

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

INSTITUTE OF DISTANCE LEARNING

**MOTIVATIONS TO TAX COMPLIANCE BY SMES IN GHANA: A CASE STUDY
OF SOME SELECTED SMES IN TECHIMAN MUNICIPALITY**

By

Theresah Ntoniwa Aburam



FEBRUARY, 2021

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BY

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BA ECONOMICS AND THE STUDY OF RELIGIONS

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A thesis submitted to the Institute of Distance Learning, Kwame Nkrumah University of Science and Technology in partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE IN ACCOUNTING AND FINANCE

FEBRUARY, 2021

DECLARATION

I hereby declare that, this submission is my own work towards the degree of “**MASTER OF SCIENCE IN ACCOUNTING AND FINANCE**” and that, to the best of my knowledge and belief, it contains no material previously published by another person nor any material accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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Dr. Kwame Oduro Amoako
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Certified by
Dr. Daniel Domeher
Head of Department **Signature** **Date**

ABSTRACT

The main source of revenue for every economy is taxation. Revenue realized from taxes levied on individuals, goods and service is used to fund governments' budgets. Taxation and tax rates have evolved and developed over the years in Ghana. Therefore, tax compliance as much as tax evasion is of much concern to every economy including Ghana. SMEs form about 90% of registered businesses in Ghana and contribute about 70% to the country's GDP. Therefore, SMEs compliance to taxation has great impact on revenue mobilization in the economy. Hence, the objective of this study was to examine the factors that motivate SMEs to comply with taxation using some selected SMEs in the Techiman Municipality as a case study. The study is an explanatory or causal study which established a relationship between tax compliance and motivating factors to tax compliance by SMEs targeting designated SMEs in the municipality. The study sampled one hundred and seventy (170) SMEs using stratified sampling. Primary and secondary data was used for this study with a qualitative research methodology being adopted by the use of questionnaires and oral interviews. Five motivating factors were analyzed to establish their impact on tax compliance. These are; fair tax policies, strict enforcement by collectors, fear of detection of non-payment of taxes, tax reliefs as reward for tax compliance and high returns. The study further analyzed factors that might not motivate SMEs to pay their taxes. The factors analyzed are unfair tax policies, perceived corruption by government, liberal enforcement by tax collectors and low returns. The study showed that, SMEs are motivated to pay their taxes because of strict enforcement by collectors, high turnover, fear of detection of non-payment and the belief that tax policies are fair. However, the study showed that, tax reliefs as rewards for tax compliance does not motivate SMEs to pay their taxes. In addition, all four factors analyzed to not motivate SMEs to pay taxes do not motivate tax compliance according to this study.

DEDICATION

I first and foremost dedicate this project to the Almighty God who gave me the strength, understanding and knowledge which equipped me throughout this exercise.

I also dedicate this work to my mother, Mad. Vida Asantewa for her consistent dedication to all aspect of my life especially to this work.



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A profound thank you to all colleagues especially those from Techiman for their immense support during our period of study.

God bless us all.

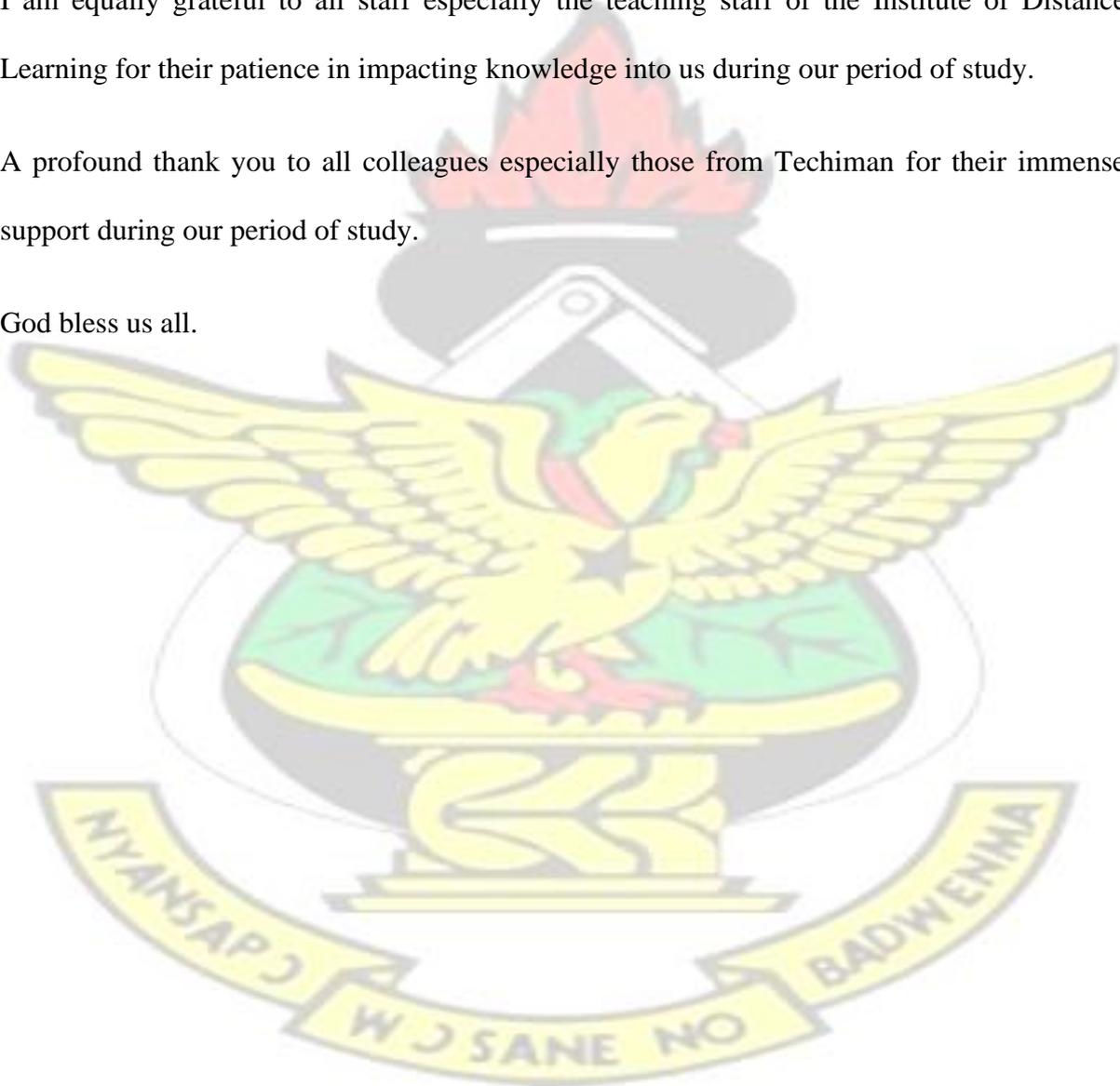


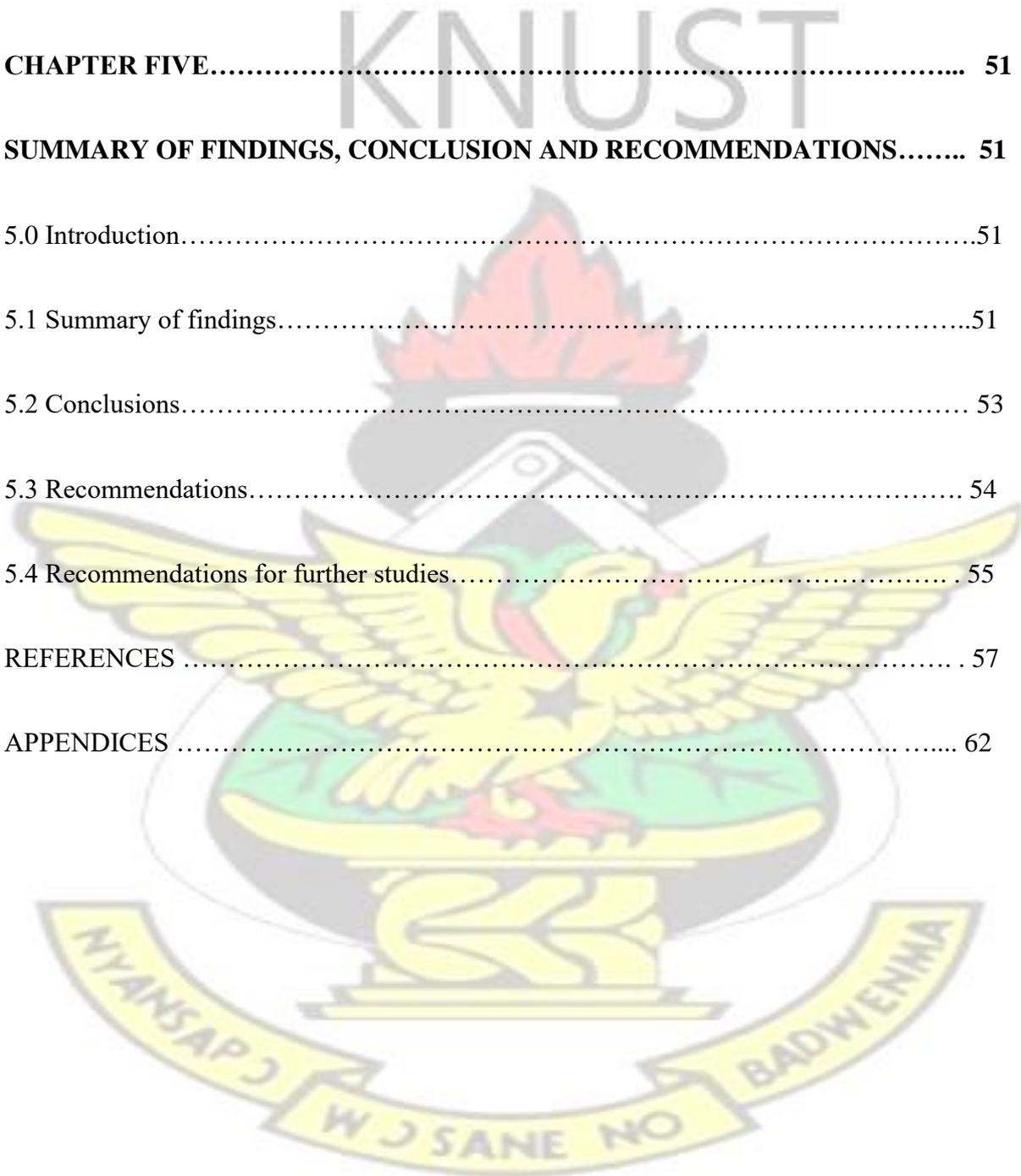
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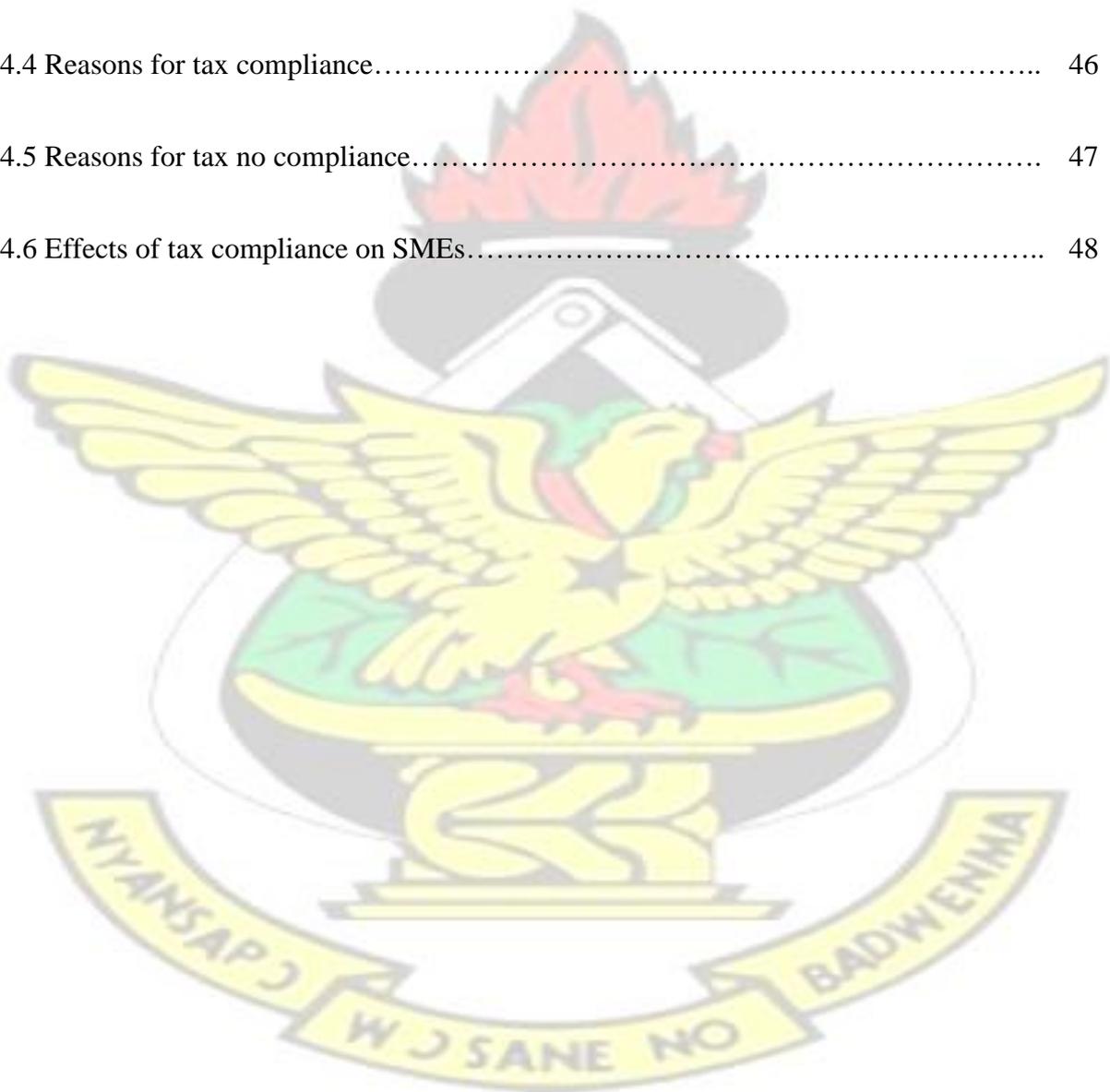
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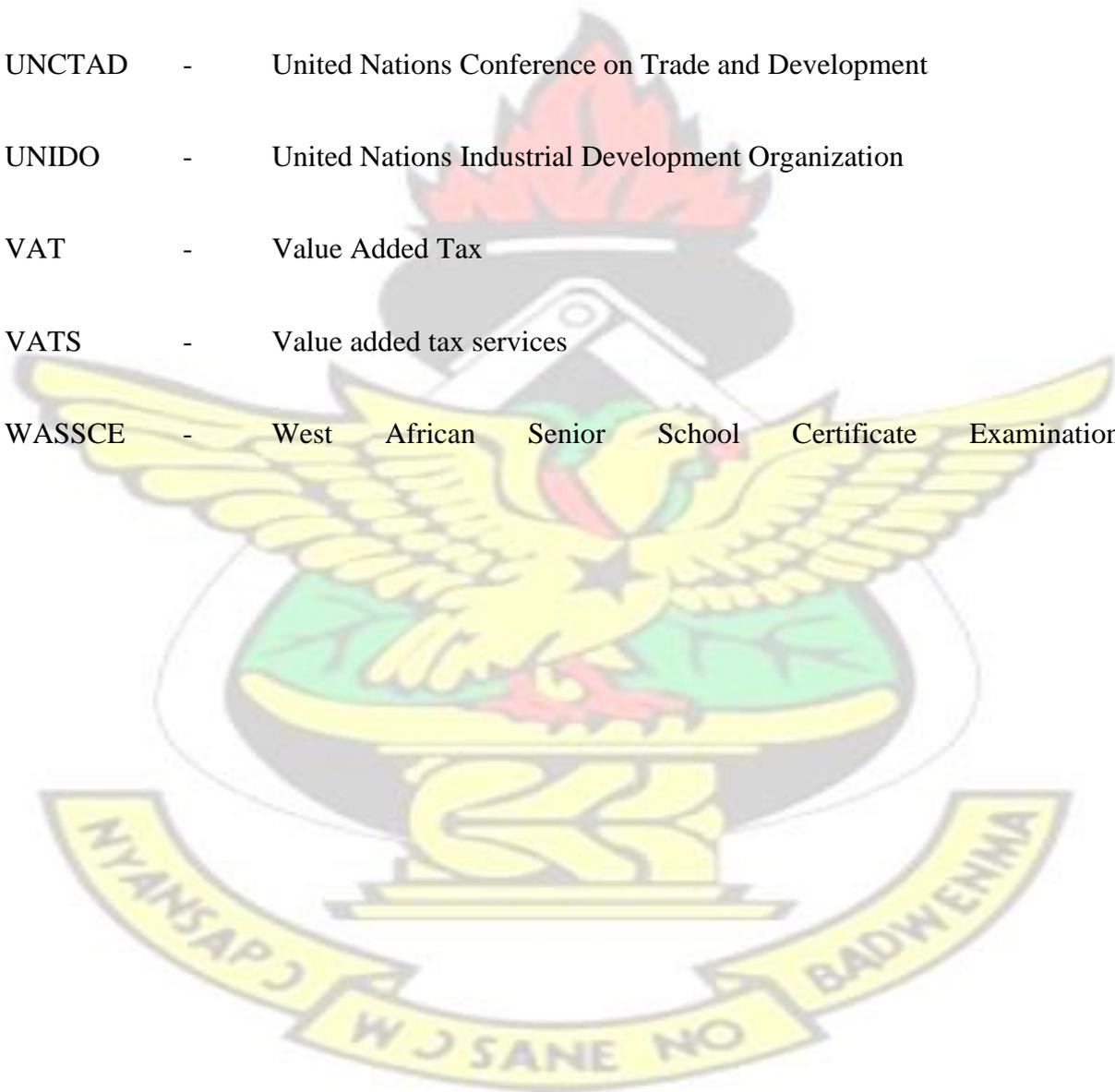


