

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

INSTITUTE OF DISTANCE LEARNING

CHALLENGES OF THE WITHHOLDING TAX SYSTEM IN GHANA: A CASE
STUDY OF UPPER DENKYIRA EAST MUNICIPALITY

BY

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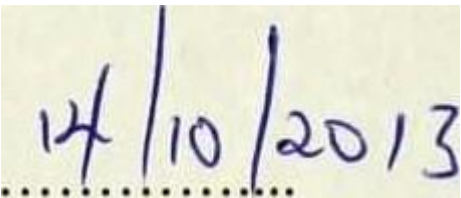
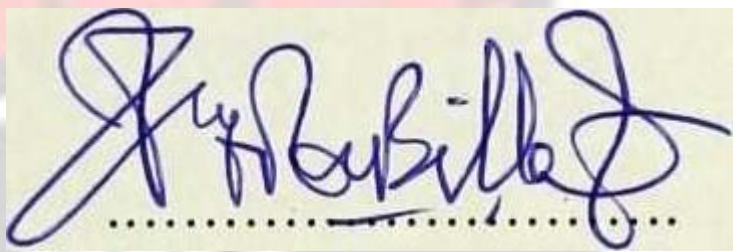
Science and Technology in partial fulfillment of the requirements for the degree of
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DECLARATION

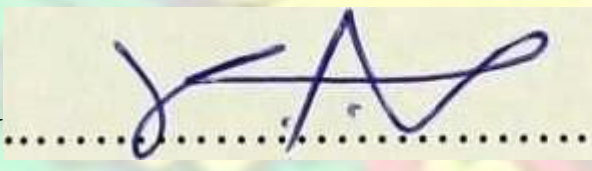
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DEDICATION

This work is dedicated to my wife, Kwartemaa, my children, Aneerema, Awinbono and Anebila.



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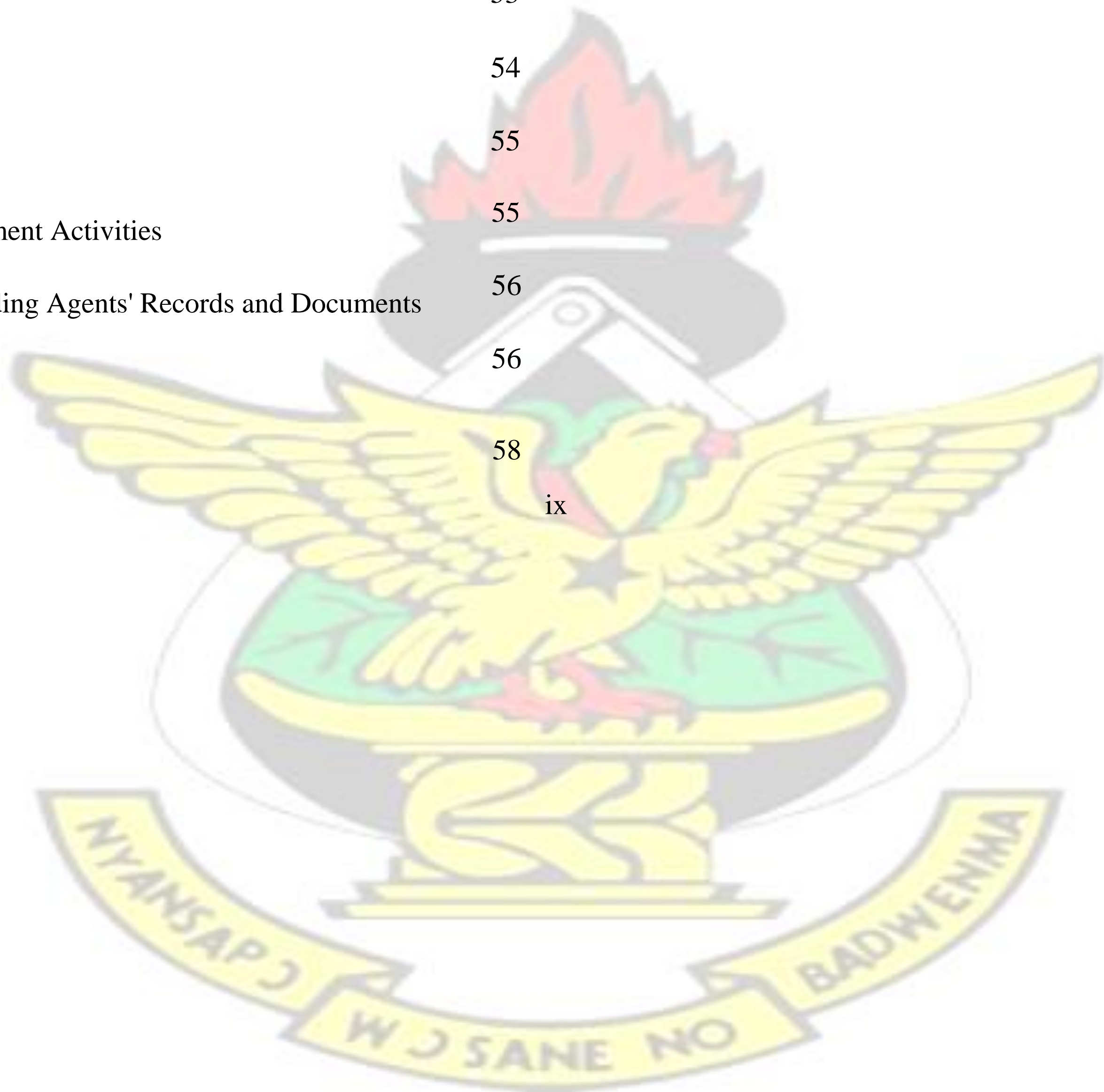
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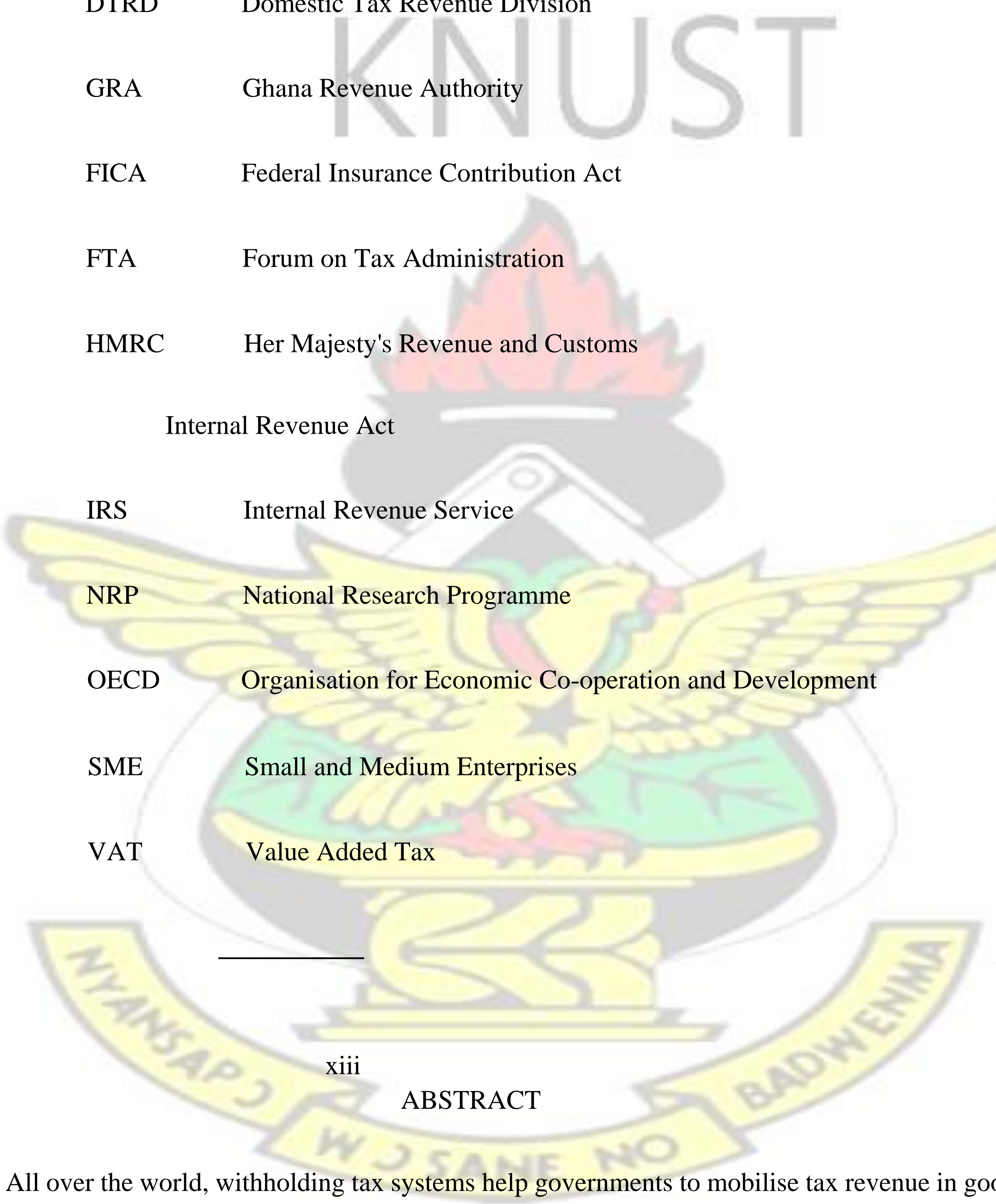
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ABBREVIATION AND ACRONNYMS

CTPA	Centre for Tax policy and Administration
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CRA	Canadian Revenue Agency
DTRD	Domestic Tax Revenue Division
GRA	Ghana Revenue Authority
FICA	Federal Insurance Contribution Act
FTA	Forum on Tax Administration
HMRC	Her Majesty's Revenue and Customs

Internal Revenue Act

IRS	Internal Revenue Service
NRP	National Research Programme
OECD	Organisation for Economic Co-operation and Development
SME	Small and Medium Enterprises
VAT	Value Added Tax

ABSTRACT

All over the world, withholding tax systems help governments to mobilise tax revenue in good time to pay for public goods and services. In Ghana, withholding agents are by law mandated

to withhold taxes from payments made to payees and transfer same to the tax authority within fifteen days after the end of the month in which the deductions subject to withholding tax are made. The withholding tax system is bedeviled with problems. The study therefore sought to identify the challenges faced by the payee, withholding agent and the tax authority in Ghana, a case study of Upper Denkyira East Municipality. Data were collected using questionnaire administration and interview guides to elicit the necessary information from the respondents. The study established that majority of payees have little knowledge of the role they are mandated to play within the withholding tax collection process and are unaware that withholding taxes are advance payments of their assessable tax liabilities. It was also revealed that the withholding agents are confronted with varying levels of ordeal to comply with their withholding mandates. The withholding tax education and enforcement activities were also assessed and were found out to be inadequate. The tax authority should organise training and retraining programmes to maintain the level of skill and experience of its officers. The researcher also recommends a coherent and a more structured tax education programmes for the taxpaying public and a review of the withholding agents' mandate under the tax law to make them more productive in the tax revenue mobilisation process.

CHAPTER ONE INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The revenue a government is able to collect is in many ways linked to what it is able to do (Banful, 2009). Revenue from taxation is a key component source of funding for government expenditure. It is therefore incumbent on governments all over the world to develop appropriate systems to mobilise tax revenues for government activities. One of the tax systems that has the potential to improve government's revenue mobilisation capability, reduce tax collection problems and broaden the tax net, undoubtedly, is the withholding tax system. Khan (2012) confirms that withholding tax revenue continues to be the leading source of 'direct tax' receipts in view of the failure of tax authorities to effectively tap large undocumented sector of the economy and owing to its easier mode of collection through the 'withholding' economic agents. Though the withholding tax system seems to make it easier for revenue bodies to collect direct tax revenue, the withholding tax process is perceived to be confronted with operational challenges.

Companies incorporated in Ghana under the companies code, are empowered to withhold prescribed taxes, as contained in the Internal Revenue Act, 2000 (Act 592), on behalf of the Commissioner General and pay over to him taxes withheld or that which should have been

withheld within 15 days after the end of the month in which payments subject to withholding tax-are made. Also, section 16(3) of the Financial Administration Act, 2003 (Act 654), directs heads of government departments to ensure that taxes due on works done, goods supplied and services rendered are deducted and paid to the tax authority.

Notwithstanding the strict laws enshrined in the Internal Revenue Act and other regulatory instruments, the withholding tax agents and payees seem not to respond to the dictates of the laws or act adequately. It is perceived that suppliers of goods and services sometimes resist and prevent accountants from deducting the prescribed withholding taxes from amounts due them. According to Khan (2012) many businesses treat withholding tax as expense and pass on this burden to the consumers. He regrets that the withholding tax regime redefines the 'direct tax', (if not its mode of collection), in its actual impact.

In Ghana, and like many other countries, withholding tax rates are applied on the gross payments due to payees (Internal Revenue Act, Act 592). This means that the profit generation potentials of payees are overlooked. As pointed out by Vance (2005), withholding tax allows the government to confiscate the wealth of its citizens. As payees' funds are temporarily reduced by the withholding tax system, they may be forced to borrow, normally at unanticipated high interest costs, from their bankers to fund their business activities. These costs may eventually be transferred onto the prices of their products.

Though there are severe penalties in the Internal Revenue Act, Banful (2009) opines that there is little enforcement action—of all these regulations. It is also perceived that tax education and sensitisation programmes are low. This could account for the inability of the tax authorities to enforce the tax laws vigorously. As a consequence, most individuals may not know their responsibilities under the tax laws, let alone appreciate the implications of their actions or inactions.

1.2 STATEMENT OF THE PROBLEM

Tax laws and other regulatory instruments provide withholding tax agents and payees certain rights and obligations. But it seems that most withholding tax agents and payees have compliance problems, often resulting from the inadequate knowledge of the provisions of the tax laws and/or deliberate approach to outwit the system put in place. The Commissioner General of the GRA and his representatives are mandated by the tax laws and regulations to levy and collect the required taxes. They are also responsible for the overall administration, education and enforcement of all the tax laws and regulations. The inadequate knowledge of the tax laws and/or the deliberate attempt by withholding tax agents and payees to outwit the system clearly indicates that tax authorities also have problems in their tax withholding, education and enforcement duties. The study therefore seeks to unravel the reasons militating against the smooth operation of the withholding tax system in Ghana, using Upper Denkyira East Municipality as a case study.

1.3 OBJECTIVES OF THE STUDY

The general objective is to identify the challenges of the withholding tax system in Ghana.

The specific objectives are:

1. To establish the attitude of payees within the withholding tax collection process.
2. To identify challenges faced by the withholding agents.
3. To assess the adequacy of withholding tax education and enforcement activities in

Ghana

1.4 RESEARCH QUESTIONS

The following research questions guided the study:

1. Do payees act appropriately within the withholding tax collection process?
2. What challenges are faced by withholding agents?
3. Are the withholding tax education and enforcement activities adequate?

