

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

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COLLEGE OF ART AND SOCIAL SCIENCES

SCHOOL OF BUSINESS

**TAXATION OF THE INFORMAL SECTOR IN GHANA: A CASE STUDY OF
KOMENDA-EDINA-EGUAFO –ABREM MUNICIPALITY**

BY

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DECLARATION

I hereby declare that this submission is my own work towards the MBA degree, 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 of the University, except where due acknowledgement has been made in the text.

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ABSTRACT

This study examines taxation of the informal sector in Komenda-Edina-Eguafo-Abrem Municipality using a sample of 397 informal sector businesses and 3 tax officials. Findings of the study indicate that, high income tax, business non-profitability, distance difficulty in paying tax, unnecessary or misuse of tax income by government, tax non-compliance by other colleagues, low income tax education, advice from experts, non-registration of businesses and low educational level account for high income tax non-compliance. Personnel capacity constraints, large size of the tax district, large size of the informal sector, lack of incentive for the tax collectors and the inappropriate financial records on the part of the taxpayers are the factors that militate against effective revenue mobilization by Domestic Tax Revenue Division (DTRD) from the informal sector. Well informed frequent tax education, sanctioning tax evaders, motivating taxpayers with incentives, involvement of taxpayers in tax decisions, drawing the tax collectors closer to the taxpayers and having master list of all informal sector businesses would help to improve tax compliance in the municipality.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A number of developing countries including Ghana are facing the problem of matching revenue generated with their expenditure. Governments' budgeted revenues are mostly lower than actual expenses. This for example was indicated in the 2014 budget statement of Ghana by the Minister of Finance that – considering the intended expenditure and revenues, there would be budget deficit of GH¢8.8 billion equivalent to 6.5 percent of Gross Domestic Product (GDP). Over the years, government of Ghana has consistently experience budget deficit and this deficit has been financed with foreign debt (Osei and Quartey, 2005).

The 2012 economic crunch had resulted in financial challenges for many countries more especially the developing countries which mainly depend on the developed countries for financial assistance (Drine, 2009). These countries have cut their assistance to developing countries due to the financial challenges they also face.

The over reliance on foreign financing may lead to debt unsustainability and to avoid this, countries are supposed to increase internal revenue mobilization (Gupta, 2007). Developing countries can increase their internal revenue by opening up the tax base and administering good tax systems and policies to increase the revenue generation to meet government spending, (Gberegbe, 2007). Ghana's economy is segmented into informal and formal sectors. Whiles the formal sector employs about 20% of the active labour force, the informal sector (including the agricultural sector) employs the remaining 80% (Osei-Boateng and Ampratwum, 2011). The informal sector is also identified with a pervasive and expanding feature of the global economy and employs some one-third of the global non-agricultural workforce in developing countries (Williams, 2014). According to Ofori (2009), the informal sector fails to employ proper records and as a result, more than 60.67% do not

pay tax. Mr. Adogla Bessah, Assistant Commissioner at the Takoradi Medium Tax Office of Ghana Revenue Service (GRA) indicated that over 80% of informal sector operators do not pay tax (Ghana Business News, 2014). Bird (1984) indicated that about more than half of the potential tax revenues in most developing countries tend to remain uncollected. Bird once again attributed this to the large size of the informal sector, dominated by the self-employed whose activities are hidden from public domain. The idea that the informal sector particularly the self-employed having high income tax non-compliance behaviour is longstanding in tax compliance literature. For example, the 1988 statistics from the Taxpayer Compliance Measurement Program in the United States indicated that the average tax understatements for the self-employed is \$1,885, compared to average tax understatement of \$289 across all persons (Andreoni, and Feinstein, 1998). Flynn (2003) also noted that revenue loss from non-compliance by individuals taxpayers, particularly the self-employed were estimated to range from \$93.20 billion to \$95.30 billion for the tax year 1992. The work of Terkper (2003) also confirms the high tax non-compliance among small businesses, dominated by the self-employed in Ghana. To reduce the problem of tax non-compliance by the self-employed, some researchers (see Tyler, 1990; Hasseldine and Hite, 2007) have advocated for the institution of tax enforcement using sanctions fear and coercion to improve compliance in tax administration. As such, many tax laws have incorporated sanctions and other punitive measures to enforce compliance. An example of punitive tax legislation with punitive provisions is Ghana's Internal Revenue Act (IRA), 2000. Various sanctions are stipulated in section 141 - 146. Other researchers (see Braithwaite and Grabosky, 1986; Owens and Hamilton, 2004) have advocated for the use of cooperation rather than sanctions or penalties in enforcing compliance.

All these measures confirm government effort to expand the tax base to the informal sector to ensure fairness and equity as Baah Wiredu, the former Minister for Finance and

Economic Planning, said “the burden of tax must be shared by all no matter how little one’s contribution is” (GNA, 2006). It is also important to see how efforts to tax the informal sector operators can yield new benefits (Meagher and Lindell, 2013).

1.2 Statement of the Problem

The informal sector is ‘private unincorporated enterprises that are unregistered or small in terms of the number of employed persons’ (ILO 2012: 1). The informal sector enterprises can therefore be defined as private enterprises that are unincorporated as separate legal entities which more often do not keep complete set of accounts for tax and social security purposes, and are also either unregistered or small. Acknowledging this definition, one of the major challenges faced by governments of developing countries is how to tax the informal sector. Joshi and Ayee (2009) indicated that taxing the informal sector remains a challenge. This is because management and controlling of the informal sector most especially the Small and Medium- Scale Enterprises (SMEs) have been challenging and all efforts have gone contrary to the means targeted at increasing the relative tax share of the informal sector (Adom, 2000). The amount of revenue generated from the informal sector as tax relative to its size is insignificant in the total revenue for the nation. For example, the Institute of Social Statistics and Economic Research’s (ISSER) State of the Economy Report in 2006 presented by the Ministry of Finance shows that the percentage contribution to government revenue of income tax from the self-employed were as low as 5.71%, 5.35% and 5.24% for the tax year 2003, 2004 and 2005 respectively. Comparing this to the size of the informal sector (self-employed) calls for investigations into why the nation is unable to tap the required amount of tax from the sector. Even though the amount of revenue accruing to the informal sector operators is low, government is determined to open the tax base to capture them in order to maintain the status quo and not to lower the level of compliance among tax payers in other sectors (Terkper, 2003).

To achieve these the government has to resort to measures that are relatively enticing to capture the full involvement of the informal sector operators. This is because there are many informal sector operators who either intentionally evade tax payment or are not captured by the Domestic Tax Revenue Division (DTRD) of the Ghana Revenue Authority (GRA).

The purpose of this study is therefore to find out the causes of tax evasion and the challenges of income tax administration in Komenda-Edina-Eguafo-Abrem (KEEA).

1.3 Objectives of the Study

The general objective of the study is to examine the causes of tax evasion and the challenges of tax administration in the informal sector of K.E.E.A. Municipality.

The specific objectives of the study are as follows;

- i. To find out the demographic characteristics of taxpayers and how these affect the payment of tax in the K.E.E.A. Municipality
- ii. To investigate the causes of tax evasion in the informal sector of the K.E.E.A. Municipality.
- iii. To determine the challenges that militates against effective revenue mobilization by DTRD in the K.E.E.A. Municipality.

1.4 Research Questions

In achieving the above objectives, the study seeks to provide answers to the following questions.

- i. What demographic characteristics of taxpayers affect tax evasion by the informal businesses in K.E.E.A.?
- ii. What factors cause high tax evasion among businesses in the informal sector in KEEA?
- iii. What are the challenges that militate against effective revenue mobilization by DTRD from informal sector in KEEA?

1.5 Significance of the Study

Although there is much literature on tax non-compliance and compliance in other countries, in Ghana, there seems to be very little literature. It is hoped that this student would add to the body of knowledge on the subject of tax compliance among the self-employed in Ghana. This would obviously benefit academia, more especially as a reference material to other studies who centred on this area.

The tax authorities often have difficulties enforcing tax laws because of the inability to actually identify and incorporate the cause of non-compliance in tax enforcement strategies. This work looks at an enforcement strategy that will appropriately incorporate the reasons for non-compliance and thereby help improve compliance among the self-employed. Again, tax practitioners and consultants will be afforded the opportunity to fashion out expert advice that is most suitable and appropriate for their clients to prevent them from breaking the income tax laws.

Taxpayers would benefit from the alternative tax enforcement strategy that would be recommended to improve upon the operations of their businesses, particularly in the areas of good record keeping and tax education. The greatest beneficiary would be the citizenry, since an improved compliance to tax laws would enhance government revenue for better economic development to improve the welfare of the citizenry.

1.6 Methodology of the Study

The study employed descriptive analysis generally. Descriptive method of research is beneficial to researchers since it helps one to gain more accurate and precise profile of the event, the person or the situation. It also employs quantitative data to analyse data in order to arrive at a conclusion. The student also used exploratory research form to acquire data from

respondents so as to coherently communicate recommendations and conclusions from this data. The student employed the use of questionnaires to solicit data from respondents.

Purposive, stratified and random sampling techniques was used for the study. The data collected was analysed by the means of descriptive statistics.

1.7 Scope of the Study

The study covered businesses in the informal sector such as petty traders, hawkers, hairdressers, dressmakers, artisans and others in the K.E.E.A. Municipality. The study opted for author's familiarity with the area and business owners.

1.8 Organization of the Study

The study has five chapters. Chapter one deals with the background of the study, statement of the problem, the objectives, the research questions, significance and the scope of the study. The chapter two reviews related literature of the study. Chapter three describes the research design, the population of the study, sample and sampling procedure of the study. It also considers the variables of the study, method of data analysis and the limitation of data collection. In the chapter four, the results and the findings of the study are discussed. Finally, the summary of the findings, conclusions and the recommendation of the study are captured in the chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter considers related literature on the subject taxing the informal sector. It brings to bear the theories behind the study and the concepts that forms the background for the study. Major highlights are the world's history of taxation, the history of taxation in Ghana, the informal sector in Ghana, the fundamental characteristics of informal sector in Ghana, challenges of taxing the informal sector in Ghana, determinants of tax compliance and strategies of enforcing compliance. Models of compliance are also reviewed in this chapter.

2.2 Definitions of Taxation

According to Messere and Owen (1987), it is difficult to define and identify tax. Taxation is define as the principal means through which governments attempt to redistribute nation's wealth to establish social equilibrium among people (Lewis, 1982). A tax is a compulsory, unrequited payment to general government (Organisation for Economic Co-operation and Development (OECD), 1996). James and Nobes (1997) also define tax as compulsory levy from the people of a country to the government for which nothing is received directly in return.

From the above definitions, a working definition of tax is as a compulsory levy from persons who receive income from a country or whose income is brought to a country to the government for the purposes of redistributing income to the benefit of the entire citizenry shall be adopted.

Tax types can be direct or indirect, and the tax structure can be progressive, proportional or regressive (Venter et al, 2004).

2.2 The World's History of Taxation

Payment of taxes by citizens of a country and non-citizens has emanated from the ancient times. The act of evading taxes has also been there since time immemorial. This had therefore made government of nations to enact rules and regulations to monitor and control tax revenues. These control measures have brought about civilization in tax since the introduction of tax.

In the ancient days, merchants were charged poll tax, and fees when transporting goods from one point to another (Webber and Wildaysky, 1986; Douglas, 1999). Perpetrators who are found of smuggling goods or transporting goods without paying taxes were punished. This was to ensure that taxpayers pay tax accordingly.

Both the Old and the New Testament of the Holy Bible acknowledge payment of tax and this was evidence when in (Romans 13:5) when Paul addressed the people to pay taxes to authorities for governing. The tax collectors at the time in the Roman Empire became a rogue when the function was given over to cold-blooded exploits who employed gangs of criminals to ensure that the colonials had rendered Caesar his due. However this necessitated the need to pay taxes in Middle East and spread around the world. Governments of Mesopotamian city-states, Mauryan India, China, Han, Japan and the Bronze Age civilizations of Sub-Sahara Africa all had well-developed similar systems of financial administration. Though, widely dispersed at the time, these governments had similar solutions to the problems of supporting monarchs. Other similar kinds of taxes were levied, and the funds were used for like purposes.

Governments all over the world had collected only a few types of taxes since the emergence of tax (Webber and Wildaysky, 1986). Mostly taxes are levied on produce from land such as grains and livestock. Head taxes had also been in existence and governments have used this as a mode of collecting taxes for developmental project.

In recent times, governments had become more adaptive in collecting taxes, and revenue generated from it had increased intensely. However this had increase the burden on the taxpayers as their expenditure increases. As wars became rampant and more expensive, the tax burden increased. In 1404, England attempted collecting real taxes based on people's wages. The modern day's income tax we have was started by the British in 1800 for financing the war against Napoleon. Just after the war, the tax was repealed and all records were burnt by Chancellor of the Exchequer. Copies of the tax records were found in the court. On the second time these records were burnt and thereafter the Pay As You Earn (PAYE) system was introduced just before the Second World War. It was found that only a fifth or less of the working population paid income tax.

By 1948, more than 90% of the working population were found paying income tax (Rose and Karran, 1987). Other countries such as Netherlands, Germany, Sweden and Switzerland adopted it and it started spreading. In 1862, the Supreme Court of United States (U.S.) gave support to the government's first income tax in the in the Civil War which occurred in 1862. The government found out that, there were financial burdens for welfare and as a result used income tax for responding to crisis. In 1864, this system was renewed after they found that it was yielding a good result since a high rate was imposed on high income earners than low income earners. However, it was again repealed in 1872.

2.3 A Brief History of Taxation in Ghana

The Income Tax Ordinance 1943 (Ordinance No. 1943) was the first tax introduced in Ghana. Since then, this has been amended several times. The first amendment was in 1961, Act 68. This was followed by Acts 178 and 197 in 1963. Other taxes such as Property Tax, Entertainment Duty Tax, Airport Tax, Hotel Customers Tax, Standard Assessment and Excess Profit Tax were introduced in between 1961 and 1963.

The PAYE was introduced in 1963. With the inclusion of several taxes, the Income Tax Department was renamed Central Revenue Department to reflect all other types of taxes other than the Income Tax only in 1963. The Income Tax Decree in 1966 No. 78 and the Income Tax Decree SMCD5 in 1975 followed thereafter. The Income Tax Decree 1975 section 71 made a Commissioner responsible for assessment and collection of taxes.

