seminars, workshops, consultations, book-keeping reviews and counselling visits to businesses were poorly organised at the preliminary stages of the VAT. The end result was that most businesses increased prices of goods and services by the tax amount on sales, without taking into consideration tax credit incurred on inputs and the exclusion of the preceding sales and services taxes. It was also identified that, most of the challenges were aggravated by inflationary forces in the economy at that time. Within that period, there were poor food harvest due to improper rainfall in major parts of the country as

well as the continuous decline of the local currency against major the currencies on the world market thereby exerting an increasing demand on the price of goods and services imported into the country.

## **2.8 THE REINTRODUCTION OF THE VAT**

After the 1996 general elections, the tension surrounding the introduction of the tax were calmed and this led to the successful and peaceful reintroduction of VAT in 1998. The success story was based on the fact that, so many lessons were learnt from the 1995 failed attempt. In the case of the second effort, the law was passed 10 months earlier to its approval and as a result of that, there was enough time to properly educate and engage the best staffs and to educate the general public on the regulations and policies governing the tax. The tax rate was reduced from 17.5% to 10% and as well, certain specific goods, products and services including raw food products, agricultural inputs, machineries, drugs and healthcare services, utilities, books, herbal products and educational materials were let off to reduce the earlier nervousness that gripped the nation. Tax threshold (which is the amount of taxable sales that that qualifies a person or a business to be registered to pay the tax) in the country within that period was also increased to 200 million cedi (\$80,000) and in the first year of its reintroduction; government was able to raise an extra 20% more revenues.

Some key factors were also identified as the reason for the accomplishment of the 1998 re-introduction of VAT. These are:

1. There was a strong and clear political dedication from government leaders.

2. With the second coming of the tax, good preparations for the tax administration were put in place. Experienced tax administrators, staffs were recruited and infrastructure was put in place for the registration of taxpayers and collection of the tax.
3. Also there was a rationally low preliminary rate, high registration threshold, and perfect timing for the introduction of the tax.
4. Lastly, a well- planned public education campaign was undertaken to inform people about the tax.

*Source: Chapman (December 2001); IBRD (2002).*

## **2.9 TAX COMPLIANCE AND NON- COMPLIANCE**

Tax non-compliance has being a major challenge for most tax collection agencies around the world as it is always difficult to get taxpayers to voluntarily comply with tax needs although most of the policies and rules governing tax collection in most of these countries seems to be spot-on (James and Alley 2004). It could be seen as the failure on the part of a registered taxpayer to comply with the rules and regulations governing tax collection in the country. For a tax system to be considered as efficient, the tax authorities would have to ensure that there is a voluntary compliance to the tax rules. Tax authorities in other to ensure efficiency try to use any means possible including the use of penalties. However one must have in mind that, chasing and punishing of recalcitrant taxpayers is usually not an objective of the tax authorities even though it helps to ensure that people voluntarily comply when they know that authorities have the ability to trace and punish defaulters.

According to Andreoni et al (1998), tax compliance is termed as the willingness of citizens or taxpayers in a country to obey and accept the laws governing tax collection in other to help

the country attain economic equilibrium. Kirchler (2007) gave a very precise definition of tax compliance as the willingness of the taxpayers to pay their taxes. Tax compliance could also be seen as the taxpayer's ability and willingness to adapt to tax regulations which are officially decided based on ethics, legal environment as well as other conditional factors at an exact time and place (Song and Yarbrough 1978). In a similar vein, it was viewed as the capacity and willingness of taxpayers to obey tax laws by paying the right tax amount on time, keeping proper records of income and declaring the correct income (Internal Revenue Service Act, 2000 Act 592). This means in the case of VAT, tax compliance could be seen as the ability of the registered taxpayer to voluntarily comply with the rules and regulation governing tax collection in the country within a particular period of time by reporting all incomes and making payments accordingly without any coercion or force being applied by tax authorities. Rules and regulations may be in relations to when to submit returns, how to keep proper records among others.

From the administrative point of view, compliance has to do with the taxpayer willingly registering or informing revenue collection authorities about the his/her status, submitting returns monthly, quarterly and yearly (if necessary) and obeying payment periods stipulated by authorities (Ming Ling et al. 2005).

In furtherance to the above, other works stipulated that tax compliance could only be effective depending on the taxpayer's level of honesty, ample tax knowledge and ability to apply the knowledge, time consciousness, exactness, and proper record keeping in other to fill and file tax returns and other tax documentations (Singh and Bhupalan 2001). Bhupalan and Somasundram (2003, 2005a and 2005b) asserted that, the issue of tax compliance is a key

challenge to countries that operate the self assessment system of tax administration. This is based on the fact that the total tax amount payable mostly depends on the extent to which the taxpayer is willing to pay the right amount of tax.

To Singh (2003) therefore, tax compliance was seen as a voluntary action. This means that the taxpayer does not need any coercion from the tax authorities to obey the rules and regulations governing tax collection.

## **2.10 TAX EDUCATION**

Tax education is a very important concept in tax collection as most citizens both in the formal and the informal sector of most economies usually find it difficult to comply with tax regulations. This occurs because they do not have fair ideas about the tax system, procedures and processes involved in do not know much about the tax system, filing and payment processes. It must be noted that when citizen are not well informed on the way tax laws operate in a particular country it makes it difficult for both taxpayers to pay the right amount of tax on time and the tax collectors to achieve their targets.

As a result of this challenge, it is always important for proper tax education to be undertaken in the country to help remove the level of illiteracy amount the citizens in the country.

Awareness creation therefore could be seen as a key to a successful revenue administration.

Tax education therefore helps to remove to a large extent a certain level of ignorance or illiteracy from the minds of taxpayers. Unsatisfactory and inadequate tax education and awareness always lead to the unwillingness of taxpayers to pay tax and falter to submit their returns on time.

Research projects conducted revealed that many people failed to answer the questionnaires because they had no ideas about how the tax systems operate in the country. As a result, many of the questionnaires administered were left unanswered. Registered taxpayers always submit their VAT returns unfilled and therefore the amount of tax to be paid is determined by the tax official. This to a large extent could lead to extortions as the taxpayer may be forced to pay more than what he/she was suppose to pay.

Most taxpayers also make payments to people they are not sure whether they are really tax officials. It could therefore be seen that for a tax system to operate transparently and efficiently, there must be a high level of tax education and awareness. Lack of knowledge about the tax system leads to the unwillingness of taxpayers to comply with tax regulations and as well the reluctance of taxpayers to submit returns on time. For example research conducted by Mohamad Ali et al. 2007 showed there exist to a great extent a relationship between knowledge of tax system and compliance.

Knowledge acquired through formal education is a very important aspect of revenue generation. This is because it gives and provides the taxpayer with the necessary and appropriate information on the tax administration system. With this, the taxpayer becomes aware and get a clear understanding of the rules and regulations governing a particular system and which helps to avoid any penalty that comes with default (Eriksen and Fallan (1996 p387). To them also, there is a correlation between fiscal knowledge and attitude towards tax. They arrived at this conclusion when they conducted a research which was in three parts. The first part was based on the knowledge of the taxpayer. The second was also focussed on the impact tax knowledge has on the individual taxpayers ability to voluntarily comply to tax and finally, they tried to find out the roles played by tax agents to determine taxpayers' attitude or

behaviour as it is assumed that they engage in activities such as preparing, declaring and determining tax liabilities.

This assumption was supported by Singh (2003) when the researcher stated that there is a reciprocal relationship between the taxpayer's knowledge and consciousness of the tax system and as well their motivation to conform to tax rules, laws or regulations. Singh's work therefore go a long way to serve as a proof of this relationship that tax education enhances revenue collection or mobilisation as well as voluntary compliance by taxpayers.

## **2.11 TAX EVASION**

Tax Evasion is well thought-out as an illegal act whereby an individual, business organization or a corporation deliberately refuses to pay or meet their true tax obligation. It means that, tax evasion could be seen as the means by which a person or company willingly decides not to either pay tax or pay the right amount as tax. Tax evasion greatly affects most governments all over the world as they aren't able to mobilise the needed funds to support their projects.

Tax evasion is criminal and therefore comes with various charges and large penalties for any individual or company that is found guilty. However, it must be noted that there is no universally accepted definition as to what is legal or illegal in terms of taxation. The differentiations occur as a result of the laws and regulations governing a particular tax system (Finnerty et al. 2007). According OECD (1987), tax evasion is defined as the act by which the taxpayer intentionally breaks the laws and regulations governing tax payment as well as refusing to pay tax. It may on the other hand be seen as complete infringement upon tax rules and laws. It is believed that, most of such actions are being undertaken by taxpayers with the

help of tax collectors and other supplementary institutions. The system of tax administration and corruption are also seen as factors that encourage tax evasion and make its control very difficult. Therefore, in order for a country to overcome the challenges of tax evasion, standardised mechanisms that are accepted by both tax authority and taxpayers must be used to collect and mobilize taxes.

## **2.12 TAX AVOIDANCE**

Tax avoidance has to do with the use of legal means to pay the least possible amount of tax. It may also be seen as the ways and means by which a taxpayer legally modifies his/her/its financial situation in order to get a tax advantage which would give him /her opportunity to pay a lower tax amount. Most taxpayers achieve this by making claims for all the permissible deductions and credits. They legally exploit the tax system to their advantage in order to reduce both their current and future tax liabilities. It differs from tax evasion in that, whereas tax avoidance is considered lawful, tax evasion is unlawful. Whilst the taxpayer tries to hide his/her true financial status in order to pay less tax in terms of tax evasion, with tax avoidance he/she identify ways and means within the legal system by which they could pay less tax.