1.5 SIGNIFICANCE OF THE STUDY

The study sought to unearth the challenges militating against the smooth operation of the withholding tax system. The Ghana Revenue Authority will have more insight into the problems resulting from the withholding tax collection process. The authority will know the withholding tax issues that disturb the withholding agents and payees. This will enable it to put in place measures to address them. The study will also assist payees to understand why they have to cooperate with the tax withholding agents and allow them to deduct the prescribed taxes, as well as the importance of taxation to the national economy. They will again understand the synergistic importance in collecting their tax credit certificates and filing accounts on their businesses all the time. The study will reveal to the tax withholding agents the regulatory framework that underpins the withholding tax system. They will appreciate their legally mandated duty to withhold the prescribed taxes as well as the sanctions for noncompliance. Policy makers will get to know the performance of the withholding tax system and the impact of existing laws and regulations on the performance of the system. This knowledge will help them craft appropriate laws and regulations to improve the system. Finally, the study will contribute to the body of knowledge of withholding tax administration and enforcement in Ghana. It will make it clearer

to researchers and academicians the areas covered on the topic and enable them to determine areas where further research will be beneficial to the economy.

1.6 SCOPE OF THE STUDY

The study covers the identification of the challenges confronting the withholding tax system, and it is restricted to laws, rules, procedures and principles enshrined in the Internal Revenue Act, 2000 (Act 592), the Internal Revenue Regulations, 2001 (L.I. 1675) and amendments and L. I. 's to these Acts and regulations.

1.7 LIMITATION

The study is restricted to the Upper Denkyira East Municipality because of cost and time constraints. Because taxation is a sensitive and critical area, information from tax officers, tax withholding agents and payees could be affected by personal biases.

1.8 ORGANISATION OF THE STUDY

There are five chapters of the thesis. Chapter one, the introduction, contains eight sub-topics. These are: background of the study, problem statement, research objectives and questions. The rest are significance, scope, limitation, and organisation of the study. Chapter two deals with literature review. This chapter unearths the knowledge and works that relate, explain and underpin the topic of the research. Specific issues discussed include definitions of concepts on the topic, the role of taxation, qualities of a good tax system, income tax administration and

outline of withholding tax systems. Other reviews are tax compliance challenges, tax administration problems, tax enforcement challenges, tax policy for developing countries and benefits and drawbacks of the withholding tax system. Chapter three deals with the methodology used to conduct the study. The details of this chapter are: research design, population, sample size and sampling techniques, source of data, data collection tools and data analysis techniques. Data analysis and discussion of results are dealt with in chapter four while the summary, conclusion and recommendations are presented in chapter five.



CHAPTER TWO LITERATURE REVIEW

2.0 INTRODUCTION

The literature review covers the definitions of related concepts, role of taxation and qualities of a good tax system. It also unearths the outline of the withholding tax systems and examines how the withholding tax system operates in Ghana. Literature on administration, compliance and tax

enforcement challenges are reviewed, as well as benefits and drawbacks of the withholding tax system.

2.1 DEFINITION OF CONCEPTS

2.1.1 Assessable Income

According to Agyeman (2005) all monies and money worth receivable in consequence of having exercised an office or employment is assessable income. In Singapore, assessable income is a person's total income (including trade, employment and rent) after deducting allowable expenses and approved donations (IRAS, 2007). In Ghana section 6 of the Internal Revenue Act (Act 592) defines assessable income as the full amount of a person's income from the business, employment, or investment accruing in, derived from, brought into, or received in Ghana during any basis period of the person ending within the year of assessment.

2.1.2

Basis Period

Basis period means the period by reference to which assessable income of any person is computed (IRAS, 2007 and Abdallah, 2008). In Singapore the basis period for any year of assessment is the financial year ending in the year preceding the year of assessment (IRAS, 2007). Ghana's basis period has changed over the period. Currently, it is either the respective accounting periods for companies incorporated under the Companies Code, 1963 (Act 179) or strictly 1st January to 31st December for unincorporated businesses (Abdallah, 2008 and Section 24: IRA, Act 592).

2.1.3 Chargeable income

Chargeable income is a person's assessable income for the year of assessment from each business, employment and investment less total amount of deductions allowed to that person (Section 5: IRA, Act 592). This is similar to the working definition in Singapore, that is, a person's assessable income after deducting personal reliefs (IRAS, 2007). Chargeable income definition in Uganda is also in line with the definitions in Ghana and Singapore; the Income Tax Act (Cap. 340) defines it as the gross income of the person for the year less total deductions allowed. Agyeman (2005) however defines chargeable income of any employee for any year of assessment as his total emoluments paid to or on behalf of the employee including any allowances or benefits paid in cash or in kind but not including reimbursements for expenses actually incurred exclusively on behalf of and for the benefit of the employer.

2.1.2

Person

For the purposes of taxation, a person is an entity or an individual who earns taxable income. According to the Internal Revenue Act (Act 592) a person includes individual businessmen, traders, landlords, corporate bodies, partnership, agencies and all other forms of organisations which are taxable units. Almost all other definitions are subsumed into the above definition. For instance, GRA — Integrity Fairness Service (2013) confirmed that persons refer to a company, a partnership or body of persons.

2.1.5 PAYE

Pay As You Earn (PAYE) is withholding tax applied on employment income. By this system tax is deducted from individuals' pay before they receive the pay (IRA, Act 592 and Abdallah, 2008). Agyeman (2005) also stresses that PAYE is a system whereby employees pay income tax on their salaries, wages, directors' fees, commissions, bonuses and other cash benefits associated with their employment, usually on monthly basis as and when these benefits are paid to them.

2.1.6 Payee

Payee means the same in exactly all withholding tax jurisdictions. In Ghana payee means a person receiving payments from which tax is required to be withheld (Section 93: IRA, Act 592). This is similar to the working definition in Uganda. The Ugandan Income Tax Act (Cap.

2.1.2

340) defines payee as any person who receives a payment from which tax is required to be withheld.

Withholding Agent

Also, withholding tax agent means exactly the same in all tax jurisdictions. Withholding agent, in Ghana, means a person obliged to withhold tax on behalf of the tax authority (Section 93: IRA, Act 592). In Uganda withholding agent is a person obligated and required under the Act to withhold tax upon making any payment to a payee (Income Tax Act, Cap. 340).

2.1.8 Withholding Tax

Withholding tax is an act of deduction or collection of tax at source, which has generally been in the nature of an advance tax payment (Khan, 2011). Abdallah (2005) also defines withholding tax as an amount of tax that an agent of the Commissioner General is required to withhold from a payment to a payee for a transaction that is under the law subject to tax.

2.1.9 Year of Assessment

This refers to the government's financial year during which tax is levied (Abdallah, 2008). It is the national fiscal year, usually a period of one year, during which all income earners must pay tax. Most countries' year of assessment coincide with the calendar year. Since 1983 it has been 1st January to 31st December in the same year in Ghana (Section 24: IRA, Act 592). It used to be 1st July to 30th June. In Singapore income is assessed on preceding year basis; income related to one period is assessed in the next period (IRAS, 2007).

2.2 THE ROLE OF TAXATION

Taxation is the process of collecting revenue from citizens to finance government activities (Raabe et al. 2006). Taxation has also been used to correct the effects of externalities, redistribute income and direct investments into viable ventures. According to Abdallah (2008), taxation can also be used in the national economy to: reduce inequalities arising from the distribution of wealth; restrain certain types of consumption, e.g. alcoholic beverages and tobacco; protect indigenous industries; and control certain aspects of the country's economy, e.g. the balance of payments, savings, investment and productivity.

2.3 QUALITIES OF A GOOD TAX SYSTEM

Smith (1776) in his book "The Wealth of Nations" propounded the four canons of taxation which dwell on the principle of striking a balance between the interests of the taxpayer and the tax authorities. These canons are equity, certainty, convenience and economy.

2.3.1 Equity

According to this principle the tax system should be fair to the people who are required to pay the tax. The citizens ought to contribute to the government depending upon their ability to pay. The amount of money paid as tax should be proportional to the respective incomes of the taxpayers. Pay as you earn (PAYE), with the graduated rates and steps, largely follows this principle.

2.3.2 Certainty

This principle admonishes that people should know with absolute certainty the amount of tax they have to pay, the time of payment and what form the taxes are to be paid to the government. The government should also be certain of the amount to be collected by way of taxes. This also implies that the withholding agents should know the payments they should subject to withholding tax and the respective rates to use. Section 81 through to section 93 of the Internal Revenue Act, 2000 (Act 592) set forth the detail requirements of the withholding tax system in Ghana. All companies incorporated in Ghana, as well as institutions and government agencies, ought to be reasonably aware of their withholding responsibilities.

The pay-as-you earn system of taxing employment income sets a good example of the canon of certainty, because the graduated tax table explains how the tax liability of every employee is computed. For all stakeholders associated with tax systems, especially the tax withholding system, to be certain of the tax collection process and/ or their tax liabilities, frequent tax education and sensitisation is needed.

2.3.3 Convenience

This principle states that a good tax system should be convenient for the government to administer and for the taxpayer to pay. The method of collecting the tax should ensure that the majority of taxpayers would understand and comply appropriately. The withholding tax system supports the principle of convenience; the total tax payable is spread and collected in piecemeal.

2.3.4 Economy

The economy principle directs that the cost of administering, collecting and enforcing the tax should be reasonable compared with the total revenue generated by the tax. The cost of collecting withholding taxes is minimal to the tax authority, because the withholding agents do the actual collection and transfer the taxes withheld in bulk to the tax authority. However, the withholding tax collection process impacts uneconomically on withholding agents and payees. Vance (2005) emphasises that withholding tax allows the government to confiscate the wealth of its citizens while Khan (2012) reports that many businesses treat withholding tax as expense and pass on this burden to the customers.

The economic landscape has changed significantly since the days of Smith. Generally, governments all over the world, aim at maintaining sound and effective macroeconomic environment. As a result, additional canons have been propounded by modern economists, and this goes a long way to complement the canons propounded by Smith.

2.3.5 Productive/ Prohibitive

Ross (1892) recounted that every tax has two and only two direct effects, - productive and prohibitive; that these two effects are mutually exclusive and complementary; that they vary in inverse ratio; and that their sum is the total effect of a tax. In so far as the tax effect yields revenue, the tax is to that extent productive. On the other hand if the tax effect reduces consumption and for that matter tax revenue, then the tax to that extent is prohibitive.

According to Abdallah (2008) productivity principle should ensure that the tax system produces

a higher amount of tax revenue so that the government should have no recourse to resort to deficit financing. The tax however should not be so high as to damage the source of the revenue. Though no government in the world can confidently proclaim that it raises enough revenue exclusively from taxation, the withholding tax system ensures that businesses and individuals who have not registered their businesses are, in a way, covered by the tax net.

2.3.6 Efficiency

According to Adam and Periton (2003), a good tax system should be efficient. They opine that a tax needs to achieve its objective efficiently and not undermine other aims and taxes. For instance, if the basic rate of tax is reduced to encourage effort but the taxpayers substitute more leisure, then it is not operating efficiently, as revenue from tax, undoubtedly, would reduce.

2.3.7 Elasticity/Flexibility

Abdallah (2008) on his part think that a system of taxation ought to respond automatically to changes in the community's wealth, population and other important variables. In this sense therefore it should be possible for the tax structure, in terms of both rate and coverage, to suit the changing nature and circumstances of the economy. The withholding tax rates, have over time, been varied to respond to the fiscal policies and align with the economic realities.

2.3.8 Simplicity

This principle says that a system of taxation should be simple, understandable and easy to administer (Abdallah, 2008). It should not easily lead to implementation, interpretation and legal problems. Items on which withholding taxes are chargeable are clearly and unambiguously stated in the Internal Revenue Act, 2000 (Act 592). But are all stakeholders reasonably aware

of the provisions contained in this Act and other administrative, regulatory and legal instruments?

2.4 INCOME TAX ADMINISTRATION

The tax laws of a democratic country such as the United States are created by a political process (Raabe et al, 2006). Agyeman (2005) confirms that income tax administration commences with the enactment of income tax laws by the legislature and the implementation of these laws by the administrators. Thus, like many other laws, tax laws are passed by the law making bodies and administered at various governance levels. In Ghana the integration and modernisation of the GRA which started with the passage of the GRA Act, 2009 (Act 791) and the process of forging the erstwhile revenue agencies and the revenue agencies governing boards (RAGB) into one entity are all on course (GRA News, 2011). The Minister of Finance in Ghana is responsible for the administration of the tax laws in Ghana (Section 114: IRA, Act 592).

2.4.1 Responsibilities of the Minister of Finance

Section 114(1) of the Internal Revenue Act, 2000 (Act 592) provides that the Minister may by legislative instrument make regulations for matters authorised to be made or prescribed under the Act. Also, the Minister can exempt any person, class of persons or income from tax and amend provisions of the schedules (including the withholding tax schedules) to the Act or any

monetary amount set out in the Act. In the yearly national budgets, the Minister of Finance sets forth proposed legislative instruments to fulfill these mandates.

2.4.2 The Governing Body of Ghana Revenue Authority

The passage of the Ghana Revenue Act, 2009 (Act 791), has brought into sharp focus the capability of the management and staff of the Ghana Revenue Authority to steer the change process into a safe berth by 2014 (GRA News, 2011). Hitherto, there were three separate governing boards for the erstwhile Internal Revenue Service, VAT Service and Customs, Excise and Preventive Service. The governing body shall, as contained in the Ghana Revenue Act, 2009 (Act 791), ensure the proper and effective performance of the authority through the supervision and monitoring of its functions, formulation of administrative policy for the smooth and efficient management of the authority, determination of a scheme of service for the staff of the authority and performance of any other incidental duties.

2.4.3 Functions of the Ghana Revenue Authority

The Ghana Revenue Authority has been charged under the Ghana Revenue Act, 2009 (Act 791) to perform the following functions:

1. To assess and collect taxes, interest and penalties on taxes due to the republic with optimum efficiency.
2. To pay the amounts collected into the consolidated fund.
3. To promote tax compliance and tax education.
4. To combat tax fraud and evasion and co-operate to that effect with other competent law enforcement agencies and revenue agencies in other countries.
5. To advise district assemblies on the assessment and collection of their revenue.
6. To prepare and publish reports and statistics related to revenue collected.

7. To make recommendations to the Finance Minister on revenue collection policy.
8. To perform any other function in relation to revenue as directed by the Finance Minister or assigned to it.

2.5 OUTLINE OF WITHHOLDING TAX SYSTEMS

Withholding tax processes are similar, and it is basically a prepayment on the final assessable income tax liability of the taxpayer in all jurisdictions.

2.5.1 General Outline

In Australia withholding taxes are deducted from interest, royalties and dividends. Franked dividends paid by Australian resident companies to non-residents are exempt from dividend withholding tax, while non-resident interest withholding tax is limited to 10% (Hills, 2012).

Also, withholding tax rate of 30% is generally imposed on gross amount of royalties paid from Australia to non-residents; however, a reduced rate is applicable to residents of treaty countries.

The withholding taxes in Australia are collected through the pay as you go system (PAYG) and

the liability of remittance of withholding taxes rests with the payer of such amounts (Hills, 2012).

Three key types of withholding tax are imposed in the United States: wage withholding taxes; withholding tax on payments to foreign persons; and backup withholding on dividends and interest (Wikipedia, 2013). Again in the United States the amount of tax withheld is based on

the amount of payment subject to tax (Wikipedia 2013). The maximum withholding tax rate in the United States is (IRS, 2008).