In 1986, the Internal Revenue Service Law of 1986(PNDCL, 143) was passed. This brought about structural change for this reason the Department which was under the civil service department was transformed into the public service organisation. The Internal Revenue Service was then mandated to take charge and they had their own Board of Directors. The Internal Revenue Act, 2000 (Act 592) was amended in 2002 (Ali-Nakyea, 2008). The establishment of Ghana Revenue Authority (GRA) Act 2009 (Act 791) followed. Under this law, Domestic Tax Revenue Division (DTRD) was established to take care of the duties of Internal Revenue Service (IRS) and Value Added Tax (VAT) service. Customs, Excise and Preventive Service (CEPS) maintained its status and Management Support Unit was added to GRA (Ohemeng and Owusu, 2013). The Commissioner-General is the head of GRA and oversees the activities of the commissioners of the DTRD, CEPS and the Management Support Unit.

2.4 The Informal Sector

Examining the informal sector comes with issues and raises a lot of concerns for anyone undertaking studies about the sector. It is therefore more prudent to review some literature on the informal sector. Before 1960s, researcher have paid little attention to the activities of the informal sector of the economy. Only sociologists and anthropologist had little attention to their activities (Gerxhani, 2004). However in the 1960s, the informal sector activities began booming and increasingly, they were recognized as important and researchers started researching into their activities (Blau and Scott, 1963; Jutting and Laiglesia, 2009; Rodgers

and Williams, 2009; Feld and Schneider' 2010; International Labour Organisation (ILO), 2011, 2012, 2013; Buehn and Schneider, 2012; OECD, 2012; Schneider and Williams, 2013; Williams, 2014). In 1972 the International Labour Organisation (ILO) analysed the name informal sector. This supported earlier researches and increased the awareness in the area.

The term “informality” was used by Hart (1973) in his article “Informal Income Opportunities and Urban Employment in Ghana”. He described the informal sector as the part of the labour force in the urban centres who work outside the formal sector. He again described them as the self-employed individuals. According to Blau and Scott, (1963), the informal sector can be described as ways of making a living outside the formal wage economy, either as an alternative to it, or as a means of supplementing income earned within it. Though the work of Hart was narrowed and skewed to be the only activities of self-employed, it opened a window of light for other researchers to do more research in the sector. Prior to the works of Hart, research on the informal sector was widely considered to be a report of ILO, (1972). In those reports, ILO described the informal sector as the sector involving people who want to avoid government regulations and taxes. The ILO initially saw the informal sector to be the sector for provision of subsistence to families. The report again attributed the growth in the sector to its employment opportunities and redistribution of income (Gerxhani, 2004). ILO however argued that the problem in the informal sector can only be solved if and only if the employment relationships and inequalities in income is addressed.

Conceptualization of the informal sector followed different dimensions and focused on the regulatory framework and the status attempted to distinguish the informal sector from the formal sector. It related the advent of the informal sector to the type of policies used and the cost of transaction (De Soto, 1989). For the informal sector to develop, there is the need to deregulate the market give greater property rights and abolish almost state intervention.

2.5 The Informal Sector in Ghana

It is estimated that about 80% of the economic activities in many sub-Saharan African countries including Ghana takes place in the informal sector (ISSER, 2003; Osei-Boateng and Ampratwum, 2011). Ayee, (2007) identified that most of the activities in the informal sector are trading, food preparation, agriculture, dressmaking, transportation, construction, footwear, traditional healing, gold smiting, livestock and credit facilities. Others are distilleries, electricity and refrigeration.

It is only not difficult for Ministry of Finance and Economic Planning and Ghana Statistical Service to gather data on the informal sector, it is equally difficult for IRS to tax them due to its size (Ayee, 2007). The Ghanaian economy is narrowed and skewed toward the few work force in the public and civil service sector thereby ignoring the majority of the self- employed in the informal sector. It estimated that only about 20% of the Ghanaian work force are employed in the public or civil service and the private formal and they only suffer the tax burden which ought to have been bore by all the total work force (Ayee, 2007). This is because it is difficult to determine or assess the total income of the sector operators since they resort to non-declaration of income, under declaration of income and sometimes intentionally increase or inflate expenses which falsified profit and make calculation of tax liabilities cumbersome (Ayee, 2007).

Some informal sector associations in Ghana are Council of Indigenous Business Association (CIBA), Ghana Union of Traders' Association (GUTA), Ghana Cocoa, Coffee and Sheanut Farmers Association, the Ghana Private Road Transport Union (GPRTU) of Trade Union Congress (TUC), the Greater Accra Markets Associations (GAMA) and the Ghana National Association of Garages, Ghana National Association of Tailors and Dressmakers,

Hairdressers Association of Ghana, Chop Bar Keepers and Cooked Food Sellers Association and among others.

2.6 Fundamental Characteristics of the Informal Sector in Ghana

From the definitions examined, the following observations can be deduced as the basic characteristics of the informal sector in Ghana.

1. Less official protection and public recognition

Much of the works of the informal sector operators are hidden from the public domain. This mechanism is used by the sector operators so as to avoid payment of taxes. The end result of this evasion scheme is that it affects them by not getting the state backing and protection from impostors (Farrell et al, 2000).

2. Predominantly self-employment

The dictionary defines self-employment as the act of generating one's income directly from customers, clients or other organisations as opposed to being employee of a business (Wikipedia, 2015). Farrell et al, (2000) and Ofori, (2009) describe self-employment as businesses that one could start up from their homes using table and chair and help from family members. It can be seen that every Ghanaian who put up a residential building along the street mostly add a room or two as a store for selling which is usually managed by oneself and or with family members.

3. Wage below the minimum wage and non-payment of social securities.

The general operating income of informal sector operators are low. This makes them to fix their wages sometimes far below the minimum wage and subsequently refuse to pay social security fund on the part of their employees. Almost more than half of the workers in the informal sector earn below the government minimum wage (Baah, 2007; Zinnes, 2009). Farrell et al, (2000) identified that employers in the informal sector escape paying minimum

wage and social security fund because their activities are hidden and employees refuse to report them for the fear of layoffs. Ofori (2009) identified the informal sector employers as having low capital base which affect the investment base and thereby affecting wages paid to their employees.

4. Little or no job security

Job security can be explained as the probability that an individual will keep his or her job for a very long time. Employees are concerned with job security and would want to get themselves acquainted with jobs with high security. It is however identified that jobs in the informal sector are less secured as compared with jobs in the public and the civil sector in Ghana. There is no legally binding agreement between employees in the informal sector and their respective employers (Farrell et al, 2000); Ofori, 2009). The result of this is that employers have powers to hire and dismiss employees as and when they require without going contrary to any legal law.

5. Small scale business controlled by individual or family members.

The operations of the informal sector operators are usually on the small scale basis and the control and management of the entity is in the hands of the owner or the family members (Yankson, 1992). Majority of businesses operate on sole proprietorship, partnership or cooperative basis with low investment base.

6. New entrance easy

New entrance refers to how easy or difficult it is for investor to invest in a business. This however refers to the capital base and the regulatory requirement of entering into the business. The informal sector is noted with low capital requirement and low regulatory requirement and for this reason it attract more low income earners to enter into the sector for investment (Zinnes, 2009).

7. Reliance on locally available resources

The informal sector operators mainly rely on local resources for their activities. Materials for manufacturing of goods and services, personnel and capital for their sector activities are basically obtained from their locality (Barwa, 1995). The reason is that their investment base is too low to attract raw materials from far distances or from off shore and employ personnel or capital from abroad for their activities.

8. Labour intensive

Every economic activity uses labour and capital in performing the required work. The use of labour and capital should be balanced and the ratios of its balance depend deeply on the skills and technical knowhow of the individual (labour) as well as the income base of the employer. Due to the low income base of the sector operators, they are unlikely to employ more of capital which attracts more income in employing them and for that reason end up employing more labour which they can acquire on cheap basis from their immediate environment. Barwa (1995), Ofori (2009) and Osarenkhoe (2009) indicated that the level of technology used in the informal sector is low as compared to the formal sector.

9. Unauthorized use of vacant public or private land

Activities of informal sector operators are predominately carried out at unauthorised places most especially at public places left idle for a long time (Barwa, 1995). In the urban areas, most of their activities take place at the lorry parks and on pavement along the road.

2.7 Taxation in the Informal Sector

The Ghanaian economy as well as many developing countries have large market share for the informal sector. About 80% of the total employments for the Ghanaian Economy occur at the informal sector (Ghana Statistical Service, 2000; ISSER, 2003; Osei-Boateng and Ampratum, 2011). The rapid increase of the sector activities makes government optimistic to increase

revenue mobilisation from the sector for financing economic activities in the country. However this sector is too diverse comprising large and small enterprises, urban and rural businesses, activities which are visible and those which are not visible, activities which are carried out both locally and across borders.

It is perceived by the formal sector operators as government cheating them by perusing them for payment of taxes and ignoring the informal sector operators. This means that if actions are not taken to correct this, it will lower the level of compliance of the formal sector operators in paying taxes thereby lowering the revenue generation in the country (Terkper, 2003; Torgler, 2005). In Latin America, studies show that there is high tax compliance in countries with high level of formal sector than countries with high level of informal sector.

Research shows that many informal sector operators comply with payment of taxes not as their right to pay what is due to the state but just to let them stay in operation. That is they pay taxes to avoid illegitimacy, instability and arbitrary harassment from state institutions (Eaton and Dickovick, 2004; Ayee, 2007). The government is therefore looking forward to see how to let the informal sector operators see the need to pay taxes other than for the purposes of staying in operation. To do this, government is optimistic to incorporate the informal sector activities into the formal system. To accomplish this the government seeks to use taxation as a means of inculcating the sector activities. This calls for widening of the tax base and building a system which increases the level of compliance thereby increasing revenue generation and also re-engaging citizens with the country (Ayee, 2007).

There are however a number of challenges in taxing the informal economy in Ghana. The fundamental among these challenges are capability restrictions, unsuitability system of collecting taxes, low incentive packages for the tax officers and the involvement of politics in taxing the informal sector.

This has calls for government interventions which has introduced several taxes into the informal sector. Some of these taxes are vehicle income tax aimed at collecting tax from the commercial transport operators, tax stamp aiming at collecting taxes from small traders, flat rate scheme for VAT and among others. Interestingly sometimes these taxes collect very little revenue as compared to expenses incurred for the collection but government is still determined to provide schemes and mechanism which will make her expand the tax base and collect more.

2.8 Reasons for Taxing the Informal Sector Operators

There are various reasons for collecting tax in every country. Among some of these are as follows;

1. Source of revenue to the government for national development

One of the major sources of revenue to every nation is revenue from taxes. Government all over the world use the revenue mobilized for developmental projects like building schools, hospitals, roads, and provision of water, electricity and many more. For this reason, all income earners of a country including the informal sector operators are taxed by government.

The study of Schneider and Enste (2003) found out that the nation loses a lot of revenue from taxes collected from the informal sector particularly the self-employed. That is most of the self-employed are left out without being taxed. They advocated that proper steps should be implemented by the tax authorities to collect the due tax from the self-employed. That is if the self-employed is taxed, it increases the total revenue of government and it also helps to keep the tax collection system lasting.

2. The principle of equity or fairness

Every good tax system should view equity or fairness as one most important cardinal principle (Smith, 1776). Taxpayers' confidence, trust and compliance are boosted when equity is recognised as essential principle of taxation. To achieve this, every taxpayer

including the informal sector operators should be identified and taxed appropriately. The informal sector operators just like other citizens of the nation benefit from developmental projects made from taxes. It will therefore be unfair if the informal sector operator is not taxed (Tegera and Johnson, 2007; Titeca and Kimanuka, 2012).

The income tax base is very narrow (Agyei, 1984). Just about 20% of the active labour force is employed by the formal sector for salary and are taxed accordingly. The remaining labour force are basically self-employed and are engaged in diverse type of businesses both in the rural and urban centres. It is therefore very challenging in most cases identifying their operations to determine their income and tax liabilities appropriately (Agyei, 1984).

3. Building of tax compliance culture

It is expected that once a business starts, it aimed at growing to become a bigger business and probably become an international business one day. Once a business builds the habit of complying with the tax laws at the early stages, the business carries out such behaviour throughout its life cycle and hence continues to comply with the tax laws when it grows (Torgler and Schneider, 2007).

2.9 Determinants of Tax Compliance in the Informal Sector

The concept of tax compliance is societal paradigm. There is no acceptable level of tax compliance. The standard level of compliance is dependent on what the law, regulation, and the institutions of a country prescribe (Tomasic and Pentony, 1990). The level of compliance is a political phenomenon and as such what one political era may see as an acceptable level may differ from other political era. In light of this, Tomasic and Pentony (1990) argued that the acceptable level of tax compliance is a time factor. According to Milliron and Toy (1988), the level of compliance falls within the scope of the economy. According to Kidder and Craig

(1989) and Devos (2005), there are two factors that contribute to tax non-compliance. These they term as taxonomy of tax non-compliance and demographic characteristics of tax payers.

1. The taxonomy of tax non-compliance

According to Kidder and Craig (1989) there are seven variables which causes tax non-compliance and these are; procedural tax non-compliance, brokered tax non-compliance, unknowing tax non-compliance, lazy accounting tax non-compliance, symbolic or protest tax non-compliance, asocial tax non-compliance and habitual tax non-compliance.

- Procedural tax non-compliance

This type of tax non-compliance occurs when taxpayers are not able to follow the due procedures required by the tax laws for filing returns. It is sometimes too complex for taxpayers to understand and appreciate the procedures for filling the tax returns forms (Owens and Hamilton, 2004).

- Brokered tax non-compliance

Sometimes tax payers are unable to prepare the tax returns themselves and as such employ an agent or a third party who might be a professional person to prepare the returns on behalf of the taxpayer. The professional may sometimes use his expert knowledge to influence the taxpayer not to comply with certain things in the tax laws. Brokered tax non-compliance occurs when taxpayers rely on the influences of tax professionals and fail to comply with the tax laws. The works of Ofori (2009) however found that, brokered tax non-compliance is insignificant as only about 9.55% of informal operators attributed non-compliance with this.

- Unknowing tax non-compliance

If due to ignorant taxpayers fail to comply with the tax laws, it constitutes unknowing tax non-compliance (Picciotto, 2007). Sometimes taxpayers are not aware that they are to file returns and pay tax from their employment income or do not understand some components of

the law and as such fail to partly or wholly comply with the tax laws. According to Ofori (2009) 62.36% of the informal sector operators attributed non-compliance to unknowing such that they were not aware of the income tax returns and the need to annually file tax returns with IRS.