## **2.13 BARRIERS TO EFFICIENT TAX ADMINISTRATION**

Most often the formulation and implementation of tax laws imposes some level of obligations on citizens of a country as they are required to pay certain amount of money to their government. However it must be noted that the actual amount of revenue to be generated by any government is dependent on the effectiveness of its tax administration and policies (Bird, 2003). As a result, any weaknesses or lapses in revenue mobilization could amount to insufficient tax collection. This is usually a regular development faced by most developing

countries including Ghana. Studies conducted in both developed and developing countries came out with challenges such as Resource constraints; Technological constraints; High illiteracy level; Tax officials' attitude; Level of tax rate; Improper records and book keeping; and Lack of tax education.

### **2.13.1 RESOURCE CONSTRAINTS**

One major challenge faced by most tax collection agencies is the inadequacy of resources which could be used to uphold and aid their operations. These resources could be divided into both human and physical resources. Human resources have to do with the availability the required number of staff as well as the quality of the personnel or the officials. It must be noted that the quality of staff is usually an important determinant because of the assertion that the higher the quality of staff the higher the productivity and vice versa. An organisation may have a large workforce and still perform poorly if they have workers with low skills and low level of educational background among others.

Physical resources on the other hand take a broader view as it looks at both infrastructure and equipment or logistics. Infrastructure has to do with the quality office premises or buildings thus modernised state of the art premises which are located in as many localities as possible whilst logistics and equipment have to do with vehicles, communication systems, working materials such as pens, sheets of paper among others. The environment or working conditions are also important because a poor working environment do not boost the morale of workers to work effectively to mobilize the required amount of revenue for the government for its projects.

Also, financial constraints make it difficult for an efficient tax administration based on the fact that they are unlikely to acquire the materials they need and to conduct researches. As a matter of fact also, most tax officials do not have the needed accounting concepts that are vital to analyzing returns and due to the financial constraints; the organisation is not able to undertake training and development programmes that are specific to various department.

Rather, most training and development programmes are general in nature (Tanzi and Zee 2000).

### **2.13.2 TECHNOLOGICAL CONSTRAINT**

Another challenge faced by most tax agencies is the lack of modern technological gadgets, particularly computers, to smoothen the taxation process. Technology makes it easy to create a sustainable tax system that helps to generate revenue in an easy, efficient and cost effective manner. However, it must be noted that most tax agencies still depend on manual entry of taxpayer's information into records books as well as keeping a huge amount of tax information in print or files when this could easily have being done through the use of computers. It hinders revenue collection because in the case of any disaster or mishap, data on taxpayers are destroyed or lost. Another aspect of this challenge is the emergence of virtual markets or online businesses in the country. In other for these businesses to be traced to collect tax, the agency and their workforces must be technologically inclined. However what happens always is that a large chunk of revenue is lost due to the inability of the officials to track these economic activities. Because the institutions do not have the needed mechanisms to effectively monitor such economic activities which are usually in the informal sector, it has resulted in a situation where such businesses either pay less or no tax at all ( Darrison 2011).

### **2.13.3 HIGH ILLITERACY LEVEL**

According to Merriam- Webster Dictionary, illiteracy could be seen as the condition of not being able to read and write. High illiteracy level especially on the part of taxpayers greatly affects revenue collection in the sense that, taxpayers fail to file returns properly or adequately record their income and expenditures. What happens is that the revenue authorities fail to collect the required amount of tax those individuals (Bird 2003). Illiterate taxpayers also find it difficult to understand and obey tax regulations, are not able to fill returns and calculate their VAT amount which creates further work for tax officials.

### **2.13.4 TAX OFFICIALS` ATTITUDE**

Studies conducted over the years have identified the extent to which the relationship between tax officials and citizens greatly influences the attitude of taxpayer towards the tax system and their perception as to whether the tax system is fair or not (Okyere, 2014).

Further studies by Fjeldstad and Semboja (2001), Fjeldstad (2004), Therkildsen (2004), Friedman (2003) and Ssewakiryanga (2004) in particular advised against the penalty that would be paid by governments as a result of irrational behaviour or approach by certain tax collectors. It must be noted that no rational human being is willing to pay tax except he is persuaded to do so.

However, when the taxpayers are coerced because they are mainly seen as mere 'subjects' that could be treated anyhow, the end result is the refusal or avoidance of tax by the taxpayers. According to Feld & Frey (2003), the responses or reactions displayed by taxpayers are usually based on the sort of treatment they receive from the tax authority and officials. Fjeldstad

(2004) revealed that, in South Africa, tax officials mostly inflict unwarranted tax evasion penalties on taxpayers and this to a large extent increases their unwillingness to pay tax. Ssewakiryanga (2004) also was of the view that, the level of involvement of most citizens in the tax mobilisation process is still very reliant on the effectiveness of negotiations and their relationship with tax officials (OECD 2010).

Furthermore, core values of most Tax agencies require that tax collectors act professionally in their field of work as this encourages voluntary compliance and help in the establishment of cordial relationship between tax officials and taxpayers. However, the case is usually different as taxpayers tend to be corrupt. Corrupt tax officials help taxpayers to evade and avoid tax and also to divert most revenue meant for government for their personal use. It is also realised that, in situations where these corrupt officials are caught by superiors or reported by taxpayers, they are set free by managers. Managers pardon their fellow colleagues who take bribe or embezzle funds, because of the fact that they might also be in need of their help in the near future (Tripp, 2001).

### **2.13.5 LEVEL OF TAX RATE**

Another important challenge faced by the revenue institutions is based on the regular complaint by taxpayers about the nature of tax rate imposed upon them. Taxpayers believe that since VAT was established as a replacement for the sales tax that was seen as been excessive, it would have to justify its introduction. It is realised that, when tax rates considered low by taxpayers it encourages them to be more involved in the tax process and tax evasion is lessened. On the other hand when tax rates are seen as high and excessive, tax evasion and non-compliance increases. The tax authority would therefore be required to adopt different

VAT techniques and administrative systems to lessen losses from tax evasion and avoidance which creates extra burden on tax authorities and officials.

In South Africa for example, taxpayers were of the view that it is only rational for one to pay fair amount of their income as tax. They also believed that the nation's tax systems are too complex with high tax rates and many taxes making life difficult for citizens and also increases compliance cost (Wang 2010). Based on the above assertion, governments and tax authorities would have to be considerate by taking into account the concerns and reactions of taxpayers in order to encourage tax compliance. This to a large extent influences the relationship between taxpayers and tax officials.

#### **2.13.6 IMPROPER RECORDS AND BOOKKEEPING**

A further challenge faced by tax authorities in Ghana and around the world has to do with information deficiencies arising from poor internal records kept by taxpayers. Thus to say, taxpayers usually provide inadequate information to the tax authority, due to unsatisfactory records and administrative inefficiency exhibited by some firms and individuals. It must be noted that a major requirement for any business or firm to be registered for VAT is a proper records of accounts which include all purchases, sales, good transfers, imports and exports. Keeping clean records therefore guarantees a business to be registered for VAT because it makes it easy to cross-check records during audits. Improper records therefore hinder the progress of revenue mobilisation and works of tax officials. However what we usually notice is that most taxpayers due to their criminal intent slack in keeping records, issuing VAT invoices and also fail to create a clear division between business and personal transactions particularly in the informal sector where most businesses are owned by individuals. Some

traders try their best to keep some keep a certain level records but most of these usually are questionable. All these go against the reason for the introduction of VAT to implement quality accounting standards based on invoices and records from business transactions.

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### **2.13.7 LACK OF TAX EDUCATION**

Tax education is a very important concept in revenue mobilisation because it helps to keep taxpayers informed about the rules and regulations governing tax collection and as well the processes involved which to a large extent helps to reduce tax evasion, non compliance and avoidance. It is therefore important that every revenue institution frequently or regularly educate its taxpayers on the principles and rules as well as the importance of paying tax and what government uses the taxes collected for. However, this is usually not the case in most developing countries. As a result, taxpayers defy rules and pay less or no tax at all. Certain countries knowing the importance of education have put in place measures to overcome such lapses.

For example in Australia, the Australian Tax Office (ATO) in 1998 undertook an educational programme labelled 'Teaching Tax with Tax Files' targeted towards children of school going ages from 9 to 12. This initiative was to inform school children to on the main source of revenue to government, its usage, responsibilities of taxpayer and as well to help them understand the significant roles played by taxes in the economies of nations. To aid the programme, CD-ROMs and brochures with up-to-date information on taxes were distributed to them (ATO, 2009). Other countries including the US, Canada, Japan, New Zealand,

Australia, the UK and Malaysia in the quest of getting all citizens involved in the tax process also initiated tax educational programmes for taxpayers and school children who are seen as the future leaders and taxpayers of those countries. In other to create public awareness, interactive websites, leaflets, pamphlets, magazines were distributed to citizens; call centres were constructed created and frequent advertisement were made on both radio and television (Palil, 2010).



## **CHAPTER THREE**

### **METHODOLOGY AND PROFILE OF STUDY ORGANIZATION**

#### **3.0 INTRODUCTION**

This chapter looks at the research methodologies that would be adopted by the researcher for the work. It concentrates on the mechanisms adopted by the researcher in meeting the various objectives of the research. This chapter therefore includes research design, data sources, population, sampling techniques, data collection techniques and organizational profile.

#### **3.1 RESEARCH DESIGN**

Research design is seen as a detailed outline of how the responses would be provided to research questions (Saunders et al. 2007). A research design is a framework upon which researches are conducted as it makes sure that evidences arrived at helps to provide the needed solutions to the questions. According to Patrangelo (2010), research design outlines the necessary processes through which data is obtained to solve business research problems. It is a general explanation to how the researcher intends to conduct a research. This research is both explanatory and descriptive because the researcher tried to identify why the Authority collects inadequate revenue and what was being done to overcome the challenges. Descriptive research provides perfect report on events and situations (Robson 2002: 59) whilst explanatory research helps to establish causal relationship between variables.