LIST OF ABBREVIATIONS/ACRONYMS



BECE	-	Basic Education Certificate Examination
CEPS	-	Customs, Excise and Preventive Service
CIT	-	Corporate Income Tax
GDP	-	Gross domestic product
GRA	-	Ghana Revenue Authority
IASB	-	International Accounting Standard Board
IFRS	-	International Financial Reporting Standard
IIA	-	Invest in Africa
IRS	-	Internal Revenue Authority
LTU	-	Large tax payers' unit
MOFEP	-	Ministry of Finance and economic planning
NBSSI	-	National Board for Small Scale Industries
NRS	-	National Revenue Secretariat
OECD	-	Organization for Economic Co-operation and Development
PAYE	-	Pay as you earn
PIT	-	Personal income tax
RAGB	-	Revenue agencies Governing Board
RGD	-	Registrar General Department

SMEs	-	Small and Medium Enterprises
SPSS	-	Statistical Package for social science
SSNIT	-	Social Security and National Insurance Trust
SSSCE	-	Senior Secondary School Certificate Examination
TMA	-	Techiman Municipal Authority
UNCTAD	-	United Nations Conference on Trade and Development
UNIDO	-	United Nations Industrial Development Organization
VAT	-	Value Added Tax
VATS	-	Value added tax services
WASSCE	-	West African Senior School Certificate Examination



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Taxes are strength of any and every economy. Most economies fund their budget through taxation. Taxes are a means of fundraising by the government. It is a major source of income for the country. Therefore, taxation plays significant function in economic growth as well as the development of SMEs. According to Adams (2010) an American businessman, taxation is a weight put on the populace of a country so as to enable their government to fund activities that benefits citizens. Tax revenues are used to finance projects such as infrastructure like roads, hospitals etc. (Atawodi & Ojeka, 2012). In effect, taxation is a means of sustaining the population paying the taxes.

SMEs as defined by the Ghana Statistical Authority are enterprises that operate with ten or less employees. The National Board for small scale enterprises (NBSSI) in Ghana defines SMEs as enterprises with not more than nine employees with a total value of plant and machinery of Ten million Cedis or less. Some activities of SMEs in Ghana include among others soap and detergent making, production of fabrics, fashion designing and tailoring, food processing, textile and leather, bricks and cement etc. According to Mensah (2004), about 90% of businesses which are registered with the Registrar General of Ghana are micro, small and medium enterprises. SMEs' contribution to the GDP of is about 70%. SMEs have thus become a major source of income and employment in the country. According to Kayanula and Quatey (2000), SMEs in Ghana have been able to mobilize and utilize finances which would have not been sufficient in other business ventures.

Tax policies as well as tax rates especially in developing countries like Ghana can influence small business firms, their establishments, payroll and employment growth (Erin ,2015). Taxes play imperative role in the development and growth of SMEs. SMEs on the other hand contribute to the development of the economy especially in developing countries. Thus SMEs through tax contribute their quota to the nation's development (Ameyaw, 2016). However, Ameyaw et al (2016) are of the view that, tax compliance poses a serious challenge to Governments in African countries.

SMEs established in developing countries especially in Ghana face a lot of setbacks which cripple their operations and put most of them out of business. SMEs Poor performance especially with regards to generating employment could be attributed to a lot of factors which includes poor management, access to finance among others. However, high tax burden on SMEs can also cripple their activities. According to a study by Fagbemi, Vadile & Noah (2010), taxes are very common in developing countries and they hinder or slow the growth of businesses which leads to economic stagnation. But Government's intervention like favorable taxation policies will reverse the adverse situations and help grow SMEs (Agwu et al, 2014). According to an article published by myjoyonline.com on 19th May, 2017, Invest In Africa (IIA) and Ernst and Young (EY) advised Government to consider reducing the number of tax burdens on SMEs to allow more SMEs to sprout which will help in the development of the economy. High taxes lead to high production, distribution and selling costs which consequently leads to elevated prices which results in consumers changing their purchases activities and pattern. People act in response to high prices by purchasing less of the products which affects the net cash flow of the business (Tee, Boadi & Opoku, 2016).

Tax incentives and direct grants strengthen the research and development orientation of SMEs. Tax subsidies can also be a primary instrument in the development and growth of

SMEs (Sonja et al, 2015). Therefore, governments can adapt a number of productive tax policies to help grow SMEs motivate tax compliance by these SMEs and grow the economy at large.

1.2 Problem Statement

Taxation as well as taxation rates have evolved and developed over the years in Ghana. The Ghana Revenue Authority was instituted to replace the Internal Revenue Service (IRS), Value Added Tax Service (VAT), Customs Excise and Preventive Service in the year 2009. The Ghana Revenue Authority is the administrative body which is assigned to assess, collect and account for revenues from taxation in Ghana. It also ensures compliance of the tax laws by every taxable person including SMEs. Among others, the authority has the mandate to combat tax fraud and evasion of which most SMEs fall victims. Taxes in Ghana include income and property tax, taxes on domestic goods and services, international trade taxes and value added tax (VAT). Income and property taxes are the major source of tax revenue in Ghana. Income and property tax constitute PAYE, company tax as its major components. Taxes on SMEs are categorized under Company tax which is an income tax with a rate of 25%, VAT which is levied on citizens including SMEs. There are also some indirect taxes that SMEs will pay depending on the industries they find themselves like petroleum taxes, communication taxes, property rates, market tolls etc.

Tax evasion is of much concern to every economy for many reasons. It has also become very essential to some of the most basic concern in public economics. The most apparent is that, it decreases budgeted revenue from taxes which exerts a negative toll on public services that citizens receive. The presence of tax evasion implies that, government must disburse financial and non-financial resources to detect non-compliance, to quantify its extent and to reprimand defaulters. Tax non-compliance affects the redistribution of national income in uninformed,

unpredictable and inequitable ways. Tax Evasion also implies that, citizens do not comply the laws of the country especially tax laws which then is a moral problem. More generally, it is impossible to comprehend the true impacts of taxation without bearing in mind tax evasion. Therefore, since the principal source of revenue for the Ghanaian economy is through taxation and that about 90% of registered companies or enterprises are SMEs which contributes to about 70% of the country's GDP, but only a few comply to tax laws, it is necessary to find out the motivating factors for the SMEs in Ghana who comply using some selected SMEs in the Techiman Municipality as a case study.

1.3 Objectives of the Study

1.3.1 General Objective

The study seeks to find the factors that motivate SMEs to comply with taxation. Thus, the reasons SMEs pay taxes or not and also how it affects their growth using SMEs in the Techiman Municipality as a case study.

1.3.2 Specific Objectives

The specific objectives of the study are as follows:

1. To ascertain the level of tax compliance by SMEs in the Techiman Municipality.
2. To examine the factors motivating tax compliance among SMEs in the Techiman Municipality.
3. To ascertain the effects of tax compliance on the development of SMEs in the Techiman Municipality.

1.4 Research Questions

1. What is the level of compliance to taxation by SMEs in the Techiman Municipality?

2. What factors motivate tax compliance by SMEs in the Techiman Municipality?
3. How does tax compliance affects the development of SMEs in the Techiman Municipality?

1.5 Significance of the Study

The Ghanaian economy has experienced tax reforms over the years. These reforms are mainly to raise enough funds through taxation as well as to reduce the next tax burden on citizens for a better overall economy. For government to carry out developmental projects mostly funded by taxation efficiently and effectively, tax policies are reformed and reviewed periodically so as to enroll the best policies.

Since about 90% of registered business entities in Ghana are SMEs, tax policy reforms with high focus on the SMEs sector would go a long way to perk up the revenue needed by government to maintain the economy. The acknowledgment of the actuality that most of Ghana's labor force is in employment with SMEs and that their contribution to tax revenue is significant in raising the considered necessary funds required by government to expend on public goods and services for the benefit of the citizens would encourage both government and small businesses to attach some relevance to tax reforms and administration, tax compliance as well as the short and long term effects on these enterprises. While it is a required necessity for governments to raise domestic tax revenue, little attempt have been made to analyze tax policies and their effects on SMEs in Ghana. The study therefore aimed at establishing a better understanding of the various taxes imposed on SMEs , why these SMEs do or do not comply with the tax policies or payment of taxes and the long and short term effects on the growth of these SMEs.

This study will also contribute significantly to academic literature due to the in depth analysis of all variables under the research. Recommendations made will also if adhered to serve as a

yardstick for the creating and implementation of tax policies going forward. The findings of the study will also serve as a good mechanism in helping in the development of SMEs thereby leading to a greater positive effect with regards to the development of the economy.