As can be deduced from the U.S. and Australia withholding tax systems, the prescribed rates applied on the qualified incomes differ from one country to another. In Nigeria, most withholding tax rates on payments on earned income are assessed at the rate of 10% for corporate bodies and 5% for individuals (Oserogho & Associates, 2005). In Ghana the applicable rates are the same for both individuals and corporate bodies, with a minimum of 5% and a maximum of 15% (page 22).

In most cases, withholding taxes are applied on the gross payments. However, Oserogho and Associate, (2005) opine that in Nigeria, where there is an agency arrangement, it is only the rewarding commission of the agent that is subject to payment of withholding tax. As it were, withholding taxes are strictly on gross payments in Ghana (Internal Revenue Act, Act 592). In Nigeria withholding taxes are- $\tilde{A}\tilde{i}\tilde{o}$ to be collected and paid over to the tax authorities within 30 days of their becoming due for payment (Oserogho & Associates, 2005). The time within which taxes withheld are to be remitted has been reduced from 30 to 21 days for

companies (Companies Income Tax Amendment Act, Act No. 11). The Companies Income Tax Act (Cap. 60 LFN) also states that where there is a failure to remit tax for whatever reason by a company, the penalty on conviction is a 200% fine of the tax due in addition to commercial rates of interest until the entire amount assessed as withholding tax is fully paid. But, in Ghana, taxes withheld are to be paid to the tax authority within fifteen days after the end of the month in which the withholding agent makes the payments subject to withholding tax.

2.5.2 Withholding Tax System in Ghana

The pay as you earn system (PAYE) started on 1st July, 1961 in Ghana when Prof. Nicholas Kaldor, a tax expert, from Cambridge University streamlined the Ghanaian tax system. Income tax was introduced in Ghana, the then Gold Coast, in 1944. The PAYE system achieved remarkable success and this led to the extension of the withholding system to cover other incomes (Abdallah, 2008).

2.5.3 Withholding Agents and Payees

Companies incorporated under the companies' code are mandated by the Internal Revenue Act, 2000 (Act 592) to deduct certain prescribed taxes at source for the government. The Financial Administration Act, 2003 (Act 654) also mandates government departments to withhold prescribed taxes from qualified payments. Under the tax laws, organisations which are mandated to withhold taxes^{3/4} are same to the tax authority are called withholding agents, while individuals, corporate bodies and other business units from whose incomes the taxes are withheld are called payees.

2.5.4 Final Withholding Tax and Withholding Tax on Account

Withholding taxes are described as final or on account. Incomes which have already suffered withholding taxes described as final should not be included in the taxpayer's tax returns for assessment in any basis period. The income/profit which has suffered withholding tax described as on account must be included in the tax returns of the taxpayer and tax already paid deducted to arrive at the taxpayer's final tax liability.

2.5.5 Types of Withholding Taxes in Ghana

Qualified payments under the withholding tax system vary from country to country. The current withholding taxes available in Ghana, under the Internal Revenue Act, 2000 (Act 592) are withholding tax on employment income and withholding taxes on payments in respect of prescribed goods and services.

2.5.6 Withholding Tax on Employment Income (Section 81: IRA, Act 592)

An employer is mandated to withhold the prescribed tax from the payment of an amount to be included in ascertaining the income of an employee. The employer is again obligated to furnish a return not later than 31st March with respect of its employees, who derive assessable income from the employment, following the end of every year of assessment.

Income tax rates per the first schedule to the Internal Revenue Act, 2000 (Act 592), as amended by the Internal Revenue (amendment) Act, 2013 (Act 859), are stated in the table below:

TABLE 1: INCOME TAX RATES ON EMPLOYMENT INCOME IN GHANA

CHARGEABLE INCOME PER ANNUM		RATE OF TAX
First	GHS 1,584	Free
Next	GHS 792	5%
Next	GHS 104	
Next	GHS 28,200	17.5%
Next	GHS 31,680	25%
CHARGEABLE INCOME PER MONTH		RATE OF TAX
First	GHS 132	Free
Next	GHS 66	5%
Next	GHS 92	
Next	GHS 2,350	17.5%
Next	GHS 2,264	

Source: Internal Revenue (Amendment) Act, 2013 (Act 859)

2.5.7 Other Withholding Taxes

TABLE 2: OTHER WITHHOLDING TAX RATES IN GHANA

Income	Rate (0/0)	Remarks
Resident Person		
Interest (excluding individuals and resident fin. Institutions)	8	Not final tax
Dividend	8	Final tax
Rent (for individuals and as investment income)	8	Final tax
Fees to lecturers, invigilators, part-time teachers etc	10	Final tax
Commissions to insurance agents, fees to directors, etc	10	Not final tax
Commission to lotto agents	5	Not final tax
Supply of goods and services exceeding GHS500.00	5	Not final tax
Non-Resident Person		
Management, consulting and technical service fees etc	15	Final tax
Dividend	8	Final tax
Royalties, natural resources payments and rents	10	Final tax
Repatriated Branch after tax profits	10	Final tax
Interest income	8	Final tax
Short term insurance premium	5	Final tax

Source: PricewaterhouseCoopers 2008 tax facts and figures (with supply of goods and services by residents' threshold of GHS50 amended to GHS500)

2.5.8 Payment of Interests to Resident Persons (Section 82: IRA, Act 592)

A resident person who pays interest to another resident person shall withhold the prescribed tax on the gross amount of the payment. The prevailing rate, as currently amended, is 8%. Interest payable to a resident individual is exempt from tax and for that matter, from withholding tax.

2.5.9 Payment of Dividends to Resident Shareholders (Section 8: IRA, Act 592)

A resident company, which pays a dividend to a resident shareholder, shall withhold the prescribed tax on the gross amount of the payment. The prevailing tax rate is 8%.

2.5.10 Payment to Residents for Supply of Goods and Services (Section 84 :IRA, Act 592)

Where a resident person, other than an individual, pays fees to a resident part-time teacher, lecturer, examiner, examinations invigilator, examinations supervisor or pays fees and other emoluments to a resident director, commission to a resident insurance, sales or canvassing agent or endorsement fees to a resident person, he shall withhold 10% tax on the gross amount of the payment. Commission to a resident lotto receiver or agent also attracts 5% withholding tax.

Where a resident person pays a sum to another resident person for the supply or use of goods or property of any kind, or for the supply of any services, in respect of a contract between the payee and a resident person other than an individual, exceeding fifty currency points (GHS500.00), the person making the payment shall withhold 5% tax on the gross amount of the payment. For the purpose of determining whether a contract exceeds fifty currency points, two or more contracts in respect of the same goods, property or services shall be treated as a single contract. However, payment under a contract for the sale of goods which constitute trading stock of both the vendor and the purchaser are exempt from withholding tax. The Commissioner General may, for a good cause shown, exempt in writing to a person from deducting tax in-respect of an-iTĩstĩüff6Ñor a specific contract entered into by an institution, upon an application made by the institution. If the Commissioner General is also satisfied that a person has a satisfactory tax record he may exempt in writing to that person from paying withholding tax or exempt specific contracts entered into by that person. All persons provided with exemptions shall, at the end of every calendar quarter, submit a list of particulars of all payments, which would have been subjected to withholding tax but for the exemption.

2.5.11 Payments to Non-Residents (Sections 3 and 85: IRA, Act 592)

A person making a payment to a non-resident person or partnership shall withhold tax on the gross amount of the payment at 10% in the case of dividends and interests, 15% in the case of royalties, natural resource payments, rent, endorsement and management / technical services fees.

2.5.12 Payments to Non-Residents for Goods and Services (Section 86: IRA, Act 592)

A person who enters into a contract with a non-resident person for the supply or use of goods or property of any kind or the supply of any services, which contract gives rise to income accruing in or derived from Ghana, shall, within thirty days of the date of entering into the contract, notify the Commissioner General in writing of the nature of the contract, the likely duration of the contract, the name and postal address of the non-resident person to whom payments under the contract are to be made and the total amount estimated to be payable under the contract to the non-resident person. The Commissioner General may, by notice in writing served on the person who has notified the Commissioner General as above, require that person to withhold

15% tax from payment made under the contract.

2.5.13 Payment of Tax Withheld (Section 87: IRA, Act 592)

A withholding agent shall pay to the Commissioner General a tax that has been withheld or that should have been withheld within fifteen days after the end of the month in which the payment subject to withholding tax is made by the withholding agent. Withholding tax in respect of payment to non-residents for goods and services shall be paid to the Commissioner General at the time specified in the Commissioner General's notice. A provision in an agreement, which prohibits the deductions or withholding of a tax, required to be deducted, or withheld under the Act or any other enactment administered by the Commissioner General is void.

2.5.14 Failure to Withhold Tax (Section 88 IRA, Act 592)

A withholding agent who fails to withhold tax in accordance with the provisions of the Act is personally liable to pay to the Commissioner General the amount of tax, which has not been withheld. The withholding agent is, however, entitled to recover the amount from the payee.

2.5.15 Tax Credit Certificate (Section 89 IRA, Act 592)

The Commissioner General shall, upon receipt of an amount paid in respect of withholding tax, issue to the withholding agent in favour of the payee a tax credit certificate in the form prescribed by the Commissioner General stating the amount deducted. The withholding agent shall deliver to the payee tax credit certificate setting out the amount of tax withheld together

with a statement of the amount of the payment of from which tax has been withheld. A payee who is required to furnish a return of income shall attach to the return the tax credit certificate or certificates supplied for a basis period of the payee ending within the year of assessment for which the return is filed.

2.5.16 Record of Payments and Tax Withheld (Section 90: IRA, Act 592)

A withholding agent shall maintain and make available for inspection by the Commissioner General, records showing in relation to each year of assessment, payments made to a payee and tax withheld from those payments. The withholding agent shall keep the records for five years of assessment after the end of the year of assessment to which the records relate. The Commissioner General may require a withholding agent to submit a return of the records to be maintained in the manner, form and at the intervals prescribed by the Commissioner General.

2.5.17 Priority of Tax Withheld (Section 91: IRA, Act 592)

Tax withheld by withholding agent is held in trust for the tax authority. It is not subject to attachment in respect of a debt or liability of the withholding agent. Also, in the event of the liquidation or bankruptcy of the withholding agent, it does not form a part of the estate in liquidation, assignment, or bankruptcy and the Commissioner General has a first claim before any distribution of property is made. An amount which a withholding agent is required to withhold from a payment is a first charge on that payment, and withheld prior to any other deduction which the withholding agent may be required to make by virtue of any order of the court or any other law.

2.5.18 Failure to-Transfer Taxes-Withheld on Due Dates

If a withholding agent fails to transfer taxes withheld on due date and the default is less than 3 months, he will be convicted to pay 20% penalty of the amount withheld. If failure to transfer **the taxes** withheld is more than 3 months, the agent will be convicted to pay 30% penalty (Pricewaterhousecoopers, 2008).

2.6 TAX COMPLIANCE CHALLENGES

Governments have evolved a number of instruments to ensure a high degree of compliance is achieved in relation to income-related taxes (Forum on Tax Administration, 2009). Withholding of tax at source obligations of taxpayers and systematic reporting to revenue bodies by payers of income paid to payees were identified by the forum as effective tax compliance tools. It was put on record at the forum that research findings from a number of countries indicate that, withholding at source and systematic reporting, subject to effective administration, result in very high levels of voluntary compliance in practice.

However, tax non-compliance in varying degrees has been registered in several tax jurisdictions. A number of revenue bodies have implemented special efforts to derive estimates of aggregate evasion (and its key components) to improve their understanding of the magnitude and nature of taxpayers' non-compliance, to gather critical data items for risks profiling purposes, and to derive benchmarks against which future progress can be gauged. Insights obtained from examination of various published reports give a fairly disturbing picture of noncompliance, generally among SME/ self-employed taxpayers.

A research report on improving voluntary compliance (IRS, 2007) indicated that net misreporting percentages for non-farm proprietor and farm proprietor incomes in 2001 in the U.

S. were estimated at 57% and 72% respectively. In addition, SME taxpayers accounted for 70% of the estimated aggregate tax gap for all taxes and taxpayers, with over 82% of this gap attributable to income under-reporting.

The Swedish Tax Agency's Tax Map Gap Report (2008) provided detailed estimates of the extent of non-compliance/ revenue leakage, classified by various factors (e. g. tax type, taxpayer segment). For the period examined, the aggregate amount of revenue leakage (for all taxes) for micro-businesses and SMEs was estimated at SEK78billion, representing around 18% of their estimated total tax liability and just over 58% of Sweden's aggregate tax gap.

Her Majesty's Revenue and Customs (2008) published the results of its work to derive estimates of direct tax losses arising from non-compliance. In this publication, estimates for SME companies derived from its random enquiry programme indicated overall non-compliance with corporate tax obligation at 15% (2001), 18% (2002), 15% (2003), and 9% for 2004. For self-

assessed individuals, the majority being SME/self-employed taxpayers, aggregate noncompliance was estimated at (2000), 12% (2001), (2002), (2003) and 14% (2004)

In Canada, the CRA's core audit programme selects a random sample of unincorporated SMEs for audits to estimate a reliable compliance rate. Different levels of the SME population are selected every year. In its (2009) annual report, CRA reported an estimate derived from the random audit programme of 14-6% (in respect of non-compliance greater than \$5,000 in federal tax).

The non-compliance reporting in wage incomes are however considerably lower. In the U.S., the non-compliance in wage income was 1% (IRS, 2007). In Sweden the non-compliance was .75% (STA, 2007). The non-compliance in U.K. was 1.1% (HMRC, 2007).

The Forum on Tax Administration (2009) revealed that under reporting non-compliance significantly contributes to tax gaps. With the high levels of informal economies, under reporting non-compliance is perceived to be even more aggravated in the developing countries.

Tax compliance laws are variously stated in regulatory instruments. In Ghana, the Internal Revenue Act, 2000 (Act 592), spells out compliance provisions in various sections. An employer, as directed by section 81 of the Act, must withhold tax from the payment of an amount to be included in ascertaining the income of an employee from employment. Section 87 of the Internal Revenue Act, 2000 (Act 592) also directs that all withheld taxes must be paid to the tax authority within fifteen days after the end of the month in which payments subject to withholding tax are

made, together with a report on the particulars of the payments in respect of which the withholdings are made. Again, section 88 mandates the withholding agents to pay to the tax authority in lieu of all withholding taxes they fail to withhold.

Do the withholding agents and payees adequately comply with the provisions of the Act in Ghana? Studies in the U.S., UK, Canada and Sweden, reviewed above, meanwhile, reveal varying degrees of withholding compliance.

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2.7 TAX ADMINISTRATION PROBLEMS

According to Bird (2003) the actual amount of revenues flowing into the hands of any government depends on the effectiveness of its tax administration. Ineffective tax administration, undoubtedly, would lead to inadequate mobilisation of tax revenue. Various administrative barriers have been identified as militating factors to efficient tax administration. Kangave (2005), for instance, stated that not only do developing countries face an uphill battle in bringing individuals and businesses into the tax process but governments face insufficient administration staff with low skills, high levels of illiteracy among taxpayers, lack of logistics and lack of reliable data.