## **3.2 SOURCES OF DATA**

In this particular research, the researcher gathered information (data) from both the primary and secondary sources of data collection. Both were used to help the researcher get access to enough, broad and variable information for the effectiveness of the research.

### **3.2.1 SOURCES OF PRIMARY DATA**

This refers to the data collected directly from the field or through first-hand experience. Primary data is only collected for a particular purpose or research. For the purpose of this research, the researcher collected data from tax officials of both STO's and MTO's of GRA within the Kumasi metropolis.

### **3.2.2 SOURCES OF SECONDARY DATA**

Secondary data is concerned with data that has already been gathered and used for other researches. It is therefore referred to as "second hand" information. Secondary data used by the researcher includes Articles and publications on GRA, internet, newspapers, and brochures on GRA as well as other research works conducted in this area of research.

## **3.3 POPULATION**

Population is defined as the entire group of persons living at a particular place from which a sample could be chosen and about which conclusions could be drawn and generalisations made (Mouton 1996). It could also be seen as the entire set of individuals, events or things which interests the researcher and which he wishes to investigate (Sekeran 1990). In this particular

research, the population was made up of all tax officials and management members who work with the Domestic Tax Revenue Division of GRA in the Kumasi metropolis.

### **3.4 SAMPLING TECHNIQUE**

According to the Mariam Webster dictionary, a sample refers to a small amount of something that serves as a source of information from where it was withdrawn. It may also be seen as that part of a whole which has attributes and characteristics of the whole and could therefore be used to make generalisations. The researcher used non probability sampling method instead of the probability sampling method in this particular research even though probability sampling gives each and every individual the opportunity to be part of the research and limit bias. Purposive sampling technique was used to select 100 staffs of GRA within the metropolis who were previously working with VAT Service. The researcher believed that these groups of respondents have had enough experience when it comes to the collection of VAT and therefore be the best people to know more and provide the needed responses to the questions. Purposive sampling is used when the researcher is using a small sample and as well when a researcher intends to select respondents that are so informative (Neuman 2000). Purposive sampling therefore helped the researcher to select the cases that provided best answers to research questions and also helped meet the objectives of the study.

### **3.5 DATA COLLECTION INSTRUMENT**

The main instruments the researcher used for this study was the questionnaires. Questionnaires with both opened and closed ended questions were administered to the staffs and officials to

seek their views on the topic. Questionnaires were expected to provide the researcher with an in depth and first-hand information. Questionnaires were selfadministered since the respondents were literates. The researcher made arrangement with respondents so that they met at their free periods to provide responses to the various questions. This to a large extent helped create some kind of a rapport between the researcher and respondents, facilitated high rate of responses as questions were explained and also created the avenue to ask respondents follow up questions (Yeboah, 2010 cited in Gyasi, 2011).

### **3.6 DATA ANALYSIS**

This stage takes a look careful and critical review of the data collected as well as thorough processes of sorting, filtering and lessening data so as to make it easy for the researcher to interpret data collected and to make sense of the research findings (Ritchie and Spencer 2004). It may also involve editing and cleansing of data collected to ensure data is accurately processed. The researcher managed data by first coding and then simple statistical tables were used to represent the data. Statistical package for social sciences (SPSS) Version 20 was also used for the analysis while Microsoft Excel (MS Excel) was used to draw the charts and graphs.

### **3.7 ORGANISATIONAL PROFILE OF THE GHANA REVENUE AUTHORITY**

The Ghana Revenue Authority (GRA) was instituted by an Act of Parliament, Act 2009 (Act 791) combining the three revenue major agencies: Customs, Excise and Preventive Service (CEPS), the Internal Revenue Service (IRS), the Value Added Tax Service (VATS) in addition to the Revenue Agencies Governing Board (RAGB) Secretariat into a solitary Authority for

the administration of taxes and customs duties in the country. GRA is made up of three (3) main divisions which are the Customs Division (CD), Domestic Tax Revenue Division (DTRD) and the Support Services Division (SSD). The support services deal with administrative, research, accounts and finance allow the other two to concentrate fully on revenue mobilisation. The D.T.R.D's have further been divided into pilot offices based on the threshold of tax. These are the Large Taxpayer Office (L.T.O), Medium Taxpayer Office (M.T.O) and the Small Taxpayer Office (S.T.O). Initially VATS was charged with the primary function of administration and collection of the Value Added Tax (VAT) that replaced the Sales and Service Taxes previously administered by Customs, Excise and Preventive Service (CEPS) and the Internal Revenue Service (IRS) respectively.

The integration undertaken with the hope that it will benefit both taxpayers and tax authority in the following ways:

- Reduction in administrative and tax compliance cost.
- Better service delivery.
- Improved departmental information flow.
- Holistic approach to domestic tax and customs administration.
- Enhanced revenue mobilisation.

### **Vision**

GRA has a vision of becoming a world class revenue administration recognised for professionalism, integrity and excellence.

## **Mission**

The Authority also has a mission of being able to mobilise revenue for national development in a transparent, fair, effective and efficient manner. This they wish to attain through:

- Professional and friendly client service
- Promotion of voluntary tax compliance
- Application of modern technology
- Effective border protection and
- A well trained, disciplined and highly motivated staffs.

## **Core values**

Core values of the organisation are

- Integrity and fairness in service delivery
- Teamwork, innovation and professionalism as their hallmark.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND DISCUSSION**

#### **4.0 INTRODUCTION**

This chapter is on presentation, analysis and discussions of responses to the questionnaires administered for the study relating to the challenges that D.T.R.Ds of GRA faces in collecting VAT within the Kumasi Metropolis. The chapter is divided in sections which comprise: Demographic profile; challenges faced in VAT collection and administration; measures enforced to ensure non- compliance; perceptions of tax officials on tax administration and

what should be the way forward in tax administration in the country. The chapter therefore provides exhaustive information on data collected and the results acquired from the study.

#### **4.1 DEMOGRAPHIC PROFILE**

In this study the socio-demographic descriptions of respondents used for the analysis includes: the sex, age, educational background, marital status, working experience, division of GRA and position in the organization.

##### **4.1.1 SEX OF RESPONDENTS**

From Table 1 below, one could realize that most of the respondents were males. Out of the 100 respondents that the questionnaires were administered to, 84 respondents representing 84% were males while 16 representing 16% of respondents were females. This is an indication that, there are more male tax officials than females within GRA and therefore the institution is male dominated.

**Table 1: Sex Distribution**

Variable	Frequency	Percentage (%)	Cumulative frequency
Male	84	84.0	84
Female	16	16.0	100
Total	100	100.0	

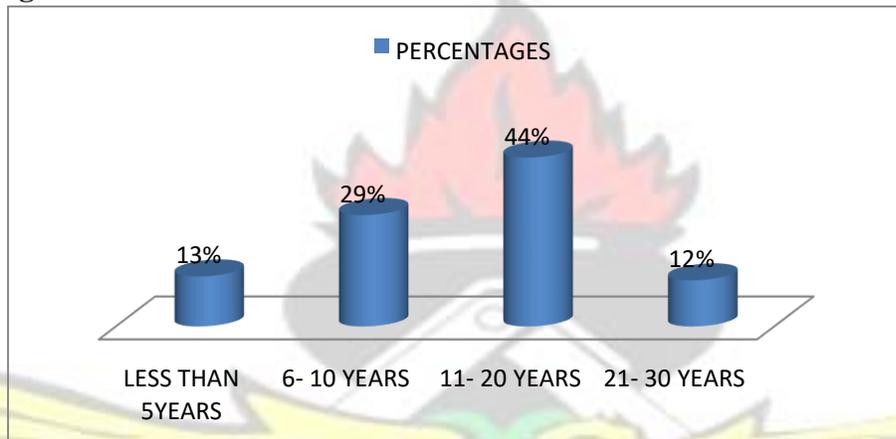
Source: (Field Work, 2015)

##### **4.1.2 AGE OF RESPONDENTS**

Age is considered a very important concept in Ghana and the world over as people try to establish a correlation between age and experience or maturity. Old age is therefore believed to give individuals advantage in decision making and handling situations. According to figure

1 below, 2% of the respondents fell between the age group of 18-25years while 20% fall within the ages of 26-35 years. In addition, 40% of the respondents fell between the ages of 36-45years and 34% of respondents are within 46 years and above. This indicates that the majority of the tax officials within the Kumasi metropolis are middle aged workers since they fall between ages 36- 45.

**Figure 1: Age Distribution**



Source: (Field Work, 2015)

#### **4.1.3 WORK EXPERIENCE OF RESPONDENTS**

The level of education is important because it shows respondents' level of understanding of the questionnaire, issues at stake in the field, VAT Act 2013 (Act 870), GRA Act 2009 (Act 791) and other documents they are to work with. From the data collected, 8 out of the 100 respondents representing 8% held professional certificates such: ICA/ ACCA/ CIMA/ CIA, 50 representing 50% of respondents held master's degree in either MSc/ MBA/ EMBA, 32 representing 32% of respondents held bachelors certificates in BSc/ BBA/ BA/ HND and 10% respondents held diploma certificates. When respondents were asked to indicate whether any of them held any certificate outside what was provided by the researcher, no responses were provided. The data therefore shows that, most of the respondents are well educated and therefore understand how the tax system operates.