1.6 Scope of the Study

In this study, the awareness of tax policies in Ghana by SMEs is assessed. The level of the knowledge of taxation and types of taxes paid by SMEs are examined. The study also ascertained the rate of tax compliance by these SMEs. Do SMEs pay the required tax? Do they pay the tax on time? These are some of the questions that the study answers using some selected SMEs in the Techiman Municipality. The factors that motivate these SMEs to pay their taxes are examined using some selected factors as benchmark. The challenges that sway SMEs in the payment of their taxes are also analyzed and recommendations made.

1.7 Summary of methodology

This research is an explanatory or causal study which established a relationship between the motivating factors to tax compliance by SMEs and tax compliance. The population of this study were designated SMEs in the Techiman Municipality. One hundred and seventy (170) SMEs were selected using stratified sampling. A qualitative research method was adopted. Primary and secondary data were collected through the use of questionnaire. The research instrument used which thus questionnaire was administered to all selected SMEs and the tax collecting agencies in the municipality. Data collected was analyzed by the use of SPSS and Microsoft excel.

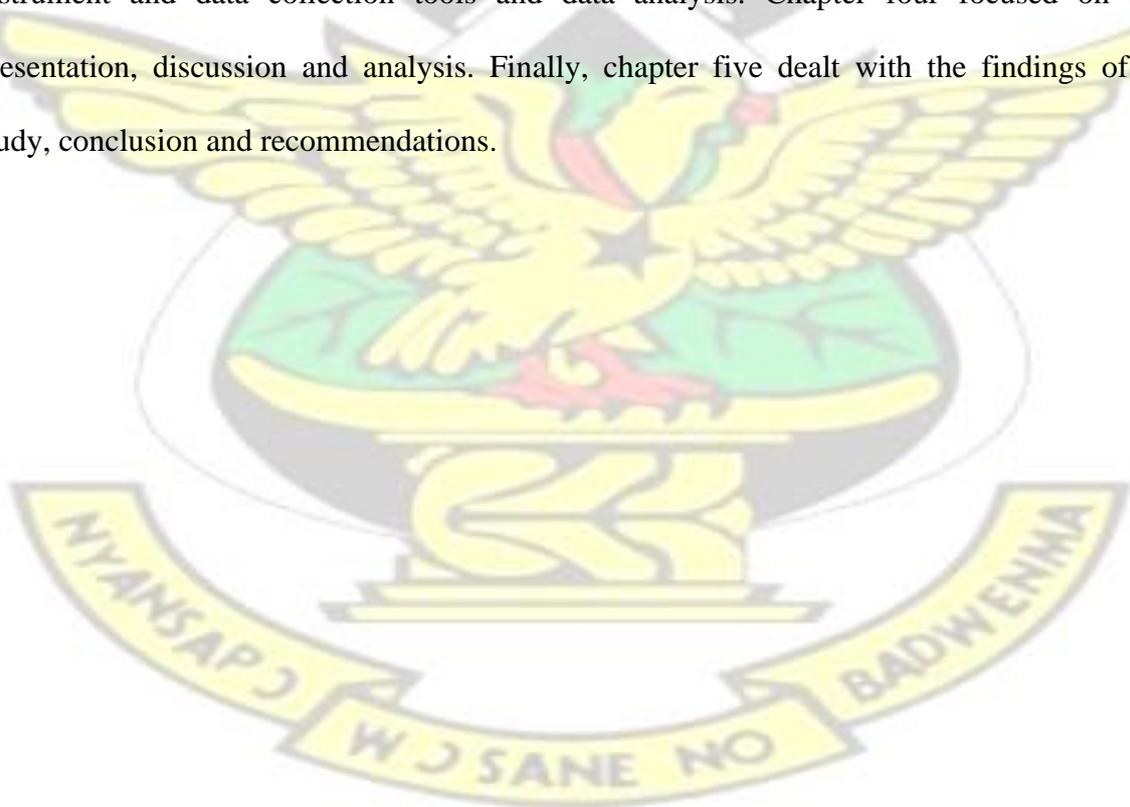
1.8 Limitations of the study

Any dissertation unavoidably is anticipated to meet some basic limitations, and this paper is not excluded. The major limitation of this study was the limited knowledge in data analysis

software like the SPSS by the researcher. However, the service of an expert was sorted to avert this hindrance to make the study a success and dependable.

1.9 Organization of the Study

This paper is made up of five chapters. Introduction which is chapter one consists of the background to the study, statement of the problem, research objectives, research questions, significance of the study, and the scope and limitation of the study. Chapter two dealt with literature review of theoretical concepts and theories relevant to the study. It also extensively discussed both theoretical and empirical literature on the tax knowledge, compliance and effects on SME's. Chapter three presented the methodology adopted to carry out the research. This chapter is made up of the research design, population, sample size and technique, instrument and data collection tools and data analysis. Chapter four focused on data presentation, discussion and analysis. Finally, chapter five dealt with the findings of the study, conclusion and recommendations.



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviewed various literatures on tax policies, SMEs tax compliance and the effects of taxation on the operations and growth of SMEs. The chapter also reviewed theoretically the theories and concepts of taxation on SMEs. An empirical analysis of the effects of tax compliance on SME's is analyzed.

2.1 Conceptual Literature Review

2.1.1 Definitions of SMEs

There are a number of definitions for SMEs across variety of literature. As asserted by Kayanula & Quartey (2000), there have been a lot of issues raised concerning the criteria for the definition of SMEs. Mostly, SMEs are defined based on a number of factors such as employees' number, annual returns, ownership, and value of assets among others.

According to OECD, SMEs are non subordinate, self-governing firms which employ smaller number of workers. The limited number of workers however varies from country to country. OECD published in 2005 that, European Union has 250 employees as its upper limit for SMEs while the United States of America considers SMEs to include firms with less than 500 employees.

The European Union also defined SMEs largely in terms of employees. According to the commission, enterprises with less or equal to nine (9) employees are considered as micro. If an entity employs between 10 and 99, it is considered as a small enterprise. Businesses which have employment capacity of up to 499 staff are also considered as a medium enterprise. The

European Commission's definition of SMEs does not assume the homogeneity of SMEs but rather makes a distinction between micro, small and medium enterprises.

Reviewing and issuing the international financial reporting standard (IFRS) for SMEs by the International Accounting Standard Board (IASB), it defined SMEs as businesses which do not have to account to the public but for the sake of external users which includes owners, creditors, bankers among others publish general statements of accounts. (IFRS Foundation, 2015).

The World Bank uses three quantitative criteria for defining SMEs. These are, number of employees, total assets in US Dollars and annual sales in US Dollars. However, the number of employees is dependent on respective sectors of the economy.

In Ghana, the Ghana Statistical Service considers firms that employ 29 or less workers with fixed asset not exceeding \$100,000 as small scale while firms that employ between 30 and 99 as medium scale enterprises. The National Board for Small Scale Enterprises (NBSSI) also defines SMEs as business establishments with not more than 9 workers and having plant and machinery (excluding land, building and vehicles) not exceeding 10 Million old Cedis in Dollars using the 1994 exchange rate. The limitation to the NBSSI's definition of SMEs is that, the basis for the valuation of assets and depreciation and exchange rate problem. According to the Venture Capital Fund Act 2004 (Act 680) of Ghana, an SME is defined as an industry, project, undertaking or academic activity which employs not more than 100 people and whose total asset base (excluding land and building) does not exceed the Cedi equivalent of \$1 million in value. Also, records from the Registrar General's Department of Ghana shows that about 90% of registered businesses are SMEs. Further, data from the Social Security and National Insurance Trust (SSNIT) also showed that 90% of businesses

under their jurisdiction employ less than 20 persons which therefore fall under the definition of SMEs.

2.1.2 Characteristics of SMEs

SMEs as defined by different literature have a number of varying characteristics. SMEs in Ghana for the past years have contributed their quota to the growth of the economy.

With reference to a study by Cobbold et al. (2008) and Olorunshola (2003), SMEs are mostly small and managed by the owner or family and offers basic goods and services, and mostly has no outlined organizational structures. However SMEs in the urban communities tend to be more structured than those established in the rural areas. According to Asare et al, close to 90% of SMEs are under sole proprietorship. Olorunshola (2003) explains that this ownership style has led many SMEs to have simple administration arrangement. The simple management structure of SMEs could also be attributable to few numbers of employees and low educational level most owners. Another characteristic of SMEs is that, their lifespan are more dependently of the lifespan of the owners since the personality of the owner and the enterprise is not distinct. A study by UNCTAD (2002), shows that, the financial awareness among owner-managers of smaller entities or businesses is quite low associated with inadequate financial and non-financial record keeping and the subsequent failure to make good use of available financial information which has been a trait of SMEs and many small businesses in many developing economies (Holman et al., 2000).

Also, Hanefah et al, (2002) asserted that SMEs mostly produce their respective goods and services through the major use of labor and also by using local raw materials and sometimes supply to the bigger businesses which are into manufacturing especially. When it comes to capital requirement, comparably to bigger establishments, SMEs require less (Akinsulire, 2010). Notably, SMEs in any economy are varied. Thus they are not homogenous. SMEs

vary from sole proprietorships (with or without employees), small corporations (public or private), professionals and partnerships development (Chu et al., 2008).

In Ghana, SMEs depending on their locations could be defined as urban or rural enterprises. Urban enterprises which are located in the urban areas of the country can also be categorized into “organized” and “unorganized”. The organized SMEs are characterized by formal paid employees and registered offices. The unorganized SMEs on the other hand are mostly artists made with no offices. Some work in temporary structures while others work from home and have no official employees who get formally paid. (Kayanula & Quartey, 2000). Their operations are by and large supported by family and friends or through their apprentices. The major business operations that exist in this industry includes among others soap and detergents making, clothe making, textile and leather, blacksmiths, , small scale mining, masonry, beverages and food processing, bakeries, furniture making, electronic assembly, agro processing (Osei et al., 1993; Kayanula & Quartey, 2000).

2.1.3 Economic benefits of SMEs

It's a universal agreement that, the establishment and development of SMEs are necessary for economic and social growth especially in developing economies. SMEs have contributed greatly to the development of economies including Ghana. From the economic viewpoint, SMEs are of great importance (Advani, 1997). SMEs have proved to have the capacity and capability to drive economic development due to their ability to create employment avenues, spread out the tax base of the country and drives creativity (Ngui, 2014). According to Beck & Levin (2005), SMEs augment competition and entrepreneurship which leads to massive innovation and overall productivity in the country.

A major economic benefit from SMEs is the creation of employment (Yaobin, 2007). According to a study by Ayyagai (2011) which was to investigate the role SMEs play in

creating jobs, it was asserted that SMEs which employ less than 250 workers are the drivers of economic growth in many countries. Beck et al (2005) also asserted that, SMEs constitutes over 60% of total employment in most developing countries. SMEs are more labor intensive and therefore lead to a more impartial allocation of income than larger enterprises. They play a major role in creating employment at reasonable remuneration rates hence serving as income to many people especially the poor (UNIDO). SMEs are potential and effective sources of employment and hence incomes to the majority of the labor force (Aryeetey, 2001). According to Lopez & Aybar (2000), SMEs generates about 60% of employment to Ghanaians.

Due to the employment opportunities created by SMEs, wealth is created for citizens.

SMEs are considered to be a hub of creativity. This is because their operations which include innovation, taking calculated risk, creating employment opportunities, finding and creating new opportunities and commercializing their inventions have contributed to the success of all economies (Beck et al, 2005). If an economy must remain innovative, it must appreciate and sustain the development of SME because they also improve entrepreneurship and competition and hence promotes the competence of the economy. There is a wider assertion that SMEs are more industrious than larger enterprises but the financial market and other institutional failures hinder SMEs development (Chu et al, 2008). Honlglang & Jiaozben (2010) also assert that SMEs contribute greatly to economic development and sustainability through creativity. This is because during the era of economic globalization which was characterized by conditions of fierce competition, the research and development activities of SMEs played a vital responsibility in promoting innovative technological advancement and economic development which can be attributed to the ability to adapt to change in the market, dynamic business instrument, as well as their zeal for innovation. Innovation can be said to be very

critical since it helps to create and develop new ideas and ventures which help grow the economy (Hendy, 2003).

SMEs, according to López & Aybar (2000), fuel rural development which helps avert rural urban migration helping to solve the harms caused by over population in urban communities. SMEs also contribute to GDP, add value to the country's natural resources, accumulate private savings and invest in other productive ventures. López & Aybar (2000) sees SMEs as a major contributor to employment in urban communities and a provider of basic human necessities which therefore serves as a means of reducing unemployment and increasing the welfare of citizens of the country and the economy at large.

Other economic benefits gained through the existence of SMEs, according to Hendy (2003), is that SMEs are able to sustain even in uneconomical situations due to the fact they are familiarized with operating in highly bitty and diverse markets. They also aid in creating social capital since they are mostly involved in rural societies. Also, they are capable of surviving hostile economic situations due to their supple characteristic (Kayanula & Quartey, 2000). Due to the regional distribution of SMEs and they being labor intensive, it is argued that their operations promote a more justifiable distribution of income compared to larger firms. SMEs make efficient productive use of the country's already scarce resources which facilitates growth of the economy (Kayanula & Quartey, 2000).

López & Aybar (2000) is of the view that the SMEs' industry is extremely significant in every economy because it gives the opportunity and hence illuminates the contribution of the private sector which boosts industrialization leading to a steady growth in the country. SMEs widen the base of involvement of citizens in the society; decentralize economic power giving the majority of citizens a stake in the present and future of the society.

Additionally, SMEs mostly make productive use of local raw materials which might have been abandoned which affects positively foreign exchange rates. They organize and employ financial resources which may have been quiescent like savings by individuals among others. Therefore, SMEs through their operations encourage aboriginal expertise.