- Lazy accounting tax non-compliance

Computation of tax liability is dependent on the accounting records of a person or an entity (Ayres and Braithwaite, 1992). When taxpayers due to little or no knowledge in accounting fail to keep proper books of accounting or require books which help in determination of employment income and tax liability, it is referred to as lazy accounting tax non-compliance. About 78.09% of the informal sector operators do not comply with the tax laws due to lazy accounting practices that goes on in the sector.

- Symbolic or protest tax non-compliance

Individuals who run their activities behind closed doors such that it is difficult for the state to detect and have them pay taxes fall under this category (Thuronyi, 2003). If a business is not registered with the Register General or IRS, it becomes difficult for the tax authorities to find the income accruing to the business and compute the tax liabilities accordingly. Some individuals also feel being cheated by the state and or the tax system and therefore protest the system and hence evade taxes (Gilligan and Richardson, 2005). Ofori (2009) found out that 66.29% of tax non-compliance occur in the informal sector due to symbolic or protest tax non-compliance.

- Asocial tax non-compliance

This arises when taxpayers are being influenced by other individuals whom they associate themselves with. Peer and family influence may make a group or individuals evade taxes (Grasmick and Bursik, 1990). According to Ofori (2009) 59.55% of the informal sector

operators see no reason of paying taxes when their colleagues in the same sector are not paying taxes.

- Habitual tax non-compliance

Habitual tax non-compliance occurs when out of the taxpayers familiarities with the tax system find out lapses and take advantage of it not to comply with the tax laws. Some businesses have also over the years paid no tax and as such see it as normal and hence continue not to comply with the tax laws. About 33.71% of tax non-compliance occurs due to habitual tax non-compliance (Ofori, 2009).

2. Demographic characteristics of taxpayers which affect tax non-compliance.

Characteristics of taxpayers such as gender, age, educational level and marital status affect the level of tax non-compliance (Kidder and Craig, 1989).

- Gender

According to Richardson and Sawyer (2001); Oxley (1993) and Jackson and Millron (1986) female taxpayer comply with the tax laws than male taxpayers. A study conducted by Torgler and Valev (2007) to find out whether or not gender matters in illegal activities which included tax non-compliance revealed that females are less to flaw tax laws. The issue of gender differences can be attributed to the biological, psychological and experiential features of individuals. In general women are more sociable, acceptable and law abiding. Women think more about maintaining their good image in the public domain than males. Again women who have experience any punishment really would want to experience it for the second time and hence this reduces their level of non-compliance. It is however noted that the level of compliance between males and women seem to lessening as a result of emerging non-traditional females (Richardson and Sawyer, 2001).

- Age

In the less developed countries, ages of peoples are considered as an important factor with regards to work. It is again considered that older people are more law abiding and they are critical thinkers. Richardson and Sawyer (2001) found out that older people comply more with tax laws than younger people. On the contrary, Porcano (1988) and Feinstein (1991) found no relationship with age and non-compliance of tax. A research conducted by Masson and Calvin (1978) and Dubbin and Wilde (1988) also found a negative relationship between age and tax non-compliance. From the above researchers, there is inconsistency in the findings. This can be explained by several factors such as the environment of the individual, education level and others.

However, the general findings are that older taxpayers are more tax compliance than younger taxpayers. They tried to explain that the older taxpayers have acquired enough wealth and as such they are not much aggressive in obtaining more wealth as compared to the younger taxpayers who have just started work and are aggressive in acquiring more wealth for expansion purposes.

- Educational level

Like age, educational level and tax non-compliance is difficult to explain. Studies have shown both negative and positive result in relation to tax non-compliance. The general aim of education is to bring positive behavioural change in the life of the individual. Education is a variable which should improve the level of compliance of taxpayers (Wallschutzky, 1984). He explained that as the level of education of the individual increases, the individual is able to appreciate the need to pay taxes and for that matter comply with the tax laws.

Beron, Tauchen and Witte (1992) indicated that there are varying outcomes between education and tax compliance. They found out that it is difficult to determine the educational

aspect to be measured. Richardson and Sawyer (2001) indicated four measures of education; the degree of fiscal knowledge, knowledge of evasion opportunities, general level of education and the specific tax knowledge. The varying findings among researchers can be attributed to these four measures.

Relationships among the level of education and the other tax non-compliance variables can also cause varying findings. According to Jackson and Million (1986) variables such as age, gender, income of the taxpayer and taxpayer's perception have relationship with the level of education.

- Marital status

Studies have shown that married taxpayer are much tax compliant than unmarried taxpayers. That is women are more tax abiding as identified by Richardson and Sawyer (2001) and for that matter they are able to influence their spouses to do so.

2.10 Challenges of Taxing the Informal Sector in Ghana

Taxing the informal sector in Ghana is characterised by many challenges. The challenges affect the effectiveness of the DTRD's operations and the tax system in the country. Notable among these are;

1. Tax evasion

The rate of tax evasion among the informal sector businesses in Ghana is high (Manku, 2007). Tax evasion is the illegal evasion of taxes by individuals, corporations and trusts. Tax evasion often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability and includes dishonest tax reporting, such as declaring less income, profits or gains than the amounts actually earned, or overstating deductions (Otioku, 1988). This reduces the amount of tax the government generate for developmental project.

2. Inadequate knowledge of the tax laws among taxpayers

Taxation is full of laws and regulations. Taxpayers are required to familiarise themselves with the tax laws in order to appreciate payment of taxes in the country. Appreciating the tax laws is the fulcrum for encouraging voluntary payment of required income tax and thereby increasing the successful tax administration (Otioku, 1988). The challenge of inadequate knowledge of tax laws occurs because the informal sector operators are not willing to learn the tax laws or engage the services of qualified tax practitioners to help them in the preparation of tax returns.

3. Complex tax laws

Tax laws of every nation are just like any other law of the nation which is not written in a plain language and this makes it difficult to be understood by ordinary person. One needs to have in-depth knowledge in law in order to understand and appreciate it. It can be identified that most of these informal sector operators do not have the knowledge of the laws and also do not take professionals who could assist them in interpreting these laws and hence end up not complying with the tax laws. Mckerchar (2003) identified that there is high occurrence of accidental tax non-compliance due to low understanding of the tax laws.

4. Administration and organizational problems

DTRD as an organisation faces a lot of challenges such as persistent increase in its size, insufficient funds for organising educational activities, inadequate logistics and among others. New development should commensurate with new technology. This will help DTRD to determine the new businesses and their activities level for taxing. Inadequate technology and appropriate personnel to match the booming informal sector could be due to un conducive condition of service which makes it unattractive for personnel with requisite knowledge to be engaged by GRA (Manku, 2007). Organisational structure sometimes make it difficult for

personnel to employ mechanisms which could be used to collect tax effectively and efficiently.

5. Low level of voluntary compliance

For every system of tax to be successful will depend on the level of voluntary compliance of the taxpayers. Otiaku (1988) identified that the level of tax compliance in Ghana is low especially in the informal sector. The low compliance in the sector is partly due to the perception of the taxpayers that the IRS officials are themselves corrupt. The taxpayers are sometimes unhappy about how government direct proceeds from tax and hence refuses to pay tax or even pay the required tax liability.

6. High cash transactions on the part of the taxpayers

Almost all transactions in the informal sector takes place on cash basis. Most sector operators operate on cash basis so as to avoid losing their money on selling on either credit or cheque basis. About 69.10% of the informal sectors prefer to sell only for cash (Ofori, 2009). Cash transactions therefore makes it easier for taxpayers to evade taxes because it is difficult for traces to be found by the tax officials to determine their tax liabilities (Otiaku, 1988).

7. Poor records keeping by the informal sector operators

In most developing countries, business operators in the informal sector lack the requisite expertise of keeping records. The study of Ofori (2009) found out that 60.67% of the informal sector businesses have poor low level of accounting practices. He again found out that 83.15% of sector businesses do not engage the services of the accountants to take care of the accounting services for them. This couple with other factors makes it difficult to assess the level of their activities by the taxpayers. Agyei (1984) identified three main factors which contribute to poor records keeping by the informal sector operators: high illiteracy rate, limited accountants and high cost of employing accountants.

8. High illiteracy rate of the informal sector operators

It is estimated that the illiteracy rate in developing countries is high of which Ghana is no exception (Population and Housing census – Ghana Statistical Service, 2010). Research found out that 61.12% of the informal sector operators have low or no education, 28.10% have medium or secondary school level education and only 10.67% have higher level education Ofori (2009). This has affected the comprehension of the tax laws in Ghana by the informal sectors operators. Filling of returns and preparation of final account has post a lot of challenges to these sector operators and hence contributing to the overall difficulties of tax administration. Otioku (1988) acknowledged that the tax returns forms does not come in plain language and one will need at least some form of education in order to understand and comply with it accordingly.

2.11 Tax Compliance Enforcement

Tax enforcement is the process of getting the cooperation of the taxpayers to comply with the tax laws (Braithwaite, 2003). This means that the tax officials have to play a role relevant to ensure that they get the public or taxpayers participation. It is however difficult to establish plans and strategies which will guarantee regulatory enforcement to gain taxpayers long-term compliance. Williams (2001) advocated for the use of sanctions and penalties to enforce compliance. On the contrary, Job, Stout and Smith (2007) frown upon the use of harsh sanctions and penalties but advocated for the use of persuasion and cooperation to enhance tax compliance.

1. Enforcing tax compliance through sanctions

Some are of the view that tax administrators should use harsh sanctions to enforce tax compliance. Strictly enforcing tax compliance depends mainly on the police, the tax officials, the court and the agencies of the tax administration. According to Ayres and Braithwaite (1992), the use of enforcement powers has to be precise and logically formulated, its

application should be consistent in all matters concerning tax legislature, administrators should be given a minimum discretion and allow matters to judicial regulations to achieve fairness in its usage. Braithwaite (2003) also advocated that the use of civil sanctions and penalties should be used as the primary method of enforcing tax compliance. He however argued that criminal sanctions should be administered to taxpayers who deliberately and seriously flaw the tax laws.

The ordinary method of enforcing tax compliance adopted by tax authorities have focussed mainly on fear and incorporation of punishment in the tax laws. To achieve tax compliance, tax authorities should use clear enforcement pyramid (Braithwaite, 1995). The classical works of Beccaria (1797) and Bentham (1788) can be ascribed to the deterrence model use for tax enforcement. They argued that people are rational and as such will behave in a way which will maximise their utilities. The work of Becker (1968) argued that if people are rational in decision making and whose aim to maximise utility, then tax authorities should devise sanctions which can deter them from tax non-compliance.

Many researchers have developed interest in finding out the effect on deterrence model of compliance in 1960s and the 1970s concerning the tax laws. Allingham and Sandmo (1972) further expanded the work of Becker (1968) on the dynamics of crime to taxation. They studied the effect on rate of penalty and its possibilities of detection of tax evasion. Their study found out that, high penalty and high probability of detection to deter taxpayers from non-compliance are negatively related.

The use of punitive measures and sanctions as official legality and procedural equality was embraced by Tyler (1990), and Hasseldine and Hite (2007). Tyler (1990) identified that the use of sanctions in the tax law ensures tax compliance and hence achieve equity in tax administration. He argued that when severe sanctions are used by tax authorities, taxpayers will see it as procedurally equitable and hence lead to improvement in compliance level of

the tax laws. That is being aware of the official sanctions and penalties of tax non-compliance will make taxpayers to develop confidence and see the tax system as legitimate.

From this point, the generally accepted pyramid of enforcing tax compliance was advocated for. This uses force and sanctions to deter tax non-compliance. In the works of Ayres and Braithwaite (1992), they diagrammatically depicted this pyramid which has been in use worldwide since its development.

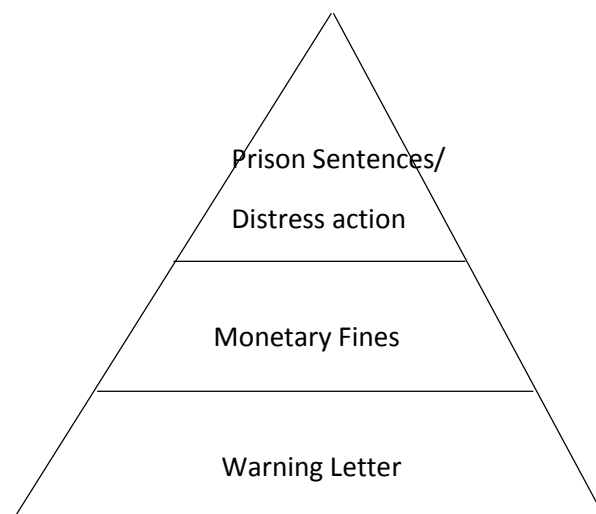


Figure 1: Pyramid for enforcing tax compliance (Source: Ayres and Braithwaite, 1992).

At the base of the pyramid, tax authorities lure and attempt to use warning letters to enforce compliance. The use of civil monetary penalties follows if the use of warning letters fail. Finally, criminal prosecutions follows if the first two fails. If after institution of these enforcement strategies all prove fatal, then a suspension of license is applied. The imposition of monetary fines and distress action or prison sentences deter taxpayers from non-compliance and for that matter improving tax compliance (Ayres and Braithwaite, 1992).

The use of punitive measures or sanctions gives tax authorities a set of tools which can be used without regards to reasons for tax non-compliance. Using sanctions disallows certain things which are at the core of regulatory non-compliance, which is, the essential reasons for tax non-compliance. For this reasons, researchers like Tittle and Logan (1973) indicated that sanctions by itself does not warrant tax compliance. The study of Roth and Scholz (1989) found out that traditional economic deterrence models uses utility theory and deterrence theory to predict that a rational taxpayer ought for non-compliance so long as benefit of being non-compliance is estimated to be higher than the anticipated punishment for being non-compliance.

The deterrence theory again does not state clearly the acceptable level of voluntary compliance especially what is considered acceptable in the public sector organisations. Another drawback of this theory is that it mostly tends to be costly if tax authorities want to maintain it properly. According to Tyler, Sherman, Strang, Barnes and Woods (2007) the use of deterrence-based enforcement approaches can be counterproductive in the long run and it can also weaken the liaison between the law enforcement agencies and those they regulate. Considering the drawbacks of using sanctions only to increase compliance, it is appropriate to devise other models which uses strategies which are certainly different or add to the traditional deterrent model to improve compliance (Owens and Hamilton, 2004).