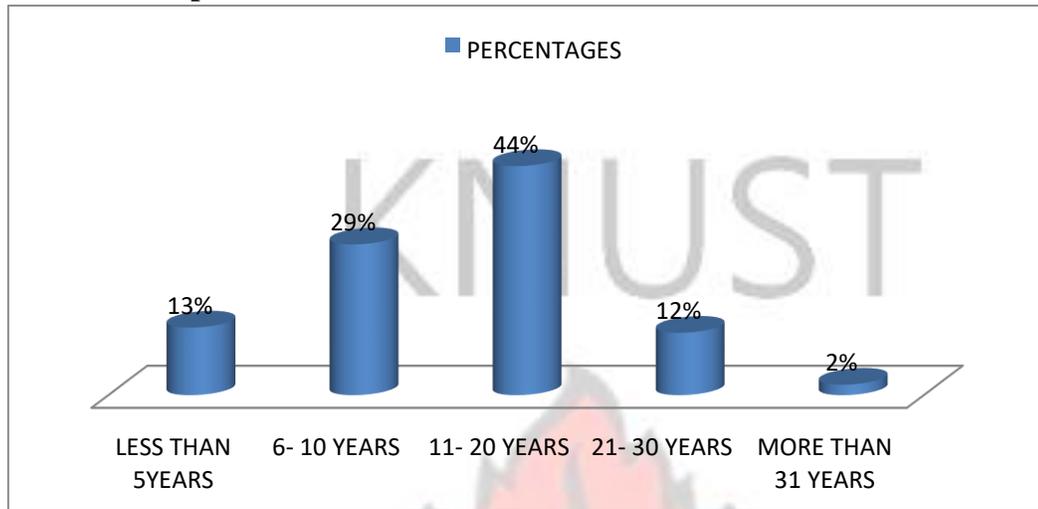
#### **4.1.4 MARITAL STATUS OF RESPONDENTS**

Marriage is considered very important in our social lives as individuals who are married especially with children are regarded as responsible and are likely to be professional in performance of their duties and responsibilities. In this particular study, out of the 100 respondents, 74 representing 74% were married with children, 5 representing 5% were married without children, 15 and 6 respondents representing 15% and 6% represent those not married and not married with children respectively. This shows that most workers at GRA are married with children and are therefore likely to act professionally in the performance of their jobs.

#### **4.1.5 MARITAL STATUS OF RESPONDENTS**

The number of years a person spends with an organization basically determines how well he/she is able to acquire more knowledge and understand the concepts as well as the operations of the organization. In this particular case, an experienced tax official is therefore likely to handle situations better with taxpayers than a less experience tax official. From figure 2 above, 13% of the respondents stated that they have worked less than 5 years with GRA, 29% of respondents indicated that they have worked within 6- 10 years with the organization, 44% have worked between 11 – 20 years, 12% and 2% also indicated that they have been employees of GRA for the past 21- 30 years and more than 31years respectively. It therefore shows that most tax officials have worked with the GRA for the past 11 – 20 years and therefore are experienced enough to be part of this research and in mobilizing revenue for the government.

**Figure 2: Work Experience Distributions**



Source: (Field Work, 2015)

#### 4.1.6 MARITAL STATUS OF RESPONDENTS

As part of plans to operate a modernized and efficient tax system within the country, D.T.R.D's were sub- divided into pilot offices to create a one- stop- shop service where customers of various classifications usually according to amount of tax payment would be well attended to. From the table 2 above, it could be realized that none of the respondents were from the L.T.O. Majority of 67% were from S.T.O while 33% of respondent were from the M.T.O. There were no respondents from L.T.O because there is none in Kumasi. Majority of respondents therefore belong to S.T.O.

**Table 2: Pilot DTRD office Worked For.**

Division	Frequency	Percentage (%)	Cumulative Frequency
L.T.O	0	0	0
S. T.O	67	67	67
M.T.O	33	33	100

Total	100	100	
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Source: (Field Work, 2015)

#### 4.1.7 RESPONDENT'S POSITION AT GRA

The position one holds in an organization determines the amount of responsibilities and duties assigned to him or her. Therefore higher positions come with higher experience, knowledge on the job, authority and usually dependent on the number of years spent with the organization.

From the data gathered, 6% of respondents were CRO's (Chief Revenue Officer), 16% were PRO's (Principal Revenue Officer), 28 % of respondents were SRO's (Senior Revenue Officer), 23% of respondents were RO's (Revenue officer) and 25% of respondents were ARO's (Assistant Revenue Officer). Respondents were asked to indicate if they occupied any position outside that provided by the researcher and 2% indicated that they are RA3 (Revenue Assistant 3). This means that most tax officials within the Kumasi metropolis are SRO's.

**Table 3: Position in the organization**

Positions	Frequency	Percentages (%)	Cumulative frequency
C.R.O	6	6	6
P.R.O	16	16	22
S.R.O	28	28	50
R.O	23	23	73
A.R.O	25	25	98
OTHERS (RA3)	2	2	100
TOTAL	100	100	

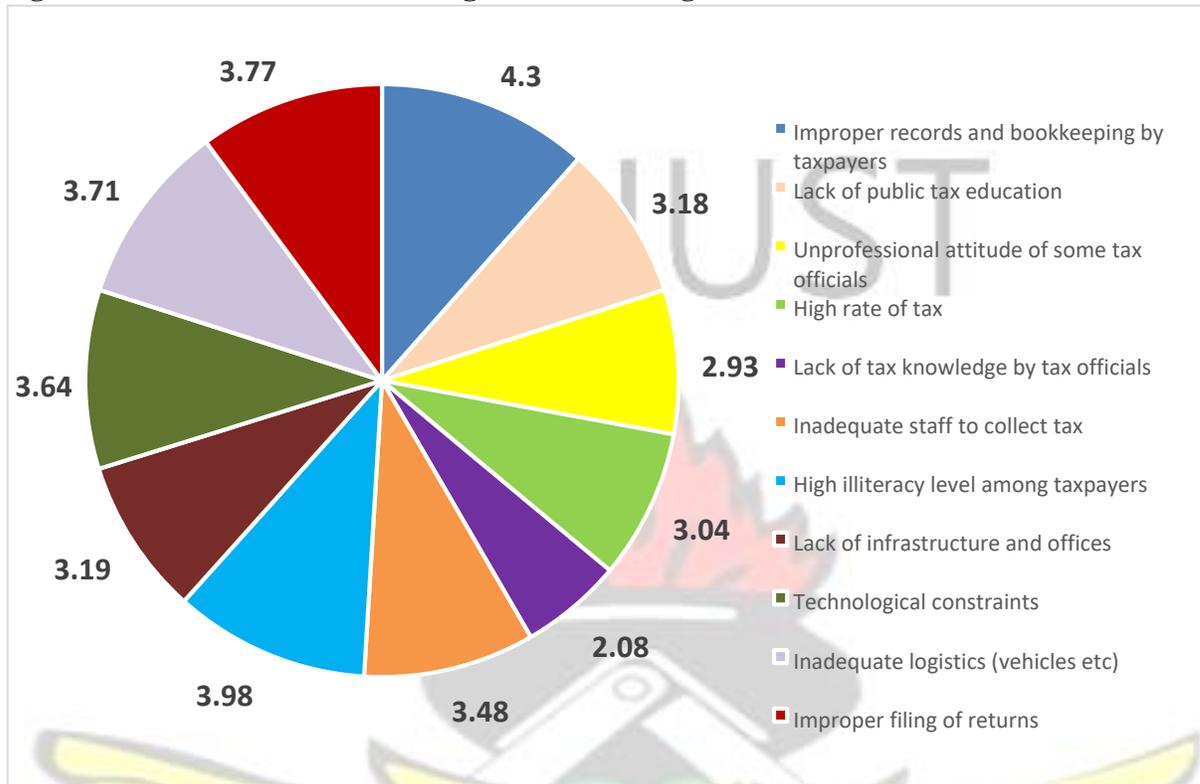
Source: (Field Work, 2015)

## 4.2 CHALLENGES FACED IN VAT COLLECTION AND ADMINISTRATION

Before any tax system can operate efficiently to generate the needed revenue all mechanisms and structures must be put in place. This section tried to seek the views of tax officials on the challenges that hinder VAT collection in the metropolis. According to Ghosh (2010) poor records keeping bring about unfavourable tax audit which makes it difficult for tax officials to effectively assess taxpayers.

The pie chart in figure 3 assesses the challenges faced in collecting and administering VAT in the Kumasi Metropolis. It indicates that the most pressing challenge in VAT collection and administration in the Kumasi metropolis is the 'improper records and bookkeeping by taxpayers'. It recorded a mean of 4.1. This was closely followed by the 'high illiteracy level among taxpayers'. It recorded a mean of 3.98. The third most pressing challenge is 'improper filing of returns' and recorded a mean of 3.77. 'Inadequate logistics followed closely with a mean of 3.71. The fifth challenge in VAT collection and administration in the metropolis is 'technological constraints' recording a mean of 3.64. This was followed by 'inadequate staff to collect tax' which recorded a mean of 3.48. 'Lack of infrastructure and offices' and 'lack of public tax education' followed closely with a mean of 3.19 and 3.18 respectively. With a mean of 3.04, 'high rate of tax' was recorded as the ninth most pressing challenge. 'Unprofessional attitude of some tax officials' is the tenth most pressing challenge and recorded a mean of 2.93. The eleventh and final challenge in VAT collection and administration in the Kumasi metropolis recorded was the 'lack of tax knowledge by tax officials' with a mean of 2.08.

**Figure 3: Mean scores and rankings of the challenges in VAT collection**



Source: (Field Work, 2015)

Table 4 indicates that when respondents were asked whether improper records kept by taxpayers have influenced the amount of VAT they collect monthly and yearly, (51) 51% of respondents stated that they strongly agreed and (38) 38% agreed with the assertion. (5) 5% of respondents were indifferent whilst (4)4% and 2% indicated that they strongly disagreed and disagreed to the assertion respectively. This is an indication that, improper record keeping by taxpayers is a major challenge of revenue mobilization because it is only with proper records that tax official could determine the right tax amount to be paid.

When respondents were also asked whether they saw lack of public education as a major challenge to revenue mobilization in the metropolis, from the table 4 above, (12)12% and (39) 39% of respondents' strongly agreed and agreed respectively while (18)18% of respondents were undecided. Conversely, (14) 14% and (17) 17% of respondents strongly

disagreed and disagreed respectively. From the data, it could be concluded that since majority of respondents agreed, then it is an indication that taxpayers are not well informed in the country.