2.1.4 Challenges faced by SMEs

Though the main objectives of SMEs are to promote national growth through job creation and improved livelihood in especially developing countries, a number of hindrances serve as stumbling blocks to achieving their full purpose. SMEs' establishment and growth are hindered by many factors, which includes among others low accessibility to finance, lack of managerial skills, corruption, lack of equipment and technology, lack of training and experience, poor infrastructure, regulatory issues, access to international markets, insufficient profits and low demand for product and services (Aryeetey et al, 1994; Anheier and Seibel, 1987; Gockel and Akoena, 2002; Okpara, 2011).

Ocloo et al (2014) assert that globalization is one big challenge for SMEs especially in Africa and specifically Ghana. Thus, with increase in globalization and competition from bigger local and international companies which are characterized with plentiful resources, SMEs face the challenge of survival and development. SMEs have limited international marketing knowledge and experience, poor quality control and product standardization, and little access to international partners which delay their extension into international markets (Aryeetey et al., 1994). Marketing is the responsibility of the business owner. However, SMEs lack the marketing concept that must be shared and lived by the entire business which causes business failure (Scheers, 2011). In the face of rapid globalization, technology plays a crucial role in business development. However, SMEs often have difficulties in gaining access to

appropriate technologies and information on available techniques (Aryeetey et al., 1994). Lack of ICTs skill and knowledge are more evident in SMEs (Duan et al., 2002).

Also, deficiency of access to sufficient financial resources put significant limitations on the development of SMEs. Financial resource and its being accessible is very critical to the development of SMEs (Cook and Nixon, 2000). Most SMEs do not have readily access to sufficient and suitable forms of credit and equity, as well as to adequate financial services (Parker et al., 1995). Cook and Nixon (2000) further asserted that, the growth of SMEs is sometimes hindered by the limited availability of financial resources to meet their various and numerous operational and investment needs. SMEs are more likely not to have full access to credit facilities as compared to larger firms. Mainly, SMEs are financed through trade credit operations and informal sources like family and friends (Kuntchev et al, 2012). According to a study by Quartey et al (2017), SMEs do not have access to formal finance or credit because of non formalization of operations, small firm size, ownership status and lack of efficiency and transparency. A study by the World Bank showed that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment as stated by Parker et al., 1995.

The lack of managerial know-how affects negatively the development of SMEs. Owner-managers of SMEs are ignorant with regards to the internal and external risks as well as risks which are resulted from entrepreneurial actions associated with their business operations. (Smit and Watkins, 2012). Though SMEs and their steady growth attract managers with experience and skills, they can hardly compete with larger firms. The insufficiency of management expertise, common in most countries, has grave impact on SMEs (Kayanula and Quartey, 2000). Owner- managed SMEs often lack the required skills and expertise to boost growth under striking environment. In situations where management acquired required skills,

the right attitude to work, maintenance, law and civil life is often inadequate to manage effectively especially under frequent changing business environment (Parker et al, 1995).

According to Kayanula and Quartey (2000), court proceedings and legalities affect SMEs operations negatively. Their study also asserted that, in Ghana, the procedure for registering and commencing business are mostly cumbersome and hence serve as a challenge to SMEs. A business report by The World Bank in 2006 also showed that it takes 127 days to get a business license in Ghana and it involves sixteen (16) procedures. Also, the nonexistence of antitrust legislation favors larger firms but not SMEs, while the lack of protection for property rights limits SMEs' access to foreign technologies (Kayanula and Quartey, 2000). Though previously SMEs were shielded from international competition, many are now faced with greater external competition due to the existence of global market and hence the dying need for SMEs to expand their market share.

2.1.5 Definition of Taxation

A tax is a compulsory payment of money to the Government by the people to fund the expenditure of the economy. Tax is therefore a mandatory payment by citizens. It is a sacrifice made by citizens for a collective benefit. Many early economist defined tax in almost the same understanding and most economies have adopted almost all definitions. Adams defined a tax as a contribution from citizens to support the economy. Dalton moves a little further to define tax as a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the payer in return. Seligman (2011) and Plehn (1897) explained a tax in a more similar way. According to these economists, tax is basically a levy imposed on the wealth of persons so as to defray the expenses incurred providing a common benefit for citizens of an economy. All these definitions help to explain taxation, and what constitutes a tax. From the definitions, a tax is compulsory, the amount,

mode of payment and persons affected are determined by the sovereign, wealth as defined in a wider sense includes services and commodities, and lastly taxation is imposed on persons. There are two basic types of tax, direct and indirect tax. Direct tax is a tax which is levied on individual persons with regards to net income, inheritance, estate, gifts among others whilst indirect tax is levied on production and consumption of goods and services. A lot of theories explain the concept of taxation. Most of these theories are based on the subject of taxation. These theories include among others the ability to pay theory, the surplus income theory, the sacrifice theories, the faculty theory, the social importance theory and the socio-political theory (Fagan, 1938).

According to the economist Adam Smith (1776), a good tax system must be equitable, certain, convenient, economic, productive, elastic, flexible, simple and diverse.

2.1.6 Brief History of Taxation and tax Reforms in Ghana

Taxation from the time of creation has been in effect and in different many forms. The first form of taxation to be introduced in the then Gold Coast was an indirect tax named custom duty in the year 1850. This tax was placed on only imported goods at a rate of ½% ad valorem. Direct taxation in the form of Poll Tax which is a fixed amount collected from every citizen of a country as a form of tax was introduced in the Gold Coast by Governor Major S.J. Hill after consultation with the Chiefs in April, 1852. The reason behind the imposition of the poll tax was to raise funds to augment the provision of health facilities, education, roads among other amenities for the citizens. Also, chiefs who assisted in the collection of the poll tax were to be paid stipends of allowances from it. Every man, woman and child living in the British protected areas was to pay one shilling per head as the poll tax of which collection started from August, 1852 to July, 1853 raising an amount £460,656 during that period. In September 1931, Sir Ransford Slaton then the governor attempted to

introduce income tax because the government had a budget deficit of £400,000 and at the same time there was the worst global economic depression as the world war was just over. To finance the budget deficit, there was a proposition for the introduction of an income tax at the rate of (6d) six pence in the pound on all incomes of £40 and above. However, this proposal by the then governor was unambiguously opposed to. Sir Ransford Slaton after considering the opposition decided to withdraw his income tax proposals but instead, a tax on cocoa export was imposed. However, in 1943, due to the effect of the 2nd World War, the price of cocoa fell to £30 per ton. The government needed £800,000 to finance the budget. The government was to either cut in government expenditure on social services drastically or impose income tax on the citizens. The former was opted for by the then governor, Governor Sir Allan Burns. As published by Amoah (2012) the tax ordinance 1943 was passed on 22nd September 1943 with effective from 1st April 1944 which makes 1st April to 31st March the year of assessment. This ordinance over the years to present day has been through a lot of amendment. In 1952, the 1943 ordinance was amended with the income tax ordinance to remedy short falls in the former. A merged version of the ordinance was published in 1961 by Act 68. The PAYE system was also introduced. By the year 1963 a number of taxes and duties had been introduced. This include among others the property tax, entertainment duty tax, airport tax, betting tax, minerals duty, casino revenue tax, hotel customers tax, standard assessment and excess profit tax. In 1963, the income tax department was renamed the Central Revenue Department due to the diverse taxes that was introduced. Between 1943 and 1985, the department was a civil service department. However, in 1986 a decision was taken by the government to restructure the department. In same year, Customs, Excise and Preventive Service (CEPS) and Internal Revenue Service (IRS) were separated from the civil service and made semi-autonomous and self-accounting public sector institutions with separate boards. The National Revenue Secretariat (NRS) was also introduced with the sole

responsibility of formulating revenue policies, managing tax reforms as well as supervising and coordinating the activities of the IRS and CEPS. The NRS had Ministerial status. However, that supervisory role shifted to the Ministry of Finance and Economic Planning (MOFEP) when the NRS lost its status and became a department of MOFEP. In 1998, a third revenue agency, the Value Added Tax Service (VATS) was created to manage consumption taxes with the main objective of widening the tax net. The Revenue Agencies Governing Board (RAGB) Act of 1998 (Act 558) was also passed in the same year to establish a single board for CEPS, IRS and VATS. The Internal Revenue Act, 2000, Act 592 was enacted in 2000 which does not change the previous law (Income Tax Decree 1975). In 1998, the VAT service was established to administer Vat and other consumption taxes. The promulgation of the Revenue Agencies board Act 1998 (Act 558) established a central body to govern IRS, CEPS and VATS. The Revenue Agencies Governing Board (RAGB) introduced in 2001 was to monitor the operations of the Revenue Agencies. The Retention of Part of Revenue Act of 2002 (Act 628) was passed to strengthen the semi-autonomous status of the Revenue Agencies. In 2004, the Large Tax Payers' Unit (LTU) was set up to operate on functional lines as a pilot programme for future integrated tax administration. The RAGB Strategic Plan (2010 – 2012) recommended functional integration of the Revenue Agencies as the way forward for effective and efficient revenue administration. The 2009 Budget Statement provided for the establishment of the Ghana Revenue Authority to integrate the three Revenue Agencies. The Ghana Revenue Authority Act, 2009, (Act 791) was passed in December, 2009 to establish the Ghana Revenue Authority. It has been the governing body for taxation and customs duties till date. This body replaced the IRS, CEPS, VAT and Revenue Agencies Governing Board. The Ghana Revenue Authority is divided into the Domestic Tax Revenue Division, Customs Division and Support Services.

2.1.7 Tax Systems in Ghana

A tax system can be regressive, proportional or progressive. In Ghana, taxes can be direct or indirect. A direct tax is a tax which incidence and impact of taxation fall on the same person. Thus, the tax burden can't be shifted to another person. Direct taxes include personal taxes, company taxes, capital gain taxes, toll taxes, poll taxes, gifts taxes and property taxes among others. Direct tax in Ghana is progressive. The commonest direct tax in Ghana is the income tax and the corporate tax. Individual income tax ranges to a maximum rate of 25% while the corporate tax rate has been reviewed over the years from 32.5% in 2001 to 25% in 2006. According to Prichard and Bentum, 2009, the review of corporate tax rates leading to an overall reduction in the rate helped improve tax compliance which helped moved Ghana from the 83rd position to 77th through a survey by the World Bank Business Survey using 175 countries. Ghana was also for a period among the top ten movers in the survey (Prichard and Bentum, 2009). The direct taxation in Ghana is legislated by the Income Tax Act 592 (2000) which is made up of personal income tax (PIT) and corporate income tax/ profit tax (CIT). This act was however revised by Amendment Act 622 (2002). The income tax of Ghana is a progressive tax graduating from 5% to 25% monthly and is withheld every month and paid to the GRA. Indirect tax on the other hand is a tax imposed on the production and consumption of goods and services and can be transferred from one person to another. The most common indirect tax in Ghana is VAT. Other indirect taxes are sales tax, customs tax, excise tax, gas tax among others. Indirect taxes are proportional because tax rates are the same irrespective of amount or consumption

2.1.8 Importance of Taxation

Taxes are a means to raising revenues to fund government budget. It can also be used to rectify imperfections in the market as well as serve as a deterrent for negative economic

behaviors (Bird and Zolt, 2005). Revenue accumulated from taxes raised is used to pay civil servants, pay external debts and also used to develop the country through financing social amenities and policies such as affordable housing, road construction, affordable transport, efficient and consistent provision of energy, effective and efficient health care, quality and affordable education among others (Osei, 2013).

Taxation is also a means of ensuring equitable redistribution of income through the progressive system of taxation. It reduces inequality arising from the distribution of wealth (Ali-Nakyea, 2008). This is because, the tax system makes the rich pay more taxes than the poor which helps narrow the economic power gap that already exist between the latter and the former. Taxation therefore strives towards the unbiased distribution and redistribution of income which promotes peaceful and harmonious (Baafi, 2010).

The economic Significance of taxation includes control of Inflation and economic stability. Taxation can also serve as control measure for inflation or deflation. An escalating inflation can be checked by increasing the incidence of taxation and thereby withdrawing the surplus money in circulation. A deflation can also be controlled through a reduction in tax incidence which increases the quantity of money circulating in the economy. Taxation can also serve as a catalyst for economic growth as well as to develop some key sectors of the economy. Currently in Ghana, the agricultural sector enjoys a Tax Holiday for 5 or 10 years which is dependent on the type of agricultural activity the tax payer engages in. Companies in manufacturing that are established in the regional capitals except for Accra and Tema enjoy a Tax Rebate of 25% while others sited in locations not capital cities enjoy a tax reduction of 50%. Also, Companies in Real Estate Development have 5 years Tax Holiday. Companies in Non-Traditional Export pay corporate tax at the rate of 8%. Exports enjoy a concessionary corporate tax rate of 8%. These tax reliefs help in the growth of the economy because it leads

to an increase in the overall output of these companies leading to expansion and increase in employment as well as increase in export. When it comes to economic stability, fluctuations in prices thus inflation is harmful to the growth of economy since it leads to depression which affects the overall profits of companies. Therefore, taxation helps in ensuring that government have sustainable source of financing its activities which leads to a stable economic growth. Taxation being a revenue source to the government also leads to a stable environment which helps in building an industrialized and fairer society as well as creating and extending economic opportunities and giving support to those in need hence a fairer share of the national prosperity (Thuronyi, 2003).