2. Enforcing compliance through cooperation

The issue of using sanctions as enforcement strategy for tax compliance has raise a lot of concerns for many researchers in relation to the value derived from it. This has shifted the attention of a many researchers to the use of persuasion and cooperation popularly known as the accommodative models as a strategy for enforcing compliance in the 1980s. Those who support accommodative model view taxpayers as social actors who are prone to comply with the tax laws due to their beliefs in the rule of law and matters of long-term self-interest.

Authorities who support the accommodative model are more concerned with the results by the use of cooperation than the use of coercion. They are likely to be seen as service providers other than strict law enforcers. Accommodative model is aimed at achieving a strong cordial relationship between the tax regulating authorities and those that they regulate (Grabosky and Braithwaite, 1986).

Studies into procedural justice have shown value in the use of accommodative model for regulating behaviour. These studies have identified that if individuals are treated politely, respected, and given the right to express their views, it increases the feelings of equity among taxpayers. Individuals value respect and treat those authorities who treat them respectfully as authorities who deserve to be obeyed (Tyler, 1990). Other researchers have also given endorsement to procedural justice as having a positive effect on taxpayer behaviour. According to Tyler (2006), taxpayers comply with the tax laws if they are engaged in dialogue and are supported through education to help improve their financial recording practices.

2.12 A Model of Improved Tax Compliance Behaviour

A research conducted by Braithwaite (1995) on motivational postures, norms, trust strategies for regulating tax compliance found out that in an underground economy where goods and services are traded illegally, for taxpayers to improve their compliance level, tax authorities should understand what motivate taxpayers and develop a complete approach with regulating hierarchical strategies of different grades of interventions and a varying degree of hierarchical sanctions. He again indicated that some competing forces influence taxpayers to exhibit a certain posture or stance. The posture or the stance are influenced by the taxpayers' beliefs, values and attitudes. These beliefs, values and attitudes indicate ones' acceptability or rejection of the tax laws and tax compliance as shown in figure 2.

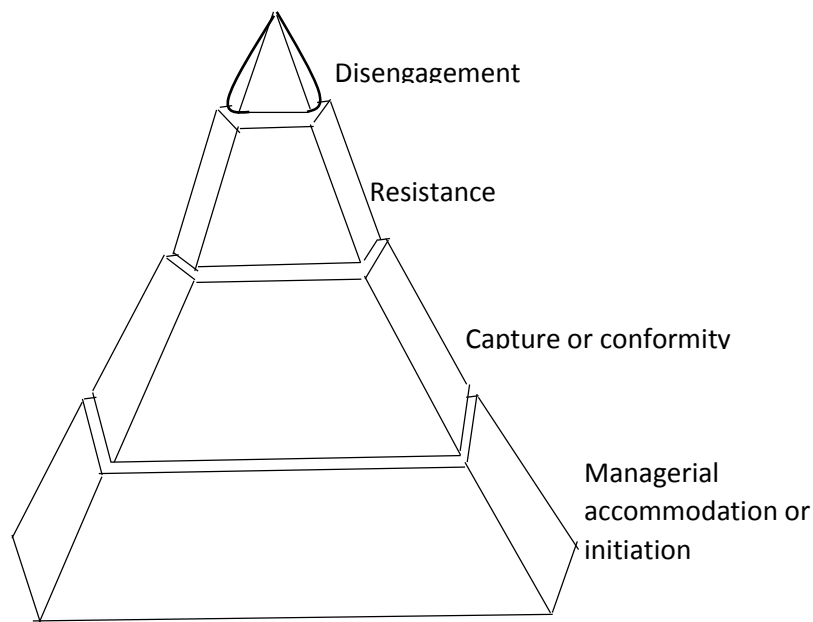


Figure 2: Taxpayers adopted postures or stances (Source: Braithwaite, (1995))

- Managerial accommodation: Taxpayers include regulatory requirement in their managerial plans and aggressively abide by them and even encourage others to learn from them.
- Capture or conformity: Taxpayers has faith in the tax authorities and also accept the regulatory requirement.
- Resistance: There is conflict between the tax authorities and the taxpayers.
- Disengagement: Withdrawal of the taxpayers from the regulatory process.

The first two taxpayers from the base of figure 2 are tax compliant whereas the first two from the top of it are tax non-compliant. The total make-up of participants in an industry may determines the industry's approach towards tax obligations. Industry with more participants of disengagement may require a different regulatory approach than an industry which is made up of more initiators.

It is quite difficult to predict why some taxpayers behave in a certain way in a particular time. The tax authorities are challenged to increase their understanding of the factors and how these

factors influence behaviour of taxpayers. Indebt knowledge will help tax authorities to find ways to inspire and motivate a taxpayer to do things right and to make motivation to be non-compliant.

The degree at which a regulator and a taxpayer agree on a goal and how to accomplish it is an important factor in accepting or rejecting the tax law (Braithwaite, 2003). This means that if a tax agency is regarded as trustworthy, fairer in procedures and have respect for citizens, it may encourage taxpayer's compliance with the tax obligations. A way of increasing taxpayers compliance has also been suggested by Ayres and Braithwaite (1992) using the pyramid of regulatory strategies. This is as shown in Figure 3.

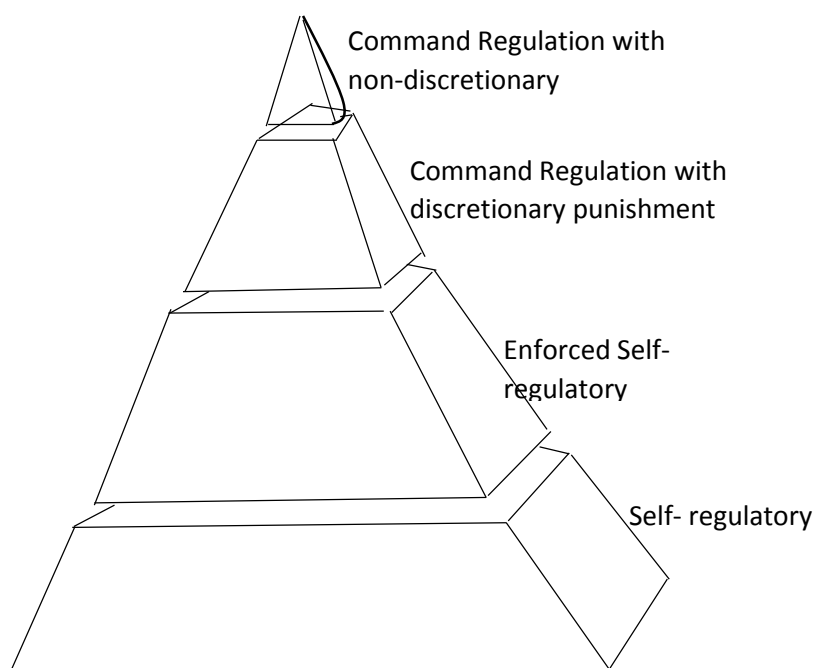


Figure 3: Pyramid of regulatory strategies (Sources: Ayres and Braithwaite, (1992))

Regulators wish is the self-regulation which enacts the minimum burden on all taxpayers. A taxpayer or an industry who is not willing to conform or is attempting to exploit the privileges of self-regulation, should come to the understanding that the government is willing to raise the regulatory strategies. The tax authorities' preferred approach is to increase

taxpayers' self-regulation and will only opt for a high approach if the taxpayers abuse the self-regulation approach in the pyramid. In the pyramid the top most level strategy depicts the tax authorities' commitment of intention not to give in. The knowledge and the existence of capacity of government of the tax authorities get as tough as they could to encourage taxpayers to opt for voluntary regulation (Ayres and Braithwaite, 1992).

2.13 The Model for Improved Compliance

The study of Ayres and Braithwaite (1992) about the motivational stances and beliefs, values and attitudes, and Braithwaite (1995) on regulatory strategies have intensely advocated for an improved tax compliance model that the tax authorities could apply to improve voluntary tax compliance. The model designed by the Australian Tax Office (ATO) Compliance Model became the object for discussion. The model looks at how the tax authorities will achieve some credibility measure which will increase the confidence of the community in its operations (Feld and Frey, 2007).

The ATO model is a hierarchical approach which seek to improve tax compliance. It suggest that tax authorities' strategies should first aimed at encouraging voluntary tax compliance through the use of strategies like education, convenient, effective and efficient service delivery (Braithwaite, 2003). The tax authorities would however have access to an intensifying enforcement systems with hierarchical sanctions which can be accessed when evidence shows that measures to encourage voluntary tax compliance have proved unproductive in changing taxpayers' compliance behaviour (Hasseldine and Hite, 2007).

Figure 4 depict the compliance model.

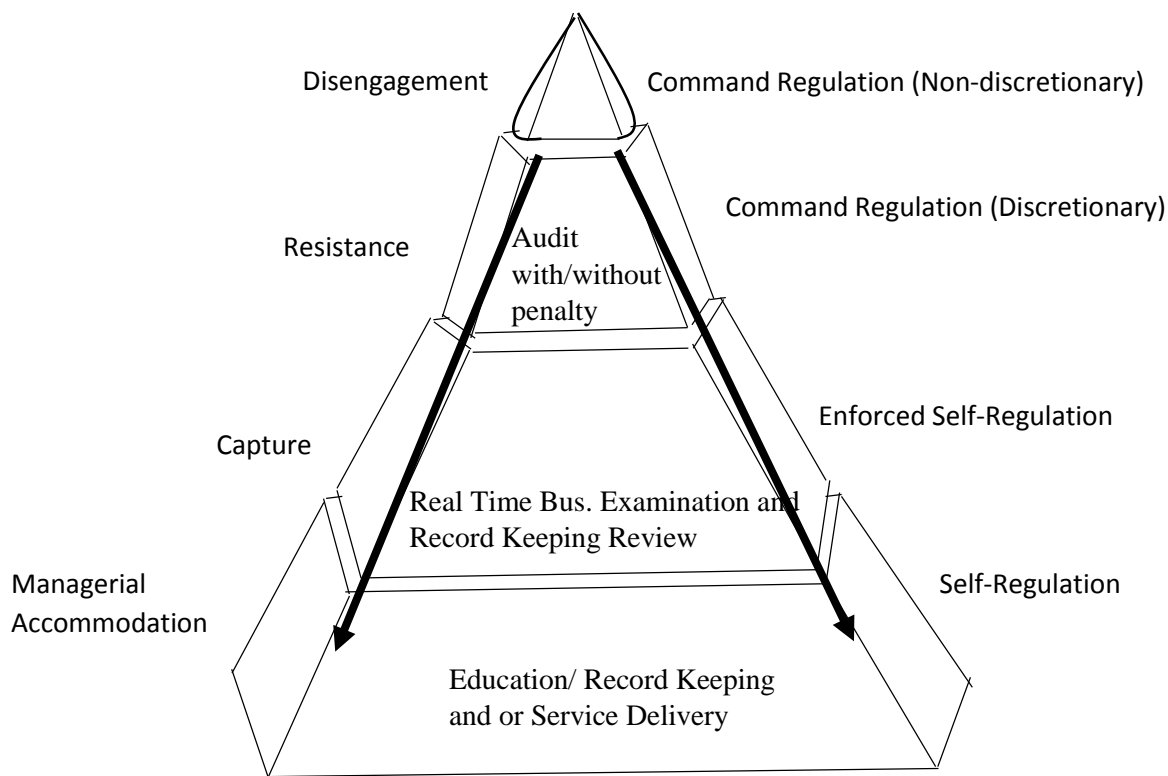


Figure 4: ATO Compliance Modal (Source: Braithwaite, 2003)).

The pyramid presents three sides. The left hand side shows the taxpayers adopted stances as depicted in the study of Braithwaite (1995). The right hand side shows the tax authorities regulatory strategies as depicted by Ayres and Braithwaite (1992). The centre face of the pyramid shows the strategies that could be used to encourage tax compliance particularly among the self-employed. The listed levels and the method of enforcements demonstrate how the hierarchical strategy could work. The tax authorities should look to expand the various options at all levels of the regulation to maximise taxpayers' opportunities to comply with the tax laws at the lower level before they are moved up to the next level (Braithwaite, 2003).

Tax authorities' choice of approach should be the development and application of strategies which encourage taxpayers self-regulation, voluntary tax compliance, cooperation and building of good relationships among the tax authorities, taxpayers and the various third parties (Braithwaite, 2003). The down pointing arrows in the model shows the tax authorities

desirability to apply the strategies which encourage taxpayers to move from the top (Resistance) to the down (Self-Regulation) of the compliance model.

The tax authorities however have to access and move to the strongest enforcement strategy when tax compliance resistance is met. The tax authorities' ability and the willingness to intensify enforcement is shown at the top of the pyramid. The attempt to use such method is real but it is relegated to the background, but the knowledge of its existence to taxpayer that the tax authorities can exercise such powers encourage voluntary tax compliance (Hasseldine and Hite, 2007).

The tax authorities should sound cooperative to taxpayers but if there is no good cooperation in return, they have the powers to implement its highest punishment. The compliance model suggest a hierarchy of approaches to improve compliance. The current use of enforcement strategies should be discourage but devise means like service delivery, educating taxpayers, encouraging good record keeping and move to higher methods like audit if and when resistance to compliance is met (Braithwaite, 2003).

The most effective way to encourage tax compliance in an economy full of self-employment who mainly use cash transactions is to adopt a hierarchical approach to enforce it (Braithwaite, 2003). The approach has the following as its main elements; understanding the influential factors of taxpayers on compliance and non-compliance, encouraging community partnerships, encouraging and supporting compliance and increasing the flexibilities of the enforcement strategies.

- Encouraging community partnership

Strengthening of community partnership is the fulcrum for enforcing tax compliance. The tax authorities should aimed at establishing a good network which increase community intelligence and understanding (Pashev 2005). Tax authorities are unlikely to attend to all

challenges of tax compliance and hence to maximise their effort, they should build a system that encourages community involvement (Owens and Hamilton 2003). Involvement of third parties limit non-compliance because third parties can provide data, help to interpret laws which otherwise might not come to the realisation of the tax officials (Braithwaite, 2003). The works of Ayres and Braithwaite (1992); Feld and Frey (2007); Picciotto (2007) and Mckerchar (2007) all advocate for the use of dialogue to foster good community relationship to encourage tax compliance.