Further analysis was done to assess whether some attitudes exhibited by tax officials encourage non-compliance on the part of taxpayers leading to revenue loss. From the table above it could be realized that, only (2) 2% strongly agreed while majority (32) 32% agreed. (29) 29% were however indifferent to the situation. Conversely, (6) 6% and (31) 31% of respondents indicated that they strongly disagreed and disagreed respectively that tax officials connived with taxpayers to pay tax less tax while some are unfriendly to taxpayers and this deters them from coming to pay. However, from the data, it could be concluded that, there need to be a change in the attitudes of tax officials to encourage tax payment.

Also, respondents were asked whether they think the increment of VAT rate from 15% to 17.5% has reduced the amount that taxpayers pay to the authority (12)12% and (30) 30% of respondents strongly agreed and agreed respectively stating that taxpayers complain always that because rates are high, it has made cost of their goods more expensive compared to their unregistered competitors. (20) 20% of respondents on the other hand were indifferent whilst (12)12% and (26) 26% of respondents strongly disagreed and disagreed. It could therefore be concluded that, high rate of VAT influences the amount of revenue collected within the metropolis.

The next challenge asked was whether lack of knowledge on the part of tax officials has affected revenue collected and out of the 100 respondents, only (2) 2% indicated that they strongly agreed and (12) 12% also indicated that they agreed. However, (10)10% of

respondents were indifferent and therefore were not aware whether it affects VAT collection. On the other hand, (32) 32% and (44) 44% of respondents strongly disagreed and disagreed respectively. It could therefore be concluded that, tax officials do have the required knowledge about their jobs and applied the principles and regulations stated in the VAT Act effectively.

On the issue of inadequacy of staffs, (20) 20% and (40) 40% of respondents strongly agree and disagree respectively. (20) 20% of respondents were also indifferent. (12) 12% and (26) 26% of respondents respectively strongly disagreed and disagreed with the fact that that the authority does not have the required staff strength to effectively monitor the taxpayers through regular visits to their premises. From the data collected, it could be stated that the staff strength is inadequate therefore more recruitments should be undertaken as indicated by majority of the respondents.

It is usually believed that when taxpayers are well educated or literates they are able to understand the laws and keep proper records on sales and purchases which make the work of tax officials easy and the opposite is also true. From table 4 above, (29) 29% and (48) 48% of respondents respectively strongly agreed and agreed stating that, since most of the taxpayers were illiterates, it has resulted in tax default, non- filing of returns or late submission of returns and as well poor records keeping. (17) 17% of respondents however were indifferent. On the other hand, (2) 2% and (4) 4% of respondents respectively strongly disagreed and disagreed. It could therefore be concluded that high illiteracy levels among taxpayers is a challenge in the metropolis.

The researcher asked the respondents whether they believed that lack of infrastructure and offices are major challenges in the metropolis and from data gathered, (6) 6% and (46) 46%

of respondents strongly agreed and agreed respectively. (15) 15% of respondents were however indifferent. Conversely, (6) 6% and (27) 27% of respondents respectively strongly disagreed and disagreed. From the above, it could be concluded that inadequate and poorly maintained infrastructure within the metropolis means that most taxpayers would have to travel long distances to pay taxes whilst several tax officials would have to share offices.

Respondents were further asked whether they faced technological challenges in the metropolis and from data gathered, (10) 10% and (60) 60% of respondents stated respectively that they strongly agreed and agreed respectively. 16% on the other hand were indifferent to the situation. However, (2) 2% and (12)12% of respondents strongly disagreed and disagreed respectively. It could be seen that GRA do face technological challenges as a result of that were unable to keep records and effectively monitor traders especially those who do online businesses and as well hindered information sharing.

The researcher further went on to ask respondents whether inadequate logistics such as vehicles is a major challenge faced in VAT collection in the metropolis. From the table above, (22) 22% and (51) 51% of respondents strongly agreed and agreed respectively while (9) 9% of respondents were indifferent. However, (6) 6% and (12) 12% of respondents respectively strongly disagreed and disagreed. It could therefore be concluded that since vehicles are not enough, tax official were not able to pay regular visits to the premises of traders to effectively monitor their activities.

Finally, from table 4, out of the 100 respondents that the questionnaires were administered to, (24) 24% and (43) 43% strongly agreed and agreed respectively with the assertion that taxpayers do not properly file returns and therefore led to revenue loss. (19) 19% on the other

hand were indifferent while (14) 14% strongly disagreed. Improper filing of returns is therefore a challenge in the metropolis and the country as a whole.

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**Table 4: Challenges in VAT collection**

<b>Challenges</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Indifferent</b>	<b>Strongly Disagree</b>	<b>Disagree</b>
	<b>Freq.</b>	<b>Freq.</b>	<b>Freq.</b>	<b>Freq.</b>	<b>Freq.</b>
Improper records and bookkeeping by taxpayers	51	38	5	4	2
Lack of public tax education	12	39	18	14	17
Unprofessional attitude of some tax officials	2	32	29	6	31
High rate of tax	12	30	20	12	26
Lack of tax knowledge by tax officials	2	12	10	32	44
Inadequate staffs to collect tax	20	40	14	6	20
High illiteracy level among taxpayers	29	48	17	2	4
Lack of infrastructure and offices	6	46	15	6	27

Technological constraints	10	60	16	2	12
Inadequate logistics (vehicles etc)	22	51	9	6	12
Improper filing of returns	24	43	19	0	14

Source: (Field Work, 2015)

#### 4.3 MEASURES ENFORCED TO PREVENT NON – COMPLIANCE

From table 5 it could be seen that when tax officials were asked how often they conduct tax education for taxpayers, 29% of respondents stated that tax education was conducted daily, 11% indicated weekly, 40% also chose monthly while the rest 20% alleged that education of taxpayers were done on yearly basis. This is an indication that education of taxpayers was on insufficient hence the reduction in revenue mobilisation.

**Table 5: Frequency of education for taxpayers**

	Frequency	Percentage (%)	Cumulative frequency
Daily	29	29	29
Weekly	11	11	40
Monthly	40	40	80
Yearly	20	20	100
Total	100		

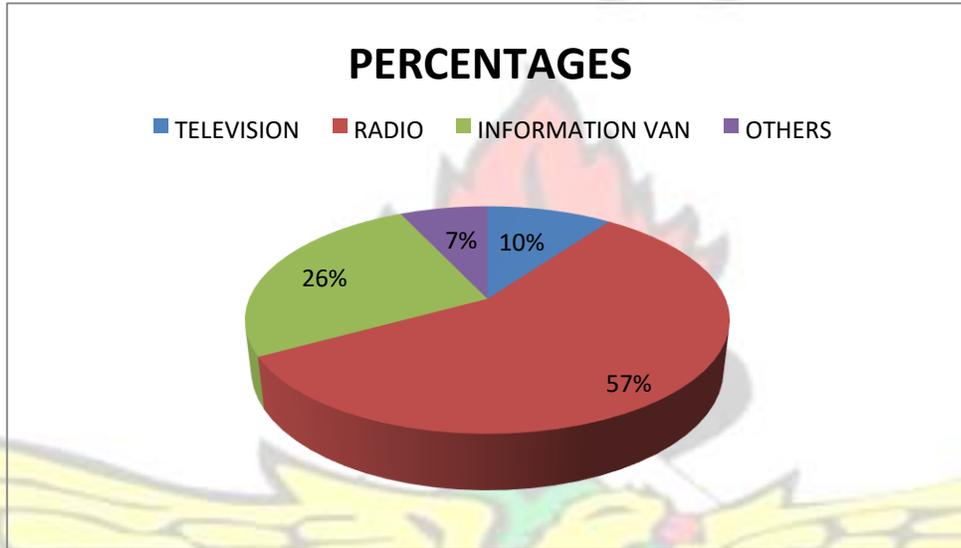
Source: (Field Work, 2015)

The researcher went on further to ask respondents questions on which of the medium they thought makes the greatest impact in terms of tax education.

From the figure 4, it could be seen that out of the 100 respondents, 10 respondents representing 10% believed that tax education on television produces the greatest impact. 57% and 26% chose radio and information van respectively while 7% chose others which included seminars,

newspapers, brochures and one on one tax education. It means that the majority of respondents who are tax officials thought using the radio makes the greatest impact because they are able to reach a large number of people within the shortest period and also gives them the opportunity to use local languages since most of taxpayers are not well educated.

**Figure 4: Medium of tax education**

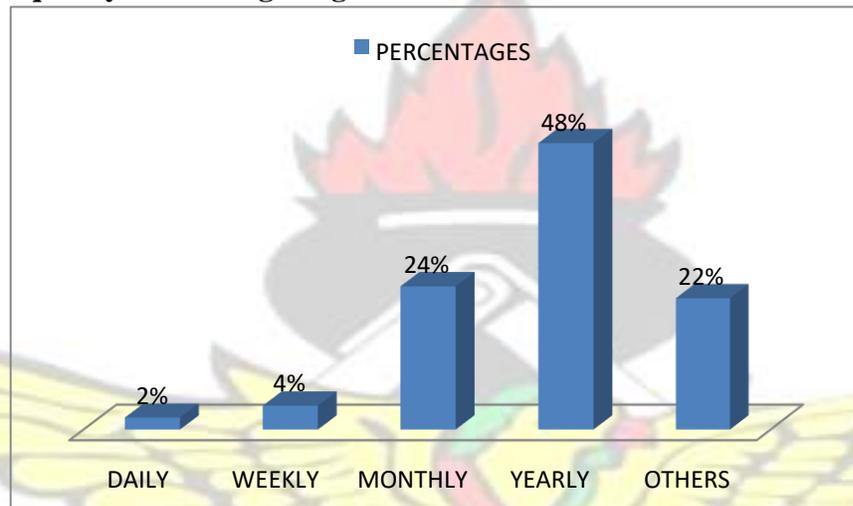


Source: (Field Work, 2015)

The researcher also asked respondents to state how they were able to effectively ensure that tax payers consistently issued the VAT invoices to their customers. From the data collected, 50% of respondents stated that they monitored taxpayers through test purchasing while 40% and 10% respondents stated tax audits and regular visits respectively as a means of preventing non- issuance of invoices. It could be concluded that test purchasing whereby either a tax official or any person is sent to purchase an item from a registered trader to see if the invoice would be issued is the major way through which non- issuance of invoice is prevented.