Tanzi and Zee (2000) reiterated that the problem of inexperience and unqualified personnel is worsened by lack of adequate training facilities and opportunities. They further re-echoed that

most training undertaken in developing countries is general in nature, and certainly does not correspond with the particular reform strategies that are being undertaken by tax authorities. Kayaga (2007), on his part, thinks that the prevalence of illiteracy inevitably affects tax administration, because taxpayers are unable to file returns or record their income sources and expenditures. This pre-supposes that tax authorities would have arduous task collecting tax revenue from this group of taxpayers.

Lack of modern technology, especially computers, to facilitate the taxation process is another impediment to effective tax administration (Kayaga, 2007). The total computerisation of the offices of the Ghana Revenue Authority is still a mirage, and this further corroborates Kayaga's (2007) assertion that, like Uganda, most developing countries, until recently had to rely on manually entering data into records, keeping a voluminous amount of tax information in print. Even with the advent of modern technology, the lack of funds to purchase equipment means that a number of tax offices still use highly ineffective manual systems of recording tax information.

2.8 TAX ENFORCEMENT PROBLEMS

When tax reporting is voluntary as in the U.S. income tax system, enforcement of the tax code is undertaken primarily through occasional audits, with penalties often assessed if the taxpayer is discovered to have underreported taxable income (Scotchmer and Slemrod, 1988). They asserted that, most studies of optimal tax enforcement focus on the frequency of audits and the penalty for evasion. However, the findings contained in a modified Ph.D. research prepared for distribution to the Internal Revenue Service (IRS, 1996), revealed that the deterrent effect of audits in the general population is about 1 1 times as large as the adjustments proposed by the audits themselves, but nonfiler notices, information document matching, and return preparation assistance are more cost-effective in boosting revenue.

Many taxpayers in the U.S. think that tax authorities' decisions are not consistent from one taxpayer to the other. Taxpayers' perception that tax assessments are random was documented, for example, in a taxpayer survey report (Yankelovich, Skelly and White, Inc., 1984). In this report only 48% of taxpayers thought that the IRS decisions were consistent from one taxpayer to the next. According to Slemrod (1989), the randomness has two sources. First, the tax code itself is imprecise, and second, for any given tax code, the tax administration agency can alter the extent of randomness by training its auditors more or less or by issuing (or not) detailed regulations. They also found out that, when reducing randomness is costly, it is not optimal to remove all randomness in tax liability assessments.

The U.S. Treasury Department's tax reform proposal (1984), tax reform for fairness, simplicity, and economic growth, stressed the importance of simplifying the tax code. It further recognised that simplicity in taxation has several dimensions, among them is that under a simple system, most responsible taxpayers would be more certain of their tax liabilities. This corroborates the intuition of Roberts (1979), who argued that uncertainty of true tax liability ensures conservative decision-making by risk-averse agents, and may therefore be preferable to the alternative of having explicit rules for every possible situation. The argument is similar to Baldry's (1984) argument that, complete enforcement of income tax laws, designed to reduce income tax evasion to zero, is inefficient when the marginal cost of enforcement is positive.

Again, the modified Ph.D research on estimating the impact of tax policy, enforcement, and IRS responsiveness specifically reveals that most of the efforts of IRS's Criminal Investigation Division (CID) are intended to improve voluntary compliance by catching and prosecuting tax fraud cases (IRS, 1996). The results further stressed that this can improve compliance in two ways: either as a deterrent among those tempted to defraud the government, or as an

encouragement to the general population (to the extent that they don't want to see criminals go scot-free). The findings also highlighted on the fact that it is possible, however, that the latter effect primarily works in reverse; that is criminals convictions might not improve compliance, but the lack of them might erode-com—TiãríCe.

In Ghana, per the Internal Revenue Act, 2000 (Act 592), an employer must submit a PAYE returns by 31 March each year. How many employers obey this law and how many enforcement actions have been undertaken? There are severe penalties under the Internal Revenue Act, 2000 (Act 592) for making false and misleading statements, aiding and abetting, failure to pay tax or lodge tax returns (Banful, 2009). Employees of the tax authority face penalties if they directly or indirectly ask for, or receive a payment or reward in connection with their duties (Section 152 and 153 of Internal Revenue Act, 2000 (Act 592)). However, there is very little enforcement actions for breach of all these regulations (Banful, 2009). In summary, to ensure that government has enough revenue to undertake its activities, the tax authority needs to do the following: (a) ensure efficient tax collection system without necessarily adding further burdens upon the taxpayer; (b) educate everyone in the country on the importance of paying taxes; (c) improve the tax administration, that is, the tax authority must ensure all eligible taxpayers file tax returns; (d) enforce existing laws; (e) reduce corruption and the incidence of revenue intended for government going to line the pockets of officials; and (f) examine the tax laws and where necessary advise government on possible amendments (Banful, 2009).

2.9 TAX POLICY FOR DEVELOPING COUNTRIES

In developing countries where market forces are increasingly important in allocating resources, the design of the tax system should be as neutral as possible so as to minimize interference in

the allocation process ~~cess~~ (Tanzi and Zee, 2001).
should

This document stresses that the system

also have simple and transparent administrative procedures so that it is clear if the system is not being enforced as designed. What challenges do developing countries face when they attempt to establish efficient tax systems? The above economic document outlines the core reasons as follows: First, most workers in these countries are typically employed in agriculture or in small, informal enterprises. As they are seldom paid a regular, fixed wage, their earnings fluctuate, and many are paid in cash, "off the books." The base for an income tax is therefore hard to calculate. As a result, modern means of raising revenue, such as income taxes and consumer taxes, play a diminishing role in these economies, and the possibility that the government will achieve high tax levels is virtually excluded. Second, it is difficult to create an efficient tax administration without a well-educated and well-trained staff, when money is lacking to pay good wages to tax officials and to computerise the operation (or even to provide efficient telephone and mail services), and when taxpayers have limited ability to keep accounts. As a result, governments often take the path of least resistance, developing tax systems that allow them to exploit whatever options are available rather than establishing rational, modern, and efficient tax system. Third, because of the informal structure of the economy in many developing countries and because of financial limitations, statistical and tax offices have difficulty in generating reliable statistics. This lack of data prevents policymakers from assessing the potential impact of major changes to the tax system. As a result, marginal changes are often preferred over major structural changes, even when the latter are clearly preferable. This perpetuates inefficient tax structures. Fourth, income tends to be unevenly distributed within developing countries. Although rising high tax revenues in this situation ideally calls for the rich to be taxed more heavily than the poor, the

economic and political power of the rich taxpayers often allows them to pre-empt fiscal reforms that would increase their tax burdens. This explains in part why many developing countries have not fully exploited personal income and property taxes and why their tax systems rarely achieve satisfactory progressivity (in other words, where the rich pay proportionately more taxes). Therefore, in developing countries, tax policy is often the art of the possible rather than the pursuit of optimal. It is therefore not surprising that economic theory and especially optimal taxation literature have had relatively little impact on the design of tax systems in these countries. In discussing tax policy issues facing many developing countries today, the authors of this economic document consequently draw on extensive practical, first-hand experience with the IMF's provision of tax policy advice to those countries. They consider these issues from both the macroeconomic (the level and composition of tax revenue) and microeconomic (design aspect of specific taxes) perspective.

2.10 BENEFITS OF WITHHOLDING SYSTEMS

The Forum on Tax Administration (2009) identified a number of benefits of the withholding and reporting regimes for small / medium-sized businesses and self-employed taxpayers as follows: Withholding at source arrangements are generally regarded as the cornerstone of an effective income tax system. Imposing the obligation on independent third parties such as the employers and financial institutions to withhold an amount of tax from payments of income made to taxpayers significantly reduces, if not eliminates, their ability to understate such incomes for tax assessment purposes. It is a more cost efficient way for both taxpayers and the revenue body to transact the payment of taxes, and reduce the incidence of unpaid taxes that might otherwise arise where taxpayers properly report their income but are unable to pay some/ all of the tax assessed. Second, the regular remittances by payers of amounts withheld to the revenue bodies ensure good

flow of revenue to the government accounts and assist budgetary management. Third, 'information reporting obligations' refer to a legislated requirement on the payers of income to report periodically to the revenue body relevant information (e.g. name and identification number of payee and amount and date of payment), either as an integral component of a withholding regime or as a separate 'stand-alone' requirement in relation to a prescribed category of payments. Such reports, where they are systematically matched with tax records, enable the revenue body to verify the amount of income reported by the taxpayers in their returns, to identify potential discrepancies, and to identify non-filers. Fourth, a more recent development, especially in the Scandinavian countries, has seen the use of information reports (and other taxpayer-related information) held by revenue bodies to prepare tax returns applying a concept of 'pre-filling'. In their most advanced form, pre-filled tax returns eliminate most of the efforts required of taxpayers — principally employees and investors — to prepare their annual tax return, thus considerably easing their compliance burden. Fifth, while the imposition of withholding and/or reporting obligations on third parties such as employers clearly imposes a burden (ie 'compliance costs') on them, these costs are generally considered to be far outweighed by the benefits they engender to the overall performance of the tax system, particularly in terms of substantially higher levels of voluntary compliance that can be achieved with the tax laws.

Finally, when revenue bodies were asked in the forum (Forum on Tax Administration, 2009) to indicate the purpose of the withholding and information reporting regimes, the following summaries were extracted from their submissions:

1. Improved compliance and risk detection: A number of revenue bodies reported that the primary purpose was to deter non-compliance, in particular areas of the economy open

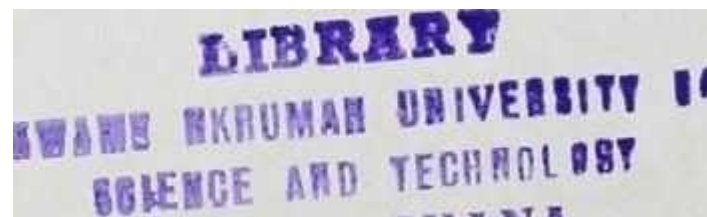
to cash dealings and / or which had been found to exhibit considerable non-compliance and /or to provide knowledge of dealings that may present compliance risks.

2. Equity/ alignment between taxpayers: One revenue body reported that the regime aimed to bring the treatment of self-employed persons, in terms of their tax payment and collection, in line with arrangements for employees who perform similar tasks, albeit under different legal guises (i.e. as an 'employee' or independent contractor).
3. Budgetary management: some reported that a constant flow of revenue and timely tax payment were important considerations.
4. Alleviate compliance burden: One body reported that its withholding regime was intended to ease taxpayers' end-year tax payment burden that would otherwise arise in its absence.
5. Law clarification: One revenue body noted that the withholding regime enabled it to, among other things, target payments for services not readily encompassed within its withholding regime (e.g payments for services not performed by 'employees as such).

2.11 DRAWBACKS OF WITHHOLDING TAX

Generally speaking, there is paucity of information available across member countries concerning the overall incidence of reporting non-compliance by SME/ self-employed taxpayers (Forum on Tax Administration, 2009). The forum further asserted that it is costly to derive accurate and comprehensive measures of taxpayers' compliance.

A high-rate of withholding tax is likely to affect the operational performance of most businesses (Abdallah, 2008). This is because the withholding tax is a payment on account and



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is applied on the gross payments, which means it does not take into account the expenses associated with such payments. Following from the above, the cash flow of most businesses would be affected as they receive amounts less than what they have estimated or budgeted for per the invoices they have issued, courtesy a withholding tax having been applied against their expected inflow. It is likely to discourage hard work by tax officers. If the system works well and efficient, tax officers may tend to relax in their efforts to collect more taxes through monitoring as they are likely to be content with inflows from withholding taxes forgetting that these are not always final taxes. It also leads to the locking up of the capital of some businesses with the revenue agencies. This arises where, the tax being a payment on account, businesses end up with huge sums of overpayment of taxes by way of the withholding taxes at the end of their financial period and the refund is not expedited by the revenue agencies.

During the pre-budget forum organised by PricewaterhouseCoopers to collate private sector inputs for 2010 budget it was unveiled that, similar to the withholding tax problem, companies sometimes return more to government as VAT than they actually charged on values created during the financial year, but the government does not readily refund these funds (myjoyonline, 2009). Mr. Seth Tekper, the then Deputy Minister of Finance, however assured participants that government would work on the problem of VAT refund, which is critical and mostly for supporting companies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

The system, techniques, tools and methods used to uncover the challenges facing the withholding tax system were classified under research design, population estimation, sample size and sampling techniques, source of data collection, data collection tools and data analysis techniques.

3.1 RESEARCH DESIGN

The study was based on descriptive and case study research approaches. Descriptive approach was used so that the challenges of the withholding tax system could be completely unraveled. Moreover, descriptive approach does not disturb the natural environment and the normal behaviour of the subject being studied. The descriptive study approach was also used to yield rich data from the right respondents that could lead to important recommendations. The descriptive approach was complemented by the case study approach because the study aimed at understanding the deep rooted attitudes and concerns of the key stakeholders involved in the withholding tax collection process. The case study was again used so that the researcher could narrow down the broad area of the research so as to complete the research within the given time frame. The chosen design was considered adequate in gathering enough and appropriate data to draw conclusions about the challenges disturbing the smooth operation of the withholding tax system in Ghana.

3.2 POPULATION

population is a well-defined collection of individuals or objects known to have similar characteristics (Castillo, 2009). Sample selection depends on the population size, its homogeneity, the sample media and its cost of use, and degree of precision required (Salant & Dillman, 1994). The people selected to participate in the sample must be selected at random; they must have an equal (or known) chance of being selected (Salant and Dillman 1994).

However, it is sometimes impossible to know the true or exact population. In such cases, Attewell and Rule (1991) suggested that a theoretical sample, where organisations that exhibit the desired features which are the focus of the researcher's study, may be purposively selected and used. The exact or true population of the study was not actually known. However, tax officials, organisations mandated to withhold taxes and organisations and individuals whose incomes are withheld at source formed the basis of the research.

3.3 SAMPLE SIZE AND SAMPLING TECHNIQUES

The researcher selected a total sample size of 100 respondents. The organisations and individuals who formed the basis of the sampling were companies and governmental institutions and agencies in the Upper Denkyira East Municipality, organisations and individuals (within and without the municipality who supply goods and services to the withholding agents in the municipality) and officers of the Ghana Revenue Authority.

The sample size was classified and grouped as follows:

- 1. Staff of the Ghana Revenue Authority 7
- 2. Withholding agents 8
- 3. Payees 85

Total

The sample size of 100 was considered to be large enough and representative. The 8 withholding agents were the total number of withholding agents mandated to withhold taxes for the government in the Upper Denkira East Municipality and had tax files opened in their

respective names. All of these organisations were conveniently sampled because they could easily be located within the municipality. The 85 payees included 18 payees officially recognised by the Ghana Revenue Authority in the Upper Denkyira East Municipality, with tax files maintained in their respective names. All of these payees were also conveniently sampled. The tax authority readily provided the researcher with the contacts of these payees. The researcher also contacted the eight (8) withholding agents and requested each of them to provide him with a list of payees who supply goods and/or services to them. The researcher selected seven (7) payees from each of these lists, ensuring the mix of payees from different business areas and operations. The final 11 payees were traders, landlords and artisans in the municipality who were purposively selected so as to include all other payees whose incomes could be withheld at source in the municipality. Three (3) of the officers of the tax authority, who had been assigned to handle withholding tax assignments were selected. The head of the tax authority and his deputy in the municipality and two tax auditors mandated to undertake tax audits in the municipality were also finally selected for the study.