- Identification of partners

To improve tax compliance, tax authorities will have to identify some partners in the industry and the society to work with. Information from these partners and some stakeholders greatly assist the tax authorities. The difficulty is how the tax authorities could identify the appropriate partners to work with (Hasseldine and Hite, 2007). To be able to identify the right partners the tax authorities should segment the market into different categories such as tax practitioners, successful business persons, taxpayers with good records and many more. These parties should be willing to partner the tax authorities to develop effective regulatory system. Tax authorities working through appropriate partners like the industrial associations, professional body organisations, trade and workers unions and other stakeholders which have interest in their integrity and prevention of behaviour that put their image at the disadvantage maximises compliance (Slemrod, 2008).

- Encouraging and supporting compliance

Incentive packages can be linked to an acceptable target level of a regulation to motivate and influence taxpayers' compliance or to induce third parties to assist in improving compliance. Incentive package can be either material or non-material (Braithwaite, 2003). He again identified that non-material incentives are cost effective and it encourages taxpayers to be moral than material incentives. It is however identified that tax incentives might not be

generally acceptable by all stakeholders and for that matter tax authorities should be mindful of the kind of incentives to use to strengthen voluntary compliance.

- Education

To get good understanding of every law is done through education by the law enforcement agencies. This means to foster tax compliance, tax authorities should institute officials who have ‘tax mind’ to regularly visit business operators especially the self-employed at their work places to offer advice on tax compliance (Braithwaite, 2003).

The work of Torgler and Valev (2007) identified that education plays an important role of improving taxpayers’ perception and voluntary tax compliance. When tax authorities’ education role is intensified, it makes taxpayers to see them as fair and friendly and even in situations where people do not wholly accept them, they still welcome the laws and comply.

Education should however be geared to suit the type of business of a particular taxpayer. This poses a major challenge to the tax authorities and therefore need to be managed well to establish equilibrium in the tax administration. This type of education according to Braithwaite (2003) should aimed at taxpayers whose activities can affected by improving performance of their business.

Again, tax authorities must consider and sponsor small and medium size businesses tax advice services that could be conducted by their tax practitioners or their associations to purposely meet the need of a particular market (Braithwaite, 2003). Computer software packages and booklets could also be used to outline tax obligations of a particular industry (Braithwaite, 2003).

- Record keeping

Keeping of records in businesses is essential for business reflection and analysis. To run a business successful, record keeping should be important element. Businesses fail because most of them have inadequate records, inaccurate or non-existent books or records (Braithwaite, 1995). The type of books or records to be kept by a business depends on the type of business and the type of information required. Records offer regular feedback on efficiency, effectiveness and the profitability on business operations. Records again assist businesses to analyse growth rate, identification of new business opportunities and determination of business value.

In relation to taxation, the work of Richardson and Sawyer (2001) indicated that proper records assist in determination of income and expenses for the purposes of preparing tax returns. That is tax authorities are able to calculate the taxable income and tax liability of taxpayer having taken into account all records for claims.

The consequence of not keeping proper records are the preparation of inappropriate tax returns and the spending of additional time and effort trying to correct the preparation of tax returns upon instruction from tax authorities (Torgler and Valev, 2007). Record keeping programs are organised for taxpayers to increase the quality of records kept by businesses. The exercise is aimed at given education to increase practices and compliance of a particular industry (Braithwaite, 2003; Hasseldine and Hite, 2007).

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter covers the methodology employed for the study. It describes the procedures and techniques used to collect, present and analyse data for the study. It actually includes the study area, research design, target population, sample size and the sample procedure. It again includes the instruments used for the data collection and methods of data analysis.

3.2 Description of the Study Area

The Komenda –Edina-Eguafo-Abrem (KEEA) Municipality was carved out of the Cape Coast Metropolis in 1988 and elevated to a Municipality in 2008 in pursuance to LI 1857. Elmina is the Municipal capital. The Assembly has six sub-structures namely; Komenda Zonal council, Elmina Zonal Council, Ntranoa Zonal Council, Eguafo Zonal Council, Ayensudo Zonal Council and Kissi Zonal Council.

The Municipality is bounded on the South by the Atlantic Ocean (Gulf of Guinea), the East by the Cape Coast Metropolis, the North by Twifo-Hemang-Lower Denkyira District and the West by the Mpohor-Wassa East District. Perched between longitude 1° 20' West and 1° 40' West and latitude 5° 05' North and 5° 15' North. The Municipality covers an area of 372.45 kilometers square (919.95 square miles).

The 2010 population and housing census (PHC) estimates the Municipality's population at 144,705. The population for male is 69,665 and female is 75,040 representing 48.14% and 51.86% respectively. Thirty-five (35%) percent of the population in the Municipality lives in urban centres.

The total employment in the municipality is 54,767 out of which 3,753 are employed in the public sector, 2,529 are employed in the private formal sector, 48,106 are employed in the private informal sector, 20 are employed in the semi-public sector, 344 are employed in the Non-Governmental Organisations (NGOs) and 16 are employed in other international organisation (Population and Housing census – Ghana Statistical Service, 2010 (PHC-GSS)).

3.3 Research Design

The study employed exploratory design. The use of exploratory design can be explained as, it helps to satisfy the curiosity of the researcher and desire for proper understanding, and it also helps to test for the possibility of embarking on a more extensive study as well as assisting in developing a method to be used in any subsequent study (Babbie and Mouton 2002). The purpose of the study is to find out the causes of tax evasion, the challenges of income tax administration in KEEA, possible measures to combat tax evasion records and how the tax systems can be made effective and equitable in KEEA.

The study relied on the use of qualitative data. Data shall be sourced primarily from the respondents through the issuance of well-structured questionnaires. The questionnaire shall be closed ended.

3.4 Population

The target population of the study is the informal sector operators in KEEA Municipality. It is made up of all businesses classified by GRA as informal businesses including but not limited to petty traders, hawkers, hairdressers, dressmakers, artisans, chop bar operators, provision stores among others. These represent the chunk of informal sector operators in the Municipality.

3.5 Sample and Sampling Procedures

A sample of informal sector business operators were selected from the target population. Base on this the student employed purposive and stratified random sampling techniques.

The purposive sampling techniques was used to select three principal towns for the study. The three towns selected were Elmina, Komenda and Abrem Agona. These were selected because most of the informal activities in the Municipality occur in these areas.

The student further divided the various towns into sub-groups or strata (stratified random sampling) since markets places and the informal sector businesses were widely spread throughout the towns. Random sample technique was used to select 397 respondents using the formula $n = N / (1 + Ne^2)$ where n = number of samples, N = total population and e = error tolerance. Total population is 48,106, at 95% confidence level. Thus $n = 48,106 / (1 + 48,106 \times 0.05^2)$. Studying of informal sector by Azah (2005) used a sample size of 300, Otioku (1988) used little over 300 and Ofori (2009) used 200. Based on this related studies, the student use of 397 was viewed as appropriate for the study. The techniques also allowed the researcher to select respondents based on their willingness to participate in the study and the type of the enterprise. This was to ensure that the respondents were not limited to only one or a few informal businesses.

3.6 Data Collection Instruments and Procedures

The student employed the use of questionnaires to collect primary data for the study. The questionnaires provided the student the fastest and the most reliable response from the participants. Interviews were used where in a case a respondent could not respond to a questionnaire.

3.7 Data Management

Data gathered was sorted in accordance with the type of instrument, area the data was collected for and by the themes. Data sorted allowed the researcher to process only relevant data. Cleaning and coding of data followed. Data was cleaned so as to allow for data to be appropriately placed at where it fits whereas coding ensured that raw data become meaningful. The Statistical Package for the Social Science software was used to process the quantitative data.

3.8 Data analysis

Data analysis involves the art of drawing conclusions and interpreting findings from data collected in (Creswell, 2008). The primary data was analysed in accordance with the objectives of the study. This was to make data processed coherent in its reading and arguments. Data was analysed using descriptive statistics. Data was presented in tables.

3.9 Limitations of the study

The main limitation of the study was that the student could not use the entire population. Sample was of the population was used for the study. This means the result of the finding are affected to some extent and thus generalisation may be difficult.

Again, the researcher could not use all the informal sector operators due to the limited resources on the part of the researcher.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter presents and discusses the results of the study. The results are described to reflect the objectives of the study. Items discussed include the demographic characteristics of the informal sector operators and how these characteristics affect tax compliance and tax non-compliance. The chapter also presents results on factors that cause tax compliance and tax non-compliance. It also discusses the challenges faced by the tax authority in executing their duty. The chapter closes with findings on how to improve income tax compliance of the informal sector operators.

4.2 Demography of Respondents and Non Tax Compliance

This section presents findings of the informal sector operators on how demographic characteristics investigated influence income tax compliance in the study area. The demographic characteristics investigated are gender, age, marital status, educational level and the kind of business activity carried out by the informal sector operators. The responses are presented in Table 4.1.

Table 4. 1: Demographic Characteristics of Taxpayers

Demographic	Frequency	Percentage (%)
Gender		
Male	135	33.9
Female	262	66.1
TOTAL	397	100
Age		
18 – 30	160	40.3
31 – 50	211	53.2
51 – 60	19	4.9
60+	7	1.6
TOTAL	397	100
Marital Status		
Married	231	58.2
Not Married	166	41.8
TOTAL	397	100
Education		
No Formal Education	71	17.9
Basic Education	134	33.8
Secondary Education	173	43.6
Tertiary Education	19	4.7
TOTAL	397	100
Business Activities		
Manufacturing	7	1.8
Service Oriented Business	236	59.4
Distribution and Retailing	154	38.8
Others	0	0
TOTAL	397	100

Source: Field Survey (2015)

The finding shows from Table 4.1 that, about 66% of the 397 respondents of the informal sector operators are females, whilst the remaining 34% are males. This indicate that the females dominate the informal sector in K.E.E.A Municipality. The reason for females dominating the informal sector in the study area could be fairly be explained by the fact that less premium is placed on female education in the area. This therefore makes the females have low education and skills that would qualify them for employment in the formal sector which mostly requires a much higher level of education. The females therefore resort to engagement in the informal activities as a complement to their husbands' efforts in providing livelihood for their families.

The effect of gender on tax compliance was investigated. Respondents who have registered their businesses were considered to be tax compliance than respondents who have not registered their businesses as shown in Table 4.2. About 69% of males have not registered their businesses and about 53% do not pay their business tax. On the other hand 60% of females have not registered their businesses and about 44% do not pay their business tax.

Table 4. 2: Effect of Gender on Income Tax Compliance

Gender	Have business		Total	Pay business tax		Total
	registered					
	Yes	No		Yes	No	
Male	42	93	135	63	72	135
% within gender	31.1	68.9	100	46.7	53.3	100
Female	105	157	262	148	114	262
% within gender	40.1	59.9	100	56.5	43.7	100

Source: Field Survey (2015)

This confirms the works of Torgler and Valev (2007), Richardson and Sawyer (2001) and Jackson and Milliron (1986) that females taxpayers are more tax compliant than their male counterparts are. This could be explained by the fact that females are by nature more submissive and this quality is displayed in every sphere of their life including complying with income tax laws. Males on the other hand are generally risk loving and deviants and exhibit this quality in every aspect of life including compliance with income tax laws.

About 41% and 53% of age ranges of 18 – 30 years and 31 – 50 years respectively of the respondents constituting about 94% are within the most active labour force as shown in Table 4.1. This result could be attributed to the fact that the formal sector employment is choked and opportunities to employ more young people are lacking. This makes the young people resort to petty trading as an alternative employment avenue as a source of livelihood. It could be also attributed to the fact that not much high capital is required in the informal sector, therefore even the youth are able to afford to raise capital to enter into the informal sector than that of either the private formal or the formal sector.

The effect of age has also been investigated in numerous compliance literatures. In Table 4.3, respondents aged up to 50 years were considered as young persons in the active working group whereas respondents above 50 years were considered as old persons in the working age group. About 80%, 55%, 21% and 29% of the age ranges of 18 – 30 years, 31 – 50 years, 51 – 60 years and 60+ years respectively have their businesses not registered. In the same vain, about 49.4%, 48.3%, 21.1% and 14.3% of the age ranges of 18 – 30 years, 31 – 50 years, 51 – 60 years and 60+ respectively do not pay their business tax.

Table 4. 3: Effect of Age on Income Tax Compliance

Age	Have business registered		Total	Pay business tax		Total
	Yes	No		Yes	No	
18 – 30	32	128	160	81	79	160
% within age	20	80	100	50.6	49.4	100
31 – 50	95	116	211	109	102	211
% within age	45	55	100	51.7	48.3	100
51 – 60	15	4	19	15	4	19
% within age	79	21	100	78.9	21.1	100
60+	5	2	7	6	1	7
% within age	71	29	100	85.7	14.3	100

Source: Field Survey (2015)

The study confirms the works of Richardson and Sawyer (2001) that examined age variable and found that older taxpayers tend to be more tax compliant than younger taxpayers. It can be seen that as the age of the informal sector operators advances, more try to have their businesses registered and hence reduces income tax non-compliance.

About 58% of the informal sector operators surveyed are married whilst the remaining 42% are not married as shown in Table 4.1. This shows that married people are more involved in informal businesses than the unmarried in the study area. There is the possibility of intra-couple risk pooling with a husband's primary employment increasing the possibility that a

wife will be observed in informal sector business. Informal sector business comparatively provides flexible working time than employment in the formal sector. Most married couples may decide that one of them works in the formal sector while the other engages in informal sector business. Mostly this arrangement could afford the wife ample time to take care of the children as well as take good care of the home, which is a requirement of a virtuous wife, particularly in the Ghanaian setting.

From Table 4.4, about 56% of the married have their businesses not registered as against 72% of the unmarried who have their businesses not registered. Again, 37% of the married do not pay their business tax as against 61% of the unmarried who do not pay their business tax. This indicates that married informal sector operators are more income tax compliant than their counterparts unmarried. The reasons for this revelation could be attributed to the fact that females are more compliant with the income tax laws and could therefore exert more influence in the decision to comply with income tax laws. The finding of this study confirms that of Richardson and Sawyer (2001) who concluded that married taxpayers are more compliant than unmarried taxpayers.

