

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**INSTITUTE OF DISTANCE LEARNING**

**ACCOUNTING and FINANCE**



**DETERMINANTS OF TAX EVASION BEHAVIOUR AMONG TRADERS IN  
TAKORADI MARKET CIRCLE**

**BY**

**DINAH ESSUMING**

**(PG7232819)**

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## DECLARATION

I hereby declare that this research project is my original work towards the awards of MSc. Accounting and Finance and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been presented for the award of any other degree of the University, except where due acknowledgement has been made in the text.

**Dinah Essuming**

(PG7232819)

.....

Signature

Date

**Certified by:**

**Holy Kwabla Kportorgbi**

(Supervisor)

.....

Signature

Date

**Certified by:**

**Prof. Kwame Osei Boateng**

(Director, IDL – KNUST)

.....

Signature

Date

## ABSTRACT

One of the most reliable sources of revenue to nations is taxation, including Ghana. About 80% of total jobs is accounted for by Ghana's informal sector, as noted by the Ghana Living Standard Survey (2010). Overall, this study investigated the causes of the behaviour of tax evasion among Takoradi Market Circle traders. The research explicitly seeks to explore the impact that tax awareness has on tax evasion activity amongst traders in the Market Circle of Takoradi to achieve this main objective; assess the association between the structure of tax and tax evasive behaviours among Takoradi Market Circle traders; determine the incompatibility of behaviours of evading tax amongst traders in the Market Circle at Takoradi; and evaluate the tax system fairness regarding tax evasive behaviours among Takoradi Market Circle traders. With a quantitative approach, the analysis adopts a descriptive research style, and a simple random technique in selecting 120 traders while questionnaire was the main instrument for primary data collection. It was noted that there had been a substantial gap in tax enforcement between the married self-employed and the unmarried self-employed. In the center of educational levels, as well as tax compliance, there is a difficult association and the association between religion and compliance to tax was significant. The study recommends that tax officers conduct detailed tax lessons among traders; that tax revenue be reasonably distributed public service provision; and that payers of tax be well trained in the use of revenues from tax, as contributes to the elimination of unjust perceptions and an eventual improvement in tax morale. Yet, subsequent investigation of compliance to tax in Ghana ought to study that a questionnaire could be used for respondents on their taxpaying conduct. The Fisher tax compliance model can be refined by future researchers by adding other related environmental variables, culture, and the relationship between the potential for non-compliance and tax structure/scheme on compliance to tax.

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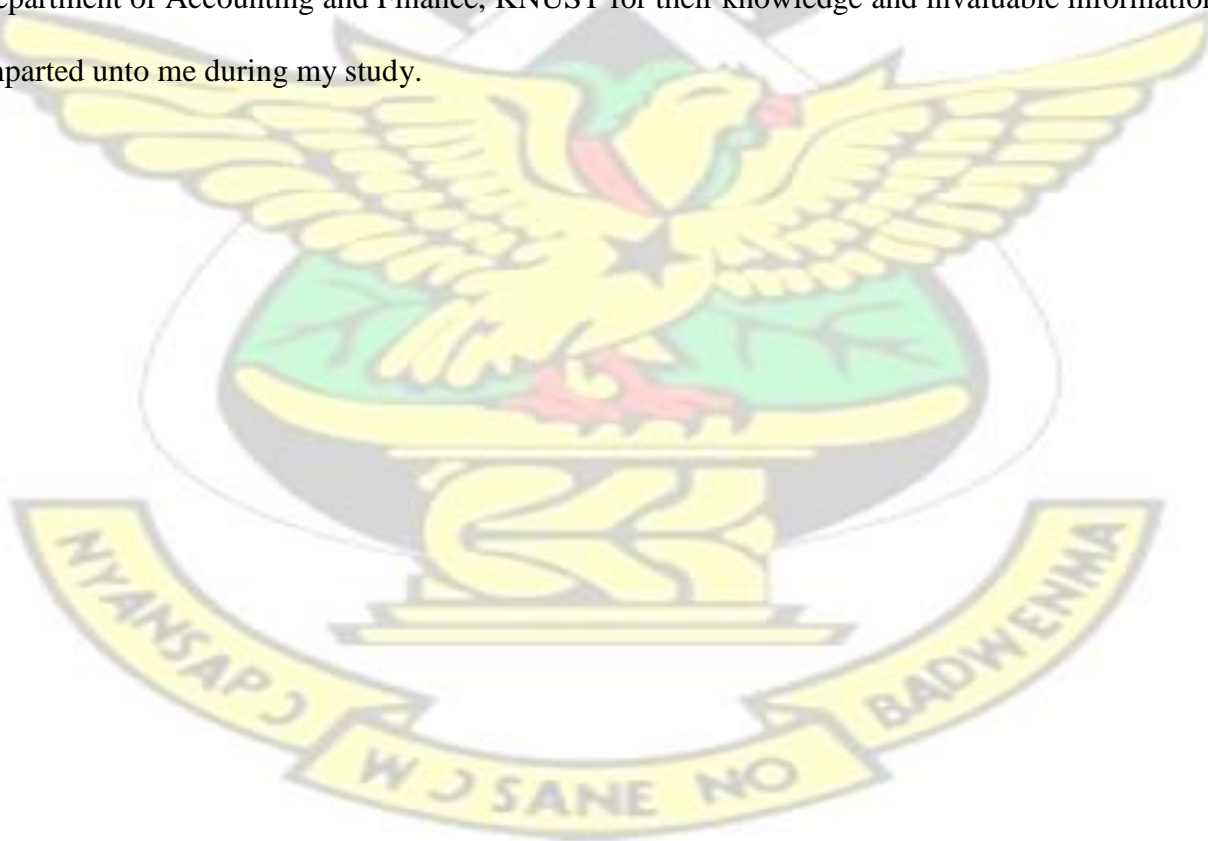
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## DEDICATION

I dedicate this research to my mum and dad, Mr. and Mrs. Essuming.

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 BACKGROUND TO THE STUDY

In sub-Saharan nations, improving domestic revenue remains a major priority (Drummond et al. 2012). Due to this, fiscal spaces are built by nations in sub-Saharan Africa to facilitate public service provision while decreasing resources and assistance gained from foreign donors via the collection of local revenues. Though, in most African countries, the domestic tax base is undermined by prevalent tax evasion (IMF 2011). Though taxpayer non-compliance is an ongoing and increasing global issue (McKerchar and Evans 2009), a variety of indicators show that several developing nations found in Sub-Saharan Africa are affected the most (Cobham, 2005; Fuest and Riedel, 2010). To deal with the tax evasion problem there is the need for underlying determinants of payers of tax attitude and decisions to be understood as documented by existing studies.

The need to focus on the behaviour and decisions of taxpayers due to the benefits associated with such attitudes towards tax. First, paying attention to the tax and enforcement actions of taxpayers was related to the elimination of issues when evaluating the number of tax revenues that the government had to mobilize to be able to fund public goods given (Amponsah and Adu, 2017). In other words, the actions of taxpayers may influence the public services offered to people, leading to misallocation in the use of resources that unpredictably alters the distribution of income. (Junpath, Kharwa, and Stainbank, 2016). Kamasa, Adu, and Oteng-Abayie (2019) also attributed tax enforcement to the development of civil order and an increase in government revenues. However, if tax evasion is high, there are several limitations on how governments

invest (sub-optimally) on public goods and infrastructure that stunt economic growth. This would lead the government to raise resources to strengthen regulation and increase tax rates, thereby reducing resources allocated to more profitable industries, as well as generating economic distortions that could limit long-term economic growth and welfare (McClellan, 2019). This makes understanding taxpayers' behaviours important.

An efficient and effective tax system is crucial to the well-being of any country, according to Nduruchi et al. (2017). It was established that major aims of tax policies that are successful must be efficient in raising tax at a lower outlay, while minimizing revenue lost, issues of tax unfairness and the economic disturbances in a country. Regrettably, African governments in added portions of the world and Africa mostly provides adequate focus on bigger companies in terms of tax payment. Therefore, this is usually higher compared to what the usual SMEs pay. Yet, this remains a folly since most of the SMEs capable of paying taxes escape it, contributing to the woes of government, as indicated by Atawodi and Ojeka (2012).

The feasibility of informal sector trade unions and associations as agents in Nigeria for state tax collection was investigated by Akeju (2018). It was determined through the analysis that the membership of associations in the sectors that are informal significantly and positively relates to payers of tax compliance. Akeju (2018) in replying to this, suggested that the Government of Nigeria should use trade associations to promote the incorporation of the informal sectors into the country's formal economic mainstream. This research, however, dealt primarily with the informal sector, unlike the preceding studies.

The determinants of sales tax enforcement in Jordan's small and medium-sized enterprises were analyzed by Alshirah et al. (2021). However this analysis did not concentrate directly on the sectors of the economy that are informal. Independent factors considered here comprises structure of the system of tax, fairness of the tax, tax morale, supervision by peers and, revenue. This was mainly informed by the model of Fisher. The decision was made that the nature of the tax system, tax ethics and tax justice were all relevant explanatory variables for compliance to sales tax.

The variables that affect tax enforcement in Cameroon were investigated by Yoffo and Brun (2016). The study's key finding include the fact that paying taxes in the informal subdivision of Cameroon relied greatly on the business operators' financial and personal features than on them. That is, the most profitable businesses with maximum level and efficiency of payments regarding tax have had a major and beneficial effect on the payment of taxes by other related firms. The consequence of tax rates on tax enforcement in the informal sector of Kenya is calculated by Gitonga, Kyolo and Maina (2015). This was in reply to results that Kenya's informal sector tax collections were higher than usual, yet on a decreasing trend. The results reveals that most of sampled respondents selected (74%) complied with entire tax measures; the majority of sampled respondents (75%) were of the notion that higher taxes are charged; and tax rates were significantly linked to the 95% confidence level of compliance to tax in the informal subdivision. In the Tamale Metropolis of Ghana, Wahabu (2017) looks at the tax enforcement of SMEs. The study established that the complexity of tax laws, government spending perception, metropolitan firms' profit levels, and the tax rate were major determinants affecting compliance by SMEs to laws of tax.

Studies on the perceived causes of tax evading amongst traders and SMEs was determined by Fagariba (2016) in Accra. Per the results, enforcements that are weak, greater corruption levels, tax education that are poor, existing gaps in the tax net, problems relating to tax burden, low income by businesses, and the less capacity of authorities of tax causes evading behaviours amongst the traders. However, efforts to mobilize tax have been improved by the government in Ghana.