3.4 SOURCE OF DATA

The tax authority has offices in all regions as well as most districts. Because of time and resource constraints, the tax authority in the Upper Denkyira East Municipality was adopted as the focal point and the research predominantly restricted to this municipality. Both primary data and secondary sources were used for the study. The researcher obtained the primary data through questionnaire administration and interview with respondents. The secondary sources were pertinent literature from text books, journals, pamphlets and the internet, which were all relevant to the research.

3.5 DATA COLLECTION TOOLS

Salant and Dillman (1994) espoused the use of mixed mode surveys that combine survey media. They further noted that mixed mode surveys generally reflect higher composite response rates than single medium surveys.

3.5.1 Personal Interview

Personal interview is usually carried out in a structured way. The researcher, using interview guides with a set of pre-determined questions, solicited the necessary information from the tax administrators, auditors and staff, and the withholding agents. This tool enabled the researcher to probe further into the responses to the structured interview questions, unearthing the deep rooted withholding tax challenges facing the withholding tax system. All the respondents were contacted and interviewed.

3.5.2 Questionnaire Administration

Questionnaire appears to be the most extensively used method in economic and business research. Before applying this method, the researcher undertook a pilot study to test the questionnaire developed for the study. One set of questionnaire was developed for the payees. The questions were predominantly closed-ended 5-point weighted Likert Scale. However, there was one open-ended question for the respondents to give their general comments on the withholding tax system as payees. Out of the 85 targeted respondents only 73 could be served with the questionnaire, and only 61 (84%) respondents returned the questionnaire.

3.5.3 Reference to Pertinent Literature

Pertinent literature sources were reviewed throughout the study. These reviews, in particular, helped the researcher in designing the questionnaire and structuring the interview guides, as well as providing the basis for arriving at some analytical conclusions.

3.6 DATA ANALYSIS TECHNIQUE

The analysis of data requires a number of closely related operations such as establishment of categories, the application of these categories to raw data through coding, tabulation and then making inferences. The data were edited and coded. Microsoft Excel (MS Excel) was used to process the data from the questionnaire. The researcher tabulated the data and analysed the information generated, by converting the raw scores for all the close ended questions into percentages. The open-ended questions—and responses from interviews were examined and evaluated. The data were analysed against the three (3) specific research objectives. Finally, the findings were summarised, conclusions made and recommendations given.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 INTRODUCTION

Chapter four deals with the analysis and interpretation of data collected for the study and provides clear and objective report on the findings. The research sought to identify the challenges of the withholding tax system in Ghana, a case study of Upper Denkyira East Municipality. The specific objectives of the study were stated as follows: to establish the attitude of payees within the withholding tax collection process; to identify challenges faced by the withholding agents; and to assess the adequacy of withholding tax education and enforcement activities in Ghana.

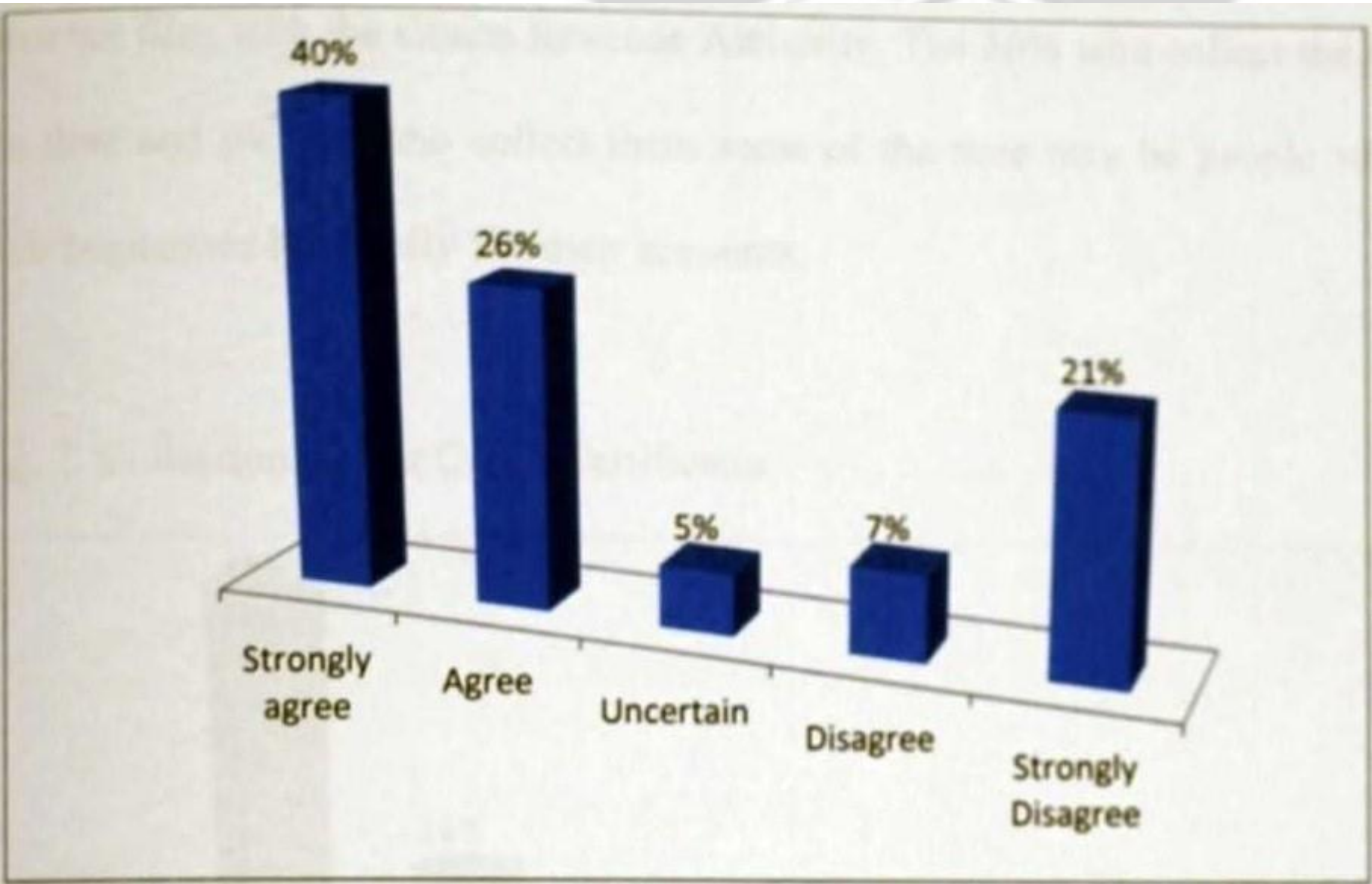
4.1 ATTITLJDE OF PAYEES

Payees are the core stakeholders of the withholding tax system; they pay taxes upfront in piecemeal before they are finally assessed. For the withholding tax system to work effectively and efficiently, payees should know the importance of the system, as well as their key obligations under the tax laws.

4.1.1 Importance of Withholding Tax Deductions

From the figure below, 66% of payees agree that it is important to allow withholding agents to deduct withholding taxes from qualified payments due them, while 28% disagree.

Fig. 1. Importance of Withholding Tax Deductions



Source: Field Study 2013

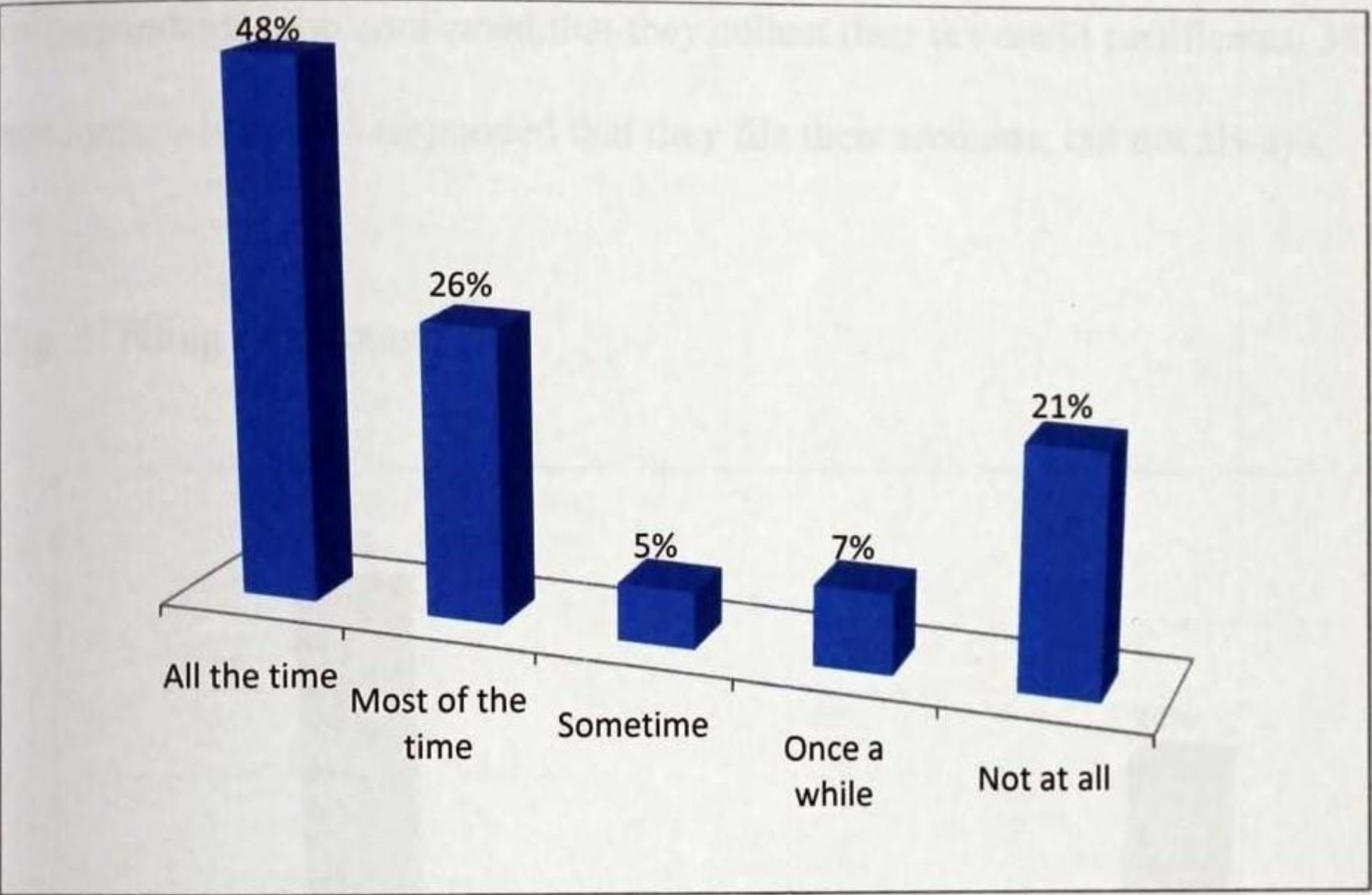
This means that majority of payees, and for that matter, the taxpaying public, are aware that the withholding tax system provides the needed funding in good time to finance government activities. With this positive attitude, it may not be difficult to instill a taxpaying culture in the payees. The onus therefore rests on the tax authority to come out with programmes to further

re-echo the importance of tax revenue mobilisation for national infrastructural development and the provision of public goods in general. Those payees who disagree and the few who are uncertain are likely to change their attitudes if they become aware of the enormous infrastructural and social amenities developed vsith tax revenue within their operational areas.

4.1.2 Collection of Tax Credit Certificates

48% Of payees collect their tax credit certificates all the time, 26% most of time. 5% sometimes and 7% once a while. 21% of payees do not ask the withholding agents for their tax credit certificates. The 48% are likely to be payees who have registered their businesses and have tax files with the Ghana Revenue Authority. The 26% who collect the tax credits most of the time and the 7% who collect them some of the time may be people who have registered their businesses but hardly file their accounts.

Fig. 2. Collection of Tax Credit Certificates



Source: Field Study 2013

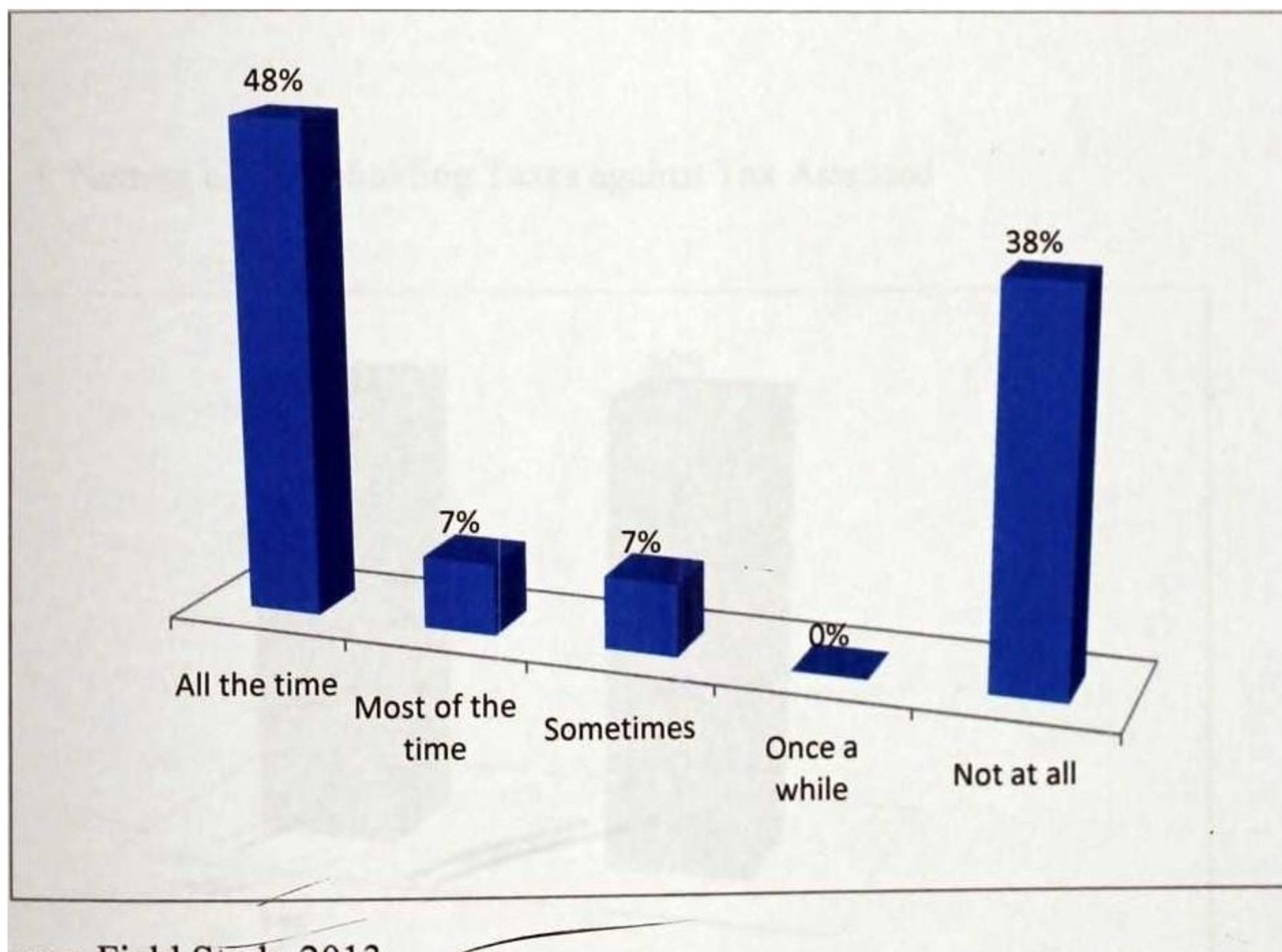
The interview with the tax administrators in the Upper Denkyira East Municipality revealed that, in such a situation, assessments are made, on the basis of the Commissioner General's best judgement. This approach by the tax authority ultimately undermines section 89(3) of the Internal Revenue Act (Act 592) which categorically states that a payee who is required to

furnish a return of income shall attach to the return the tax credit certificate or certificates supplied to him for a basis period ending within the year of assessment for which the return is filed. Consequently, it would be tough for tax administrators to insist later on that such a payee does the right thing and abide by the tax laws judiciously. The 21% may be people who have not registered their businesses, and as such, are not captured by the tax net. The withholding tax system, temporarily, serves as the only means by which this group of taxpayers could be taxed.