Taxation also helps in reducing national Budget Deficit. Through an efficient tax administration revenue will increase significantly which when used to fund the budget deficit will help reduce the burden of government borrowings. Taxation is cardinal in financing developmental projects. Revenue raised through taxation is more sustainable than reliance on borrowing (Musonda, 2016) According to Hakkio & Rush (1991) if some taxing policies when continued violate the government's budget constraint, tax revenues must be increased to narrow the deficit.

Protection of Local Industries can also be achieved through taxation (Super Taxes). High taxes know as super taxes can be imposed on imports to serve as a discouraging factor so as to reduce over reliance on imported goods which will help increase the patronage of local goods thereby protecting their existence and longevity. For example, super taxes may be imposed on cigarettes, drinks, wax print, imported chicken etc. to reduce importation as well as boost local production.

2.1.9 Definition of Tax compliance

Marti (2010) asserted that the term tax compliance is a complex term to define. The definition of tax compliance can be termed as a range of definitions which can be from a narrow law enforcement approach, through wider economic definitions and on to even more comprehensive versions relating to taxpayer decisions to conform to the wider objectives of society as reflected in tax policies (Simon & Clinton, 2009). Therefore tax compliance can be defined using tax gaps, market share of revenue agencies and tax evasion (Brand, 1996; Erard & Feinstein, 1998). Bergman (1998) submits that tax compliance is what the government claims are taxes owed by legal taxpayers of which the former and latter do not interpret same. According to Friedman (2011), tax compliance is the situation whereby the required and right tax returns are submitted and filed to tax authorities as well as on time per the laws and regulations of the country.

2.2 Theoretical Literature Review

Studies have shown that, tax compliance decisions by individuals are usually influenced by a multitude of factors. These factors are mostly grouped between two to five theories which are sometimes referred to as school of thought (Bello & Danjuma, 2014). Some of these theories have been reviewed.

2.2.1 Economic or deterrent model

The economic or deterrent model is a tax compliance theory which assumes that behaviors towards tax are influenced by the tax rates, punishment for fraud and probability of detection of evasion. This model is also referred to as the “playing the audit lottery” by Trivedi & Shehata (2005). This model assumes a rational decision making under uncertainty whereby tax evasion either pays off either in terms of lower taxes or subject to sanctions (Fjeldstad et

al, 2012). This model has however been disparaged not to be accurate in defining taxpayer compliance (Slemrod, 2007). He noted that despite the use of audits and penalties which serves as the main criteria for the deterrent model, tax evasion has continued existence and caused serious constraints to economies. The model also failed to consider behavioral factors such as attitudes, perceptions and moral judgments (Lewis, 1982) that affects tax compliance.

2.2.2 Social-psychology theory

Mckerchar & Evans (2009) asserted that individuals form their behavioral intentions based on personal factors and social influence which is the composition of the social-psychology theory of tax compliance. Ronan & Romalfene (2007) specifically claimed that factors such as stigma, reputation and social norms have great impact on taxpayers' decision on whether or not to comply with tax payments.

2.2.3 Fiscal exchange model

Fiscal exchange model is another theory of tax compliance that asserts that the presence of government expenditure may serve as a motivating factor to tax compliance by taxpayers especially when the goods and services expended for are valued by the payers (Alm et al, 1992). This model states that, tax payers comply with taxation when revenue gathered are used for their overall benefit.

2.2.4 Political legitimacy and trust in government model

Also, political legitimacy and trust in government is a theory of tax compliance as discussed by many literatures. This is the belief or trust in authorities, institutions and social arrangements that must be appropriate, just and work for a common economic goal (Ali et al, 2013). A study by Picur and Riahi-Belkaoui (2006) found that tax compliance is highest in countries with high control of corruption and low size of bureaucracy. In view if this,

Richardson (2008) asserted that there is the need for governments to increase their reputation and credibility as a means of gaining tax payers trust.

2.2.5 The Allingham & Sandmo (1972) model

The Allingham & Sandmo (1972) model is a notable model of tax compliance. According to this model, the taxpayer out of the income must choose the amount to declare to the tax agency. The model asserts that the declared income will be taxed but the undeclared income will have the probability to be detected at which a penalty will be imposed.

2.3 Empirical Literature Review

Individuals do not like paying taxes and hence take different actions such as tax avoidance and tax evasion to reduce their tax liabilities (Alm, 1999). Tax non-compliance may be either to fail to file and pay taxes within the required time frame, understate income, overstate statutory deductions or an outright failure to pay levied taxes (Kassipillai & Abdul, 2006). Witte & Woodbury (1985) are of the view that, increase in the probability of tax audits, information reporting and tax withholding will likely increase tax compliance. They are also of the view that activities relating to tax compliance, the benefits gained by taxpayers for tax non-compliance and taxpayers' attitudes have substantial effects on compliance to tax. Also, societal behaviors concerning tax compliance place an important impact on the behavior of individuals and therefore governments must employ multi-faceted approach that place emphasis on enforcing tax policies as well as rewarding tax compliance, effective use of tax income and the social obligation of paying taxes (Alm et al, 1995). According to Pop & Abdul-Jabbar (2008), regulatory burdens fall disproportionately on SMEs internationally. They asserted that the size and nature of SMEs put high interest on the issues of tax compliance because most of such enterprises have limited access to resources as well as lack of knowledge to dissect and comply with complicated regulations. Therefore, tax evasion can

also be motivated by the size of the SME; either micro or medium (Mohamad et al, 2016). Also, tax evasion can be ethical and that a significant relationship exists between the ethical view, mode of tax administration and cultural practices of the self -employed (Ibadin&Eiya, 2013). A study by Chipeta (2002) showed that, tax evasion is caused by high tax rates. Thus, high tax rates decrease the disposable income of tax payers and therefore there is a high probability of evading taxes if possible. Abubakari & Adafula (2013) are also of the view that tax compliance is affected negatively due to the perceived notion that tax rates are generally high in Ghana. Kuug (2016) also asserted that tax rates influences tax compliance. Tax evasion is very common in most developing economies which serves as a hindrance to national growth leading to economic stagnation and other socio economic problems (Fagbemi et al, 2010). Ibrahim et al (2015) after a study to investigate the determinants of motivation to pay tax in Ghana concluded that as ones age increases, tax compliance decreases up to a point after which it begins to increase which implies that compliance among the aged is higher than among the young. Also, since tax registration compliance has a direct relation to tax compliance, Adu & Amponsah (2020) in their study to find the correlates of tax registration compliance among self employed in Denkyira corridor of Ghana concluded that the age of registrants affects tax registration compliance and hence tax compliance.

Also, perceptions of government spending, fairness of the tax system affect compliance decisions (Alm et al, 2011). Revenues collected by the government are expected to be accounted for among all things (Young et al, 2013). Thorndike (2009) is of the view that, there should be a link between tax compliance by taxpayers and accountability by government such as securing of taxpayers' right to property. A poorly executed tax system by the government leads to low efficiency, high implementation cost and low amounts which deviate from the purpose of taxation (Farzbod, 2000). Therefore, for a tax system to be efficient, tax policies designed must have appropriate and rational tax rates, lower amounts of

exemptions, efficient tax collection organization, lighter tax burden with intense fight against tax evasion and corruption.

A complex tax system burdens tax compliance and often have negative effect on SMEs as they are tempted to metamorphose into lower forms so as to reduce their tax burden (Masato, 2009). A good tax regime and policies for SMEs serves as a key tool to pave their way out of the informality trap of low growth, limited access to market and exclusion from formal financial services (Kenyon et al, 2005). Atawodi and Ojeka (2012) are also of the view that high tax rates and complex filing procedures are the most crucial factors causing non-compliance among SMEs. They further state that, multiple taxations and lack of proper enlightenment affect SMEs' tax compliance.

The aim of every business is growth and therefore must strive even in difficult times. SMEs are no exception. However, a lot of factors hinder the growth of SMEs. Nevertheless, many factors also boost SMEs growth. Every economy survives mostly on tax revenue and therefore SMEs are also taxed. In Ghana, SMEs pay taxes depending on the industry and location of operations. Tax policy is one of the factors that constitute the environment of SMEs (Ojeka, 2011).

An empirical study by Wang (2016) identified that the five most important hindrances to growth as alleged by SMEs' managers reviewed under the study were access to finance, tax rates, competition, electricity and political factors. This study, choosing 130,000 firms across 135 developing countries using a standard methodology of surveys and interviews had the objective of finding the major factors that affect the growth of SMEs. This cross country survey made is legitimate for country comparisons. The study used a cross section data which was limited by the heterogeneity of individual country conditions.

A study by Tee et al (2016) to find the effect of tax payment on the performance of SMEs in the GA West Municipal Assembly of Ghana showed that the taxes that are levied on SMEs have significant impact on their growth regarding their profits in diverse ways. According to the study, fluctuations in tax rates lead to same in prices of various goods and services. Adjusting rates of taxes upwards leads to increase in cost prices which results in an increment in selling prices affecting the consumption behavior of customers. People react to the higher prices by buying less of the product which reduces sales and hence profitability. The correlation analysis by the study measured the relationship between the profit and time, tax paid, impact on purchases and tax reliefs. The result showed that profit is positively related to the amount of tax paid. Further, the study revealed that profit has a negative correlation to the impact of taxes on purchases. The limitations to this study is that, the survey was conducted in the Greater Accra region particularly Ga West Municipality and hence does not examine regional and municipal variations in Ghana. Therefore different result could be achieved in different sectors of the Ghana and that this study cannot be used to generalize the situation in the country.

An empirical analysis using a multiple regression analysis by Ameyaw et al (2016) with the objective of finding the relationship among tax policy, SMEs compliance, perception and growth in Ghana showed that, most SMEs perceived a negative effect of tax policies on SMEs compliance, growth and perception in Ghana. This implies that tax policies in Ghana sway SMEs from complying. The study also revealed that tax policies in Ghana if complied by SMEs affects their growth. However, the study was carried out in the Accra Metropolitan Assembly using only four major markets and therefore the generalization of the result as the situation of the SMEs in Ghana does not entirely hold.

Most SMEs are solely owned by individuals. Carroll et al asserted in their study that, individual income taxes exert a statistically and qualitatively significant influence on firm growth rates. Raising a sole proprietor's tax price by 10% increases receipt of about 8.4% according to the study. This finding was consistent with the view that, increasing income tax rates affects the growth of SMEs in a negative way. This study however was purposefully for sole proprietor SMEs and hence does not include organizational SMEs.

2.4 Conceptual Framework

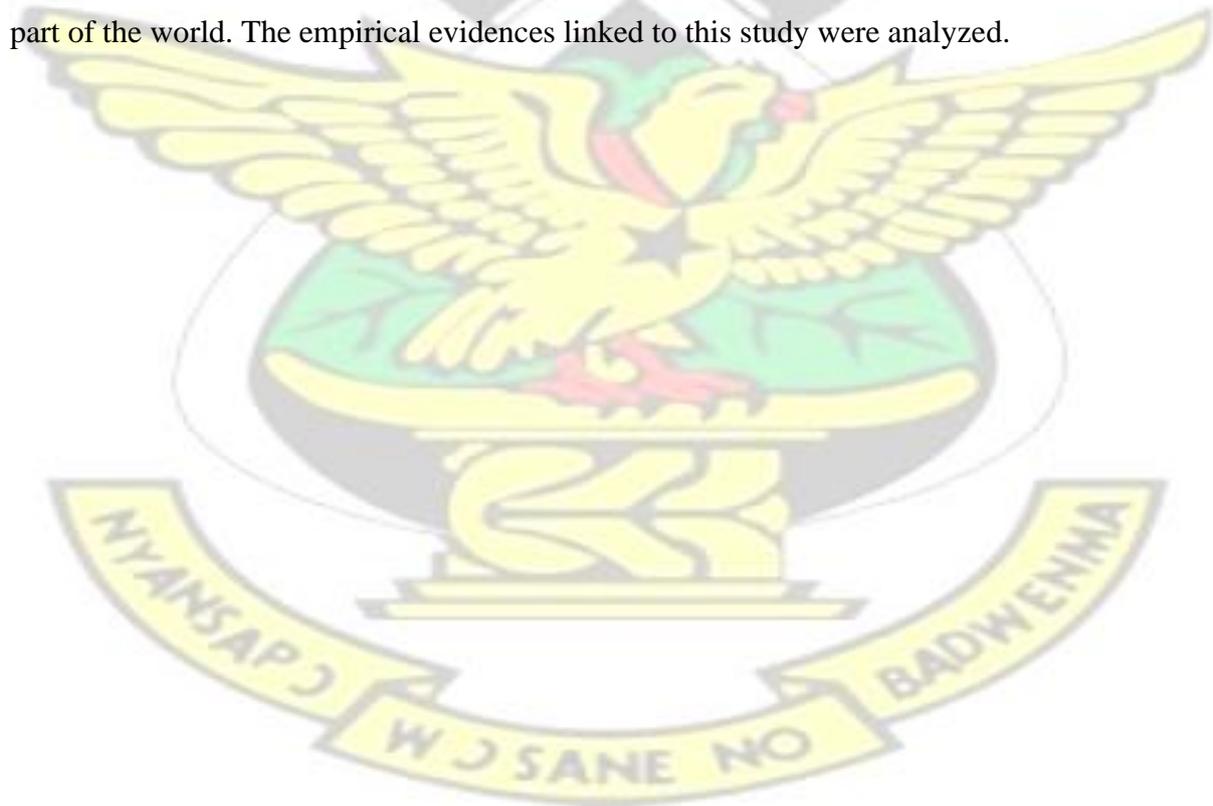
As a conceptual framework of the study, a relation between the independent variables and dependent variable was adopted. The independent variables which are the motivating factors to tax compliance by SMEs are fair tax policies, strict enforcement by tax collectors, fear of detection of nonpayment, tax reliefs as rewards for tax compliance and high daily, monthly or annual returns. Tax compliance on the other hand is the dependent variable. This has been presented in the figure below:

Fig. 2.1: Conceptual framework



2.5 Chapter Summary

This section reviewed other literatures pertaining to the study. Reviewing literatures from the concept of tax compliance by SMEs, various definitions of SMEs, the characteristics of SMEs, the economic benefits of SMEs and the challenges they faced were analyzed. Also, the different definitions of taxation were reviewed as well as a brief history of taxation and tax reforms in Ghana and the current tax systems in Ghana. The chapter continued to analyze some importance of taxation and clearly defined tax compliance. Theoretically, the study in the chapter reviewed five theories of tax compliance which are economic or deterrent model, social-psychology theory, fiscal exchange model, political legitimacy and trust in government model and the Allingham & Sandmo (1972) model. This chapter also delved into studies made by researchers in relation to motivation to SMEs in tax compliance in Ghana and other part of the world. The empirical evidences linked to this study were analyzed.