Nonetheless, it has been to be insufficient in funding its yearly budget for development, and in turn, places the Ghanaian government is a disadvantaged position, forcing it to rely on donor agencies and foreign companies including the European Union, the World Bank, and the IMF to finance its yearly budget. In addition, this is traditionally correlated with stern and unfavorable circumstances (Fagariba, 2016). Furthermost of the studies on the topic in Ghana is also not based on the informal subdivision, providing the impetus for this research.

## **1.2 STATEMENT OF THE PROBLEM**

Taxation is amongst the very steady sources of income accessible to nations that are not exempt from Ghana. Ghana's informal sector accounts for more than 80 per cent of total jobs (Living Standard Survey (GLSS) of Ghana, 2010). It has also been calculated that approximately 86.3 percent of economic activity is conducted by the informal sector. Fewer than 30% of the whole independently employed within the informal sector remains listed and are being evaluated for taxation (Abajuliet, 2011). More than 90% of Ghana's businesses come in the form of either

individual or small-scale businesses, it has been reported. In addition, the informal sector provides more than 80 percent of the nation's labor force job opportunities, which translates into multiple sources of income that if properly taxed, could serve as a significant amount of internal revenue for the government (Amanamah, 2016).

The feasibility of informal sector trade associations as agents in Nigeria for state tax collection was investigated by Akeju (2018). It was determined through the analysis that membership of associations in the informal subdivisions had a strong connection with compliance by payers of tax. In reply to this, Akeju (2018) suggested that the Government of Nigeria should use trade associations to promote the combination of informal segments into the official economic path of the Nigerian country. Distinct from earlier research, however this analysis primarily focused on the informal field.

The tax enforcement of SMEs in the Tamale Metropolis was investigated in the Tamale metropolitan region of Ghana by Wahabu (2017). The tax awareness of respondents was found to be low, unlike Amanamah's (2016) report, and the key factors influencing tax compliance included the complexity of tax laws, their perceptions of government spending, levels of business benefits and tax rates. In addition, a substantial association between tax awareness and tax enforcement was found to exist. The causes of tax evasion by SMEs and traders in the Accra Metropolis have been investigated by Fagariba (2016). The study found that the high level of government corruption, the high cost of compliance, the weak enforcement of tax laws, the weak capacity of tax authorities to recognize those avoiding tax payments, inadequate tax education, tax net discrepancies, tax burden issues and poor sales were the main factors hindering tax compliance.

Within Ghana, Kuug (2016) studied the factors influencing the tax compliance of SMEs. The results of the study showed that the structure of capital, cost of compliance, rates of tax, audit of tax and the confidence of payers of tax were the main influences influencing tax regulation. No studies could be established of the studies found on the subject, which in addition to examining the factors affecting tax compliance, but also focused strictly on informal sector employees and attempted to investigate the gaps in the tax laws and tax collection strategies of Ghana in order to ensure tax compliance.

From current research, it is seen that while considerable attention has been paid to the tax collection and evasion of tax in Ghana, this focus has not been well engrossed in order to reach an implementable solution (Fagariba, 2016). The gap between tax revenues and tax expenditures is swelling due to non-compliance by taxpayers, thus ensuring unstable government finances. For instance, various studies have considerably focused on understanding tax compliance and evasion in Ghana (such as Acheampong et al., 2016; Ameyaw, Korang, et al., 2016; Ameyaw, Opong, et al., 2016; Seidu et al., 2015).

For example, Acheampong, Debrah, and Yeboah (2016) evaluated tax evasion among small and medium businesses in the Sunyani Municipality and found that computational issues, the absence of lack of bookkeeping and tax education negatively influenced the tax compliance level while showing that period of business operations, liability assessment, age, and business incorporations were significant factors that shaped compliance to tax among small businesses. Similarly, Ameyaw et al. (2016) studied determining factors of compliance/evasion issues in the informal

sector in all the ten regions of Ghana and discovered that subjective norms, attitudes, and perceived behavioral control were major causes of compliance issues in the informal Ghanaian sector. Ameyaw et al. (2016) also studies SMEs' compliance with their tax policies and obligations, and their perception of tax policies in the Accra Metropolitan Assembly using SME owners from four markets, who operated from 2000 to 2015. They documented that most of the SME owners considered tax policies to have an adverse impact on compliance among SMEs, perceptions, and growth in Ghana. In the same vein, Seidu, Abdul, and Sebil (2015) investigated the determinants of tax default amongst SMEs and established that multiple taxations and inadequate education on tax provided by tax agencies are important factors of tax default behaviors amongst SMEs. Yet, this current literature primarily focuses on the informal sector in terms of well-established businesses without recourse to the small traders in market places. The void found in the current literature must therefore be examined and closed.

In addition to the above, studies (such as Ameyaw, Addai, Ashalley, and Quaye, 2015; Amponsah, Isshaq, and Agyapong, 2019; Tee, Boadi, and Opoku, 2016; Seidu et al., 2015; Koranteng et al., 2017) have focused on tax compliance and evasion in the Sunyani, Tamale, Kumasi and Ga West Municipalities, as well as Hemang Lower Denkyira and Twifu Atti-Morkwa districts in Ghana respectively. However, there exists an absence of studies that focus on tax evasion among informal traders in the Takoradi Municipality. As a result, this study seeks to evaluate and approach the issue of evading taxes by Takoradi Market Circle traders.

### **1.3 RESEARCH OBJECTIVES**

Examining tax evasion determinants by traders of the Takoradi Market Circle was the main objective of this study. Yet, to achieve this objective, the ensuing objectives were specifically addressed;

- i. To determine the effect of knowledge of tax on behaviours of tax evasion by Takoradi Market Circle traders.
- ii. To evaluate the association between tax structure and tax evasion by Takoradi Market Circle traders.
- iii. To establish opportunity for non-compliance on tax evasion by Takoradi Market Circle traders.
- iv. To investigate the tax system fairness on tax evasion by Takoradi Market Circle traders.

### **1.4 RESEARCH QUESTIONS**

The following questions were answered in order to achieve the research objectives;

- i. How does tax knowledge affect the evasion behaviours of Takoradi Market Circle traders in relation to taxes?
- ii. Is there a relationship between behaviours of tax evasion by traders and the structure of tax in Takoradi Market Circle?
- iii. Does non-compliance affect behaviours of tax evasion tax evasion by Takoradi Market Circle traders?
- iv. How are tax evasion behaviours by the traders affected by tax system fairness in Takoradi Market Circle?

## **1.5 SCOPE OF THE STUDY**

The scope of a study refers to the extent to which the subject matter discussed is covered by the study (Passer, 2013). The Market Circle in Takoradi, the Western Region of Ghana is covered by this research. It addresses tax evasion, the causative factors to evading tax and the impact of tax evading. The analysis emphasizes on traders working within Takoradi's market circle. It includes only individuals and groups that are self-employed and work in the research field. The study mainly covers companies in the informal sector in the Takoradi Market Circle, such as hawkers, small traders, craftsmen, and dressmakers, among others.

## **1.6 SIGNIFICANCE OF THE STUDY**

Several governments, especially that of Ghana, have made reducing tax evasion a major priority. It is widely suggested in the literature that the verification of taxpayer reports against third-party information is essential for tax collection. However, the efficacy of these efforts could be limited as tax authorities face limitations with regard to reliable compliance and offsetting of taxpayer changes on other margins (Carrillo, Pomeranz, and Singhal, 2017). This makes the current study essential in the following ways;

First of all, the thesis discusses the impact of individual tax knowledge and other factors on tax evasion. Those results will shed more light on the extent of tax awareness and the effect it has on tax evasion. Such findings will therefore notify the government and tax-related agencies such as the Ghana Revenue Authority (GRA) and the Ministry of Finance of additional public awareness training programs and workshops on taxation in the country. These stakeholders especially the

government spend a considerable amount of funds to deter non-compliance (Torgler, 2008). Hence, the findings of this study could reduce the funds spent on such efforts

The findings will inform various re-strategizing of approaches employed in collecting taxes and ensuring tax compliance among individuals by the GRA. For both the creation of tax compliance strategies and the construction of an inductively derived conceptual framework for future studies, a study of this sort is important. The previous is important to authorities of tax when mobilizing the required revenue for their development schemes. As the GRA is in charge of designing these approaches for raising revenue from the public, some decision-making strategies are provided by this report.

Furthermore, since there exists very little to no research on tax evasion among informal traders in the Takoradi metropolis, conclusions from this research augment already existing findings in the literature on tax compliance behaviours as established in other parts of the country. In addition, findings can further serve as literature to other researchers who are interested in advancing knowledge and conducting further studies on tax compliance.

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

In the Takoradi Market Circle, the focus of this study is limited to taxpayers. As tax evasion is a national problem rather than at the local level, the population is not equally represented. Other taxpayers may have different views of the tax system in other areas of the world and may display different taxpaying habits.

As most market women were unable to read, comprehension of the questionnaires for respondents to understand is a limitation. The investigator had to provide some of the respondents with people who could translate the questionnaire. The challenge of getting individuals to voluntarily reveal details about their business practices and their tax status is another limitation of the report. This is for the reason that people are usually cynical and disoblging about issues regarding tax.

## **1.8 ORGANIZATION OF THE STUDY**

The review is structured into five (5) diverse but related chapters. The introduction contains Chapter One. It consists of study context, problem statement, study priorities, research questions, study significance, study scope, study limitations, as well as the study organizational structure. It consists of study background, problem statement, study goals, research questions, study significance, study scope, study limitations. Some related literature on tax avoidance and traders is discussed in Chapter Two. It covers the concepts of taxation, tax significance, tax classification, tax evasion, tax avoidance, tax evasion factors, tax evasion consequences, and the Takoradi Market Circle. The research approach is involved in Chapter Three. This includes research design, study area, study population, sampling approaches and sample size, types and sources of data, data collection methods, pre-testing, data gathering, data processing and analysis. Chapter Four is concerned with the findings and discussions of the study. It presents the background characteristics of respondents, objectives, factors contributing to tax evasion among traders in Takoradi Market Circle and effect of tax evasion among traders in Takoradi Market Circle. The overview, findings and suggestions for additional studies are discussed in Chapter Five.

## **CHAPTER TWO**

### **REVIEW OF LITERATURE**

#### **2.0 INTRODUCTION**

This chapter presents a reviewed studies on evasion of tax. It first addresses a review of major concepts in this study which include; taxation as a concept, classification of taxes, importance of tax, tax evasion, tax default, and motives of evading tax, outcome of evading tax in the Market Circle in Takoradi. This chapter also entail a theoretical review which addresses theories underlying this study as well as an empirical review of existing research and conceptual framework.