4.1.3 Filing of Accounts

48% of the respondents indicated that they file accounts every year. This corroborates the 48% of respondents who confirmed that they collect their tax credit certificates. 38% do not file their accounts, while 14% responded that they file their accounts, but not always.

Fig. 3. Filing of accounts



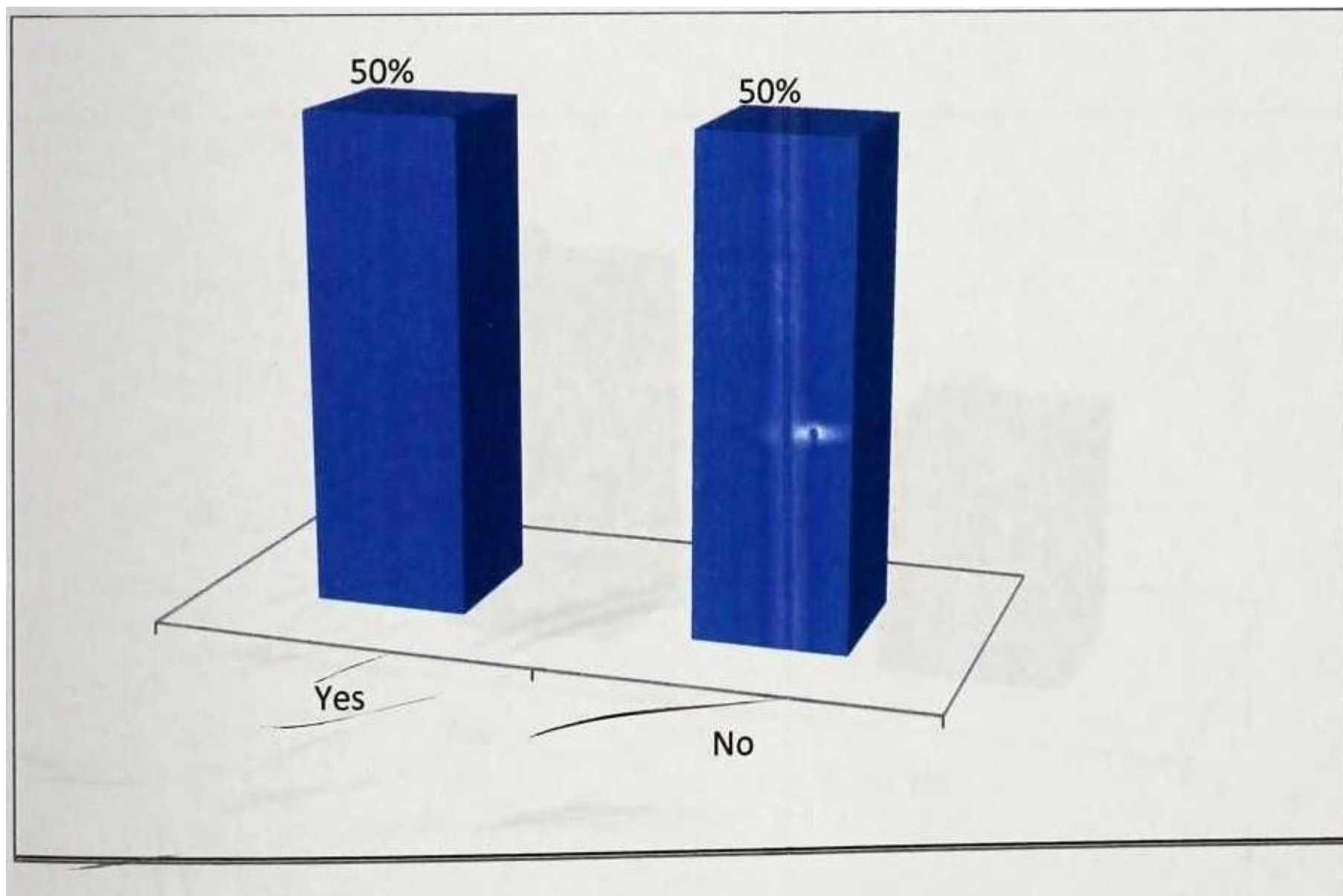
Source: Field Stúdí 2013

Some of the 14% of respondents who do not file their accounts always may be reasonably aware of their withholding obligations if they have passed through business registration processes and occasionally pay withholding taxes, but they may not be aware of the consequences of non-compliance under the tax laws. Tax authorities must follow-up on such payees and ensure that they file their accounts and abide by other withholding obligations.

4.1.4 Netting off Withholding Taxes against Tax Assessed

50% of respondents are aware that their final payable taxes are arrived at after deducting all the withholding taxes suffered within the basis period of assessment from their assessable income tax liabilities. This group of payees is most likely to register their businesses, file their accounts and demand their tax credit certificates from the withholding agents.

Fig. 4. Netting off Withholding Taxes against Tax Assessed



Source: Field Study 2013

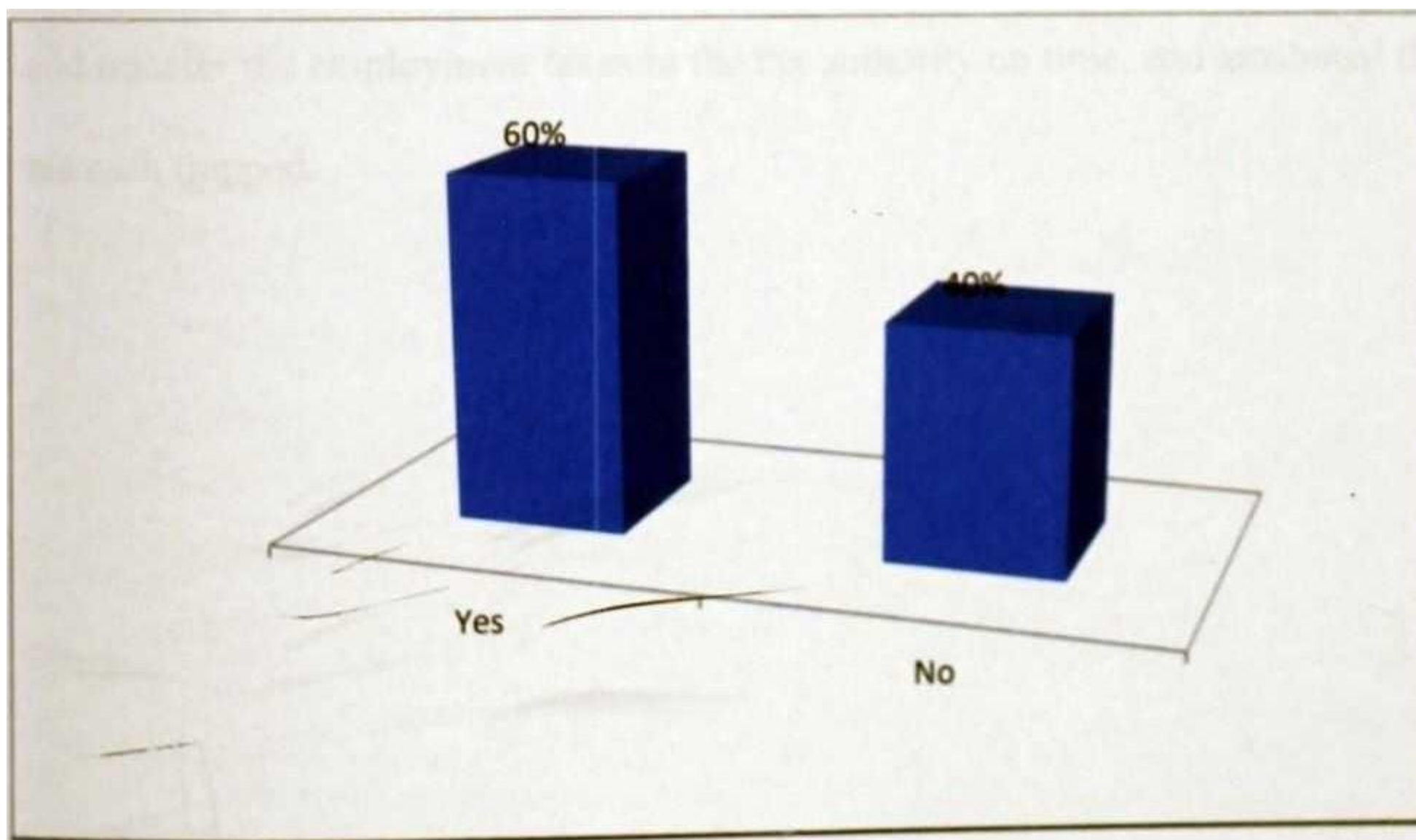
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The other 50% of respondents, who are unaware of the possibility of netting off withholding taxes suffered against their final assessable tax, may not like to deal with organisations mandated to withhold taxes. Again, this is the group of payees who see withholding taxes as additional costs and are likely to increase the prices of the goods and services they offer to cover the withholding taxes they pay. This attitude of payees potentially undermines the purpose of the withholding system. To improve tax revenue mobilisation through the withholding tax system, tax authorities must reach out to the payees and properly brief them on their legally mandated obligations and duties under the tax laws.

4.1.5 Claiming Overpaid Taxes

From Fig. 5 below, 60% of payees are aware that they can claim overpaid taxes if they file their accounts, while 40% are ignorant.

Fig. 5. Claiming Overpaid Taxes



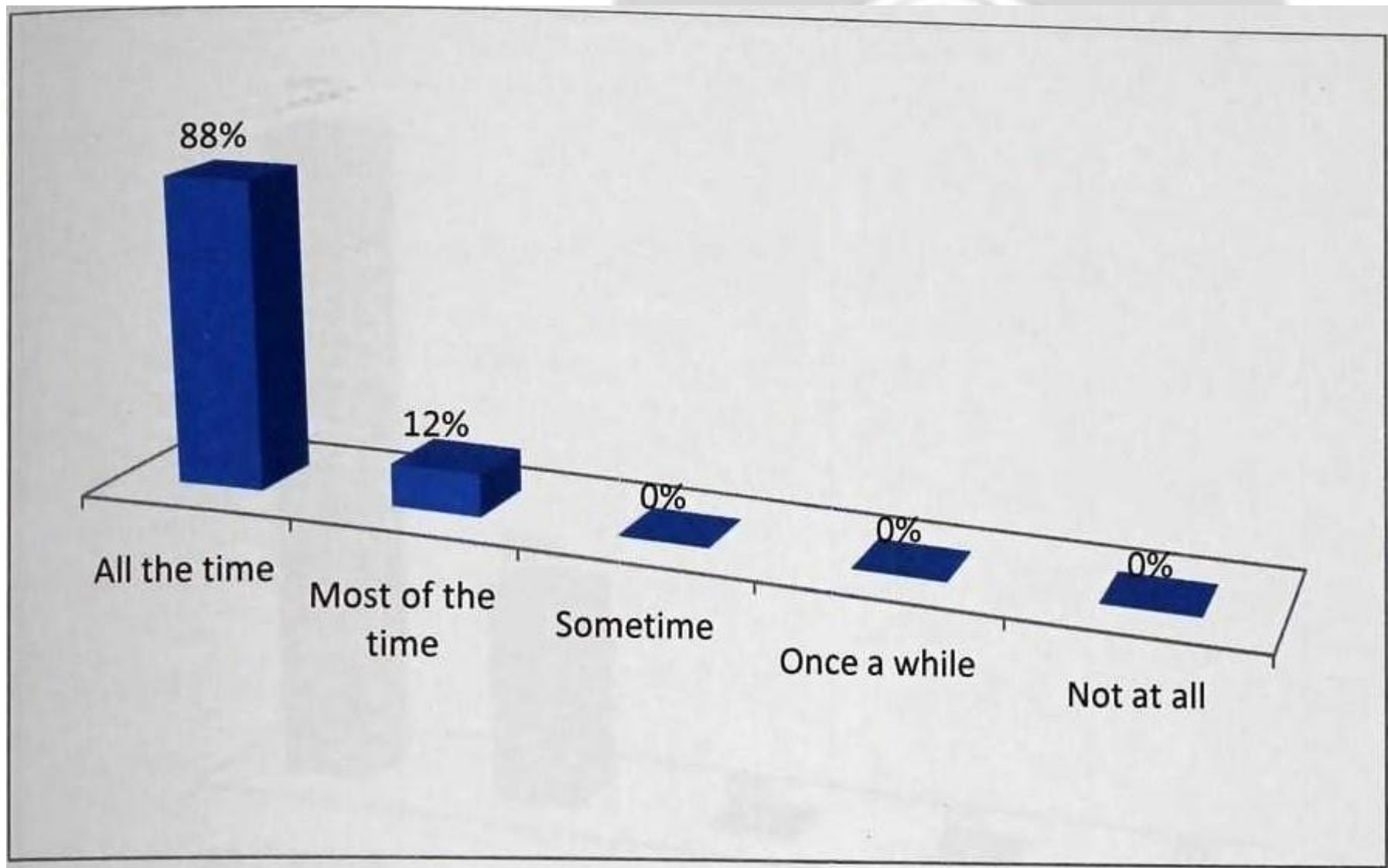
Source: Field Study 2013

Because withholding tax rates are applied on the gross qualified amounts due to payees, there are instances when the total withholding tax suffered by a payee exceeds his final tax liability. The payees who are unaware of this provision of the law (Internal Revenue Act, 2000) would eventually increase the prices of goods and services they offer to their customers. Even those who are aware that they can claim overpaid withholding taxes, vehemently complained that the process to claiming the overpaid taxes is so cumbersome that they hardly make any attempt to commence it, let alone claim it. To make the withholding tax system convenient to the payee and make him respond appropriately, the tax authorities must ensure that they follow through their mandates as required by the tax laws always.

4.1.6 Withholding Agents' Ability to Withhold PAYE Deductions

From Fig. 6 below, 88% of the respondents (withholding agents) said that they deduct employment taxes as and when they pay salaries and transfer same to the tax authority on time. 12% of the respondents, however indicated that, in rare occasions, they are unable to deduct and transfer the employment taxes to the tax authority on time, and attributed this to when they are cash trapped.