Table 4. 4: Effect of Marital Status on Income Tax Compliance

Marital status		Have business		Total	Pay business tax		Total
		registered					
		Yes	No		Yes	No	
Married		101	130	231	146	85	231
	% within married	43.7	56.3	100	63.2	36.8	100
Not married		46	120	166	65	101	166
	% within not married	27.7	72.3	100	39.2	60.8	100

Source: Field Survey (2015)

From Table 4.1, about 95% of the informal sector operators' respondents have low level of education mostly up to the secondary level or the technical level of education whilst the remaining 5% have tertiary education. From the analysis, most of the informal sector operators have low level of education. This support the findings of DeWit and Winden (1989) and Kidd (1993) that there is an inverse relationship between the level of educational attainment and informal sector business activities. Higher levels of educational attainment may play an important requirement in the labour market with high educational qualifications serving to secure employment in the formal sector. In most cases a requirement for most job vacancies in the formal sector requires at least diploma qualifications and in some cases a number of years of working experience. These may partly account for the reasons why most of the informal operators understudied have low educational level.

Investigating the effect of educational level with income tax compliance, respondents with no educational qualification through to secondary or technical education were considered as having low educational level, whilst those with qualification above secondary education were considered as having high educational level.

Table 4. 5: Effect of Educational Level on Income Tax Compliance

Educational level	Have business registered		Total	Pay business tax		Total
	Yes	No		Yes	No	
No formal education	5	66	71	7	64	71
% within no formal education	7	93	100	9.9	90.1	100
Basic education	23	111	134	61	73	134
% within Basic education	17.2	82.8	100	45.5	54.5	100
Secondary education	104	69	173	126	47	173
% within Secondary education	60.1	39.9	100	72.8	27.2	100
Tertiary education	15	4	19	17	2	19
% within Tertiary education	78.9	21.1	100	89.5	10.5	100

Source: Field Survey (2015)

From Table 4.5, it could be seen that informal sectors operators with low level of education have high rate of non-registration of their business as well as high level of income tax non-compliance. About 93%, 83%, 40% and 21% of no formal education, basic education, secondary education and tertiary education respectively have not registered their businesses. At the same time, about 90%, 55%, 27% and 11% of no formal education, basic education, secondary education and tertiary education respectively are tax non-compliance. This finding goes in line with the conclusions reached by Wallschutzky (1984) which indicated that education is a variable most likely to improve compliance. As individuals climb higher on the academic ladder, they are educated on a number of social and economic issues, including the need and essence to honour one's tax liabilities to the state. This may partly account for the

reasons why the informal sector operators with higher level of education tend to be more compliant with income tax laws than those with low level of education.

Business activities by the informal sector in the study area are mainly service oriented business, distributing and retailing, and manufacturing constituting 59%, 39% and 2% respectively as shown in Table 4.1. The level of service oriented and distributing and retailing could be explained as a result of low capital and labour skills required in providing such activities. The manufacturing activities usually require high capital and higher skills. This makes it somehow unattractive to the youth and the sector operators with low amount of capital. It could also be attributed to the fact that the service oriented business and the distribution and retailing business, activities could be carried on credit basis where the sector operators could borrow from other business operators, sell them before finally making payment to the lender. This however is not applicable in the manufacturing sector.

Determining the effect of business activity of the informal sector operators on income tax compliance, about 85%, 51% and 80% of manufacturing, service oriented, and distribution and retailing respectively does not have their businesses registered as shown in Table 4.6. Again, about 43%, 39% and 60% of manufacturing, services oriented and distribution and retailing respectively do not pay business tax. The higher level of tax non-compliance among manufacturing and distribution and retailing could be attributed to the fact that most of these businesses are carried out in the place of residence of the informal sector operators. This makes it possible to hide it from the registration and tax authorities from taxing them. This indicate that the kind of business activity carried out by the informal sector operators affect tax compliance.

Table 4. 6: Effect of Business Activity on Income Tax Compliance

Business activity	Have business registered		Total	Pay business tax		Total
	Yes	No		Yes	No	
Manufacturing	1	6	7	4	3	7
% within manufacturing	14.3	85.7	100	57.1	42.9	100
Service oriented business	115	121	236	145	91	236
% within service oriented business	48.7	51.3	100	61.4	38.6	100
Distribution and retailing	31	123	154	62	92	154
% within distribution and retailing	20.1	79.9	100	40.3	59.7	100

Source: Field Survey (2015)

4.3 Factors Affecting Tax Compliance in the Informal Sector

Table 4.7 presents the result of factors that affect tax compliance by the informal sector businesses in the study area.

Table 4. 7: Factors Affecting Tax Non-Compliance

Factors which affect tax evasion	Extent of Agreement					TOTAL
	Strongly Agree	Agree	Neutral	Strongly Disagree	Disagree	
Tax is too huge	249	109	0	19	20	397
	62.7%	27.5%	0%	4.8%	5%	100%
Total	90.2%			9.8%		
Business not being profitable	269	70	13	13	32	397
	67.8%	17.6%	3.3%	3.3%	8%	100%
Total	85.4%		3.3%	11.3%		
Distance difficulty in paying tax	250	64	13	45	25	397
	63%	16.1%	3.3%	11.3%	6.3%	100%
Total	79.1%		3.3%	17.6%		
Unnecessary or misuse of tax income by government	296	70	6	6	19	397
	74.6%	17.6%	1.5%	1.5%	4.8%	100%
Total	92.2%		1.5%	6.3%		
Knowing others are not paying	237	76	0	26	58	397
	59.7%	19.1%	0%	6.6%	14.6%	100%
Total	78.8%			21.2%		
No education is given to us	278	73	1	13	32	397
	70%	18.4%	0.3%	3.3%	8%	100%
Total	88.4%		0.3%	11.3%		
Advice from people	96	141	32	70	58	397
	24.2%	35.5%	8.1%	17.6%	14.6%	100%
Total	59.7%		8.1%	32.2%		

Source: Field Survey (2015)

About 90% of the respondent indicated that tax is too huge leaving only about 10% of the respondents who indicated that tax is not too huge as shown in Table 4.7. In finding out from the informal sector operators as to whether or not they pay business tax, about 47% of the informal sector operators indicated that they do not pay their business tax as shown in Table 4.8. This could be attributed to the fact that majority of them are of the view that tax is too huge. However, further investigations from the tax officials' shows that tax is not huge as indicated in Table 4.9.

Table 4. 8: Rate at Which Informal Sector Operators Pay Business Tax

Responses	Frequency	Percentage
Yes	211	53.1
No	186	46.9
TOTAL	397	100

Source: Field Survey (2015)

Table 4. 9: How the Tax Officials Perceive Income Tax Rate

Responses	Frequency	Percentage
Inadequate	0	0
Fair	2	66.7
Too High	0	0
Neutral	1	33.3
TOTAL	3	100

Source: Field Survey (2015)

From Table 4.9, about 67% of the tax officials indicated that the current tax rate is fair and hence justifiable. The differences in opinion for the two groups could be attributed to information asymmetry that exist between them.

Mostly, it is widely said that, businesses in the informal sector is not profitable. This has been found to be one of the causes of tax non-compliance. About 85% of the respondent indicated that business in the informal sector is not profitable and this affect them to evade tax leaving only about 15% indicating that even though business is not profitable, it does not influence them to evade tax. This account for high tax evasion by the informal sector operators showing as high as about 45% of respondents evading tax, 23% not being sure whether or not they have evaded tax and about 32% who do not evade tax as shown in Table 4.10 below. When similar question was asked from the tax official as to whether or not business not being profitable affect informal taxpayers to evade tax, 33.3% indicated that it does affect them to evade tax.

Table 4. 10: Evasion of tax by the informal sector operators

Have you ever evaded tax before?	Frequency	Percentage
Yes	179	45.1
No	128	32.2
Not Sure	90	22.7
TOTAL	397	100
Why does majority of the informal sector operator do not honour their tax obligation?		
Access tax office difficulty	1	33.3
Not receiving any benefit from the tax they pay	1	33.3
Business not being profitable	1	33.3
TOTAL	3	100

Source: Field Survey (2015)

The fact that businesses in the informal sector is not being profitable could be attributed to the high rate of depreciation of the Ghana cedi against the other major currencies. It can also be attributed to high rate of inflation making individuals or customers not patronising business activities carried out by the informal sector operators at a faster rate.

Accessibility to tax office by the taxpayer in the informal sector in paying tax has been assessed to be one of the factors influencing the sector operators to evade tax. Most of them argued that they could not locate the tax offices or it is difficult moving from the place of their work to the tax office to file tax returns or even to pay their business tax. As indicated in Table 4.7, about 79% accepting the fact that distance difficulty influence them to evade tax and about 18% indicating that distance does not influence them to evade tax whilst 3.3% could not tell whether or not distance affect them to evade tax. From Table 4.10, 33.3% of the tax officials indicated that access to tax office affect informal sector taxpayers to evade tax.

Some people are of the view that if tax income is not judiciously used by the government, it prevent taxpayers from honouring their tax obligations to the state. From Table 4.7, it could be seen that about 92% of the respondent indicated that unnecessary or misuse of tax revenue by the government influence them to evade tax, about 6% of the respondents indicated that unnecessary or misuse of tax revenue by government does not affect them to evade tax whilst only 2% of the rest could not indicate their stand on this matter.

From Table 4.7, about 79% of the respondent indicated that if they find out that others who operate in the same sector with them are not paying tax, it will demoralised them from honouring their tax obligations and about 21% of the respondents indicated that they are not being influence by knowing that others are not paying tax.

Ones' ability to understand and appreciate any policy or laws depends on the amount of education one receives. It is perceived that most of the informal sector operators lack the requisite education necessary to propel them pay tax. From Table 4.7, it could be seen that about 88% of the respondents indicated that they do not receive any education on tax and that has contributed to high tax evasion in the study area. However, about 11% of the respondents indicated that even if they receive no education on tax, they would still obey the tax laws whilst about 1% could not indicate their stand on this matter. About 67% of the tax officials indicated that they occasionally conduct tax education for the informal sector taxpayer and about 33% indicated that they often conduct tax education for the informal sector taxpayers as shown in Table 4.11. In the vain, about 5% of the informal sector business respondents indicated that they often receive tax education, 8% indicated that they occasionally receive tax education whilst the remaining 87% responded that they do not receive any tax education.

Table 4. 11: Tax Education

Tax education	Very often	Often	Occasionally	Not at all
Tax officials				
response	0	1	2	0
Percentage	0%	33.3%	66.7%	0%
Taxpayers				
response	0	19	32	346
Percentage	0%	4.8%	8.1%	87.1%

Source: Field Survey (2015)

Table 4. 12: Why Low level of Tax Education

	Frequency	Percentage
Why low level of education to the taxpayers		
Insufficient funds	1	33.3
Inadequate personnel	2	66.7
Inappropriate logistics	0	0
TOTAL	3	100

Source: Field Survey (2015)

From Table 4.12, it could be seen that the low level of education given to the informal sector operators are as a result of insufficient funds and inadequate personnel on the part of the tax officials. These have limited the level of education that the tax officials could carried out to make the informal sector operators appreciate and understand the tax laws and hence leading to high tax non-compliance.

Tax non-compliance is sometime as a result of advice from people or expert of tax who try to convince taxpayers to use any of the forms of the tax evading strategies to evade tax. From Table 4.7, about 60% of the respondents indicated that advice from people influence them to evade tax, about 32% of the respondents also indicated that advice from people does not affect them to evade tax whilst about 8% of the respondents could not indicate their stand on this subject matter.

4.4 Registration of Business and Payment of Business Tax

Ideally, every business has to register with registrar of businesses, GRA, SSNIT and other state institution enacted by law to register and regulate such business. Registration of businesses enable state institutions responsible to identify such businesses and hence regulate them. This again help GRA or particularly DTRD to identify all businesses within their jurisdiction and tax them accordingly. The student for that matter find out whether registration of businesses in the study area has effect on evasion of income tax or not.

Table 4. 13: Relationship between Business Registration and Payment of Business Tax by the Informal Sector Operators

	Frequency	Percentage	Number	Percentage
			who pay tax	
<hr/>				
Is your business formally registered?				
Yes	147	37	147	100
No	250	63	64	25.6
TOTAL	397	100	211	

Source: Field Survey (2015)

From Table 4.13, it could be seen that, out of the 37% respondents' who have their businesses registered, all of them constituting 100% pay their business tax whilst out of the

63% respondents' who have not registered their businesses, only about 26% pay business tax and the remaining 74% do not pay business tax. It could be deduced that when businesses in the informal sector are registered, it compel them to comply with the tax laws.

4.5 Years of Being in Business

The student find out whether years of being in business has a link with tax compliance.

Table 4. 14: Years of Operation and Payment of Business Tax

Years of operation	Frequency	Percentage	Number	Percentage
who pay tax				
Less than 1 year	70	17.6	18	25.7
1 - 5 years	230	57.9	141	61.3
6 - 10 years	71	17.9	41	57.7
Above 10 years	26	6.6	11	42.3
TOTAL	397	100	211	

Source: Field Survey (2015)

From the Table 4.14, it could be deduced that at early stages of operation (less than 1 year) about 26% of the respondents within this category honour their tax obligation. This could be attributed to the fact that they are not well established or organised and as such business is not profitable at this stage. As years in operation advances, thus from a year to five years, it increased to about 61% - businesses begin to honour their tax obligation more. From six to ten years and above ten years, payment of business tax is about 58% and 42% respectively indicating that when informal sectors operators become familiar with the tax laws or operate for a longer time they evade tax the most.

The rate at which informal sector operators diminishes in paying business tax as years in operation advances or as they become familiar with the tax laws necessitated the student to

investigate which form of tax evasion does the informal sector operators engage in within the study area. The finding from the informal sector respondents indicated that 7%, 5% and 80% of the informal sector operators engage in under-statement of income, over-statement of expenses and no submission of tax returns respectively whilst 8% indicated that they do not know. Finding from the tax officials on the form of tax evasion by informal sector operators in the study area indicated that about 50% of it occurs in the form of no submission of tax returns whilst the remaining 50% is evenly distributed to under-statement of income and over-statement of expenses.