#### **2.1 CONCEPTUAL REVIEW**

##### **2.1.1 The Concept of Tax Evasion**

Tax evasion can be defined as any action resulting in the concealment of all or part of the lawful or illegal economic activity of an individual from the tax authorities in order to escape or discourage the payment of taxes. It is a wilful attempt to circumvent tax regulations by distortion or dishonesty. In essence, it is a deliberate and unlawful evasion of the government's payment of necessary taxes (Commonwealth Association of Tax Administrators, 2005).

Tax evading is seen by Obafemi (2014) as a thoughtful and headstrong exercise of not providing full payable revenue to pay fewer tax. In breach of the provisions in laws on tax, that would theoretically result in reduced total revenue for the government, this action is portrayed as a criminal act. The definition of tax evasion is therefore commonly known as disbursing fewer tax

or none than what is legally obligated to be paid by a person (Eboziegbe, 2007). There are three kinds of tax avoidance, such as under-declaring, not declaring, and inflating the deductions from their income (Aryee, 2007).

Regarding the difference amid evading tax and avoiding tax, Gabor (2012) points out that tax evading is a cautious unlawful action which leads to a clear breach of laws on tax in order to prevent paying taxes. Sandmo (2005) adds that tax avoidance is a violation of tax law, in which payers of tax refrains from declaring potentially taxable income.

Contrarily, tax avoidance defines tax discounts obtained by non-natural yet legal personal or business arrangements. It entails lawful use of tax legislation of loopholes to decrease a person's tax problem. In sum, the avoidance of tax is the lawful technique for minimizing one's tax obligation (CATA Annual Conference, 2005). Tax evasion, on the other hand, takes place in the tax scheme and taxpayers take advantage of the lawful scope at the decision of tax regulations operating contrary to the intent of tax regulation.

The level of tax evasion is positively linked to isolation, competition, disinheritance and behaviours, and tax evasion is inversely related to age, according to Robben (2008). In addition, the extent of tax evasion correlates favorably with alienation and productivity. Tax evasion is usually studied in a principal or agent context, per Robben (2008), the government makes available tax payment opportunities in situations where two agents decide to engage in an evasion, and therefore face the potential to be detected and punished.

In order to validate the numerous claims made for tax evasion, McGee and Noronha (2008) conducted research. The organized features of the tax system, poor tax compliance power,

corruption, the role of the informal sector in the economy were addressed by Alm, and Vazquez (2003) and trying to compare the informal economy with the fiscal divide. In order to escape tax payments, Gabor (2012) also suggested that tax evasion is a deliberate criminal activity that leads to a direct violation of tax laws.

### **2.1.2 Causes of Tax Evasion**

In every country where tax is levied, the explanations for evading tax are universally applied. In many developed countries, the lack of favour, that is, abhorring the payment of taxes by the ordinary human being, is one of these reasons. Taxation is seen as an imposition that is discredited and clearly obnoxious. This is primarily due to the lack of a "quid pro quo" i.e. anything of the value of the taxes paid in return. It is commonly argued that since services are not provide by agencies which somehow balanced to the payment of tax, taxes should not be levied. There is no guaranteed compensatory advantage. People in many countries are opposed to paying any kind of taxes and prices on the ground that the provision of amenities and other good things of life was unfair to the government. There is also an inequitable distribution of amenities. Such thought is also the foundational cause of civil discord in areas of the globe.

Another source of tax evasion is misuse or bad collection management. There are stories of how elected officials waste taxpayers' money more frequently than not in the news media. There is ample evidence of the funds of the public being misused through the inflation of rates of contracts, in non-executed but paying contracts or in fraudulent actions using different techniques and loopholes to drain funds voted before the end of the financial year for ministries and governmental agencies. The net result of this is that numerous citizens who are honest are

unwilling to honour their tax obligations anymore or paying under force (Saidu and Dauda, 2014).

Remoteness of payers of government taxes. There's this general misconception that most taxpayers have about the existence of the government. In most cases, the average citizen has an inherent bias or hatred toward most elected officials who live distinctly from payers of tax.

Most payers of tax would reason that it disturbing give out money they found it difficult earning for the preservation of these fictional opponents. Establishing local government councils that are supposed to bring government closer to the people was not beneficial. The appropriate orientation and education of payers of taxes on government's representatives may be the solution to the problem, as Kiabel (2001) cited in Saidu and Dauda (2014) has argued.

The lack of a sense of public accountability contributes to tax evasion. Many individuals (traders) possibly do not realize because of illiteracy and ignorance that they owe the government certain duties, of which the payment of tax is major. Despite the perception of weakness indicated by the government, the argument instead is that to solve their problems, the government should print more cash. A major cause of tax evasion in the country is this lack of spirit of civic responsibility among most Ghanaians. In some periods, a number of other authors have attributed various unpatriotic reasons to the causes of tax evasion and avoidance.

These individuals take the stance that nothing will be charged as tax, regardless of the revenue or income gained during the year, or they plan their accounts so that a loss will be represented. In general criminal tax evasion serves the same aim as tax avoidance (Onuigbo, 2006 cited in Saidu

and Dauda, 2014). Inadequate government tax benefits. The government's tax incentives do not hamper expectations or motivate investors in the country or affect the location of companies. If enough investors are offering the government's incentives and taxpayers will be able to pay the government's taxes instead of resisting them (Ablordeppey, 2005). In view of this, avoiding tax could be due to living standards that are greater leaves several people in dearth. Poverty acts as a means of avoidance of taxes.

Poor people who enter sole ownership may also want to avoid taxes to meet their pressing requirements, as well as believing that only rich people drive nice cars and live in luxurious homes, so that others evade taxes to afford them opportunities to get these desires and other life, food, housing, and clothing supplies (Juliet, 2012).

Insufficient taxpayers lead to tax avoidance. It is massively under-reported by the applicable tax board and offices. Job amounts surpass labor and the tendency was always to live up to the levy. This results in an error of assessment or total omission from the list of some tax payer names and recording improperly, tax obtained (Ntim, 2007). In addition, when taxes are collected from taxpayers, tax authorities are often harassed by taxpayers, while payers of tax are often coerced to pay taxes even though they have no income. This results in tax evading (Prempeh and Marfo, 2012). Lastly, tax avoidance happens when traders hold inaccurate accounts of income. Traders may therefore not purposely report the real amount of gotten income that contributes to the avoidance of taxes (Agbadi, 2011).

## **2.2 THEORITICAL REVIEW**

In this section, various theoretical explanations and studies which explains tax compliance among businesses. Therefore, theories including general deterrence, prospect and expected utility theories were in this section.

### **2.2.1 DETERRENCE THEORY**

This theory opine that crime rates of individuals lessen as a result of the threat of being punished which must be accompanied with celerity, certainty and severity in order work effectively (Stack, 2010 cited in Khlif and Achek, 2015). However, the level of surety for the punishment to deter such crimes is not known but according to Stack (2010), 30 percent or more must be held accountable in other for such crimes to reduce. This suggest that the more individuals who flout rules and regulations regarding the crime, the more they must be punished in order to prevent further crimes. The General Deterrence Theory is based on this group of variables (Khlif, and Achek, 2015). The theory denotes the possibility of deterrence such as audit or penalty legislation in one country to reduce the tax evasion phenomenon and increase tax enforcement. This suggests that it would help to curb tax avoidance if the government raises the penalty and applies a stricter audit.

From taxation point of view, this theory therefore relies on efficiency and effectiveness of the legal system in a country in order to diminish tax elusion or to increase tax compliance, via punishments (Khlif and Achek, 2015). Economically, the theory of deterrence uses the cost-benefit perspective to explain tax compliance. It considers the tax payer as a rational economic being who evades tax when benefit from evasion is better than associated cost (punishment)

associated with tax evasion or associated with being caught (Devos, 2014). This theory opines that the legal characteristics, economic and institutional features of a country such as competition laws, corruption, level of enforcement, and bureaucracy could influence tax compliance (khlif and Achek, 2015).

Based on the findings of previous studies, Kiri (2016) cited khlif and Achek (2015) suggests that a penalty rates that are higher appears to be an efficient way to deter tax evasion by individuals, and that an improvement in the penalty rate improves enforcement conduct, thereby reducing the avoidance of tax activities. In the same vein, Wright (2010) cited in Nagin (2013) posits that the theory of general deterrence suggests that the assumes that danger of suspicion could prevent future offenders from raising the certainty of punishment. That is, by the likelihood of identification (audit) and enforcing stricter punishments, deterrent factors are applied.

From the theory, this study argues that for individuals to comply to taxes and taxation rules, these rules must be accompanied by commensurate punishments for violation of such rules. In other words, the level of punishment attached to tax obligations determines the level of compliance to taxes amongst individuals. This is due to the reason that individuals weigh the cost of been apprehended for tax evasion as compared to the benefits they would obtain from compliance.

### **2.2.2 THE PROSPECT THEORY**

This theory argues risk-seeking in making choices that involves sure losses and to avert risks in choices that involves sure gains (Kahneman and Tversky, 1979; McDermott et al., 2008 cited in

Amponsah and Adu, 2017). In applying the prospect theory to the study of behaviours relating to tax compliance, it could be assumed that non-compliance behaviours reduces if payment of taxes are perceived to be gains other than losses. Thus, if taxpayers perceive taxes to be valuable, they are more likely to see tax payment as a gain and not a loss. The gain domain therefore, will be where tax payers will made tax compliance decisions using the after-tax income as reference point, making taxpayers pursue risk opposed behaviour, that is, tax compliance (Amponsah and Adu, 2017). On the contrary, if tax payment is considered as a loss, the income before tax becomes the referent point, making taxpayers prospectively engages in risk-friendly behaviours (that is, tax non-compliance) (Amponsah and Adu, 2017).

The theory suggests that perception towards taxes is central to tax compliance behaviours since the degree to which a taxpayer considers tax as losses or gains which is principally contingent on the perception of individuals. This discernment is however shaped by other variables such as the socio-demographic characteristics (Chau and Leung, 2009). They explained that in the field of taxation, socio-demographic factors play indirect roles in influencing tax compliance through their influences on perceptions and attitudes (Chau and Leung, 2009). Studies such as Pellizzari and Rizzi (2014) who employed the prospect theory to argue out the significance of social variables in evasive tax behaviours. Their study noted that rational behaviour, personal characteristics and subjective decisions regarding the system of enforcements such as casual inspections known partially to respondents alone, influence their decisions towards tax evasion (Amponsah and Adu, 2017).