Fig. 6. Withholding Agents' Ability to Withhold PAYE Deductions



Source: Field study 2013

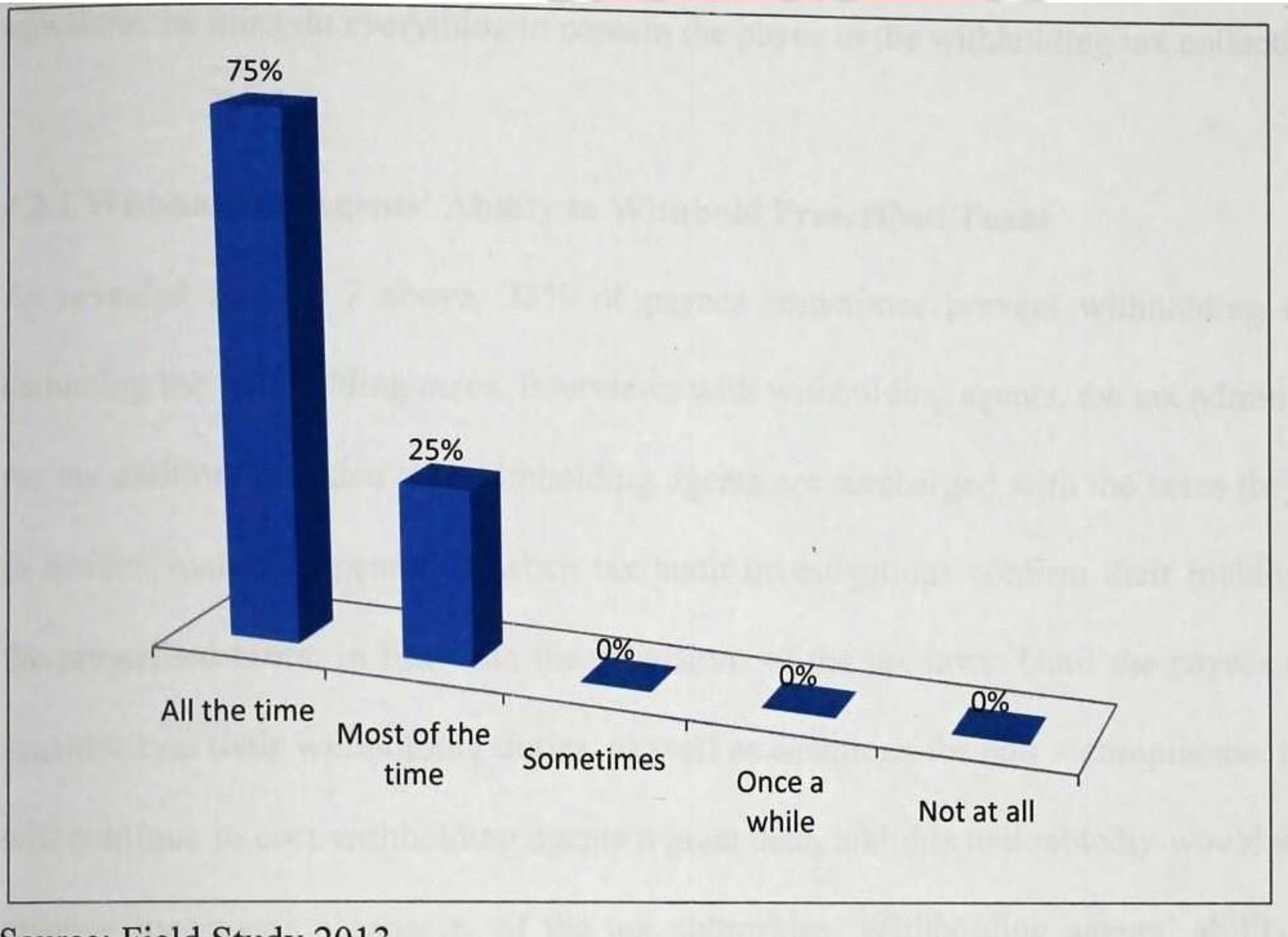
Employees who are payees in this case have no influence in the deduction process and cannot determine or prevent the organisation from deducting the employment related taxes.

This actually accounts for why withholding agents' compliance rate, in respect of PAYE deductions, is high.

4.1.7 Withholding Agents' Ability to Withhold Other Prescribed Taxes

75% of withholding agents confirmed that they are able to withhold taxes on all other qualified payments (goods and services, rent, commission etc), while 25% said that they are able to deduct the taxes most of the time but not always.

Fig. 7 Withholding Agents' Ability to Withhold Other Prescribed Taxes



Source: Field study 2013

The 25% are most likely those payees who occasionally threaten to withdraw their services and products if withholding taxes are deducted from payments due them. If the withholding agents are in dire need of the products or services, they may pay the total amount to the payees and

either pay to the tax authority from their own coffers in lieu of the withholding taxes they are unable to deduct or suffer the consequences during tax audit.

4.2 CHALLENGES FACED BY WITHHOLDING AGENTS

The preparedness of the withholding agent to perform his role as contained in the tax laws uld also determine, to a greater extent, the fulfillment of the objectives that underpin the



withholding system. Not only is the withholding agent mandated to perform his duties or face sanctions, he must do everything to contain the payee in the withholding tax collection process.

4.2.1 Withholding Agents' Ability to Withhold Prescribed Taxes

As revealed in Fig. 7 above, 25% of payees sometimes prevent withholding agents from deducting the withholding taxes. Interviews with withholding agents, the tax administrators and the tax auditors revealed that withholding agents are surcharged with the taxes they are unable to deduct, including penalties, when tax audit investigations confirm their inability to deduct the prescribed taxes, in line with the provisions of the tax laws. Until the payees are properly sensitised on their withholding duties, as well as sanctions for non – compliance, their attitude will continue to cost withholding agents a great deal, and this undoubtedly would affect the tax revenue mobilisation capacity of the tax authorities. Withholding agents' ability to perform their withholding duties is greatly dependent on the total commitment and co-operation of the payees.

4.2.2 Additional Costs of Operation

The laws mandate the withholding agents to deduct withholding taxes and transfer the taxes withheld to the tax authority every month. The withholding agents, when asked to state the challenges they face within the withholding system, mentioned that they

incur additional costs to maintain the withholding system. Some specifically stated that they assign staff to handle the withholding duties and incur additional administrative costs on logistics to maintain the system. To avoid the penalties, the withholding agents said that they sometimes allow the payees to increase the prices of the goods and services they offer to cover the withholding taxes. They

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also said that they are obliged to do this when they need the goods or services so badly and when the suppliers insist on the receipt of the full amounts. This implies that the withholding agents occasionally pay fictitious amounts to the tax authority, which is strongly against the withholding tax laws. As a consequence, such withholding agents would also try to transfer these costs onto the prices of their products. The final consumers ultimately suffer if the products in question are price inelastic.

4.2.3 Frequency of Tax Audits

The withholding agents as well as the tax officials confirmed, in their respective interviews, that tax audits are conducted infrequently. Some withholding agents were worried about the infrequency of the audit, adding that an infraction of the tax laws that is not detected in good time, could increase their cost of non — compliance. For instance, if it is eventually detected after a couple of months that a withholding agent did not apply the right rate of tax or did not deduct a prescribed and qualified withholding tax, the agent would be surcharged with the amount of tax he could not withhold as well as a penalty up to 30% of the amount he is surcharged (IRA, Act 592). Tax audits may not be frequently organised because the tax authority lack resources to do so. The withholding agents would

therefore continually be saddled with compliance costs if they do not know the implications of their actions and inactions in good. As a results, issues which when detected on time could improve the withholding tax system, would continue to hunt it.

4.2.4 Transfer of Taxes Withheld

The law requires the withholding agents to transfer all the taxes withheld to the tax authority within 15 days after the end of the month in which the payments subject to withholding tax are made. Interviews with some of the withholding agents (educational institutions and governmental agencies) revealed that they are sometimes unable to meet the deadline if they are cash trapped or if there is a delay in receipt of their subventions, and could be penalised for delayed transfer of taxes withheld. However, the tax authority explained that if for genuine reason a withholding agent is unable to transfer withheld taxes, and writes to the authority why he is unable to do so, the authority would surely extend the period within which the agent should then transfer the taxes withheld. This pre-supposes that the withholding agents do not abide by the laws adequately and take advantage of all the reliefs. The problems faced by the withholding agents are therefore partly due to their own attitudes towards their withholding mandates.

4.3 TAX EDUCATION AND ENFORCEMENT ACTIVITIES

The interviews with the tax administrators and the tax auditors revealed that the tax authority employs various measures to ensure that the withholding agents deduct the prescribed withholding taxes and pay the taxes withheld to the authority on time. They specifically mentioned tax education for withholding agents, monitoring and reviewing of withholding agents' records and documentation, verification of financial reports, tax audits and imposition

Of penalties for non-compliance. They believe these measures outlined above put withholding agents on their toes to act appropriately.

4.3.1. Monitoring and Review of Withholding Agents' Records and Documents

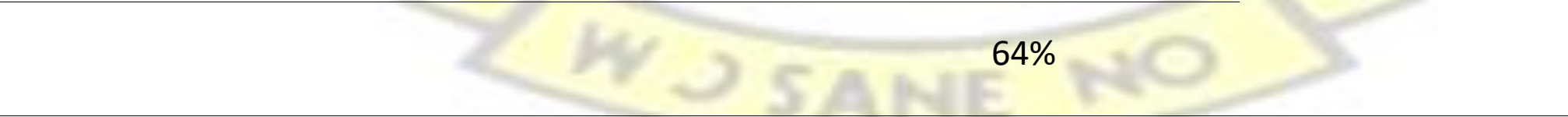
The officials of the tax authority said that the monitoring and periodic review of the records and documents pushes withholding agents to comply with their withholding duties, deducting the prescribed and qualified withholding taxes and transferring these taxes withheld to the tax authority on time. Some of the withholding agents however commented that though the tax officials visit them periodically, they mainly come to pick the monthly cheques issued to cover the withheld taxes, and that detail review of their documents is only done when the tax officials come to do tax audit. This means that detail investigations into the withholding duties of the agents are not normally undertaken. Consequently, the non — compliance problems of the withholding agents would continuously be high, thereby increasing withholding agents non — compliance costs and creating more work for the tax authority during tax audits. The tax administration procedures of the tax authority must be reviewed so that pre-emptive approach in solving the withholding tax problems should be preferred to the post-mortem approaches.

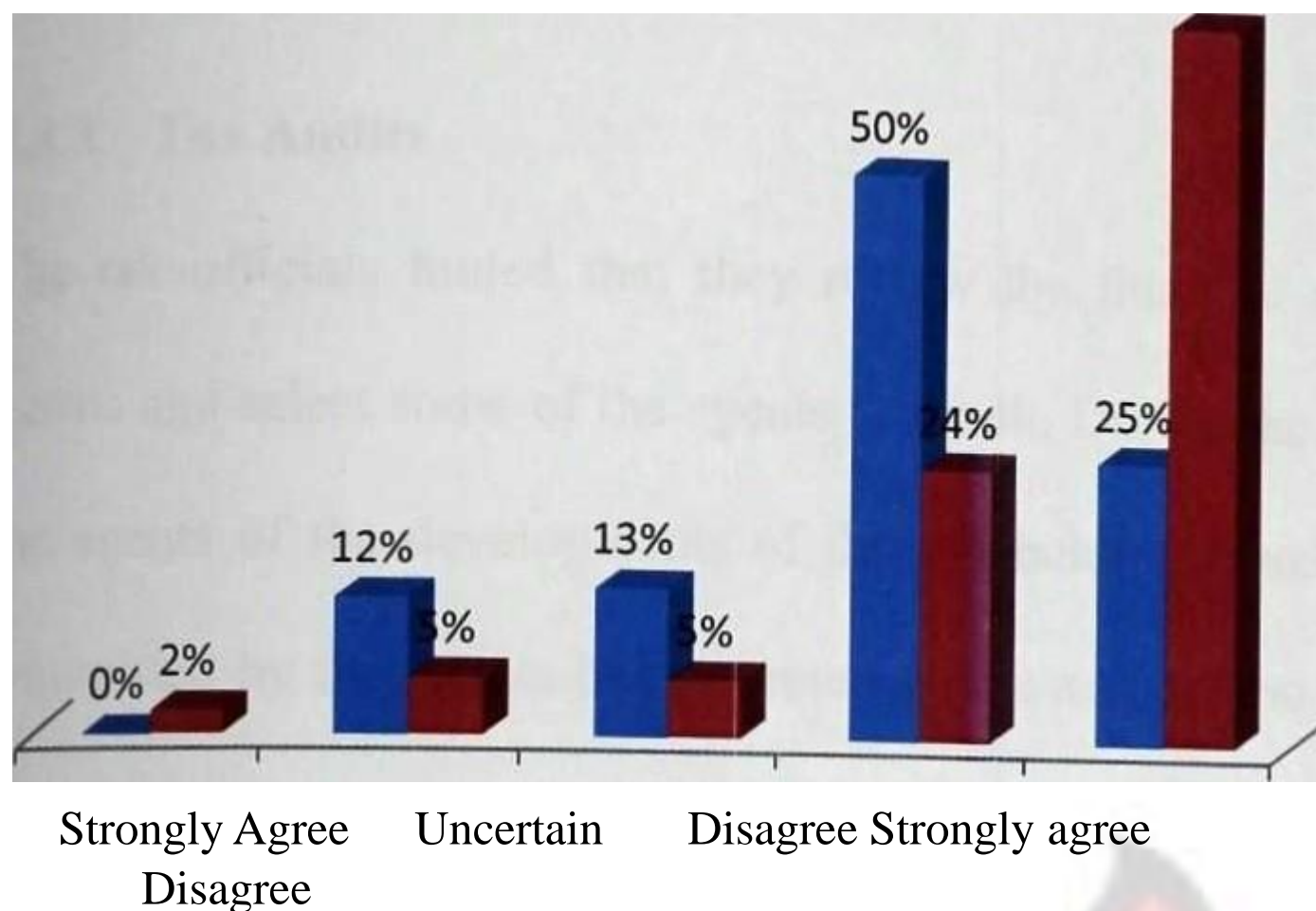
4.3.2 Tax Education Activities

The tax laws mandate the tax authority to provide tax education. The tax administrators said that tax education and other administrative and enforcement activities make withholding agents apply the appropriate rates and pay promptly in a number of cases. Despite the perceived importance of tax education, withholding agents and payees think that tax education programmes are not frequent in the municipality.



Fig. 8 Tax Education Activities





Source: Field Study 2013

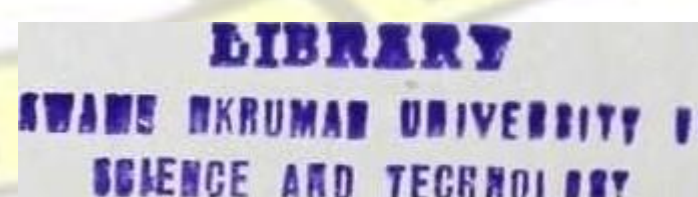
From the above fig. 75% of withholding agents and 88% of payees think that the GRA does not frequently organise tax education programmes to sensitise and update them on the emerging developments of the withholding tax system. The tax officials conceded that the withholding agents and payees need to be continuously reminded of their respective responsibilities under the withholding tax laws to make them effective. Though they agree they have to organise more tax education activities, the tax officials complained that most of the organisations and taxpayers who are invited to attend tax education seminars usually fail to attend. They also complained that anytime they organise tax education programmes on air, the targeted listening public hardly phone in to contribute and ask relevant questions. Most of the time serial callers phone in to ask unrelated questions. The authority should therefore amend its tax sensitisation and education practices so that the targeted group(s) could normally be reached. If the status quo continues, the withholding tax system would continue to be disturbed by all the problems outlined in this study.