From figure 5, only 2% and 4% indicated that tax education for tax officials are done daily and weekly respectively while 24% and 48% indicated monthly and yearly respectively also. On the other hand, 22 % indicated others which included quarterly, occasionally and regularly among others. It could therefore be concluded that tax officials surprisingly are only educated yearly.

**Figure 5: Frequency of training Programs for Tax Officials**



Source: (Field Work, 2015)

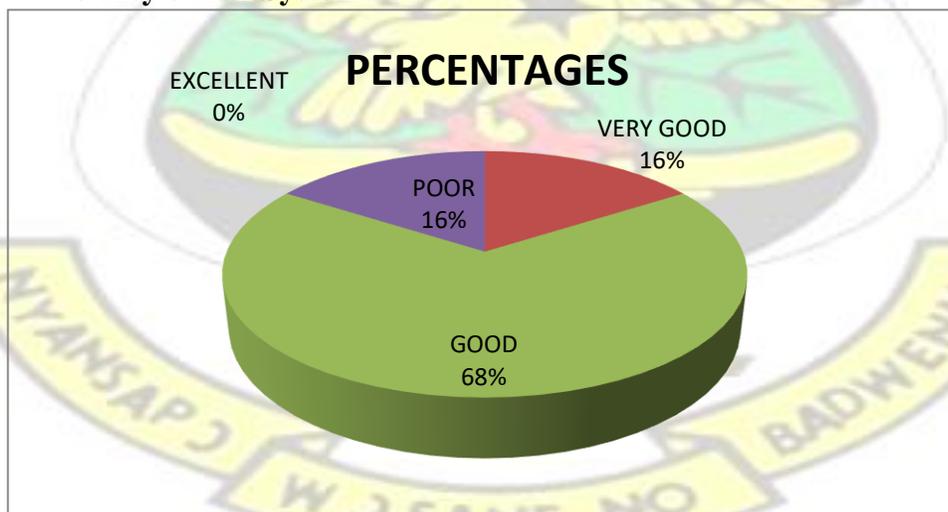
When respondents were further asked whether they think punishment for tax default are deterring enough, 46% of respondents believed that the punishment were deterrent enough while the rest 54% believed that punishments are not severe enough to prevent taxpayers from defaulting because most of them were allowed to go scot free after settling debts instead of facing the law and therefore stiffer punishments should be introduced in other to ensure compliance among taxpayers.

Finally, the researcher tried to find out from respondents the motivational packages they put in place to encourage taxpayers to pay and file returns frequently. From data the gathered, 40% stated that at the end of each year, awards nights are organized and the most law abiding and highest taxpayers are awarded. 25% and 15% mentioned tax relief and tax incentives respectively. 20% indicated that, they provide taxpayers who pay frequently with calendars, diaries and also give special attention to those taxpayers when the need arises.

#### 4.5 THE PERCEPTION OF TAX OFFICIALS ON THE TAX ADMINISTRATION

From figure 6, only 2% of the respondents who are tax officials accepted the current tax system to be excellent, 23% indicated that the system was very good while majority 63% said it was good. 16% of respondent also stated that the system was poor. It could be concluded that the current system of tax administration could only be described as good and which means there is a lot left to be done to improve the system.

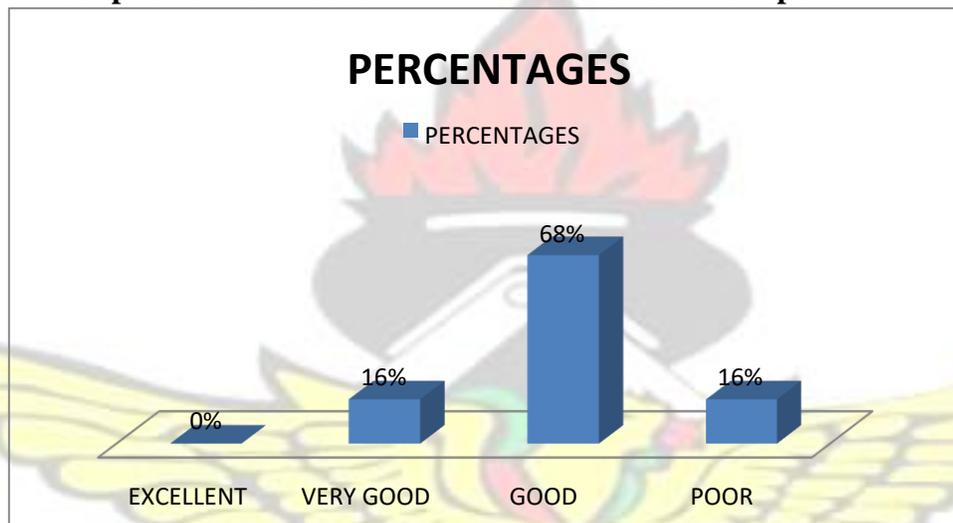
**Figure 6: Efficiency of Tax System**



Source: (Field Work, 2015)

From figure 7 it could be seen that none of the respondent believed that tax education within the metropolis was efficient but 16% and 16% stated very good and poor respectively while majority representing 68% insisted that education could only be seen as good within the metropolis. This is an indication that most taxpayers are not well equipped with information and which affects tax payment.

**Figure 7: Description of Tax Education within the Kumasi Metropolis**



Source: (Field Work, 2015)

The researcher went on to ask respondent whether they think the integration of the three (3) major revenue institutions which includes VAT, IRS and CEPS into one body known as GRA has helped to improve revenue collection. From the responses gathered, it could be realized that, a majority of 74% accepted that it has really helped whilst 16% believed that it has led to the opposite.

Those respondents who stated that it has led to an improvement in revenue collection believed that GRA has helped to create a one stop shop where taxpayers and offices have been divided

into 3 Pilot groups (L.T.O, M.T.O and S.T.O) which enabled tax officials to give special attention to each taxpayer group.

Furthermore, the respondents indicated further that, introduction of GRA has now made it possible to collect both direct and indirect taxes under the same roof and that helped to easily compare both direct and indirect taxes collected over the years and as well helped in combining both direct and indirect audits concurrently.

Finally, the respondents also were of the view that the integration helped minimized the cost of tax collection since there is easy information flow between the 3 divisions and also all the divisions share information on the same taxpayers and that has made monitoring easy.

On the other hand, those tax officials who disagreed explained that, the integration has created uncertainties in the tax system and as a result most taxpayers do not still know where to pay their taxes. In addition to this, taxpayers who were previously paying in one town had to move to another to pay. For example the files of a taxpayer at Obuasi were moved to Asokwa M.T.O and which created inconveniences for taxpayers.

Also, the respondents believed that although the integration was to merge the activities and operations of all the various tax agencies, it has not being the case always because some of the institutions under GRA still operated as if they were still independent.

Finally, the respondents also believed that the integration has led to the expansion of various offices and departments which has led to shortage of personnel in the organization and as a result tax officials are not able to effectively monitor taxpayers. Aside this, they also believed that the kind of fear that was associated with VAT has disappeared as the VAT Service as an

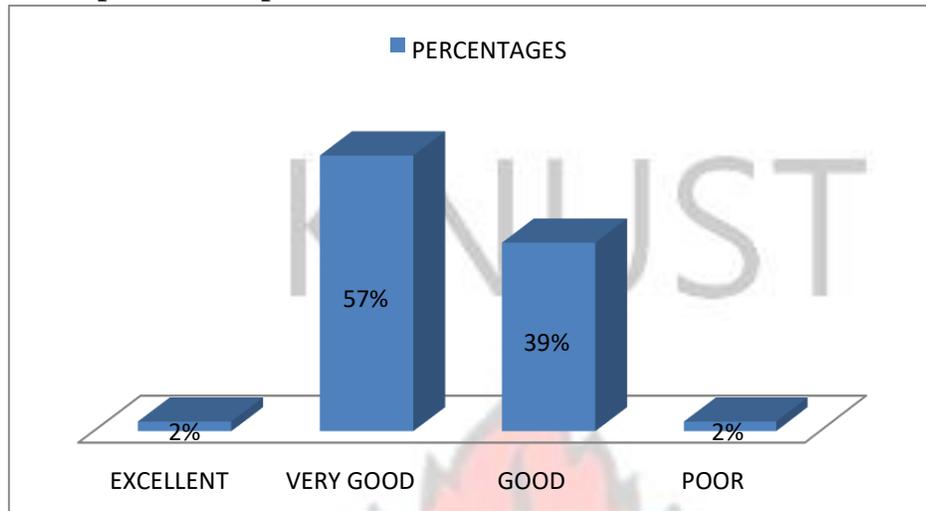
independent institution had enough authority to frequently undertake audits and lock businesses.

On the question of whether it is convenient to pay tax in the metropolis, 86 (86%) of respondents stated that it was convenient to pay tax in the metropolis whilst the rest 14 (14%) stated that it was inconvenient for taxpayers to pay tax in the metropolis. This is an indication that majority of respondents believe that all the structures are in place for taxpayers to conveniently pay tax and for the efficient operation of the tax system.