## **2.3 EMPIRICAL REVIEW**

Existing literature indicates that tax evasive behaviours are due to numerous factors (Ritsatos, 2014). These determinants could be legal, behavioural, cultural, economic, social, institutional and demographic (Khlif and Achek, 2015).

### **2.3.1 SOCIAL DETERMINANTS**

Evidence shows that social factors such as gender, age, education amongst others influence tax evasion behaviours. For instance, in terms of education, a study revealed that respondents who were illiterates exhibited lower morale with regards to taxes than the educated, but was found to be characteristics of those with bachelor's degrees compared to those low or very high educational levels (Cyan et al., 2017). In the same vein, Yalama and Gumus (2013) revealed that tax evasion was high amongst individuals with less education than individuals who were highly educated, but Armah-Attoh and Awal (2013) cited in Musimenta et al. (2017) established that individuals who had attained primary education engaged in tax evasion less compared to those who had attained tertiary education. This is further affirmed by the results of the study by Kamasa, Adu and Oteng-Abayie (2019) on the non-economic determinants of compliance to tax among countries in Sub-Saharan Africa using data from 29 countries. Their results indicated that education increases the probability of compliance to tax laws and obligations. This is because education makes it easier for individuals to understand the tax system and thus has a direct impact on their employment and income. They also indicated that individuals with greater education levels are supposed to have set high standards of morality that should promote and discourage the practices of compliance to tax and tax evasion, respectively (Chau and Leung, 2009 cited in Bruce-Twum, 2014).

Another important factor lined to tax evasion is gender. This was empirically confirmed in a study which noted that women compared to men, showed higher tax morale but as they grow, their tax morale reduces compared to the elderly males (Cyan et al., 2016). Another study, Bruner, Attoma and Steinmo (2017) in an experimental study suggested that men were less compliant than women in terms of tax payment but engages in more enjoyment of benefits without contribution with regards the public goods. Similarly, the study of Kedir et al. (2011) cited in Amponsah and Adu (2015) on tax evasion in the European Union indicated that there existed a significant positive interaction between evasive tax behaviours and the gender male because low tax moral was a global issue among males. Devos (2008) indicates that there was a non-significant interaction between behaviours of compliance and the gender of payers of tax income found in Australia. According to Amponsah and Adu (2017) who analysed socio-demographic determinants of tax stamp compliance among 783 micro-taxpayers within the Upper Denkyira West District and Upper Denkyira East Municipal in Ghana showed that gender was an important factor influencing compliance to tax stamps among micro-taxpayers.

That notwithstanding, the influence of age on tax evasion and compliance have been reported. For example, Schoonjans et al. (2011) using evidence from a survey of 151 Flemish SMEs reported that tax compliance was relatively high with age being a significant determinant. Also, Smulders et al. (2018) in their regression analysis factors of tax compliance and evasion among small businesses found that age significantly predicted compliance to taxes. This was in corroboration of the study by Amponsah and Adu (2017) within the Upper Denkyira West District and Upper Denkyira East Municipal in Ghana, using a cross-sectional survey design. Their study results showed that age substantially influenced tax compliance. Widiyanto (2015) found that in Indonesia, age and the fulfilment of obligations relating to income tax was

inversely related. This means that the older an individual becomes the lower the income tax obligation he/she fulfils. Younger citizens comply greatly with their tax obligations compared to older person.

Also, the perception held by an individual regarding the tax system and towards government plays a crucial role in tax evasion. Using a social psychological approach, Rosid et al. (2018) in Indonesia for instance studied the influence of non-compliance to tax and perceptions of corruption on behaviours of taxpayers. The authors documented that a person's perception of corruption on the part of government affects their evasive behaviours concerning taxes. This was supported by the results of a study by Aktaş, Özer and Özcan (2019) on behaviours relating to tax compliance. It was reported from their study that tax justice perception was positively and significantly associated with less evasive behaviours. Fiscal psychology model specify that a good predictor of real behavior is the behaviors and views of individuals (Schmölders, 1959 cited in Groenland and Veldhoven, 1983). The government's view of taxpayers thus enhances their compliance actions in terms of the benefits they get for paying taxes (Damayanti et al., 2015). Payers of taxes demand the full and effective usage of their taxes in the provision of services by public officials. When governments provide services satisfy the desires of payers of tax, they seem to adhere to laws on tax. However, enforcement is likely to be poor if they view the government as dishonest and inefficient in the use of their taxes. Nonetheless, in a cross-sectional research on factors affecting compliances to tax in Ethiopia, Engida and Baisa (2014) cited in Tehulu (2016) found no correlation between compliance actions and government perception of citizens. However, this result is narrow and inconclusive because additional factors such as compliance efforts that the study provide information on neglected to report on may cause such observation.

The influence of other social determinants of tax evasive behaviours have been revealed. Aktaş, Özer and Özcan (2019) in study on behaviours relating to tax compliance of professionals in accounting and variables affecting their compliance behaviour, and, the effect of trust in government on compliance to tax. The authors used a sample of 392 professionals in accounting in Turkey established that having trust in government was associated with tax compliance/non-compliance (Aktas et al., 2019). Again, Siglé et al. (2018) used a framework (Slippery Slope) to study the role of power and trust in compliance to corporate tax in Netherlands. It was noted from their results that a positive association existed among tax compliance and trust. Kamasa et al. (2019) also observed in their study that trust in tax department increases the probability of compliance to tax laws and obligations. Another study, Abdixhiku et al. (2017) used a survey design and a sample of 12,692 enterprises from 26 economies in transition, with the argument that evading tax is dependent on institutional and firm-level factors. The results of their research indicated that evasive tax behaviours among firms was found to be influenced significantly by low trust in the legal system and government, greater compliance costs and greater corruption perceptions.

Additionally, knowledge on tax is found to have a significant impact tax evasion behaviors (Inasius, 2019; Jimenez and Iyer, 2016). The understanding and sensitivity to laws on tax as well as other details relating to tax by payers of tax could be considered as tax awareness (Oladipupo and Obazee, 2016). A positive connection with tax compliance has been shown to be the degree of awareness and appreciation of tax law by taxpayers (Palil, 2010). Tax education makes taxpayers understand tax structures, laws, legislation and associated penalties for default. Palil (2010) discovered that using the stepwise multiple regression model, taxpayers with greater tax

awareness seemed to be highly tough to obligations regarding tax compared to their fellows who possess fewer information on tax. Similar findings were identified by Agbadi (2011) in Kumasi amongst traders, with the use of regression. Consistent with the results of Oladipupo and Obazee (2016) who argued that to attain the objective of enhancing tax performance, tax education should be better targeted at the associated objectives. It can be inferred, in the light of the above-mentioned evidence, that proper taxpayer education in the administrative procedure, initiatives and tax legislation increases their expertise and affects the conduct of obedience.

Furthermore, perception of fairness and equity, and social norms (Inasius, 2019; Jimenez and Iyer, 2016). With regards to the fairness and equity, Equity or justice is one of the main concepts in the design of a tax system (Engida and Baisa, 2014 cited in Tehulu, 2016). There are three dimensions of equity, according to Wenzel and Taylor (2003); distributive justice, procedural justice and revenge. Distributive justice requires proportionate allocation of tax, procedural justice and retributive justice costs and benefits, and also requires transparency and impartiality in the distribution of profits and in the implementation of nonfulfillment penalties. With respect to those three scopes, the tax fairness is often considered by taxpayers. For instance, within their socio-economic community, an individual taxpayer sometimes contrasts their tax burden with other individuals. In contrast to others, individual taxpayers are worried with both the nominal sum and returns. Compared to their merits, contributions and needs, the taxpayer wants to be handled equally (Kirchler et al, 2008). It implies that if a person considers his/her tax load to be more than that of a similar person, compliance to tax is probable to be low (Muehlbacher et al., 2011). Often these evaluations are made amongst various populations or groups with regard to their tax responsibility in relation to anticipated returns. Taxpayers are concerned at the group

level about the fairness of the success of their community and want their community to be treated fairly relative to other groups or classes. Compliance, on the one hand, is likely to be weak if the tax burden of a particular class of people is considered to be greater than that of another group or if the effect (benefit) of their tax is lower than that of a comparable population. On the other hand, if society perceives its tax burden as equal and the distribution of adequate resources as just as opposed to other group of individuals, tax compliance is likely to be high. In line with this argument, Gilligan and Richardson (2005) found that the perception of tax fairness by income taxpayers has an important impact on compliance conduct.

### **2.3.2 ECONOMIC DETERMINANTS**

Furthermore, it has been noted that compliance behaviours are equally predicted by economic variables such as income, and cashless payment systems (Durham et al., 2014; Immordino and Russo, 2018a). For example, Durham et al. (2014) in an experiment in a laboratory ascertained whether the source of income (endowed versus earned) and context of decision (non-tax versus tax) influenced compliance behavior with regards to tax. Their results found that income did not predict tax compliance. Similarly, Filippin et al. (2013) cited Immordino and Russo (2018) found that cashless payment systems such as credit and debit enhanced non-compliance tax behaviors since there is no evidence of transactions. Using a quantitative design and, 109 respondents and 44 tax authorities selected from the Tema Metropolitan Assembly, Ameyaw et al. (2015) studied the connection between income tax evasion and the growth of the economy of Ghana and recognized that the kind of relationship that exists between taxpayers and tax authorities as well as penalties that are weak towards the evading of tax, did not influence tax compliance. Amponsah et al. (2019) also from a quantitative approach using 305 micro-taxpayers to

investigate evasion of taxes in Hemang Lower Denkyira and Twifu Atti-Morkwa districts found in the central region established that tax audit rate, and transportation cost to tax office influenced tax evasion. Similarly, Acheampong et al. (2016) used a quantitatively chosen sample of 500 small businesses to assess tax compliance level in the Sunyani Municipality, which revealed that business incorporation, and liability assessment were significant predictors.