4.3.3 Tax Audits

The tax officials hinted that they review the financial reports submitted by withholding agents and select some of the agents for audit. During the audit, they take their time to brief the agents of the developments of the withholding system and also pinpoint the mistakes committed by the agents in their returns. The agents who have ever been audited agree that the tax audit process reveals their mistakes, which they take in good faith to avoid committing similar ones. The agents also, during the audit, take the opportunity to share with the tax officials the challenges they face within the withholding tax collection process and ask the officials to advise them. However, the agents complained that the audits are not frequently conducted. Some of the agents said that tax audits are conducted in their organisations once every three or four years. They lamented that mistakes are perpetuated for a long time before they are uncovered. By the time the omissions and commissions are uncovered, the money value of the non-compliance committed escalates. To reduce the audit problems, the authority should galvanise more resources into its monitoring duties, as this would reduce compliance problems better than the periodic audits.

4.3.4 Application of sanctions

The tax administrators and ~~the tax auditors~~ reiterated in the interview that it is the responsibility of withholding agents under the Internal Revenue Act, 2000 (Act 592) to effect deduction of the exact tax at source, when making payment to a third party for contracts



covered under the withholding tax laws, and pay the tax withheld to the tax authority within 15 days after the end of the month in which the tax is withheld. Although the tax authority can require a

withholding agent to submit a return of the records of payments made to specific payees and taxes withheld from payments, the withholding agents disclosed that the authority seldom exercises this power. The tax administrators again explained that the withholding agents, who flout the laws governing the withholding tax system, are caught and punished after tax audits have been conducted. They agreed that tax audit is most often done selectively and infrequently. But they quickly added that if the monitoring and review activities of the authority reveal that a withholding agent does not adequately comply with the withholding provisions, then the tax authority would conduct frequent tax audit on such an agent. As tax audit is conducted on selective basis and infrequent, some of the agents who flout the laws may never be punished. If for a given period the tax audit is not frequent, the monitoring activities should be frequent and vice versa. This would go a long way to improving the withholding tax system, whilst other innovative measures are continuously, diagnostically and cumulatively sought for.

4.3.5 Information Dissemination

The tax authority informed the researcher that they sometimes use mobile vans to disseminate information in the municipality during market days. They believe this mode of transmission ensures that the information reaches a larger majority of the citizenry. They also transmit information on radio. But if changes are made to the withholding rates or other related provisions of the tax laws, they indicated that they officially write to the specific stakeholders who are required to have the information. But some of the withholding agents said that they are not given such information always; they get to know some of the issues only when tax auditors descend on them. Though not all the issues are communicated to the withholding agents timely, the withholding agents could sometimes decide not to act appropriately for reasons known to them alone. Also, even though it is the duty of the tax authority to disseminate tax information to all the other stakeholders, withholding agents should be encouraged to contact the tax authority anytime they are confronted with tax related problems.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

The study sought to establish the attitudes of the payees within the withholding tax collection process, identify challenges faced by the withholding agents and assess the adequacy of withholding tax education and enforcement activities in Ghana. The objectives were achieved through literature searching and review, questionnaire administration, interviews and discussions with respondents and analysis of all the data gathered for the study. The researcher summarises the principal findings and the analysis made in chapter four and offers recommendations in the light of such findings and analysis in this chapter.

5.1 SUMMARY OF FINDINGS

The study uncovered various degrees of challenges which confront the withholding tax system in Ghana and revealed other operational realities.

The data analysis revealed that most taxpayers hardly file their accounts, and majority of these businesses have not been registered. As such, the withholding tax system serves as the most appropriate means by which these groups of taxpayers could be taxed. A greater number of taxpayers are also not aware that withholding tax is an advance payment of tax and that the total-withholding tax-in any basis period could be deducted from the taxpayers' total assessed tax liabilities to arrive at the net amount payable, provided the taxpayers file their accounts.

Some of the business owners are unaware that overpaid

withholding taxes could be claimed from the tax authority, and that tax claims can only be made if they file their accounts. It was also revealed that it is very cumbersome and difficult to claim overpaid

taxes. As such, most of the times payees do not even make the attempt to claim the overpaid taxes. As supported by available literature previously reviewed, withholding agents' compliance rate in respect of PAYE deductions is very high in the municipality. This is partially due to the fact that employees who are payees in this case have no influence in the deduction process and cannot determine or prevent the organisation from deducting the employment related tax. Unlike PAYE deductions, the study revealed that some of the payees threaten to withdraw from signed contracts when withholding agents attempt to apply withholding taxes on payments due them. Some withholding agents, however, confirmed that there are instances when they need the service or product so badly that they pay the full amount to the payees, even though they are aware that they could consequently be surcharged with the taxes they are unable to deduct, including penalties, if tax audit investigations confirm their inability to deduct the prescribed taxes.

It was also found out that, withholding agents, in their bid to avoid penalties, allow the payees to increase the prices of the goods and services they offer to cover the withholding taxes, thus increasing their costs of operation. The withholding agents also incur additional administrative costs in recording and maintaining the withholding tax system. Another finding was that tax audits were not frequently conducted. The withholding agents hinted that an omission or commission could-be-perpetuated unknowingly and unnoticed for a long time. However, they ultimately suffer the consequence when the omission or commission is uncovered after a tax audit. Moreover, it was detected that not all withholding agents could transfer taxes withheld to the tax authority on time. Educational institutions and governmental agencies which double as withholding agents revealed that they are sometimes unable to meet the deadline because of delay of the receipt of their subventions, and could be penalised for transferring the taxes after the deadlines.

The tax officials also pointed out that the monitoring and periodic review of the records of the withholding agents pushes them to comply with the withholding provisions; deducting the prescribed taxes and transferring withheld taxes on time. Withholding agents and payees disagreed with the

notion that tax education programmes were frequently organised in the municipality. The tax officials though agree that educational programmes were infrequent because of resource constraints, they, on their part, complained that most of the organisations and taxpayers who are normally invited to attend tax education seminars failed to attend. The withholding agents who have ever been audited revealed that it is during tax audit exercises that they are able to share their withholding challenges with the tax authority officials and seek advice on unresolved withholding problems. The withholding agents also revealed that, although the tax authority can require them to submit a return of the records of payments made to specific payee(s) and taxes withheld from payments, the authority seldom exercises this power. The tax authority, however, explained that if the monitoring and review activities of the authority reveal that a withholding agent does not adequately comply with the withholding provisions, then the tax authority would conduct frequent tax audit on such an agent. The tax authority officials-agaiffiëitéfated that if changes are made to the withholding rates or other related provisions of the law, they officially write to the specific stakeholders who are required to have the information. But some of the withholding agents refuted this

and said that they are not given such information always; they get to know some of these issues only when tax auditors descend on them.

5.2 CONCLUSION

The general objective of the study was to identify the challenges of the withholding tax system in Ghana, a case study of the Upper Denkyira East Municipality. The analysis established that a majority Of payees have little knowledge of the role they are mandated to play within the withholding tax collection process and are unaware that withholding taxes are advance payments of their tax liabilities and would be netted against their assessable taxes if they file their accounts. After the data analysis, it was also realised that it costs withholding agents a great deal to maintain the withholding tax system and meet their withholding mandates. Finally, the tax authority has put in place measures to effectively run the withholding system, but the data analysis process uncovered bottlenecks which need to be dealt with to improve the system.

5.3 RECOMMENDATIONS

Based on the analysis, findings and conclusions, the following recommendations are made for the improvement of the withholding tax system in Ghana.

1. Qualified, experienced and more contented persons should be maintained by the Ghana Revenue Authority The authority—should organise periodic training and development programmes for the tax officers so as to enable them maintain the level of skill and experience needed to offer the required services to the taxpaying public. Also, their

remuneration package must be attractive, and must be reviewed periodically to remain competitive.

2. Multi-faceted approach should be employed to educate all principal stakeholders, and the taxpaying public at large on the laws governing the various tax systems. First, at the time of registration of businesses, brief sessions should be organised for persons establishing these businesses on the relevant tax laws they would have to comply with in conducting their businesses. Second, at the end of every fiscal year, the tax authority should summarise all revised/ new tax laws and amendments and publish such laws and amendments in the principal and most patronised media. Third, mobile vans should be used, particularly, during market days in the major markets, to brief traders and shoppers of teething tax related issues. Fourth, seminars, radio talk shows and other traditional methods of tax education should be targeted at particular group(s) of taxpayers or stakeholders.

3. Because the withholding agents are always in direct contact with the payees, they should be given a legal mandate to provide withholding tax education and continuously remind payees of their duties and responsibilities, as and when they transact business with them. This should make it mandatory on the part of the tax authorities to organise coaching sessions for the withholding agents periodically.

4. Most often, withholding agents go to the tax authority only when they have problems, and tax officials visit the withholding agents when the withholding agents delay in transferring the taxes withheld. Tax administrators must create a good rapport with the withholding agents and other stakeholders, by meeting and sharing ideas at social gatherings, and taking opportunities to brief them on new developments of the fiscal landscape of their economies.

5. To ensure that the withholding agents comply with the withholding provisions at all times and make the prescribed deductions promptly, the withholding agents should be directed to forward details of all payments to the tax authority monthly. If there are withholding tax gaps between the details of all payments and the withholding records, the withholding agents can be reprimanded quickly to avoid late detection of serious non-compliance problems.

6. In the present system, auditors spend longer times in auditing one withholding agent, because they may have to review the records of three to five years at a go. If the audit is done yearly, less time would be needed for the audit of an agent. Also, errors and withholding mistakes would not be committed and perpetuated for a long time before they are detected and corrected. Problems of non-compliance would therefore be minimal.

7. The literature review pointed out that the withholding system potentially reduces the payees' working capital. This was confirmed from the data collected from respondents. To ensure that businesses operate smoothly and generate enough taxable profits, a ceiling for withholding taxes from the incomes of affected businesses, based on turnover and / or industry, should be fixed. If for a particular fiscal or accounting year, the ceiling is reached, additional payments due to a payee should not be reduced by withholding taxes for the rest of the period till the next fiscal or accounting year of the payee commences.

8. Again, it was established that withholding agents incur costs to maintain and operate the withholding system. It would be appropriate, and it is hereby recommended that an incentive package be instituted to award the best withholding agents within the metropolitan, municipal and district authorities. Irrespective of the value of the incentive, it could serve as a catalyst to

propel other withholding agents to work harder to ensure the fulfillment of their obligations as withholding tax agents and also, be recognised.

9. Finally, the tax authority should be properly resourced to undertake its legally mandated tax administration and enforcement duties. If a metropolitan, municipal or district authority exceeds its tax mobilisation target, a percentage of the excess amount above the target should be used to build the revenue mobilisation capacity of the tax authority in question.

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Challenges of the Withholding Tax System in Ghana: A Case Study of Upper Denkyira

East Municipality

Questionnaire for Payees

Please tick (•) the most appropriate answer

1. It is important to allow withholding agents to deduct the prescribed withholding taxes from gross payments due you (payee) before paying you the net amounts.

1. Strongly agree () 2. Agree () 3. Uncertain () 4. Disagree ()

5. Strongly Disagree ()

2. As a payee you collect your tax credit certificates from the withholding agents as required.

1. All the time () 2. Most of the time () 3. Sometimes () 4. Once a while ()

5. Not at all ()

3. You file your accounts with the tax authority always.

1. All the time () 2. Most of the time () 3. Sometimes () 4. Once a while ()

5. Not at all ()

4. Are you aware that the total amount to be paid in any basis period should be the total

assessable tax less the total tax credits for that basis period, if you file your accounts?

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Yes()

S. Are you also aware that you can claim overpaid withholding taxes, it file

Yes()

6. The tax authority organises tax education programmes for the taxpaying public very often.

I. Strongly agree() 2. Agree() 3. Uncertain () 4. Disagree ()
5. Strongly Disagree ()

7. authority has good tax rapport with the taxpaying public (including payee).

I. Strongly agree() 2. Agree() 3. Uncertain () 4. Disagree ()
5. Strongly Disagree ()

8. What are your general views on the current tax system — a payee?



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Denkyira East Municipality

Interview Guide for Withholding Agents

1. Do you make PAYE deductions as and when you pay salaries all the time? If you do not effect PAYE deductions all the time, give reasons for not doing so.
2. Do you deduct all other withholding taxes (Goods and services-5%, rent-8%, commission-10%, etc) all the time? If you do not deduct other withholding taxes all the time, give reasons for not doing so.
3. Do you always transfer taxes withheld to the tax authority on time (before or on 15th day of the month following the month in which the withholding taxes are deducted). If you are unable to transfer withheld taxes to the tax authority on time all the time, give reasons why you are not able to do so.
1. Do you pay to the tax authority in lieu of withholding taxes you are unable to deduct?
2. How often does the tax authority organise tax education programmes for withholding agents and the taxpaying community in the municipality?
3. How often does the tax authority conduct tax audits in your organisation?
4. Does the tax authority ~~apply non-compliance~~ sanctions strictly? What other challenges confront you as a withholding agent?

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5. Any other comments and suggestions?

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3

Challenges of the Withholding Tax System in Ghana: A Case Study of Upper
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Interview Guide for DTRD of GRA Withholding Tax Schedule Officers

1. Do withholding agents apply the right withholding rates all the time?
2. Do withholding agents deduct PAYE withholding as and when they pay salaries?
3. Do withholding agents deduct all other withholding taxes (Goods and services-5%, rent 8%, commission-10%, etc) as and when prescribed and qualified payments are made?
4. Do the withholding agents transfer withholding taxes on time to your office all the time?
5. Do you follow up on delayed payments always?

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6. What other challenges do you face in the withholding tax monitoring and collection process?

4

Challenges of the Withholding Tax System in Ghana: A Case Study of Upper

Denkyira East Municipality

Interview Guide for Tax Administrators and Tax Auditors

- I. What are the responsibilities of the withholding agents under the internal revenue act, 2000 (Act 592)? In your day to day dealings with them can you say they are conversant with these responsibilities?
2. Does the GRA have the required resources to enforce withholding tax compliance? Give specific examples.
3. What are the measures used by the GRA to ensure withholding tax compliance? How relevant and adequate are these measures?
4. What are the enforcement tools used by the tax authority to deal with non-compliance by withholding agents? How effective and relevant are these tools?

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5. Do withholding agents withhold the required taxes all the time? What specific issues affect their ability to withhold the required taxes?
6. Does the GRA apply the prescribed sanctions on withholding agents anytime compliance provisions are breached? If detail sanctions are not apply always, give reasons why prescribed sanctions are not apply always.
7. What are the other specific challenges of the withholding tax system in Ghana?
8. Any comments and suggestions to improve the withholding tax system in Ghana?