CHAPTER THREE

METHODOLOGY

3.0 Introduction

The methodology of the study describes the procedure which was used to collect, collate and process data for the analysis of the research. It endorsed the validity and reliability of this study.

3.1 Research Design

This research is an explanatory or a causal study. This is because the study established a relationship between two variables which are tax compliance and motivations to tax compliance of SMEs in the Techiman Municipal. Thus, the study analyzed the cause and effect relationship between two variables. According to Oppeval (2010), causal research is used to investigate causal relationships and hence involves one or more independent variables and their relationship with one or more dependent variables. The views, perspectives or opinions of respondents were collected through a survey and hence the use of questionnaire, personal interviews with respondents and perusal of past records and publications. Thus, qualitative method of research was also adopted. This is because it is effective when gathering opinions, reactions as well as getting a cause and effect relationships.

3.2 Population of the study

Burns and Grove (2003) are of the view that, population includes all elements that meet certain criteria for inclusion in a study. A research population must be clearly defined before a sample is drawn from it. Population is therefore the plan group which the researcher wishes to gain information and drawing a conclusion on it. For the purpose of the study, the

population selected was made up of designated SME's in the Techiman Municipality who had their business operations in the municipality. This target population was to enable the study to have a more concrete view of SMEs which pay tax, what motivates them to pay or not to pay taxes and if payment of taxes affects their operations and growth and to which extent.

3.3 Sample and Sampling Techniques

The Merriam-Webster dictionary defines sample as a finite part of a statistical population whose properties are studied to gain information about the whole. The size of the sample and selection process will definitely have repercussions on the confidence one can have in the data. The study sampled one hundred and seventy (170) SMEs in the Techiman Municipality. According to Sekaran (2003), sampling is a process of selecting from a population, a sufficient number of elements whose characteristics would be studied. Sampling is therefore an important factor which determines the accuracy of research. This study used stratified sampling to select the SME's. Thus, the SME's were divided into small scale enterprises and medium scale enterprises with 170 enterprises being randomly selected from small scale enterprises as shown in the table below.

Table 3.1: sample size

Category of SMEs	Sampled Number
Grocery Vendors	30
Food vendors	30
Agric produce vendors	30
Barbers	10
Dressmakers	30
Hair dressers	20
Carpenters	20
Total	170

3.4 Data and data collection instrument

3.4.1 Data source

Data collection which is a process of gathering information and measuring information on variables helped the study to be able to answer the research questions. The study used both primary data and secondary data. The study used questionnaires for its primary data collection. Selected SME's were administered questionnaires which were responded to by owners or managers. A qualitative research was also adopted. This collated the feelings, words of respondents as well as analyzed observations throughout the study.

3.4.2 Data collection instrument

Since the qualitative survey used questionnaires and interviews created in accordance with the objective of the study, responses were easily transformable into graphs, tables etc. Multiple choice questions which are a simple method of questionnaire which was easily responded to were also used to gather information. There was a one on one interview with respondents to get an in-depth analysis of the SME's reactions to taxation. Also, the study adopted a secondary data collection method where information regarding payments of taxes by SME's was accessed at the Ghana Revenue Authority, Techiman and the Techiman Municipal Assembly. This served as support to information that was gathered primarily.

3.4.3 Data collection Procedure

A questionnaire was drafted with respect to the objectives of the study. All the carefully selected 170 respondents were administered the questionnaire and guided through answering the questions. An oral interview was also used to understand well the perspective of respondents with respect to taxation relating to their businesses. Data collected were collated and analyzed using SPSS.

3.5 Data analytical techniques

To analyze the motivating factors to tax compliance by SMEs, graphs and tables were used to summarize and present the results attained using Statistical Package for Social Science (SPSS, Version 20) and Microsoft Excel. Five factors were carefully selected and respondents asked or interviewed on their views of such factors serving as motivation to their tax compliance.

3.6 Validity and reliability

According to Kothari (2014), the validity of a research is the extent to which the research instrument used measures what it requires to measure. The validity of the research instrument used was tested through the independent opinion and judgment of a research expert who was the research supervisor. Every single item on the questionnaire which was the research instrument used was critically analyzed by the supervisor.

This research can be relied on. The reliability of the research instrument was tested by using the test-retest method. The questionnaire was administered to same sample size after a month of the initial administration. Same responses and results were gathered.

3.7 Ethical Consideration

SMEs sampled for the study and individuals who represented these SMEs gave information voluntarily. The respondents were assured of information released being treated confidentially and their respective identities being kept anonymous. Respondents were interviewed after their informed verbal consents were sought. Questionnaires used were kept secured in conformity with confidentiality.

3.8 Chapter summary

This chapter which is the methodology of the research outlined the research design used. This research is an explanatory or causal study establishing a relationship between the motivating factors to tax compliance by SMEs and tax compliance. The population of this study are designated SMEs in the Techiman Municipality. One hundred and seventy (170) SMEs were selected using stratified sampling. Primary and secondary data were collected through the use of questionnaire. A qualitative research method was adopted. The research instrument used which is questionnaire was administered to all selected SMEs and the tax collecting agencies

in the municipality. Data collected was analyzed by the use of SPSS and Microsoft excel. The chapter also covers the validity and reliability of the study as well as its ethical considerations

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CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 Introduction

This chapter outlines the findings and results of the study. A detailed description of the background of the research as well as the statistics used with regards to the study was discussed. Data was collected from 170 carefully selected SMEs across varied sectors in the Bono East Municipality.

4.1 Background/ Descriptive Statistics

4.1.1 Demographic data of respondents

Motivation to tax compliance by SMEs in the Techiman Municipality in the Bono East Region of Ghana took into consideration the demographic background or characteristics of the 170 carefully selected respondents. Five variables namely gender, age, marital status, highest educational level and employment status were used to collect demographic data on respondents and analyzed in table 4.1 below.

From the analyzed data, out of the 170 respondents, 70 were male which represents 41.2% whilst females were 100 representing 58.8%. Most of the respondents were between the ages of 31 and 40 consisting of 48.8%. This was followed by respondents between the ages of 18 and 30 with respondents between the ages of 41 to 50 following suit with a record of 26.5% and 14.1% respectively. Few of the respondents were above 50 years representing only 10.6% of selected respondents. 42.9% of the 170 respondents were married with 32.4% unmarried. Also, 8.8% were divorced with 15.9% widowed.

All the respondents had some level of education ranging from BECE as the lowest educational certificate and degree as the highest. 20.6% of respondents went through basic formal education and attained BECE with 37% going a little further to achieve SSSCE or WASSCE. 15.9% and 56.5% of respondents had Diploma and Degree certificates respectively. However, none of the respondents had a master's degree or a PHD holder. Notably, most of the respondents representing 79.4% were owners of the business. But 12.9% of them were managing peoples' businesses with only 7.7% of the respondents being workers in the selected SMEs.

Table 4.1: Demographic data of respondents

Demographic variable	Categories	Frequency	Percentage
Gender	Male	70	41.2
	Female	100	58.8
Age	18-30	45	26.5
	31-40	83	48.8
	41-50	24	14.1
	Above 50	18	10.6
Marital Status	Married	73	42.9
	Unmarried	55	32.4
	Divorced	15	8.8

	Widowed	27	15.9
Highest educational level	BECE	35	20.6
	SSSCE/WASSCE	63	37.0
	Diploma	27	15.9
	Degree	45	26.5
	Masters Degree	0	0.0
Employment status	Owner	135	79.4
	Management	22	12.9
	Worker	13	7.7

Source: field survey, 2020.

4.1.2 Business knowledge and practices of respondents

The study proceeded to examine five variables that were grouped under business knowledge and practices. These variables are the nature of respective businesses, type of business ownership, number of years in business, location of business and financial record keeping. Data gathered has been analyzed in table 4.2 below.

The highest numbers of respondents are food vendors. They were made up of 22.4% of the 170 selected SMEs. These are businesses that deal in the sale of cooked food whether stationed or mobile. Following suit, dress makers recorded 21.2%. Grocery vendors and agric produce vendors both recorded 20.6%. They were followed by hair dressers and then barbers

with representations of 8.2% and 4.1% respectively. Carpenters had the least representation with a percentage of 2.9.

Most of the SMEs are solely owned with just a few falling under partnership. 95.9% of respondents are owned by individuals with partnered businesses representing only 4.1%. Quite a majority of respondents have been in business for over eleven years which was represented by 42.9%. 28.8% of these businesses have been operating between 6 to 10 years with a percentage of 28.3 operating between 1 and 5 years.

79.4% of respondents had permanent business locations with 11.8% having permanent business locations but still moved around to do business. However 8.8% of the respondents had no permanent business locations but hawked their wares. Also, 42.4% of respondent kept financial records whether simple or detailed whilst 57.6%.

Table 4.2: Business knowledge and practices data of respondents

Variables	Categories	Frequency	Percentage
Nature of business	Grocery vendors	35	20.6
	Food vendors	38	22.4
	Agric produce vendors	35	20.6
	Barbers	7	4.1
	Dress makers	36	21.2
	Hair dressers	14	8.2
	Carpenters	5	2.9

Type of business ownership	Sole proprietorship	163	95.9
	Partnership	7	4.1
Number of years in business	1-5 years	48	28.3
	6-10 years	49	28.8
	11 years and above	73	42.9
Business location	Permanent	135	79.4
	Mobile (roaming)	15	8.8
	Both	20	11.8
Are financial records kept?	Yes	72	42.4
	No	98	57.6

Source: field survey, 2020

4.2 Presentation and discussions

4.2.1 Tax awareness and compliance

With the use of questionnaires, respondents were examined on their knowledge in taxation in Ghana and if they comply with the tax laws. The study gathered data on the bodies under which respondents were registered and the type of taxes they pay.

From the analyzed data as presented in table 4.3 below, just a few SMEs representing 8.8% of respondents were registered with the Register General Department (RGD). However, most SMEs were registered with the Techiman Municipal Assembly. 158 of respondents were

registered with and given permit by the Techiman Municipal Assembly. One hundred and thirty seven (137) respondents were also registered with the Ghana Revenue Authority which is a representation of 80.6%.

Gathering data on the institutions that these SMEs pay taxes to, it was analyzed that, 97.1% of the respondents pay taxes or levies. Out of this, one hundred and thirty three (133) representing 80.6% of tax payers paid to the Techiman Municipal Assembly. Thirty-two (32) of these tax payers paid taxes to both the Ghana Revenue Authority (GRA) and the Techiman Municipal Authority (TMA).

Table 4.3: Tax awareness and compliance

Question	Response	Frequency	Percentage
Registered with RGD?	Yes	15	8.8
	No	155	91.2
Registered with GRA?	Yes	137	80.6
	No	33	19.4
Registered with TMA?	Yes	158	92.9
	No	12	7.1
Are taxes paid to GRA?	Yes	32	18.8
	No	138	81.2
Are taxes paid to TMA?	Yes	165	97.1

	No	5	2.9
Are taxes paid on time?	Yes	156	91.8
	No	14	8.2

Source: field survey, 2020

Analyzing tax compliance by SMEs in the Techiman Municipality, the type of tax that sampled SMEs pay was assessed and presented in graph 1 below. Respondents were asked to answer yes or no to the type of tax paid. Thirty seven (37) representing 21.8% of the respondents were paying income tax. This income tax is made up of personal income tax and corporate income tax. Some SMEs especially those who vend variety of goods mostly paid taxes to GRA through tax stamps. 44.1% of respondents paid this form of tax. Also, 97.1% paid taxes or levies imposed on them by the Techiman Municipal Assembly which was mostly collected daily. Also, 17.6% of respondents were paying VAT. These SMEs were registered with the GRA and had VAT invoices to withhold Value Added Tax (VAT) from buyers.

Figure 4.1: Taxes paid by respondents



Source: field survey, 2020

4.2.2 Reasons for tax compliance and non-compliance by SMEs

To ascertain the reasons for SMEs complying with tax policies or not, respondents were asked of the extent to which they agree or not to some motivating factors. The extent of agreement or not were put on a scale of 1 to 5 represented by strongly disagree, disagree, uncertain, agree and strongly agree. This has been presented in table 4.4 and table 4.5 below

28.8% of the 170 respondents strongly agreed that a fair tax policy is a factor that motivates them to pay their taxes. With respect to strict enforcement by tax collectors, 27.1% of respondents strongly agreed that it is a reason for paying their taxes. 18.8%, 1.8% and 50.6% also strongly agreed that fear of detection of non-payment of tax, tax reliefs as a reward for tax compliance and high daily, monthly and annual returns respectively are factors that serves as great influence in paying taxes or complying with tax policies.