Cyan, Koumpias and Martinez-vazquez (2016) examined tax morale determinants within Pakistan using novel data collected from taxpayers in 2014 by the Federal Board of Revenue of Pakistan, which were analysed using binary probit regression model. Their study revealed that in all, groups with less participation in the labour force showed more positive attitudes with regards to tax compliance. Junpath, Kharwa and Stainbank (2016) also presented their results on taxpayers' compliance attitude and amnesties in South Africa. Their study revealed payers of taxes argues that being given tax amnesties is not capable of resulting in added revenues since non-compliance taxes remains high in expectation of extra future amnesties. Similarly, Jost, Pfaffermayr and Winner (2014) in their quantitative study on the influence of transfer pricing on compliance to tax. They specifically analysed the extent to which risk perception characterising pricing transfer responses to industry, firm and country-specific features. The authors used data from a survey conducted globally from 2007 to 2008. Their study revealed that the tax payment is a function of the number of businesses that report pricing transfers.

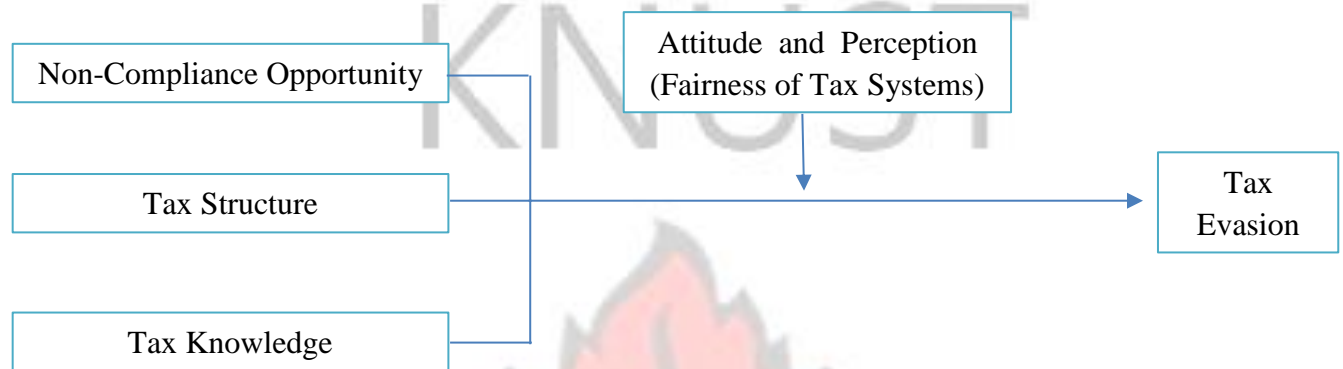
In Greece, Pappadá and Zylberberg (2017) relied 35 country panel data to study compliance to VAT and to establish the changes in tax rates impact on non-compliance. The authors in their study showed that size of their economic activities at the margins of informality, and

heterogeneous financial development practices explained the differences in how compliance to taxes occur in relations to the changes in tax rates across the countries used. Lee (2017) empirically observed the connection among tax avoidance by firms and compliance to tax systems from 1999 to 2014. He found that tax avoidance was reduced by the tax compliance systems among firms who were not operating in tax havens compared to those firms who operated in havens of taxes. Their results further indicated that firms that were financially troubled had higher tendencies to be involved in tax planning aggressively. Moreover, the study established that firms who were financial distressed firms who operated in tax havens engaged in tax evasion even when tax compliance systems were enforced (Lee, 2017). The willingness and spending power of people to spend is normally related to their level of salary. Only within their expenditure cap should individuals spend and their choices are subject to maximization of utility. Abdul's (2001) outcome cited in Alasfour et al. (2016) supports this argument that taxpayers facing economic burdens that are personal, are highly probable in avoiding tax compared to others with no or less economic difficulties. Their study indicated that persons with pressures relating to finances highly rank their needs and usually, do not consider their obligations relating to tax are not prioritized. A current research by Engida and Baisa (2014) cited in Tehulu (2016), in their study in Ethiopia has confirmed the Abdul (2001) observation. In determining factors affecting taxpayer compliance in Mekelle City, Ethiopia, taxpayers with essential financial constraints appear to be less obedient. The results point to the fact that the amount of revenue is essential to controlling the enforcement actions of taxpayers. Therefore, unless other factors are clarified, taxpayers with a higher level of income are more likely than their counterparts to meet their tax obligations.

Moreover, threat of punishment and penalty have been observed. Theories on tax fulfilment explained that non-fulfilment could be reduced using punishments. By punishment, there should be emphasis on measure that adequately contribute the determent of evaders or the documentation of those who evade tax or have the potential of evading tax easily (Chauke and Sebola, 2016). Using the theory of economic deterrence, and a sample of 375 cases of tax auditing documented by the Malaysian Inland Revenue Board in 2001, Mohd Yusof, Ling and Wah (2014) investigated factors that leads to non-compliance amongst SME corporations to corporates taxes. Findings from the results identified type of industry, size of company, and marginal rate of tax significantly affected non-compliance to corporate taxes but very predominant amongst those in the construction and service industry. Mohdali, Isa and Hana (2014) explained taxpayers could be deterred from behaviours relating to non-compliance successfully through the use of punishments. Thus, they explored taxpayers' compliance, attitude and non-compliance as a result of being threatened with punishments. Taxpayers who were willing to adhere to laws on taxes were found to be insignificantly affected by threats of punishments since they do not engage in tax evasion due to threats from tax penalties and audits. Threat of punishment was also established to induce non-compliance. In Italy, Di Porto (2011) also analysed employer labour evasion of tax and impact of tax inspections on evasive tax behaviours by a labour inspecting body using data from multiple data sources. First, the data set related to firms in artisanship and a set of audited data from artisan firms in 2000 to 2005. Their study showed that tax inspections could actually be counterproductive which further decrease both tax compliance and tax revenues. In the same vein, Saad (2014) in Malaysia established no correlation between the fairness perception and income tax evading. He stated that in an extremely lawful environment where non-compliance sanctions are severely enforced, taxpayers

adhere with obligations regardless of their perception of the system's fairness. In other words, in spite of their hatred of the tax system, they also have to pay compulsory taxes. In Kenya, Naibei and Siringi (2011) also assessed the impact of records relating to electronic tax use on compliance to Value Added Tax (VAT) among private firms using a sample of 233 private firms. The data was analysed quantitatively using correlation and descriptive statistics. The results of their study have shown that the number of times tax agencies inspect businesses had the slightest effect on compliance to tax. Using a binary logit regression model, Ali et al (2014) revealed that the stronger the perception of payers of tax noticed for evading tax, the higher the trend of compliance to tax in Kenya (5%) and South Africa 8(%), in line with this statement. Kirchler et al. (2008) argued that penal apparatuses are capable of promoting compliance to taxes but not inducements to sustainably conduct of compliance to tax. Castro and Scartascini (2015), for instance, showed that the message of deterrence to potential tax evaders only has a positive tax compliance connection. Leviner (2008) argued that, based solely on disciplinary procedures and the sternness of penalty, enforcement attempts are expected to be imprudent at best and ineffective at worst. Thus the probability of non-payment discovery and penalty is anticipated in the long term, but not a strong indicator of tax enforcement conduct. The willingness of payers of taxes to avoid taxes lacking notice and the consequence for nonconformity or evading affect their behaviours of compliances. This is evident in the philosophy of economic dissuasion, which suggests that individuals are cautiously rational and that their actions and indecision are driven by their cost and benefit assessment (Chauke and Sebola, 2016). Per Devos (2014), payers of taxes are effortlessly moral, risk-averse or risk-neutral persons who aim to improve their value and have chosen to escape tax if the anticipated advantage surpasses the cost. A real cost to advantage policy is then given to explain why complying with tax rules is poor.

## 2.5 CONCEPTUAL FRAMEWORK



**Fig 1: Conceptual Framework**

**Source: Author's construct (2020).**

A diagrammatic summary of the study's purpose is shown in figure 1. The conceptual structure illustrates the correlation and relationship, if any, among the dependent variable and independent variables. In view of the perception and attitude of traders within the Market Circle of Takoradi regarding the tax system fairness, the effects of nonfulfillment opportunities, structure of tax and tax awareness on tax evading are evaluated, as shown in Figure 1.

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## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 INTRODUCTION**

The technique used in the data gathering for the analysis is explained in this chapter. This comprises research design, study area, study population, sampling method and sample size, data types and sources, techniques for data collection, pre-test, field work, processing and analysis of data.

#### **3.1 RESEARCH DESIGN**

With a quantitative approach, the analysis adopts a descriptive research style. In order to address the questions of who, what, when, where, and how, a descriptive case study design involving collecting numbers is adopted via surveys to explain evidence (Tanner and Raymond, 2010). How the study was performed is described in the research design. In this review, descriptive analysis is applied because it primarily seeks to observe, define and record features of a phenomenon by not clarifying them but rather as it occurs naturally. This research design helped the researcher to produce from numerous traders, a good number of data. In the same period, the design afforded the researcher an opportunity to provide an in-depth description of situations relating to compliance to tax. The quantitative technique was employed by the researcher in conducting this study, and thus focused on econometric and statistical data to analyse several variables and to realize the research objectives and hypothetical statements proposed.

### **3.2 STUDY POPULATION**

In line with the research purpose, within the market circle of Takoradi, this study focused on all traders, who became the population of study. This population of traders was used for the study since it comprises an aggregation of collection from which a suitable and representative sample was selected for this study. The focus on traders within the Takoradi Market Circle was based on evidence of tax non-compliance/evasion (Ayariga, 2020), and remains one of the major hubs for informal business activities and traders, as well as provides easy access to traders compared to other markets since it was closed to the researcher.

### **3.3 SAMPLING TECHNIQUE AND SAMPLE SIZE**

In every social research that has a large population, there is the need for a sample size to be selected for the research (Bell and Bryman, 2006). Also, Creswell (2014b) opines that sampling denotes a careful selection of a portion of a population which to the researcher represents the features of the entire population. Acheson (2012) indicated that sample size includes the number of subjects within research. Creswell (2003) conceptualized sample to include choosing elements, units or members of from a population which is further utilized in making statements about the entire population". In line with the above, Saunders et al. (2009) recommended that the probability techniques of sampling could be employed in choosing the sample size when there are limited resources.

Hence, to obtain the sample, the probability sampling technique was adopted by the researcher, which was necessitated by the quantitative and survey approach and design which informed the

study respectively. The researcher adopted a multi-stage sampling method. In the initial sampling stages, the purposive sampling method was adopted to identify both informal businesses for the study. In other words, the purposive sampling method was used in identifying informal since such respondents possessed sufficient information on factors influencing their tax evasion or compliance (Patton, 2001). The purposive selection was informed by the following inclusion criteria; (1) should be in the informal sector; and (2) must be working in the Takoradi Market Circle.