Table 4. 15: Forms of Income Tax Non-Compliance

Forms of Income Tax Non-compliance	Most	Frequency	Percentage
Taxpayers responses			
Under-Statement of Income		26	6.5
Over-Statement of Expenses		19	4.8
No Submission of tax returns		320	80.6
Don't Know		32	8.1
TOTAL		397	100
Tax officials responses			
Under-Statement of Income	0	3	25
Over-Statement of Expenses	0	3	25
No Submission of tax returns	3	3	50

Source: Field Survey (2015)

4.6 Challenges that Militate Against Effective Revenue Mobilization by DTRD From the Informal Sector.

Careful review of literature indicated that the DTRD face challenges in executing their duties in Ghana. Upon careful thought, the student opted to find out some of the peculiar challenges the tax district in the study area faces which limit them from effective mobilisation of tax revenue from the informal sector for the state.

Table 4. 16: How Often the Tax Officials Face Challenges in Executing their Duty.

Responses	Frequency	Percentage
Very Often	2	66.7
Often	1	33.3
Occasionally	0	0
Not at all	0	0
TOTAL	3	100

Source: Field Survey (2015)

Table 4.16 indicate that, the tax officials at all times face challenges in exercising their duty and this called for the detailed investigations to find out some of the peculiar challenges that they face.

The finding indicated that personnel capacity constraints, large size of the informal sector, and inappropriate financial records on the part of the taxpayers recorded about 67% each as major challenges faced by the tax officials whilst large size of the tax district and lack of incentives for the tax collectors recorded about 33% each as other challenges faced by the tax officials as shown in Table 4.17.

Table 4. 17: Challenges Faced by DTRD in Executing their Function

Challenges	Frequency	Percentage
Personnel capacity constraints	2	66.7
Political constraints	0	0
Large size of the tax district	1	33.3
Large size of the informal sector	2	66.7
Lack of incentives for tax collectors	1	33.3
Inappropriate financial records on the part of taxpayers	2	66.7
Please specify if any other	0	0

Source: Field Survey (2015)

1. The personnel capacity constraints in the tax district.

Inadequate personnel has been identified as one of the major limiting factors in most of the public institutions which affect effective functioning of their mandated duty. The tax district in the study area reported under staff and this affect their smooth functioning such as conducting tax education for the taxpayers, organising seminars for the both personnel and taxpayers.

2. Political constraints

This find out whether there is any political influence that limit the tax district from effectively executing their mandates. The findings indicated that this is not a limiting factors in the tax district.

3. Large size of the tax district

The geographical size of a place within which an institution functions can be a limiting factor for that institution. The findings indicated that this a challenge for the tax district which could be attributed to the fact that office is under staff.

4. The large size of the informal sector

This refers to the total number of the informal sector operators within the tax district. The result indicated that there are a lot of informal sector operators in the tax district. Most of which operate secretly which makes it difficult for the tax officials to identify them and tax them accordingly. The large size of the informal sector businesses could be attributed to the fact that most people want to use that as a supplement to the formal sector businesses they do.

5. Lack of incentives to the tax collectors

An incentive is anything that motivates individuals to perform an action. The study of incentive structures is central to the all economic activities- both in terms of individual decision-making and in terms of co-operation and competition within a larger instructional structure. Economic analysis (differences between societies and between different organisations) within a society largely amounts to characterizing the differences in incentive structures faced by individuals involved in these collective efforts. Ultimately, incentives aims to provide value for money and contribute to organisational success. Investigating whether or not incentive for tax officials would challenge them to work hard or not revealed that it is a factor that limit effective functioning by the tax officials in the district.

6. Inappropriate financial records on the part of taxpayers

Financial records form the basis of accessing ones tax liability. Financial records are formal documents representing the transactions of a business, individual or other organisation. Financial records maintained by most businesses include a statement of retained earnings, cash flow statement, statements of comprehensive income, statement of financial position and tax returns. Keeping financial records in a well organised way is a key element for a successful business. The finding indicated that inappropriate financial records on the part of the businesses in the informal sector is another challenge that limit the tax officials in executing their duty.

4.7 Estimating Tax Liability of the Businesses in the Informal Sector

Calculating taxable income and tax liability of a small business is a challenge. It is ultimately impossible to calculate exactly the taxable income and tax liability of a business without filing of tax returns by the business. Filing of tax returns requires preparation of final account which states ones total revenue and expenses and profit within one accounting year. From this the required rate is applied to estimate the tax liability of the business. The research finding indicated that 100% of the respondents from the tax office use imagination or their own estimate in determining the tax liability of a business, 67% also indicated that they use tax liability of similar businesses who keep proper records as a guide to estimate tax liability of informal sector operators who do not keep proper financial records. Again, 33% of the respondents each indicated that they look at the size of the business or look at the personality of the owner of the business for determining the tax liability of the businesses in the informal sector who do not keep financial records as indicated in Table 4.18 below.

Table 4. 18: Estimating Tax Liability of Businesses in the Informal Sector

Method of estimating tax liability of businesses in the informal sector	Frequency	Percentage
By our imaginations or estimates	3	100
By using similar businesses who keep proper books as our guide	2	66.7
By looking at the size of the business	1	33.3
By looking at the personality of the owner	1	33.3
Please specify if any other	0	0

Source: Field Survey (2015)

4.8 Improving Income Tax Compliance in the Informal Sector

The earlier analysis had indicated low compliance to income tax by the informal sector operators. It is of interest to the DTRD to improve the compliance level of the informal sector entrepreneurs so as to increase revenue mobilisation in the K.E.E.A. Municipality. Investigations from the informal sector operators and the tax officials had indicated several measures that the informal sector operators have testified to be a way of improving income tax compliance.

Table 4.19 revealed that frequent tax education, some form of sanctions to tax evaders, the use of incentive to induce taxpayers, involvement of taxpayers in decision making and movement of taxpayers to the doorstep of taxpayers to collect tax would help to improve tax compliance by the informal sector operators.

The finding indicated that about 97% of the informal sector operators and 67% of tax official respondents agreeing that frequent tax education would increase their interest to comply with the tax laws whilst only about 3% of the informal sector respondents disagreed to that, and about 33% of the tax officials' respondents also stayed neutral. Tax education is seen as very

low in Ghana especially among the informal sector in Ghana. From Table 4.11, 87% of the respondent indicated that have not received any tax education from DTRD or any authority responsible to education them on payment of income tax for the business they do. Tax education teaches taxpayers the need to pay tax and the procedures to follow to pay tax successfully. Tax education therefore allows taxpayers to willingly avail themselves to pay the due tax to the state.

From Table 4.19, about 87% of the informal sector operators and 67% of the tax officials' respondents also agreed that if taxpayers are sanctioned or punished for evading tax, it will discourage them from disobeying the tax laws. The remaining 13% of the informal sector operators disagreed to the fact that sanctions or punishment will discourage them from disobeying the tax laws, and 33% of the tax official could not indicate their stand on this matter. The majority of the informal sector entrepreneurs are of the view that sanctions discourage non-compliance. The finding confirms the studies of Becker (1968) and Franzoni (2001) that reported evidence of a relationship between sanctions and tax non-compliance. Evidence of sanctions put on tax evaders would deter some informal sector operators from non-compliance.

From Table 4.19, about 84% as against 16% of the informal sector operators agreed that if they are made to pay flat rate or fixed amount as tax, it will motivate them to pay tax promptly. On the contrary about 67% of the tax officials are of the view that flat rate or fixed amount as tax would not motivate taxpayers to pay tax and the remaining 33% of the tax officials stayed neutral on this matter. Due to the low level of tax education, most of the informal sector operators could not go through the process of filling and paying tax liabilities. Complexity of filing and paying tax have contributed much to the tax non-compliance. Therefore, the introduction of flat rate or fixed amount as tax for the informal sector operators

who find it difficult to go through the process would help them comply promptly and hence improving tax compliance.

From Table 4.19, about 95% of the respondents responded that if they are given incentives as a motivation for obeying the tax laws, it will increase their interest to comply with the tax laws. The remaining 5% had reverse opinion. On this same issue, about 67% of the tax officials are of the view that if they are given incentives for extra effort for collecting tax, it would increase tax compliance and the remaining 34% of the tax officials disagree to this. The perception that the informal sector operators are tax non-compliance are as result of the taxpayers not receiving any direct benefit from honouring their tax obligations. The taxpayers are of the view that government has not put to efficient use of taxpayer's monies and therefore some people think that it is not worth paying taxes. The corrupt practices among government officials' makes taxpayers perceive them as dispersing tax revenue for their self-embellishment. As such the respondents are of the view that if they are given direct benefit, it would encourage them and others who do not want to pay tax to honour their tax obligation.

On the issue of involving taxpayers in decisions making concerning taxpayers, it can be seen from Table 4.19 that, about 97% of the informal sector operators' respondents and 33% of the tax officials indicated that if they are involved in decision making when formulating policies concerning payment of tax by the informal sector, it will increase their understanding of the tax laws and hence obey them, only about 2% of the informal sector operators' and 33% of the tax officials disagreed to this whilst the about 1% of the informal sector operators respondents and 33% of the tax officials could not indicate their stand on the matter. Tax decisions are formulated by the tax authorities or the tax officials without involving representatives of the taxpayers and as such all tax decision seems to go against them. The taxpayers face many challenges which are unknown to the tax officials and as such the

challenges are not factored in tax decisions in the tax district. For this reason, the informal sector taxpayers see their involvement in tax decisions would influence tax decision that would be fair and that would encourage majority of them to obey the tax laws.

Lastly, about 83% as against 17% of the informal sector operators' respondents and 33% as against 33% of the tax officials indicated that if tax collectors should move to their workplaces of the taxpayers to collect tax, it would motivate them to pay their due tax as shown in Table 4.19. Movement of tax officials to the doorstep of taxpayers to collect tax. Movement of taxpayers to the tax office to file tax returns and pay tax liabilities were reported to be very difficult for the informal sector operators in the study area. The taxpayers are of the view that, if the tax officials from time to time should move to the work place of the tax taxpayers to collect tax due from them. This will make them have time to operate their shops since some of them do the business alone. They are of the view that if they close their shops and move that far distances to the tax office, they would lose business income for that time.

Table 4. 19: Improving Income Tax Compliance

Improving payment of tax	Extent of Agreement					Total
	Strongly	Agree	Neutral	Strongly	Disagree	
	Agree			Disagree		
Taxpayers response						
If frequent tax education is given to us it will improve upon payment of tax	307	77	0	6	7	397
	77.3%	19.4%	0%	1.5%	1.8%	100%
Total	96.7%			3.3%		
If I am sanctioned or punished for evading tax, it will encourage me to obey the tax laws	160	186	0	19	32	397
	40.3%	46.9%	0%	4.8%	8%	100%
Total	87.2%			12.8%		
If I am made to pay flat rate or fixed amount as tax, it will motivate me to pay	269	64	0	45	19	397
	67.8%	16.1%	0%	11.3%	4.8%	100%
Total	83.9%			16.1%		
If incentives are given to me for obeying the tax laws, it will arouse my interest.	262	115	0	0	20	397
	66%	29%	0%	0%	5%	
Total	95%			5%		

If I am involved in tax decisions, it will increase my understanding of the tax laws and obey them	294	90	5	0	8	397
	74.1%	22.7%	1.2%	0%	2%	
Total	96.8%		1.2%		2%	
If tax officers come to my doorstep to collect tax, it will encourage me to pay.	218	110	0	24	45	397
	54.9%	27.7%	0%	6.1%	11.3%	
Tax officials response						
Total	82.6%				17.4%	100
If frequent tax education is given to informal sector operators it will improve upon collection of tax	2	0	1	0	0	3
	66.7%	0%	33.3%	0%	0%	100
Total	66.7%		33.3%		0%	
If tax evaders are sanctioned or punished, it will encourage them to obey the tax laws	2	0	1	0	0	3
	66.7%	0%	33.3%	0	0	100
Total	66.7%		33.3%		0%	
If informal sector operators are given flat rates or fixed amount as tax to pay, it will motivate them to pay	0	0	1	1	1	3
	0%	0%	33.3%	33.3%	33.3%	100
Total	0%		33.3%		66.7%	
If incentives are given to me for extra effort put in the collection of tax, it will arouse my interest to work hard.	2	0	0	0	1	3
	66.7%	0%	0%	0%	33.3%	100
Total	66.7%		0%		33.3%	

If informal sector tax payers are involved in tax decisions, it will increase their understanding of the tax laws and obey them	1	0	1	0	1	3
	33.3%	0%	33.3%	0%	33.3%	100
Total	33.3%		33.3%		33.3%	
If tax officers go to the doorstep of the individual taxpayers to collect tax, it will encourage them to pay.	1	0	1	0	1	3
	33.3%	0%	33.3%	0%	33.3%	100
Total	33.3%		33.3%		33.3%	

Source: Field Survey (2015)

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of major findings of the study, presented conclusions and recommendations of the study. The study investigated taxation of the informal sector in Ghana, challenges and possibilities in Komenda-Edina-Eguafo-Abrem Municipality in central region.

The study set out to achieve the following objectives. In first place, the study aimed at identifying why non-compliance with income tax is high in the informal sector especially the KEEA. Secondary the study examined the challenges that militate against effective revenue mobilization by DTRD from the informal sector. It also examined the demography characteristics of taxpayers and its effect on tax compliance.

5.2 Summary of findings

The summaries are presentations based on the findings obtained in chapter four of this study. About 66% and 34% of the respondents are females and males respectively. About 60% and 44% of females have not registered their businesses and do not pay business tax respectively. Also about 69% and 53% of males have not registered their businesses and do not pay business tax respectively. About 94% are 50 year or below. About 80%, 55%, 21% and 29% are within the age ranges of 18 – 30 years, 31 – 50 years, 51 – 60 years and above 60 year have not registered their businesses respectively. Also about 49%, 48%, 21% and 14% within age ranges of 18 – 30 years, 31 – 50 years, 51 – 60 years and above 60 year do not pay business tax. About 58% and 42% of the respondents are married and not married respectively. About 56% and 72% of married and not married respectively have not registered their businesses. Also about 37% and 61% of married and not married respectively

do not pay business tax. About 95% as against 5% of the respondents have low education. About 93%, 83%, 40% and 21% of respondents with no formal education, basic education, secondary education and tertiary education respectively have not registered their businesses. Also about 90%, 55%, 27% and 11% of respondents with no formal education, basic education, secondary education and tertiary education respectively do not pay business tax. About 59%, 39% and 2% of the respondents are engaged in service oriented business, distribution and retailing business and manufacturing business respectively. About 85%, 51% and 80% of manufacturing business, service oriented business and distribution and retailing business respectively have not registered their businesses and about 43%, 39% and 60 of manufacturing business, service oriented business and distribution and retailing business respectively do not pay business tax.