Agreeing to fair tax policies, strict enforcement by tax collectors, fear of detection of non-payment, tax reliefs as rewards to compliance and high daily, monthly and annual returns, 22.9%, 36.5%, 48.2%, 6.5% and 20.6% respectively of respondents were affirmative. The highest number of respondents thus 82 out of 170 agreed that that, they were paying taxes and levies because they feared their refusal to pay would be detected by the respective tax authorities. However, only 11 out of the respondents agreed that they pay taxes because they expect some tax reliefs by paying promptly. 35 out of the respondents also agreed that, they are motivated to pay their taxes when their returns are high.

Some respondents were also uncertain about the extent of their agreement or disagreement to the various factors that motivates their tax compliance. 11.2%, 18.2%, 13.5%, 8.8% and 4.1% were uncertain if fair tax policies, strict enforcement by tax collectors, fear of detection of nonpayment, tax reliefs as rewards for tax compliance and high returns respectively motivate them to pay tax.

20.6% and 16.5% disagree and strongly disagree respectively that fair tax policies motivated them to pay their taxes. Disagreeing and strongly disagreeing respectively 8.2% and 10% of respondents were against strict enforcement by tax collectors serving as a reason for tax compliance. Some of the respondents also disagreed and strongly disagreed to fear of detection of nonpayment of tax being a reason that they paid their taxes. 14.2% and 5.3% of respondents respectively were of this assertion. A greater proportion disagreed and highly disagreed to expected tax reliefs for tax compliance being a motivating factor in tax compliance. Put together, 82.9% of the respondents were not motivated by expected tax reliefs to pay their taxes. 14.1% and 10.6% disagreed and strongly disagreed respectively that high daily, weekly or annual returns motivated them to pay their taxes.

From the data as presented in table 4.6 below, 16.5%, 20.6%, 11.2%, 22.9% and 28.8% of the respondents respectively strongly disagreed, disagreed, were uncertain, agreed and strongly agreed that unfair tax policies or high taxes was a reason they did not pay their various taxes. 71.2% of the respondents agreed and strongly agreed that, they were not motivated to pay their taxes because they perceived corruption by the Government. However, 9.4% and 8.8% strongly disagreed and disagreed respectively to perceived corruption by government being a reason to tax non-compliance with 10.6% of the respondents being uncertain.

A greater part of respondents representing 63.6% strongly agreed and agreed that they are not motivated to pay their taxes because of the liberal enforcement of taxation by tax collectors and authorities. Thus, if tax collectors do not enforce the tax collection policy, these SMEs do not make any effort to pay their taxes. However, 10% of the respondents were in strong disagreement. 8.2% also disagreed with 17.2% of the respondents being uncertain if liberal enforcement of tax laws was a reason for them not paying taxes.

20.6% agreed with 50.6% of the respondents strongly agreeing that they are not motivated to pay their taxes when their daily, monthly or annual returns are low. However, 14.1% were not in agreement which 10.6% strongly disagreeing to this assertion. But, 14.1% of the respondents were uncertain that their tax non-compliance was due to low returns.

Table 4.4: Reasons for tax compliance

Responses	1	2	3	4	5	Mean	Standard
	%	%	%	%	%		deviation
Fair tax policies	16.5	20.6	11.2	22.9	28.8	2.86	1.010
Strict enforcement by tax collectors	10	8.2	18.2	36.5	27.1	2.78	1.645

Fear of detection of nonpayment of tax	5.3	14.2	13.5	48.2	18.8	1.90	0.678
Tax reliefs as reward for tax compliance	44.1	38.8	8.8	6.5	1.8	2.64	0.985
High daily, monthly or annual returns	10.6	14.1	4.1	20.6	50.6	3.00	1.195

Source: field survey, 2020

Table 4.5: Reasons for tax non-compliance by SMEs

Responses	1	2	3	4	5	Mean	Standard deviation
	%	%	%	%	%		
Unfair tax policies	28	35	19	39	49	2.22	0.996
Perceived corruption by Government	16	15	18	62	59	2.84	1.017
Liberal enforcement by tax collectors	17	14	31	62	46	3.18	1.119
Low daily, monthly or annual returns	18	24	7	35	86	3.28	1.031

Source: field survey, 2020

4.2.3 Effects of tax compliance on SMEs

Paying of taxes is a cost to businesses including SMEs. Selected respondents were asked if the payment of their various taxes affect their business operations in anyway and to what extent. The effects of tax compliance were assessed through some key factors. These are sales, profit, administrative cost and employment. These factors were selected because of the direct impact they have on the operations of businesses as well as their going concern. The effects of tax compliance on SMEs considering the above factors were scaled from 1 to 3

with 1 representing low effect, 2 representing moderate effect and 3 representing high effect respectively.

From the data gathered as presented in table 4.6 below, tax compliance had lower effects on sales, profit, administrative cost and employment. This was represented by 86.5%, 81.2%, 79.4% and 71.8% respectively. There was however, a moderate effect of tax compliance on various businesses. 12.3% of respondents asserted that, tax compliance had a moderate effect on their sales. 17.6% and 14.7% percent were of the view that tax compliance had moderate effect on their profit and their employment capacity respectively. Notably, only 7.1% of the respondents claimed tax compliance affected their administrative costs.

Tax compliance, from the data gathered did not have high effect on SMEs. 1.2%, 1.2%, 13.5% and 13.5% of respondents said tax compliance had high effect on their sales, profits, administrative costs and employment capacities respectively.

Table 4.6: Effects of tax compliance on SMEs

Effect	1	2	3
	%	%	%
Sales	86.5	12.3	1.2
Profit	81.2	17.6	1.2
Administrative cost	79.4	7.1	13.5
Employment	71.8	14.7	13.5

Source: field survey, 2020

4.2.4 Tax collecting agencies and tax compliance by SMEs

There are two tax collecting agencies in the Techiman municipality with regards to SMEs. These are the Ghana Revenue Authority (GRA) and the Techiman Municipal Assembly (TMA). One officer from each institution was interviewed using questionnaire as well as orally. They were assessed on their level of agreement to some challenging factors to tax compliance as carefully selected for the purpose of this study. These factors are high operational cost, inadequate database, non filing of returns by SMEs, poor record keeping by SMEs, political influence, difficulty in locating SMEs and owners, inadequate tax education and inadequate staff. The extent of agreement to each of the factors being a challenging factor to tax compliance were scaled from 1 to 4 with 1 representing strongly disagree, disagree, agree and strongly agree respectively.

The Ghana Revenue Authority (GRA) are in charge of collecting personal income tax (PIT), corporate income tax (CIT), pay as you earn (PAYE), value added tax (VAT), vehicle income tax and tax stamp from SMEs on behalf of the Government of Ghana.

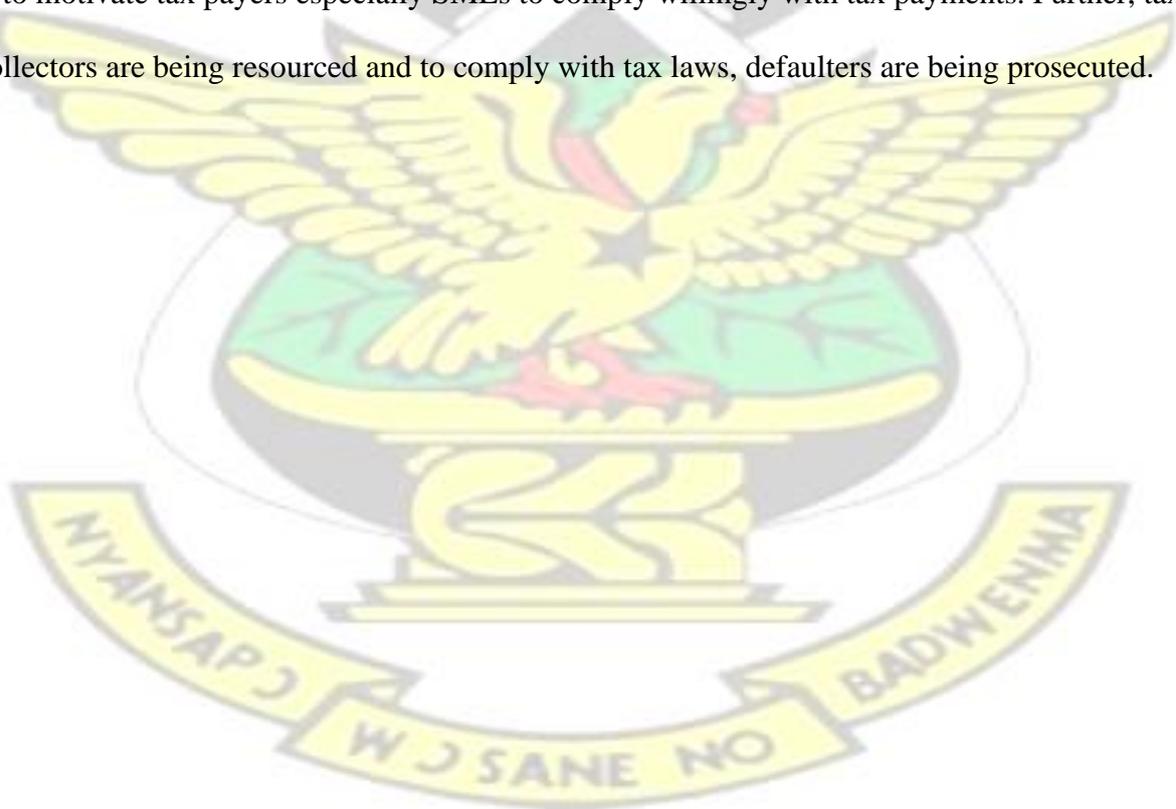
The GRA strongly agreed that, non filing of returns by SMEs and poor record keeping by SMEs are major challenging factors to their job as tax collecting authority and hence tax compliance by SMEs. The authority was also in agreement that, inadequate database, difficulty in locating SMEs and inadequate tax educations are some challenging factors to tax compliance by SMEs. They however disagreed that high operational cost, political influence and inadequate staff were challenging factors when it comes to tax compliance by SMEs.

However, to address these challenging factors, the authority had some measures put in place. These include tax payers' education, monitoring, establishing and addressing compliance issues by tax payers, ensuring compliance to returns filing, payments and other tax payer obligations as well as identifying and monitoring non-filers, late filers and stop filers among others.

The Techiman Municipal Assembly is also a tax collecting agency in the Municipality. Some of the taxes or levies it collects are business license, operational fees and market tolls. Business licenses are paid by businesses including SMEs once as they register though some are renewable yearly. Operational fees are also collected yearly from businesses. However, market tolls or levies are collected daily and are mostly from SMEs.

According to the Techiman Municipal Assembly, operational cost of collecting taxes, inadequate database, political influence and inadequate tax education are some of the challenging factors in ensuring tax compliance by SMEs.

Notably, the assembly has intensified tax education as well as replaced manual tax collection systems to a digital one. Also, the assembly has resorted to awarding faithful tax payers. This is to motivate tax payers especially SMEs to comply willingly with tax payments. Further, tax collectors are being resourced and to comply with tax laws, defaulters are being prosecuted.



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0. Introduction

This study was to assess the motivating factors to tax compliance by SMEs using some selected SMEs in the Techiman Municipality as a case study. It went further to examine some of the effects that paying of taxes by these SMEs has on their various operations. This chapter is the final and conclusive chapter of the study. It presents the summary of findings as presented in chapter four, conclusions drawn from the study and recommendations thereof.

5.1. Summary of findings

From the analyses made by this study, targeted SMEs were aware of the taxes that were supposed to be paid by their businesses. The taxes they pay included income tax, tax stamp, VAT and Techiman Municipal Assembly tax or levies. Most of these SMEs were paying Techiman Municipal Assembly (TMA) levies which were mostly collected on a daily basis. SMEs complied with paying this tax because the collecting agency was very keen on collecting consistently.

The result of the study showed that, most of SMEs in the Techiman Municipality are motivated to pay their taxes because of the strict enforcement by tax collectors. According to the study, most of these SMEs actually pay their taxes because the GRA and the Techiman Municipal Assembly who are tax collecting authorities enforce tax compliance strictly and hence the SMEs have no options than to pay and also on time. As asserted by Farzbod

(2000), poor Implementation of tax policies affects tax compliance. Therefore, there is high tax compliance with strict tax policies implementation. Adu and Amponsah (2020) claim that the number of times tax officers visit and inspect the self employed is a factor in tax registration compliance and hence tax compliance is supported.

Also, the study showed that, most of the SMEs also complied with tax payment because of high daily, monthly and annual returns. SMEs are motivated to pay their taxes when their returns are high. This supports the assertion by Adu & Amponsah (2020) that the estimated annual profits of the self employed serves as motivation to tax registration compliance and hence tax compliance. Therefore, when SMEs make higher sales and profits, they are not bothered to pay taxes which are expenditure to them.