When respondents were asked about their opinion on whether the introduction of VAT on banking and communication services has improved revenue collection, 72 (72%) stated that they both have great impact on revenue collection whilst 28 (28%) ticked “No” indicating that they have not seen their impact on revenue collection. However from all indications, it could be concluded that the communication and banking services taxes have improved revenue collection.

Figure 8 is a clear indication that of the fact that the performances of tax officials in the metropolis must improve upon their performances because out of the 100 respondents, only 2 (2%) of respondents ticked that the performance of tax officials were efficient, 57 (57%) ticked very-good while 39 (39%) also stated that their performances were good. Only 2 (2%) also stated that tax officials performances were poor. From the opinion of the researcher, these findings show that with a little bit of effort the performances of tax officials could be improved.

**Figure 8: Description of the performance of Tax Officials**

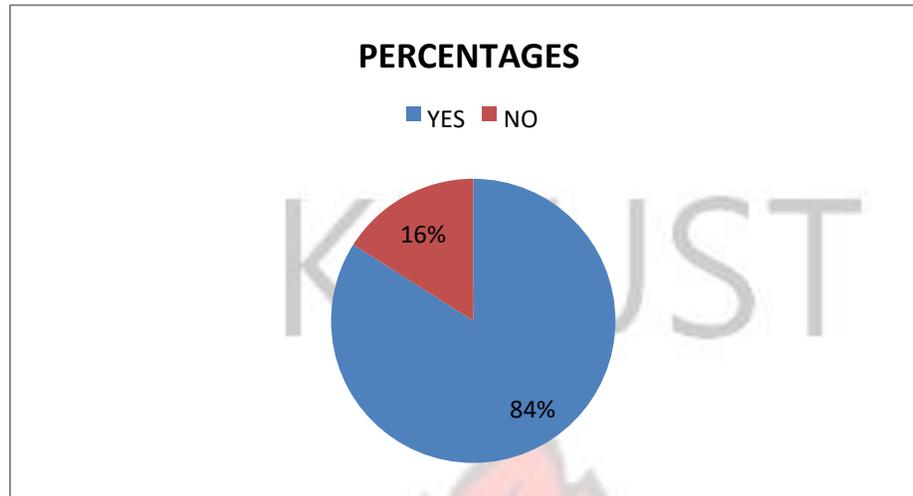


Source: Field Work 2015

#### **4.5 WHAT THE WAY FORWARD SHOULD BE**

When respondents were asked whether VAT should be faced out in the future, it could be seen from figure 9 that only 6% of respondent agreed that VAT should be scraped in the future whilst the majority 94% believed that the tax must not be scraped in the future but instead policies should be implemented to improve the tax system. From the data therefore, it could be concluded that, the introduction of VAT as the most efficient tax to replace the sales tax has greatly achieved its objective.

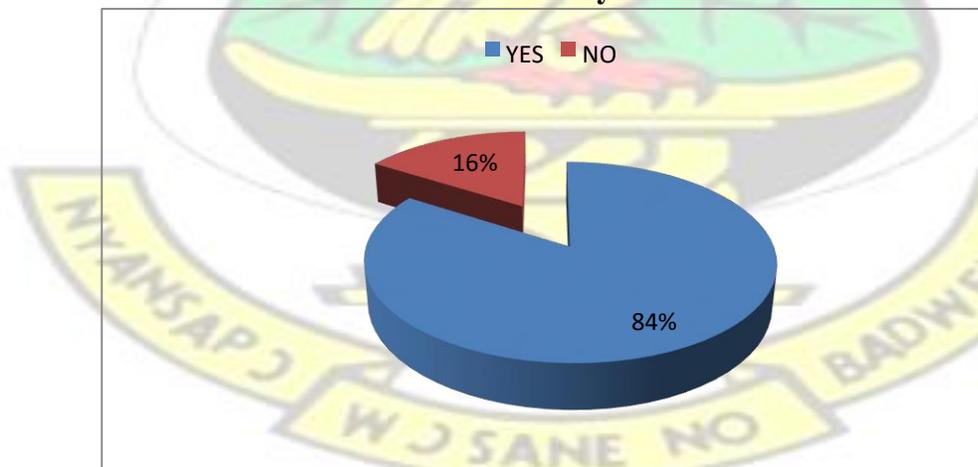
**Figure 9: Should VAT be scraped?**



Source: (Field Work, 2015)

Respondents were further asked whether they thought there should be reforms in the tax system and from figure 10, it could be realized that majority of respondents 84% stated that reforms should be undertaken whilst only 14% of respondents disagreed with the assertion. This is an indication that the tax system in Ghana has so many loop holes for revenue leakages which have given taxpayers the opportunity to evade and avoid tax.

**Figure 10: Should there be a reform in the tax system?**



Source: (Field Work, 2015)

Finally, the researcher asked respondents (tax officials) to indicate the various measures they suggested should be introduced to make the tax system very efficient and these were the responses.

In the first place, the tax officials indicated that, recruitments should be done to increase the number of tax officials. According to the respondents, an increment that would ensure that a tax official is placed in charge of a community or a number of taxpayers would ensure that taxpayers are frequently monitored which would lead to improved revenue mobilization in the future. To them also, promotion of tax officials should be done frequently to boost the morale of tax officials.

Furthermore, respondents stated that, there should be the automation of the tax system as well as the improvement upon technology. According to the respondents, the tax system should be designed in such a way that it would give taxpayers the opportunity to pay taxes online and also track online businesses. Tax officials also expect that, improved technology would help to keep sufficient tax data and records as well as boost information sharing across departments and agencies.

In addition, respondents believed that there should be improvement in infrastructure and the provision of logistics for the progress of work. To them, vehicles should be made available to tax officials to be able to pay visits to the premises of taxpayers to monitor their activities. Respondents also believed that, in other to make it convenient to taxpayers, M.T.O desks must be created within the S.T.O's.

Also, respondents believed that the GRA must frequently organize tax education for taxpayers and also seminars, training and workshops must be consistently organized for tax officials.

Tax education for taxpayers would ensure proper records keeping which would speed up assessments and audits whilst training for tax officials would update their knowledge on modernized ways of generating revenue and human relation practices.

Finally, respondents were of the view that, higher penalties should be enforced, tax base should be broadened and a single tax regime must be introduced to cover both the direct and the indirect taxes. Respondent went on to state that, tax courts should be opened to enable the full enforcement of tax laws within the country.



## **CHAPTER FIVE**

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

#### **5.1 INTRODUCTION.**

This chapter takes a look at the entire work in general and presents a brief summary of findings, conclusion and recommendations based on the analyses from the preceding chapters.

#### **5.2 SUMMARY OF FINDINGS**

This study sought out generally to determine the challenges that the D.T.R.D's of GRA faced in collecting and administering VAT in the Kumasi Metropolis. It could be noted that, in the quest to operate an efficient, effective and a modernized tax system, the GRA was established which led to a significant improvement in revenue mobilization. However, the operations of the Authority have not been without challenges and these have greatly affected revenue mobilization for development in the country.

The research revealed that, improper records and bookkeeping by taxpayers has made it difficult for tax officials to effectively undertake tax assessments and audits which to a large extent affected revenue mobilization. This most tax officials believed is due to the high illiteracy level among taxpayers which has also been identified as a setback to revenue mobilization in the study. The study also revealed that, lack of public education has affected VAT and revenue collection in general because most taxpayers are still not aware or conversant with the tax processes and regulations and do not see the reason why they should even be registered in the first place.

It was clear from the study that, the unprofessional attitudes of some tax official has also created some challenges for the Authority as some of the tax officials connive with taxpayers to reduce the amount they are supposed to pay for their own personal gains while some also show no respect to taxpayers. High rate of VAT has also been seen a challenge because according to tax officials, traders complain that the prices of their goods have gone up compared to their competitor leading to a reduction in sales and a subsequent reduction in tax payment.

It was also realized that, inadequate staff strength as well as inadequate training for staffs is also a challenge faced by the GRA in revenue mobilization. Tax officials indicated that because of their numbers they are unable to effectively monitor traders and the movement of goods from their shops. Inadequate training has also hindered revenue collection because knowledge of tax officials is not frequently updated on new developments in the tax system.

From the study also, it was revealed that, the GRA lacks the necessary infrastructure and offices as many tax officials have to share offices. Taxpayers on the other hand are inconvenienced because they have to travel long distances to pay tax and this at times discourages them from coming to pay. It was further revealed that, because of the technological challenge that the GRA face, it has affected its ability to keep proper records on taxpayers as the manual paperwork is still dominant. Also, as a result of the technological challenge, inter- departmental and agency information sharing of information on taxpayers has been difficult.

In addition, it was also realized that, inadequate logistics such as vehicles and working materials has also greatly influenced revenue mobilization in the country. According to the

tax officials, they do not have the required number of vehicles that could help them visit traders, undertake tax education and make announcements.

Finally, majority of respondents considered improper filing of returns as a challenge. According to the tax officials, this has forced the GRA to go round with vehicles particularly at the end of every month to remind taxpayer to pay and which comes at a cost to the Authority.

On the various measures enforced by the D.T.R.D's of GRA to ensure tax compliance, the study revealed that the GRA undertakes tax education for taxpayers monthly and this they usually do through the radio stations. Test purchasing also is undertaken to monitor the non-issuance of invoices while awards are given annually to motivate taxpayers to pay regularly. Interestingly however, majority of respondents stated that training programs are only organized yearly for tax officials and which they believed should be improved.

Tax officials perceived that, both the system of tax administration and tax education within the Kumasi metropolis could only be described as good. In the same vein, the performances of tax officials were also perceived to be very good. All these are indications that more needs to be done to improve the tax system and tax education in the country. Majority of respondents also believed the integration of the major revenue into the GRA and the introduction of the banking and communication services taxes have greatly improved revenue mobilization. Finally, despite the drawbacks, respondents have the perception that it is still convenient to pay tax in the metropolis.