After identifying the informal traders, the researcher engaged in the final sampling of respondents. This was done using the convenience sampling technique since the researcher was faced with limited resources such as time and money. As a result, a convenient sample of 120 traders from the market circle located in Takoradi was obtained. Specifically, emphasis was placed on traders who constitute the informal sector of the economy.

### **3.4 COLLECTION AND ANALYSIS OF DATA**

Data was mainly sourced from primary sources. This afforded the researcher the chance to create a sufficient discussion for a better understanding to readers regarding the concept of tax revenue mobilisation (Malholtra, 2006 cited Mebratu, 2016). In addressing the research problem, primary data was obtained from sampled respondents personally by the researcher. This was done using questionnaires as the major method of collecting the data.

For the purpose of analysis, the researcher checked for the completeness of data and cleaned for further analysis. Thus, a consistency and proper completion of questionnaire was carried out. As

such, questionnaires inconsistently and improperly filled were excluded. Prior to the analysis of primary data, the data was assigned codes and entered into SPSS. A quantitative analysis was carried out using the SPSS and Excel after the coding process was done. Further analysis was done using t-tests, frequencies, means and standard deviations.

### **3.4.1 RELIABILITY AND VALIDITY OF DATA COLLECTION INSTRUMENT**

According to Creswell and Clark (2010), when a researcher is making decisions regarding how a researcher could be conducted to get the required information and at the same time reduce threats posed to the credibility of the findings, validity and reliability are two key areas the research has to cope with. To ensure that the data collection instrument measured the intended results, the researcher engages in pre-testing before finally collecting the data. Hence, the researcher employed a sample of 20 traders to whom the questionnaire was administered. This was used to validate the data collection instrument to determine the effectiveness and efficiency of instruments for collecting primary data, that is, the questionnaire. This was used to determine the suitability of the research instrument, and whether the questions it contained were clear and valid (Zikmund, 2000).

Again, Cronbach's alpha coefficient was employed to determine the reliability of the data collection instrument. In line with Hair et al.'s (2012) position that a questionnaire is considered reliable, if a Cronbach alpha coefficient of at least 0.7 is obtained, the researcher adopted this threshold in ensuring the questionnaire is reliable and valid. The questionnaire was considered to be reliable since Cronbach's alpha coefficient for the instrument was established to be 0.762.

### **3.5 MEASUREMENT OF VARIABLES**

Questions 1 to 7 under section A was adopted to elicit responses on the demographic features of traders sampled for this study. In section B, questions aimed at measuring the system and structure of tax. While in section C, the attitude of individuals who pay tax and their perception on the fairness of the tax system was measured. This helped in providing a summary of the attitudes and views of traders regarding issues relating to tax.

Additionally, in comparing between groups in this study, the t-test was adopted. The t-test was also used to examine the link between variables using a cross-tabulation. The sections D and E elicited the responses of taxpayers on their knowledge level of tax, and factors influencing compliance by traders. Finally, section F measured self-employed persons' compliance to taxes.

Using Pearson's coefficient of correlation,  $r$ , the study determined the nature of the association between variables. The dependent variable, tax evasion, is measured against all the independent variables, tax fairness, tax awareness, and tax structure. For each dependent variable, multiple regression tests are conducted to estimate the determinants for the tax compliance variables. In addition, the regression technique was employed in analysing the contribution of independent factors on compliance to tax.

### **3.6 ESTIMATION MODEL**

The following model was employed from Brainyah (2009) and modified in this study. The model was used to determine the interaction between compliance to tax and independent factors

comprising tax attitude, evading tax, tax knowledge, and tax structure. The model is presented as follows;

$$TE = a + \beta_1 \text{TAXATT} + \beta_2 \text{TAXKNOW} + \beta_3 \text{TAXSTRUCT} + e$$

Where,

TE = Tax evasion; TAXATT = Attitude towards tax; TAXKNOW = knowledge of tax; and TAXSTRUCT = structure of tax; e = error term.

### **3.6.1 Variable Measurements**

#### **a. Knowledge of tax**

The tax knowledge as a factor in this study particularly focuses on the extent to which self-employed persons are aware of the roles of penalties placed on tax, collection of tax, and technically calculating income tax. The compliance is also affected by awareness concerning the taxpayers' ability to identify laws on tax and their compliance thereof. The level of understanding or sensitivity of taxpayers to tax legislation is tax information. Tax knowledge refers to the procedures by which taxpayers become aware of tax laws and other tax-related facts (Hasseldine et al., 2010). Similarly, in general, tax knowledge is an understanding of the basic concepts of tax policy applied within a country (Newman et al., 2018). According to Setyorini (2016), tax knowledge is influenced by several factors including formal education. Yet, tax knowledge could either be negative or positive.

#### **b. Structure of tax**

This variable emphasizes the perception of the self-employed regarding how complex the tax. In this study, how brochures on tax are worded, tax return filing forms, efforts to file returns on tax,

general estimation, income tax regulations, and fulfillment of tax duties were assessed concerning the complexity of the tax. Tax structure is measured using the set of shares of revenues that is collected by various taxes. The structure include sales, corporate, property and income taxes (Howard, 2003) which is confirmed and operationalised in the works of Mullen and Williams (1994). A similar conceptualisation and measurement was used by Adkisson and Mohammed (2014) which comprises the revenue shares collected by numerous taxes.

### **c. Fairness of Tax**

This factor deals with how or the level of perceived perception by the self-employed, on whether the system of taxation in Ghana is fair or not. To measure this, various components were adopted which include trade fairness, vertical and horizontal fairness, administrative fairness, general fairness, personal fairness, and retributive fairness. These dimensions were adapted from studies such as Hite and Roberts (1992), Gerbing (1998), and Christensen et al. (1994) in determining how they correlate with compliance to tax. Tax fairness include how equitable and just the tax system or tax rate is (Farrar et al., 2020).

## **3.7 ETHICAL CONSIDERATIONS**

The Metropolitan Assembly of Sekondi-Takoradi's administrators, and coordinating Director were initially contracted to seek approval to gather data as well as obtained the frame of employees in various sub-units. The names of the workers from the different ranks were chosen deliberately. The number of employees selected for this study was dependent on the total number of employees in a particular level. Hence, questionnaires were administered for completion by employees. However, it is important to note that the purpose of this study was verbally explained

to sampled respondents especially traders. This resulted in the willing participation of respondents thereby enhancing the success of the study.

### **3.8 PROFILE OF TAKORADI MARKET CIRCLE**

The market circle is found in Takoradi, which is the largest after Accra and Kumasi. This provided the region with a centre for economic and commercial activities. Because of the wide circle in which it is located, the market got its name; the market shops were designed to form the shape of a circle. City engineers developed the market design and established it to constitute the trade center for the then new region, Takoradi. After the harbour on Takoradi was constructed, which served as an export hub for Ghanaian companies and individuals and second to the harbour in Tema, the city became very busy. The city experienced heavy migration since people searching for jobs moved there. This resulted in a highly justified reason for the construction of the market. A readily available site was therefore provided for the construction of the market.

Due to the market site, it became the utmost open location within the metropolitan area of Takoradi as a whole. Significant roads connect to it. The Ashanti Road and the Ahanta Road are the John Mensah Sarb approaches the market. In and around the market, all sorts of economic activities proceed. The market got crowded in the period of late 80s, with the situation worsening in the early years of 1990s since the allocation of space for traders was not possible by authorities of the city after the traders had requested for stalls, shops and others. Aprembo, therefore, which is a conurbation of Takoradi spans from the market circle at a distance of about 10 kilometers, has been developed as a new market. Traders have declined to travel there as a justification for still sitting the long distance. Close to open drains, refuse dumps and areas of

convenience, traders were prepared to sell, with the market at Aprembo being empty (Adam and Samin, 2009).

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## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND DISCUSSION

#### 4.0 INTRODUCTION

The chapter comprises an analysis of primary data collected during the fieldwork, as required to attain the research objectives. First, the response rate was checked to determine if the data was effective for analysis, which was validated to be high. The chapter presented an analysis of data in line with the objective after providing an overview of the characteristic of sampled respondents.

#### 4.1 DEMOGRAPHIC CHARACTERISTICS

**Table 4.1: Demographic Characteristics**

Category	Frequency	Percentage	Cumulative Percentage
<u>Gender</u>			
Male	45	56.25	56.25
Female	35	43.75	100.00
<u>Age</u>			
20 – 29	8	10.00	10.00
30 – 39	15	18.75	28.75
40 – 49	32	40.00	68.75
50 – 59	19	23.75	92.5
> 60	6	7.50	100.00
<u>Marital status</u>			
Married	49	61.25	61.25
Unmarried	31	38.75	100.00
<u>Level of education</u>			
No education	25	31.25	31.25
Basic	35	43.75	75.00
Tertiary	20	25.00	100.00
<u>Religion</u>			

Islam	19	23.75	23.75
Christian	61	76.25	100.00
<i>Income</i>			
<2,000	3	3.75	3.75
2000-4000	28	35.00	38.75
>4,000	49	61.25	100.00
<i>Type of business</i>			
Services	53	66.25	66.25
Distribution	24	30.00	96.25
Manufacturing	3	3.75	100.00

**Source: Field Survey, 2020**

The demographic characteristics of Table 4.1 indicate that 45 male respondents represent 56.25 percent, compared to 35 females representing 43.75 percent. In the 40 to 49 age group (32, 40 per cent), the majority of respondents were followed by 50 to 59 (19, 23.75 per cent), 30 to 39 (15, 18.75 per cent), 20 to 29 (8, 10.00 per cent) and > 60 (6, 7.50 per cent). As compared to those unmarried with 61.25 percent and 38.75 percent respectively, more of the respondents are married. Thirty-five (4.75 percent) indicated that they had attained only basic education. The remaining respondents stated that they had attained tertiary education (20, 25%) or had no education, 25(31.25). In terms of income earned, it was revealed that the income earned by sampled respondents are as follows: fewer than GHS 2,000 yearly (3, 3.75%); GHS 2,000 - 4,000 (28, 35%); and greater than GHS 4,000 yearly (49, 61.25%). Majority, 53(66.25%) compared to the 24(30%) who worked in the services sector, were employed in the production sector. While 3(3.75%) stated they are working in the manufacturing industry.