Further, SMEs are motivated to pay their taxes due to fear of detection of nonpayment. Due to SMEs fearing that nonpayment of taxes could easily be detected and hence they being prosecuted, they tend to adhere to tax compliance. According to Kuug (2016), consistent tax audits by tax revenue agencies influences tax compliance by SMEs. Also, Zivanai & Nyakurima (2015) also asserted in their study that, low risk of detection of tax compliance motivates tax non-compliance and hence the opposite is true. Okpeyo et al (2019) also concluded that, tax audits influence tax compliance. Writte and Woodbury (1985), there is high tax compliance when there is an increase probability of tax audits and information reporting. Therefore, the fear of facing the law serves as a motivating factor to tax compliance by SMEs.

A fair number of SMEs also paid their taxes because they believed tax policies and the taxes they were paying are fair. According to the study, more that 50% of SMEs pay taxes because of the assumption that, what they were paying were fair and that they believed in the tax system and the Government at large. This supports the assertion by Alm et al (2011) that the

fairness of the tax system and the effective use of tax revenue affect the level of tax compliance. It also affirms the study by Zivanai & Nyakurima (2015) that the lack of trust in the revenue authority is a reason for tax non-compliance by SMEs.

Though, the study used tax reliefs as reward for tax compliance as a motivating factor to tax compliance by SMEs, it was however revealed that SMEs did not agree to that. Most of the SMEs do not pay taxes because they will be rewarded with tax reliefs as purported by a study by Writte and Woodbury (1985). This could be attributed to the fact that most of the SMEs did not know that tax reliefs are a form of reward for tax compliance. The SMEs which had this knowledge on tax reliefs also believed it was cumbersome applying for it and hence it was not a motivation to their tax compliance.

Examining the other side of the curtain, the study revealed that, SMEs may also not be motivated to pay taxes thereby evading them. The four factors examined had the conclusion that, they did not motivate SMEs to pay tax. These factors are unfair tax policies/ high taxes, perceived corruption by government, liberal enforcement by tax collectors and low daily, monthly or annual returns. These factors were the reasons SMEs were adamant to pay their taxes sometimes.

5.2. Conclusions

The main objective of this study was to find the factors that motivate tax compliance by SMEs using some selected SMEs in the Techiman Municipality as a case study. The study focused on small enterprises with workforce of one to five. A number of these SMEs had no permanent place of work nor kept any accounting records which made it difficult for tax collecting agencies to locate and hence collect or made them pay taxes. However, most enterprises in Ghana are SMEs and hence contribute to the growth of the economy massively.

In view of this, this study had the purpose to find out and examine some of the factors that motivates SMEs who comply with their tax obligations to do so.

The study gathered data using 170 carefully selected respondents. Primary data was gathered using structured questionnaires and oral interviews. A secondary data was also gathered from the Ghana Revenue Authority, Techiman and Techiman Municipal Assembly. The data gathered was analyzed using descriptive statistics and percentages through the use of SPSS and Microsoft excel.

The study revealed that, fair tax policies, strict enforcement by tax collectors, fear of detection of nonpayment of tax, high daily, monthly or annual returns are some of the factors that motivate SMEs to pay their taxes. However, unfair tax policies or high tax rates, perceived corruption by the government, liberal enforcement by tax collectors and low daily, monthly or annual returns are some of the factors that do not encourage SMEs to file and pay their taxes.

The study also revealed that, tax compliance has a lower negative effect on the sales, profits, administrative costs and employment capacity of SMEs. Therefore, tax payment does not affect the growth of SMEs according to this study.

5.3. Recommendations

Taxation is the main source of revenue for every economy including Ghana. As such, individuals and institutions should be motivated to pay their taxes and that too willingly.

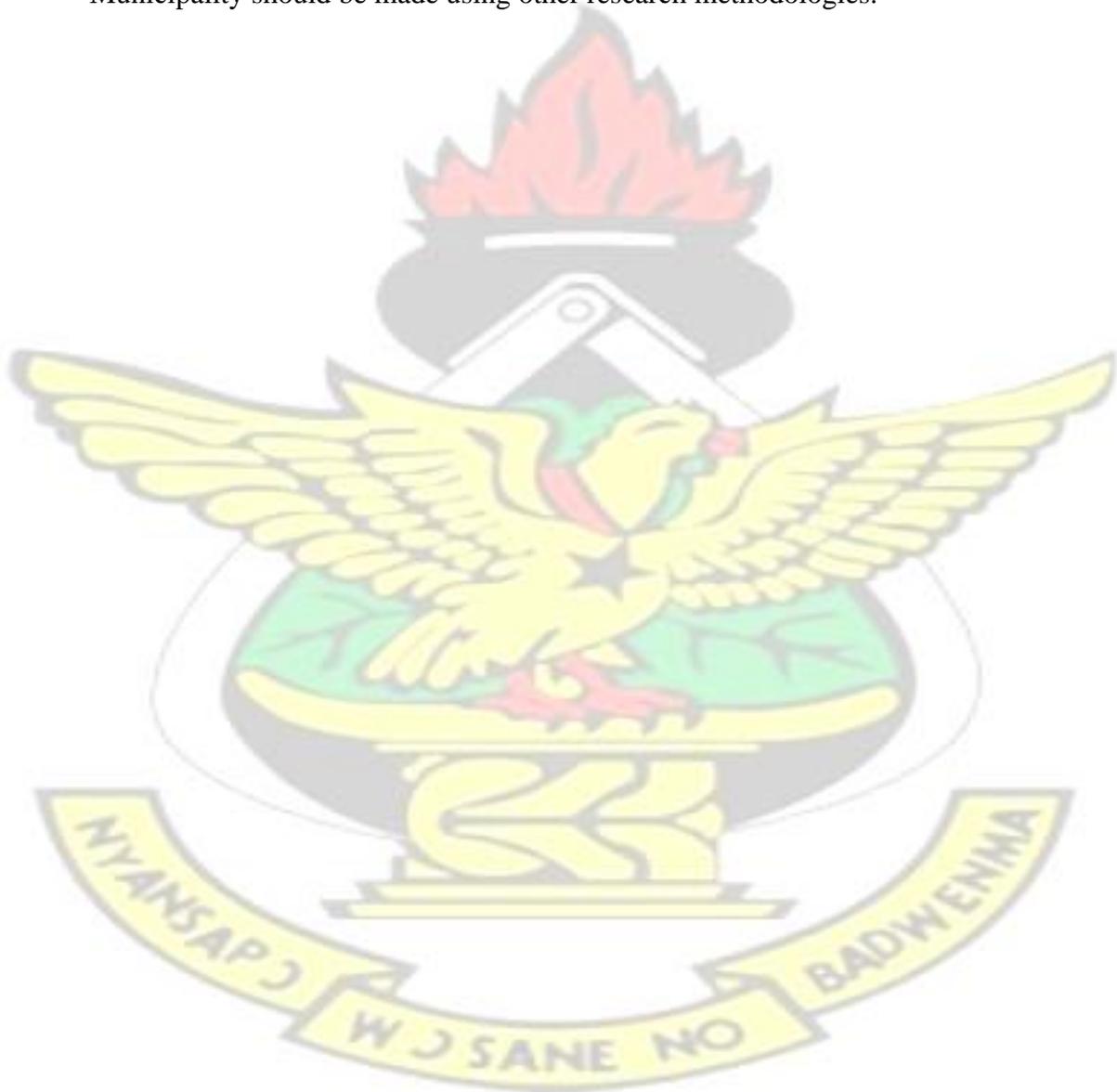
Considering some of the factors that this study has analyzed as great motivation to tax compliance by SMEs, the following are some of the recommendations to the Ghana Revenue Authority (GRA), Techiman Municipal Authority and Ghana at large;

1. SMEs comply with tax policies when they are fair and rates are reasonable, the Government through the Ghana revenue authority must endeavor to consider businesses especially SMEs when formulating tax policies. This is because the higher the tax rates the higher the evasion and the lower the tax rates, the higher the compliance.
2. Also, tax collection agencies like the Ghana revenue authority and the Techiman Municipal Assembly must enforce strictly tax policies. Since most SMEs pay their taxes when enforced, tax collection agencies must be diligent in enforcing tax laws.
3. In enforcing tax policies and tax laws, tax collection agencies must consistently audit tax payers. This will help detect defaulters. With the consistency in tax audit, SMEs will be compelled to comply with taxation due to the fear of their nonpayment of taxes being detected and held liable.
4. The government and other agencies must continue to organize workshops for SMEs to educate them of proper records keeping. SMEs must also be educated on taxation and tax compliance in general. Such education will help improve SMEs with regards to managing their businesses using proper records keeping as a tool as well as encourage them to file and pay their taxes willingly.
5. A number of policies to help SMEs grow must be put in place. Opportunities should be created for SMEs to expand. With growth coupled with high returns or profits, SMEs will also adhere to their tax obligations without contempt.
6. The government and the local government must endeavor to use tax payers' money prudently. When government undertakes budgeted developments and promised projects, tax payers which include SMEs are encouraged to comply with tax policies and laws. Efforts must also be made by tax collecting agencies to eliminate if not completely to the lowest minimum any form of corruption by its officials.

5.4. Recommendations for further studies

For further studies, the following recommendations are made:

1. It is recommended that a study to assess the motivating factors to tax compliance by SMEs opening up the scope be made.
2. Also, a detailed study of the effects of taxation on businesses in Techiman Municipality should be made using other research methodologies.



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APPENDICES

QUESTIONNAIRE

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

MSC ACCOUNTING AND FINANCE

MOTIVATIONS TO TAX COMPLIANCE BY SMES IN GHANA: A CASE STUDY OF SOME SELECTED SMES IN TECHIMAN MUNICIPALITY

The objective of this study is to ascertain the factors that motivate tax compliance by SMEs using some selected SMEs in the Techiman Municipality as a case study. This study is for academic purpose and any information given will be handled confidentially.

Please answer all questions ticking appropriately as well as providing the needed information where applicable.

DEMOGRAPHIC BACKGROUND

Instructions: please tick the correct response

1. Gender male female
2. Age Group 18 – 30 31-40 41 – 50 above 50
3. Marital Status married unmarried divorced widowed
4. Highest Educational Certificate BECE SSSCE/WASSCE Diploma
 Degree Masters Degree PHD
5. Employment Status owner management worker

BUSINESS KNOWLEDGE

Instructions: please tick the appropriate response

6. Nature of business grocery vendor food vendor agric product vendor
 Barber dressmaker hair dresser carpenter
7. How long have you been in business?
 1 – 5 years 6 – 10 years 11 years and above
8. Description of business location
 Permanent roaming/ mobile
9. Are financial records kept? Yes No
10. Are accountants employed? Yes No
11. Monthly sales in GHC 1,999.00 or less 2,000.00-5,000.00
 5,000.00- 10,000.00 above 10,000.00
12. Monthly Purchases in GHC 1,999.00 or less 2,000.00-5,000.00
 5,000.00- 10,000.00 above 10,000.00
13. Monthly administrative cost in GHC 1,999.00 or less 2,000.00-5,000.00
 5,000.00- 10,000.00 above 10,000.00

TAX AWARENESS AND COMPLIANCE

14. Please tick the appropriate response (Yes or No)

Tax awareness and compliance	Yes	No
Is your business registered with Registrar General Department		
Is your business registered with Ghana Revenue Authority		
Is your business registered with the Municipal Assembly		
Do you pay taxes to GRA		
Do you pay taxes to the Assembly		

Do you pay your taxes at the mandatory time		
Do you know the deadline for paying taxes		
Do you file your monthly returns		
Do you file your annual returns		

15. What type of tax do you pay?

- Income tax Techiman Municipal Assembly (TMA) levy/tax VAT

16. Please indicate (by ticking the appropriate response) the extent to which you agree to any of the reasons for complying with tax policies from a scale of 1 – 5.

1 = Strongly Disagree, 2 = Disagree, 3 = Uncertain, 4 = Agree, 5 = Strongly Agree

Reasons for tax compliance	1	2	3	4	5
Fair tax policies					
Strict enforcement by tax collectors					
Fear of detection of nonpayment of tax					
Tax reliefs as reward for tax compliance					
High daily, Monthly or Annual returns					

17. Please indicate (by ticking the appropriate response) the extent to which you agree to any of the reasons for not complying with tax policies from a scale of 1 – 5.

1 = Strongly Disagree, 2 = Disagree, 3 = Uncertain, 4 = Agree, 5 = Strongly Agree

Reasons for tax non-compliance	1	2	3	4	5
Unfair tax policies/High taxes					
Perceived corruption by Government					
Liberal enforcement by tax collectors					
Low Monthly or Annual returns					

18. Please indicate (by ticking the appropriate response) the extent to which tax compliance affect your business from a scale of 1 – 3.

1 = low, 2 = moderate, 3 = high

Effect of tax compliance	1	2	3
Sales			
Profit			
Administrative cost			
Employment			

19. What is your general view of the tax system in Ghana?

FOR TAX COLLECTING AGENCIES ONLY (GRA AND MUNICIPAL ASSEMBLY)

20. Please indicate (by ticking the appropriate response) the extent to which the under listed factors as challenges to ensuring tax compliance by SMEs in the Techiman Municipality by choosing from a scale of 1 to 4.

1 = Strongly Disagree, 2 = Disagree, 3 = Agree, 4 = Strongly Agree

Challenging Factors	1	2	3	4
High operational cost				
Inadequate database				
Non filing of returns by SMEs				
Poor record keeping by SMEs				
Political influence				
Difficulty in locating SMEs and owners				
Inadequate tax education				
Inadequate staff				

21. What are some of the measures that you have put in place to ensure tax compliance by SMEs in the Techiman Municipality?

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