On how the way forward should be, majority of respondents were of the view that VAT should be maintained and that reforms should be undertaken to make the current system more efficient. Majority of respondents went on to suggest that there should recruitment and training

of tax officials, automation of tax system and improvement upon technology, improved infrastructure and provision of logistics, provision of adequate tax education for taxpayers and finally implementation of tougher punishment for defaulters. These measures were what they believed could help improve the tax system.

### **5.3 CONCLUSION**

From the study, it could be realized that the introduction of VAT as a multi- staged and efficient tax to replace the sales tax was a great idea as it has positively impacted on the amount of revenue generated within the country for national development. In the same vein, the integration of the major revenue agencies into the GRA could be identified as a major development in the tax system within the country's history since it has led to the introduction of modern ways of revenue mobilization such the creation of one- stop- shop service where professional, friendly and special client services could be rendered to its customers.

However from the study, it could be realized that, GRA as an institution has faced several challenges in its operations which have to a large extent affected the amount of tax they are supposed to mobilize in the country. Challenges faced includes: improper records and bookkeeping by traders, lack of public tax education, unprofessional attitude of some tax officials, high rate of VAT, inadequate staff to collect tax, high illiteracy level among taxpayers, lack of infrastructure and offices, technological constraints, inadequate logistics and improper filing of returns by taxpayers have flawed the success and efficient operation, administration and collection of VAT and other taxes within the country.

It could therefore be concluded that, unless the GRA is able to overcome the challenges mentioned above, by taking measures such as recruitment and adequate training for tax

official, effective tax education, provision of improved infrastructure and logistics as well as implementing tougher punishments for taxpayers among others, it would still not be able to adequately meet its target and mobilize enough VAT for the development of the country.

#### **5.4 RECOMMENDATIONS**

The analysis of the challenges faced by DTRD's of GRA in VAT collection has led to the following recommendations aimed at improving the tax system and to help the GRA achieve its vision of developing into a world class revenue administration entity known for its professionalism, integrity and excellence.

The study revealed that the staff strength is not adequate and tax officials are also not given the required training. It must be noted that, the quality of staff is not only based on the certificates they hold but rather dependent on the frequency of training programs to update the knowledge of tax officials on the new and modernized ways of revenue mobilization. In the same vein, it must be noted when the staff strength is low, it is usually difficult to monitor taxpayers. It is therefore recommended that the HR department under the SSD (Support Service Division) must undertake massive recruitment, training and retraining for their staffs as frequently as possible. This will reduce the risk of revenue loss.

For GRA also to achieve its targets, the IT platforms with integrated data centres must be developed which would help the Authority to store sufficient information on taxpayers and which would ensure the easy transfer of information from one agency to the other across the nation. More ISSU's must therefore be developed nationwide. Automation of the tax system would also prevent revenue leakages within the tax system because instead of invoices, automated machines could be designed for all registered taxpayers. This would bring some

form of transparency and accountability within the tax system. It would also be recommended that online filing of returns be implemented in the future.

It is also recommended that, the infrastructure and logistics such as furniture, vehicles and offices be improved and modernized because most of the infrastructure of GRA seems to be at deplorable states and could not go a long way to support the robust revenue mobilization efforts been implemented by the Authority. As noted from the study inadequate vehicles has hindered tax education and monitoring while inadequate offices has caused most taxpayers to travel long distances to pay tax and led to tax officials sharing same offices.

The DTRD's of GRA must undertake vigorous tax education nationwide to explain the VAT regulations so that registered clients as well as citizens would understand the importance of VAT to the growth of the nation. The tax education should focus on; proper records keeping; laws governing tax administration; the registration procedures and benefits of being registered for VAT. This would go a long way to reduce the default rate and improve tax audits and assessment.

The study also revealed that because punishment given to taxpayers are not severe enough, most taxpayers still evade tax or default in the payment of tax. It was realized that instead of applying the law to defaulters, most often they are allowed to settle their tax debts and set free. It is therefore recommended that the GRA comes out with punishments and rules that could prevent tax default and encourage compliance in the tax system. Tax officials must also apply the rules when the need arises and this would ensure compliance.

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### **APPENDIX**

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**SCHOOL OF BUSINESS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**Dear respondent,**

I am final year postgraduate student reading MBA FINANCE. This study mainly seeks to investigate the challenges faced by the Domestic Tax Revenue Division of GRA in VAT collection within the Kumasi metropolis.

The study is purely academic-oriented and data collected will be used accordingly. It is kindly requested that you read the items on this instrument carefully and provide objective responses to help improve the quality of the study.

Thank you so much for your willingness to participate in this study.

## Introduction

Please tick (✓) or provide the appropriate answer where applicable.

### Section A: DEMOGRAPHIC PROFILE

1. Sex: a. Male ( ) b. Female ( )
2. Age (years) a. 18-25 ( ) b. 26-35 ( ) c. 36-45 ( ) d. 46 and above ( )
3. Highest Level of Education: a. Professional ICA/ACCA/CIMA/CIA ( )  
b. Masters MSc/MBA/EMBA/MA ( ) c. Bachelors BSc/Bed/BBA/BA/HND ( )  
d. Diploma ( ) e. Others (Please specify.....)
4. Marital Status:  
a. Married with children ( ) b. Married without children ( )  
c. Not married ( ) d. Not married with children ( )
5. How long have you been working with the organisation  
a. Less than 5years ( ) b. 6-10years ( ) c. 11-20years ( )  
d. 21-30years ( ) e. More than 31years ( )
6. Which division of DTRD do you work for?  
a. LTO ( ) b. STO ( ) c. MTO ( )  
d. Other (s) If any, please specify.....
7. What is your position in the organisation?  
a. CRO ( ) b. PRO ( ) c. SRO ( ) d. RO ( ) e. ARO ( )  
f. If any, please specify.....

### Section B: CHALLENGES FACED IN VAT COLLECTION AND

**ADMINISTRATION**

Please, the questions below have to do with your perception on the challenges you face in collecting VAT. Kindly use the point scale below in your evaluations:

**1**
**2**
**3**
**4**
**5**  
**Strongly Disagree**      **Disagree**      **Indifferent**      **Agree**      **Strongly Agree.**

**What are the challenges faced in VAT collection?**

		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
8.	Improper records and bookkeeping by taxpayers	[ ]	[ ]	[ ]	[ ]	[ ]
9.	Lack of public tax education	[ ]	[ ]	[ ]	[ ]	[ ]
10.	Unprofessional attitude of some tax officials	[ ]	[ ]	[ ]	[ ]	[ ]
11.	High rate of VAT	[ ]	[ ]	[ ]	[ ]	[ ]
12.	Lack of tax knowledge by tax officials	[ ]	[ ]	[ ]	[ ]	[ ]
13.	inadequate staff to collect tax	[ ]	[ ]	[ ]	[ ]	[ ]
14.	High illiteracy level among taxpayers	[ ]	[ ]	[ ]	[ ]	[ ]
15.	Lack of infrastructure and offices	[ ]	[ ]	[ ]	[ ]	[ ]
16.	Technological constraint	[ ]	[ ]	[ ]	[ ]	[ ]
17.	Inadequate logistics ( vehicles etc)	[ ]	[ ]	[ ]	[ ]	[ ]
18.	Improper filing of returns	[ ]	[ ]	[ ]	[ ]	[ ]

19. If any, please specify.....

**Section C: MEASURES ENFORCED TO PREVENT NON- COMPLIANCE**

20. How often do you educate taxpayers?

- a. Daily ( )    b. weekly ( )    c. Monthly ( )    d. Yearly ( )

e. If any, please specify.....

21. Which medium of tax education do you think makes the best impact?

- a. Television [ ]    b. Radio [ ]    c. Information Van [ ]

d. Other (s) (Please Specify).....

22. How do you monitor the issuance of VAT invoices by taxpayers?

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

23. How often are training programmes organised for tax officials.

- a. Daily ( )    b. weekly ( )    c. Monthly ( )    d. Yearly ( )

e. If any, specify.....

24. Do you think punishments for default are deterring enough? a. Yes ( ) b. No ( )

25. What motivation packages does GRA use to encourage regular payment and filing of returns?

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

**Section D: THE PERCEPTION OF TAX OFFICIALS ON TAX ADMINISTRATION**

26. How would you describe the system of tax administration in the Kumasi metropolis?

- a. Excellent ( ) b. Very good ( ) c. Good ( ) d. Poor ( )

27. How would you describe tax education in the Kumasi metropolis?

- a. Excellent ( ) b. Very good ( ) c. Good ( ) d. Poor ( )

28. Do you think the integration has helped to improve tax collection? a. Yes ( ) b. No ( )

29. If yes, how?

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

30. If no, why?

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

31. Do you think it is convenient for taxpayers to pay tax in the metropolis?

- a. Yes ( ) b. No ( )

32. Has the communication service tax and VAT on banking services improved revenue

collection? a. Yes ( ) b. No ( )

33. How would you describe the performance of tax officials in encouraging tax payment?

- a. Excellent ( ) b. Very good ( ) c. Good ( ) d. Poor ( )

**Section E: WHAT SHOULD BE THE WAY FORWARD**

34. Should VAT be phased out in the future? a. Yes ( ) b. No ( )

35. Do you wish for reforms in the current tax system? a. Yes ( ) b. No ( )

36. What measures do you suggest should be introduced to make the current tax system operate more efficiently?

**(Please state as many as you can)**

KNUST

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.....

.....

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The logo of the Kenya National University of Science and Technology (KNUST) is centered on the page. It features a yellow eagle with its wings spread, perched on a green shield. Above the eagle is a black mortar and pestle with a red flame above it. Below the eagle is a yellow banner with the Swahili motto "NYANSAPU WJ SANE NO BADWENMA".