## 4.2 NON-COMPLIANCE OPPORTUNITY

**Table 4.2: Factors influencing tax non-compliance**

Factors	SNI (%)	NI (%)	I (%)	SI (%)
Complex incometax returns Procedure	35.6	14.4	19.2	30.8
Accounts advice	44.1	13.4	25.2	17.3
Ignorance	38.8	16.9	23.8	20.5
Lazy accounting	36.1	14.9	20.7	28.3
Taxes not beneficial	23.7	5.3	27.6	43.4
Associate of friends	31.7	12.0	29.2	27.1
Maintain the status quo of not filing	32.7	13.1	27.5	26.7

**Source: Fieldwork (2020)**

SNI= Strongly Not Influenced, NI= Not Influenced, I= Influenced SI= Strongly Influenced

### 4.2.1 Procedural non-compliance

According to the results in Table 4.2, sampled respondents, 30.8% considered the complexity of the procedures in filing as being a strong determinant of they been unable to file their returns. The fourth major determinant of filing returns by sample respondents include con-compliance to procedures. This was cited as a key factor contributing to their non-compliance by respondents who have never filed and even those who have ever filed income tax returns in some time past and who have encountered challenges associated with completing the returns on taxes forms and being familiar with their obligations to tax finally. While 35.6 percent thought that procedural non-conformity did not strongly affect their failure to fulfill with the same number of individuals, the earlier results support that of Richardson (2006) and Clotfelter (1983) found that greater tax underreporting was correlated with the sophistication of the method. It can be

assumed that the principle of anticipation informs these results. Individuals are according to the theory, searching for desired results and weighing these results by their probability. As payers of taxes consider the process for filing returns on tax to be difficult and an obstacle to their conduct, by refusing to fulfill the tax share, the outcome desired is preferred by them.

#### **4.2.2 Brokered non-compliance**

It happens when taxpayers, on the basis of technical advice from a knowledgeable specialist such as a lawyer, tax accountant, or bond dealer, deny, minimize or delay the payment of taxes. As shown in Table 4.2, it turns out that most self-employed individuals are not affected by the reluctance of accountants to report returns. A significant 57.5 per cent of respondents explained that they are not affected by the advice of accountants. This supports the Baba's (2010) results that most self-employed persons within the Tema Metropolitan areas are not affected by the failure of accountants to report returns. In the informal sector, majority of persons who are self-employed do not depend on accountants' expertise in returns filing, and this conclusion is mainly explained by this.

#### **4.2.3 Unknowing non-compliance**

Non-conformity unknowingly occurs because payers of taxes do not have knowledge of the evolving annual regulations on taxes. Illustrated in Table 4.2, about fifty-five (55.7%) of sampled respondents stated that their inexperience causes their non-conformity. However, this was the least.

Nevertheless, a large proportion of sampled respondents, 44.3 percent offered the impression that unawareness has major effects on the self-employed in market circle in Takoradi's income tax

non-compliance decisions. Majority of the salaried employees who own businesses are under source, deducted the taxes owed other tax schedules associated with their withholdings. This affects their observations or cognizance of the tax procedure to a greater extent since they only have knowledge of tax withholdings at the expense of others issues not taken at the source including gift tax.

#### **4.2.4 Lazy (Accounting) non-compliance**

Incompliance may result from the failure of persons to maintain a proper records or accounts. In determining taxpayers' income, and their tax responsibilities, correct accounting records support, as stated by Ayres and Braithwaite (1992). Table 4.2 reveals that about 51.0 percent have laziness but was not influencing their ability to comply, compared to the remaining while 49.0 percent who affirmed to their ability to file returns on tax being affected by their laziness. The conclusion of Braithwaite (1995) supports the results of this study. According to him, in-existent books, incomplete and a non-reliable record is a major factor that shapes small firms' capacity to file their tax returns successfully. This according to him however is dependent on the nature of the firm, the quality, and detailed nature of the records stored.

#### **4.2.5 Protest or symbolic non-compliance**

Not complying to tax by tax payers might be due to unfairness outlook of laws on tax as well as the injustice characterizing tax revenue usage. Thus, the symbolic non-conformity or non-compliance constitute the above factors results in tax payment protests. This results in individuals not recognizing the need for tax obligations to be fulfilled. Seventy-one (71) percent of sampled respondents were of the notion that taxes are not important since there is unfair use of

revenues of taxes. Yet, about 29.0% of them indicated otherwise. Chung's (2002) findings affirmed that when individuals perceive that the government engages in an unequal exchange or persons who do not side with the government on policies of expenditure, reports less income than those who perceive the spending habit by the government to be just.

#### **4.2.6 Asocial non-compliance**

About 56.3 percent of sampled responding traders who confirmed that they evaded tax explained that their peers and friends had a role to play in this. This implies the central role of social network on compliance behaviours amongst traders in the metropolitan area. The results are depicted by Table 4.2. This finding could be likened to that Banerjee's (1992) who suggested that social determinants affect the probability of detecting compliance to tax.

In Western nations, an important results on the actions and attitude of persons who pay tax include the argument that friends and colleagues conform to taxes which influences them to comply. On the other hand, it was been argued that the opposite also holds where non-conformity is informed by cheating by friends and colleagues (Yankelovich et al., 1984). Evidence indicates that perceptions of others' honesty can influence the behaviour of compliance. The social power perspective in line with this study, supposes that a tax complaint attitude is taken by people who consider other people to be compliant.

#### **4.2.7 Habitual noncompliance**

The attitude portrayed by payers of taxes according to Kidder and Craig (1989), where they do not fulfill their tax obligations is amongst the major determinants of non-conformity to tax. Thus, this study determined the usual non-compliance effect on the evading of taxes by self-employed

traders. Results indicated in the Table 4.2 shows that the usual habit of not fulfilling tax obligations is a major factor in non-compliances to tax by traders. This was based on majority, 54.2% affirming to this while about 45.8% indicated otherwise.

### 4.3. FACTOR ANALYSIS OF INDEPENDENT VARIABLES

**Table 4.3: Factor Analysis of Independent Variables**

<b>Factors</b>	<b>Variables under the domain</b>	<b>Loadings</b>	<b>Eigen Values</b>	<b>% of Variance Explained</b>	<b>Cronbach Alpha</b>
<b><i>I</i></b>	<b><u>Tax structure/system</u></b>				
	Computation of my tax liability is very complicated	0.82			
	Tax laws in Ghana are difficult to understand	0.74	2.73	22.2	0.72
	The filing and payment processes is not convenient	0.76			
	The filing and payment processes have a bearing on my attitude towards Taxation	0.71			
<b><i>II</i></b>	<b><u>Tax payers attitude and perception</u></b>				
	Incase tax authorities would improve their services, it would be easier to fulfil my tax Responsibilities	0.85			
	Compared to the amount paid by more wealthy taxpayers, I pay more than my fair share of income	0.84	1.74	20.4	0.80

	On the whole, the burden of income taxes is fairly Distributed	0.65			
	A fair tax rate should be the same rate regardless of the amount of income earned	0.60			
<b>III</b>	<b><u>Tax knowledge</u></b>				
	All income earners are charged the same tax rate regardless of the amount	0.76	1.56	17.6	0.74
	GRA collects taxes on behalf of the government	0.75			
	It is the tax payers obligation to file tax returns	0.72			
	Small business payers have no special provision for taxing them	0.71			
	There are no penalties for failure to pay taxes	0.70			
	Total variance			60.2	

***KMO = 0.872; Bartlett's Test of Sphericity (Approx.  $X^2$ ) = 1480.29; P = 0.00***

**Source: Fieldwork, 2014**

The tax structure, knowledge of tax and attitude were used in carrying out a factor analysis. Tabachnick and Fidell (2001) in their view argued that the p value should be less than 0.05 in order for the Bartlett sphericity test to be relevant, while the KMO index should be between 0 and 1, while 0.6 suggested as the least rate for a successful factor analysis. The sphericity test of Bartlett was revealed to imply a statistically important in this analysis ( $p = 0.00$ ), while the KMO index surpassed the recommended value by 0.872. Using the varimax rotation, a principal

component analysis was carried out. This resulted in a reduction of the variables to 3 major causal concepts, with 13 variables that measures income tax compliance.

Pallant (2005) argues that it is vital to ensure that the matrix of correlations is at least 0.3. For more investigation regarding specific loading for the sub-dimensional factors, an Eigen value of at least 0.1 was considered appropriate. The alpha coefficient of Cronbach was employed to understand the scale accuracy and the extent to which in defining the dimension, each variable was essential in that regard. According to Pallant (2005), an alpha coefficient between 1.0 and 0.7 shows a substantial or effective measurement of constructs. Hence, this threshold was used.

The first factor, the structure if the tax system measured the cumbersomeness of the regulations on tax, calculation of tax obligations, filing convenience and its impact on tax payments. Results indicates a 22.2% explanation provided by these factors and 72% Cronbach alpha coefficient with loading of 0.71 to 0.85. These factors accounted for most of the compliances to taxes in the areas. This is evident since, per Chau et al. (2009), major factors influencing the efficacy of a tax system are the sophistication of tax structure/systems, likelihood of identification, and fines and rates of tax. The more complicated tax laws get the lower the rate of enforcement. Improve tax compliance with simple, comprehensible and transparent tax rules (Chau et al. 2009).

The second factor (II) which include attitude of and perception of fairness towards taxes focused on examining behavioral concerns. The fairness of tax emphasizes the degree to which the self-employed agree that the market circle in Takoradi tax structure is reasonable. The aftermath of conducting a factor analysis resulted in the results that distinct attitude on taxes of the rich does

not contribute to conformity to taxes within the metropolitan area. However, government exchange distribution, general exchange and their impartiality, self-interest and progressive versus flat tax rate were found to be important and were added to the loadings of the factors. Overall, 1.74 (20.4 percent) of the overall change was clarified by the element, and all things under the construct calculated it efficiently at a Cronbach alpha value of 0.80. Independently, these variables loaded between ascending variables are (0.60 to 0.85). Maybe the result shows how equal behavior and perceptions of justice impact tax obedience consistently and accurately. Behaviours are commonly thought to influence compliance behavior because they represent the propensity of taxpayers to respond positively or undesirably to a particular situation (Eagly and Chaiken, 1993 and Ajzen, 1991).

The third factor (III), knowledge of tax comprises five measures. These measures issues data availability and the extent of taxpayers' concerns on taxation. The lack of insight on the significance of tax results in misconceptions and low estimate tax burdens required to continue providing services to the public (Saira, Zariyawati and Yoke, 2010). Not only are people misled on taxation, they also have indeterminate information on government budgets and the actual rate of providing public services freely. People possess little understanding of actual government spending and the government's public service costs (Csontos, Kornai and Tóth, 1998). In most cases, they are also not persuaded that taxes must be paid.