About 90% of the respondents see the income tax rate as too high whilst only about 10% see the income tax rate as fair. About 85% as against about 15% of the respondents indicated that business not being profitable has contributed to high income tax non-compliance. About 79% as against 21% of the respondents indicated that the accessibility to the tax office is difficult for them and hence it limit them to successfully honour their tax obligations. About 92% as against 8% of the respondents indicated that unnecessary or misuse of income tax by government is a factor that has contributed to high income tax non-compliance among the informal sector entrepreneurs. About 79% as against 21% of the respondents are of the view that when other informal operators are found not to be honouring their tax obligations, it affect them to also become non-compliance. Inadequate income tax education for the informal sector entrepreneurs recorded about 88% of the respondents indicating that it has contributed to the high income tax non-compliance whilst about 12% thought otherwise. About 67% and 33% of the tax officials indicated that they occasionally and often conduct tax education for the informal sector operators respectively. About 33% and 67% of the tax

officials attributed low level of tax education for the informal sector operators to insufficient funds and inadequate tax officials respectively. About 60% of the respondents as against 40% indicated that advice from experts or people affect them to be tax non-compliance.

About 37% as against 63% of the respondents have their businesses registered. All registered businesses pay tax and about 26% of non-registered businesses pay tax. About 26% as against about 74% of the 18% of the respondents who have operated for less than one year are tax compliance. About 61% as against 39% of the 60% of the respondents who have operated for one year up to five years are tax compliance. About 58% as against about 42% of the 18% of the respondents who have operated for six years up to ten years are tax compliance. About 42% as against 58% of the 7% of the respondents who have operated for more than ten years are tax-compliance.

About 7%, 5% and 80% of the informal sector operators indicated that they could use understatement of income tax, over-statement of expenses and no submission of income tax returns respectively to evade tax whilst about 8% could not indicate their stand. About 25%, 25% and 50% of the tax officials also indicated that the informal sector operators use understatement of income, over-statement of expenses and submission of income tax returns respectively to evade tax.

All respondents of the tax officials indicated that they face challenges in executing their duty. About 67% of the tax officials indicated that the tax office is under staffed, the size of the informal sector being too large, and inappropriate financial records on the part of the informal sector businesses militate against effective revenue mobilisation while 33% of them also indicated that the size of the tax district being too large and lack of incentives for the tax collectors militate against effective revenue mobilisation in KEEA. About 100% and 67% of the tax officials indicated that they use their own imagination and tax liability of similar

businesses respectively in determining the tax liability of businesses. Again, about 33% of the tax officials indicated that they look at the size of the business and the personality of the business owner in estimating the tax liability of businesses.

On tax compliance, about 97% as against 3% of the informal sector respondents and 67% as against 33% of the tax officials indicated that frequent tax education will increase tax compliance. About 87% as against 13% of the informal sector operators and 67% as against 33% of the tax officials indicated that sanctions or punishment of tax evaders will let taxpayers avoid evading tax. About 84% as against 16% of taxpayers indicated that payment of flat rate or fixed amount will lead to increase in tax compliance but about 67% of the tax officials stated otherwise. About 33% of the tax officials could not state whether or not payment of flat rate or fixed amount will increase compliance. About, 95% as against 5% of the informal sector respondents are of the view that motivating informal sector entrepreneurs with incentives would increase tax compliance. About 67% as against 33% of the tax officials also indicated that if they are given incentives for extra effort exerted for collecting tax, it will boost them to do extra work to increase tax compliance. About 97% as against 2% of the informal sector entrepreneurs and 33% at piece of the tax officials are of the view that the involvement of taxpayers in decisions concerning payment of tax by the informal sector would increase tax compliance whilst about 1% of informal sector operators and the about 33% could not state their stand on this matter. 83% as against 17% of the informal sector operators' respondents and 33% as against 33% of the tax officials see movement of tax collectors close to the informal entrepreneurs would increase tax compliance.

5.3 Conclusions

The following conclusions are drawn from the study. Females dominate the informal sector in KEEA municipality. Most of the informal sector entrepreneurs in KEEA Municipality are

within the active working age. Majority of informal sector entrepreneurs have low level of education. Married people dominate the informal sector in the study area. Females are more tax compliant than the male counterparts. The type of business has influence on tax compliance.

The informal sector entrepreneurs in the study area are generally not familiar with the income tax laws with most of them not on the tax roll of DTRD. As a result of this deficiency, almost all of the variables for non-compliance studied were found to be present among the informal sector entrepreneurs in the study area. Thus, tax being huge, business no being profitable, distance difficulty in paying tax, unnecessary or misuse of tax income by government, knowing that other are not paying tax, low or no tax education and advice from people or experts affect tax non-compliance. Again, non-registration of business is high among the informal sector entrepreneurs in the study area and this has affected tax non-compliance. Also when informal sector taxpayers become familiar with the tax laws they evade tax the most. The low level of education attainment of the informal sector entrepreneurs of the study area, has influence on tax non-compliance.

The level of income tax education in the study area is very low resulting in high income tax non-compliance among the informal sector entrepreneurs. The good news however is that, with effective income tax education for the informal sector entrepreneurs, involvement of taxpayers in tax decisions, sanctions or punishments in the tax laws and the use of incentives to motivate taxpayers would see much and better improvement in tax compliance.

In conclusion, the study could not find out the books and accounts kept by the informal sector businesses in the KEEA. It is therefore recommended that future researchers would conduct further studies to find out this.

5.4 Recommendations

In order to avert the high income tax non-compliance among the informal sector entrepreneurs, the following recommendations are made:

Enthusiastic income tax education should be conducted by DTRD. As part of this, a help desk should be integrated in its programs to visit people in their homes, businesses and churches to provide education on income tax.

Again, the tax authorities should consider sponsoring small business tax advice service tailored for the informal sector entrepreneurs. This could be conducted by credible third party institutions or individual, such as tax experts or accountants and other compliant informal sector entrepreneurs.

More complete and comprehensive record keeping practice by the informal sector entrepreneurs should be encouraged. This could be done by employing national service personnel to go round and help the informal sector entrepreneurs to help them keep and maintain proper books and account for their businesses.

DTRD should obtain master list of informal sector businesses in the tax district. The use of national service personnel and unemployed graduates and collaborating with the municipal assembly can help to do this.

The tax returns filing procedures should be made simple through the use of simple tax returns forms.

Sanctions or punishments must be preserved in the tax laws but as the last resort in enforcing compliance.

APPENDIX I

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APPENDIX II

QUESTIONNAIRES FOR TAX OFFICIALS

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

(KNUST SCHOOL OF BUSINESS)

This questionnaire is to collect data for the study of taxing the informal sector. A case study of KEEA Municipality. Data collected is solely meant for academic purposes and for this study only. Confidentiality of information gathered from respondents is assured.

SECTION A **DEMOGRAPHIC INFORMATION**

Please tick the most appropriate (✓)

1. Gender Male () Female ()
2. Age group:
16 – 30 years () 31 – 45 years ()
46 – 60 years () 61 years and above ()
3. Level of education
No Formal education () Basic Education () Secondary Education ()
Post-Secondary Education () Others (), specify
4. For how long have work with DTRD (GRA)?
Below 5 years () 5 to 10 years () Above 10 years ()
5. Rank;
Junior level staff () Middle level staff () Management Staff ()

SECTION B

This section find out factors affecting compliance level of the taxpayers.

6. In your opinion do majority of informal sector operators pay taxes?
Yes () No () Don't know ()

If you answered No to question 6 answer question 7 else go to question 8.

7. If No to question 6, why do you think majority of them do not honour their tax obligations?

Access to tax office difficulties () Some think they do not receive any benefit from the taxes they pay () Business not being profitable () complex nature of filling and paying tax () Specify if any other

8. How often do DTRD regularly conduct tax education for individual taxpayers on the need to file tax returns regularly and on time as well as the need to pay taxes timely?

Very often () Often () Occasionally () Not at all ()

If you answered “occasionally” or “Not at all” to question 8 answer question 9 else go to question 10.

9. If you answered “occasionally” or “Not at all” to question 8, what account for that?

Please tick as many as appropriate and indicate MOST against the major account.

Insufficient funds () Inadequate personnel () Inappropriate Logistics ()

Specify if any ()

10. Does the Municipal sanction those who fail to honour their tax obligations?

Yes () No () Don't know ()

If you answered No to question 10 answer question 11 else go to question 12.

11. If you answered No to question 10, what account for the reasons for not applying the sanctions? Please tick as many as appropriate and indicate MOST against the major reason.

Political interference () Inappropriate logistics ()

Ethical consideration () Fear of collapsing their businesses ()

12. How do you perceive the current tax rates to individual taxpayers?

Inadequate () Fair () Too High ()

13 I endorse for changes in the current tax rates?

Strongly agree () Fairly agree () Agree () Strongly disagree () Disagree ()

SECTION C

This section find out the challenges in collecting taxes from the informal sector businesses.

14 As a tax officer how often do you face challenges in discharging your duty?

Very often () Often () Occasionally () Not at all ()

If you answered “Very often” or “Often” to question 14, answer question 15 else go to question 16.

15 If “Very often” or “Often”, what challenges do you face? Please tick as many as applicable and indicate MOST against the major challenge.

Personnel capacity constraints ().....

Equity notions ()

Political constraints ().....

Large size of the tax district ().....

Large size of the informal sector ().....

Lack of incentives for tax collectors ()

Inappropriate financial records on the part of taxpayers ()

Please specify if any other.....

.....

16 Are you satisfied with the financial records kept by the informal sector operators?

Very satisfied () Satisfied () Very dissatisfied () Dissatisfied ()

17 How do you determine the tax liability of individual taxpayers who do not keep financial records? Please tick as many as applicable and indicate MOST against the major determiner.

By our imaginations or estimates ()

By using similar businesses who keep proper books as our guide ()

By looking at the size of the business ()

By looking at the personality of the owner ()

Please specify if any other.....

18 How often do you involve taxpayers in making decisions which affect them?

Very often () 0 Often () Occasionally () Not at all ()

19 Do you agree that some measure of compulsion should be applied to make reluctant taxpayers pay up?

Strongly agree () Fairly agree () Agree () Strongly disagree () Disagree ()

20 What form does income tax non-compliance behaviour of the informal sector take?

Please tick as many as appropriate and rank them starting with 1st for the most prevalent

Under-statement of income ()

Over-statement of expenses ()

No submission of tax returns ()

21 To what extent do you agree to the following as a way of improving upon tax collection in the informal sector in your tax district?

	Strongly agree	Agree	Strongly disagree	Disagree
If frequent tax education is given to informal sector operators it will				

improve upon collection of tax				
If tax evaders are sanctioned or punished, it will encourage them to obey the tax laws				
If informal sector operators are given flat rates as tax to pay, it will motivate them to pay				
If incentives are given to me for extra effort put in the collection of tax, it will arouse my interest to work hard.				
If informal sector tax payers are involved in tax decisions, it will increase their understanding of the tax laws and obey them				
If tax officers go to the doorstep of the individual taxpayers to collect tax, it will encourage them to pay.				

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

(KNUST SCHOOL OF BUSINESS)

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SECTION A

DEMOGRAPHIC INFORMATION

Please tick (✓) in the following questions

1. Gender

Male () Female ()

2. Which of the following ranges of ages do you fall within?

18-30 () 31-50 () 51-60 () 60+ ()

3. What is your marital status?

Married () Not Married ()

4. What is your level of education?

No Formal Education () Basic School ()

Secondary School () Tertiary ()

5. Which of the following Business Activities do you operate as a taxpayer?

Manufacturing () Service Oriented Business ()

Distribution and retailing () Others () Please specify_____

SECTION B

Factors affecting tax compliance

6. Is your business formally registered? Yes () No ()

7. How many years have you been in operation?

Less than 1 year () 1-5 years () 6-10 years () Above 10 years ()

8. Are you aware you are supposed to pay tax for the business you do?

Yes () No ()

9. Do you pay your business tax? Yes () No ()

If you answered Yes to question 9 answer question 10 else go to question 11.

10. How often do you pay it? Regularly () Occasionally ()

11. How do you perceive the current tax rate?

Inadequate () Fair () Too High () Don't Know ()

12. Have you ever evaded tax? Yes () No () Not sure ()

13. How do you agree to the following as factors which affect you or people to evade tax?

	Strongly agree	Agree	Strongly disagree	Disagree
Tax is too huge				
Business not being profitable				
Distance difficulty in paying tax				
Unnecessary or misuse of tax income by government				
Knowing others are not paying				
No education is given to us				
Advice from people				

14. What form does income tax non-compliance behaviour of the informal sector take?

Please tick as many as appropriate and rank them starting from 1st to the last.

Under-statement of income ()

Over-statement of expenses ()

No submission of tax returns ()

Don't know ()

SECTION C

This section find out the challenges in collecting taxes from the informal sector businesses.

15. What is the level of your knowledge in accounting?

Low or Poor () Average or Medium () High or Very good ()

If you answered low/poor to question 15, answer question 16 else go to 17.

16. If you answered low/poor to question 15, do you engage the services of any person knowledgeable in accounting? Yes () No ()

If you answered No to question 16, answer question 17 else go to question 19.

17. If you answered No to question 16, what is the reason?

High service fees () No need () Can't found them ()

18. Do you keep financial records on your business activities? Yes () No ()

19. How often do DTRD regularly conduct tax education for you on the need to file tax returns regularly and on time as well as the need to pay taxes timely?

Very often () Often () Occasionally () Not at all ()

20. Do you consider effective monitoring and supervision by DTRD (GRA) officials an important factor to achieve success in paying taxes? Yes () No ()

21. Does the Municipal sanction those who fail to honour their tax obligations?

Yes () No () Don't know ()

22. To what extent do you agree to the following as a way of improving payment of tax?

	Strongly agree	Agree	Strongly disagree	Disagree
If frequent tax education is given to us it will improve upon payment of tax				
If I am sanctioned or punished for evading tax, it will encourage me to obey the tax laws				
If I am made to pay flat rate or fixed amount as tax, it will motivate me to pay				
If incentives are given to me for obeying the tax laws, it will arouse my interest.				
If I am involved in tax decisions, it will increase my understanding of the tax laws and obey them				
If tax officers come to my doorstep to collect tax, it will encourage me to pay.				

THANK YOU