The range of each of the loaded variables varies from a higher value of .76 to as low as .70. Together with a value of 0.74, the third factor explained 17.6 percent of change described. In accordance to Eriksen and Fallan is (1996), this outcome shows that economic awareness

correlates with attitude towards tax and that better understanding of tax laws will improve tax behaviour. Other researchers have recently verified this claim. Kirchler et al. (2008), for instance, also stresses that tax awareness in specific taxpayers has a positive association with tax adherence. This conclusion is consistent with the results of studies such as Wahlund (1992), Eriksen and Fallan (1996), and Park and Hyun (2003).

#### 4.4 ANALYSIS OF FACTORS ACCOUNTING FOR TAX EVASION

**Table 4.4: Regression Results on Factors accounting for Tax Evasion**

Variables	B	SE	B	T	P value	Tolerance	VIF
Tax structure	0.059	0.090	0.039	0.651	0.516	0.944	1.059
Tax attitude	0.483	0.090	0.331	5.392	0.000*	0.890	1.124
Tax knowledge	-0.219	0.087	0.156	2.528	0.012*	0.881	1.135
<i>Constant</i>	0.114	0.294		7.699	0.000*		

$R^2 = 0.407$ ; Adjusted  $R^2 = 0.391$ ;  $F = 16.51$ ;  $P = 0.000$  \*significant at  $p < .05$

$Y = 0.114 + 0.331X_1 + 0.156X_2 + 0.039X_3 + 0.294$  was adopted as a regression formula to analyse the data.

The regression equation used by Brainyyah (2009) was updated based on the factor analysis performance in Table 4.4 to examine the correlation of the explanatory variables Tax Awareness, Tax Attitude and Tax Structure with the explained variable, Tax Enforcement. The regression equation describes the direct impact on tax enforcement of tax awareness, tax structure/complexity and tax attitude/fairness. The OLS regression model was adopted on that account. As indicated by Richardson, the appropriateness of data was satisfied in relation to the

adequacy of the size of the sample, lack of multi-collinearity, linearity, and autocorrelation (2006).

Multi-collinearity effect has been evaluated. Dewberry (2004) reported that these two forms of screening for multi-collinearity issues are the tolerance and variance inflation factor (VIF). For the model in this analysis, VIF and tolerance were considered. Pallant (2005) stated that model multi-collinearity expectations are satisfied since the tolerance values are above 0.10 and the VIF values are below 10. Multi-collinearity issues were evident in the model. For example, all predictor variable tolerance values were higher than 0.10. The autocorrelation statistical analysis of Durbin-Watson was 2.26, suggesting the nonappearance of autocorrelation (Asteriou and Hall, 2011).

The results of the OLS showed that 39 percent of the difference in complying to tax was explained significantly the model. The phenomenon was not substantially explained by all the dimensions, despite the model's power to explain the conformity to tax. The factor such as fairness perception or attitude had the greatest effect ( $\beta = 0.33$ ) as illustrated Table 4.4. Hence, traders who are self-employed are highly probable to conform to regulations to tax. Ajzen (1991) and, Eagly and Chaiken (1993) clarified this finding, who believed that behaviours are commonly thought to affect behaviour of compliance because they reflect the tendency of taxpayers to respond to a specific situation positively or negatively. It was further noted that there exists an essential correlation among the perception of or attitudes towards impartiality and tax adherence of taxpayers ( $p=0.000$ ). In the tax enforcement literature, the tax system being fair was considered by payers of taxes to be essential and has a direct impact on their compliances to taxes.

In the views of Gilligan and Richardson (2005), individuals take into consideration the unfair nature of the system could be ineffective, and this permit payers of taxes in compliances. Compliances to taxes was importantly affected by the knowledge of taxes of traders ( $p = 0.012$ ). Persons who are self-employed stated that they had higher knowledge on tax were 15.6% probable to conform. This reiterates earlier studies that indicate that general tax information has a very close relationship payers of tax capacity to identify regulations and laws on tax, and their compliance to such laws (Singh, 2003a). Regardless, the complexity and structure of tax had no substantial effect on conformity to tax ( $\beta = 0.039$ ).

The contribution of factors to either a reduction or increase in the changes of complying to taxes was assessed. The complexity of the tax, its fairness and awareness were three factors adopted in this study, in line with the study of Brainyyah (2009). The description of the multiple regression results is shown in Table 11. It shows that with F statistics at 16.15, the result is important at  $p < 0.000$  level, whereas the modified R2 remained 0.391 percent.

Conclusively, in achieving the second objective, a highly correlated interaction was established by conformity to taxes and awareness of taxes using the regression analysis. Hence, the argument of the null hypothesis was not accepted. This also means that taxpayers with a stronger understanding of tax matters are more likely to be motivated to meet their tax obligations and thereby eradicate tax avoidance propensities. This corroborates studies of Ghoni (2012), Fikriningrum (2012), and Rajif (2011) that has demonstrated an established association between tax awareness and enforcement. However, it varies from the Somang (2006) and, Carolina and

Simanjuntak (2011) findings that variable tax awareness has no impact on the extent of compliance to taxes.

It has been shown that there has been a substantial correlation among fairness of the tax and tax enforcement. The null hypothesis will be dismissed again in this respect. This suggests that if taxpayers consider the tax system as fair, they are highly probable to conform with principles on tax. It affirms the earlier results that the capacity of payers of taxes to evade their tax obligations is determined by the perception of fairness held by them in relation to the system of taxation. Studies including Chan et al, (2000) and, Park and Hyun (2003) identified that compliance was specifically correlated with the sense of justice. However, this is not in line with Pris' study (2010).

The regression model tested in Table 4.4 shows that the tax structure/complexity and tax enforcement were not significantly related. It would consider the null hypothesis. The tax complexity factor consisting of material complexity and enforcement complexity was not significantly associated with self-employed tax compliance behaviour. This condition reveals that a greater scope of the tax control, returns from tax and, practices relating to the reporting of tax, the greater the difficulty, the less important the extent to which compliance to tax correlates with it. This confirms the findings of Forest et al. (2002) but contrasts the results of studies like Saadyah (2010) and, Brainyyah (2009).

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## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 INTRODUCTION

In this chapter, the findings of the study are summarized. Conclusions were established from the results and recommendations were as well provided.

#### 5.1 SUMMARY OF FINDINGS

Summaries based on the findings are outlined in this section. First, the influence of social and demographic characteristics of traders on their compliances to tax was examined, with the following established;

- a. It is noted that gender and tax enforcement were not substantially related. Payers of taxes who are married complied highly than single traders. There is also a correlation between compliance with traders' age and income tax.
- b. It is also noted that there has been a substantial gap in tax enforcement between self-employed and married, and self-employed but unmarried individuals. It can be argued that taxpayers in

higher education have a greater understanding of taxes, which forces them to be highly compliant to taxes.

c. There is a clear correlation between the degree of education and tax compliance, and religion and tax compliance have been substantially related. Compliance to tax determinants as part of this study, focused on the impact of factors that are non-economic including the structure of the tax, the difficulty of tax, fairness of the tax, and consciousness of the tax were addressed.

A review of the results shows that the tax fairness and attitude factor have the greatest effect on tax enforcement. This is closely accompanied by tax information that exercises or demonstrates compliance to tax. The only factor that has not had any major impact on tax enforcement is tax structure/complexity. 39 percent of the difference in tax enforcement was significantly accounted for by the whole model.

The results also indicate that there is an important correlation between tax awareness and enforcement and that there is no substantial link between tax fairness and compliance with taxes. There is also no big correlation between tax structure/complexity and compliance with taxes.

## **5.2 CONCLUSIONS**

The analysis draws the following conclusions. In market circle of Takoradi, male dominance amongst the self-employed is evidenced. The majority of the self-employed are young in Takoradi's Business Circle. High levels of education have been received by most self-employed individuals. Married couples dominate self-employed people in the research industry. Self-employed women comply more with the laws on income tax than their male counterparts do.

Again older people were found to be usually more compliant compared to the younger self-employed traders with income tax laws. The highly educated self-employed are generally compliant than their low-educational peers are, with laws on income. The married self-employed are more compliant than their single peers with revenue tax rules. Awareness level on tax in the market was established to be moderately less taking into account the greater educational level achieved by those who are self-employed. It was not significantly linked to preparation and tax compliance. The level education on income tax is very low, resulting in a greater level of non-conformity to income tax by self-employed workers. A substantial connection between tax awareness and enforcement, however has been identified. The main determinant of compliance to tax was tax fairness. Usually, payers of taxes are able to fulfil their taxes. However, they would like to see their acts, through the provision of public services, reciprocated by the government.

The complexity of tax and the structure of the tax, which exercises minimal impact on the actions of compliance by payers of tax within the metropolitan area, is contrasting to tax equity. The tax structure/complexity and tax compliance were not significantly associated.

### **5.3 RECOMMENDATIONS**

The recommendations below are made based on the findings:

- a. The study revealed that tax awareness level concerning tax was low amongst self-employed workers in the Takoradi market circle. This study therefore recommends that tax enforcement agencies including the GRA, and the Takoradi Municipal Assembly

should collaborate and carry out public education programmes to educate the traders on taxes and why there is the need to pay tax.

- b. Also, the study establishes that non-compliance was high amongst males, younger, unmarried and less educated self-employed individuals in the Takoradi market circle. Thus, there is the need for the public education to mainly target these categories of persons. In doing so, it is recommended that GRA also introduces strict measures including penalties and punishments and strictly enforce such measures to ensure compliance to taxes.
- c. Again, the study established that the major determinant of non-compliance to taxes among self-employed traders was fairness and equity of the taxes imposed. There is therefore the need to ensure that the tax system is explained to taxpayers especially the traders and the need to explain how the rates are determined to improve their understanding and confidence in the tax system. As such, if their understanding and confidence is enhanced, it could increase the taxpayers' perception of fairness and in turn improve compliance.

### **5.3.1. Recommendations for further studies**

This study restricted its scope to the Market Circle in Takoradi. In other regions of Ghana, this study can be replicated to help provide an enhanced awareness of behaviours of payers of tax who are self-employed. Primarily, this study focused on using questionnaires as the main instrument for collecting primary data. Further studies should therefore explore compliance to taxes from a qualitative point of view, using interview guides. The Fisher tax enforcement model can be refined by future researchers by adding another significant environmental factor: culture

and the relationship between the potential for non-compliance and tax structure/ system on tax compliance.

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# KNUST

## APPENDIX A

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY  
INSTITUTE OF DISTANCE LEARNING  
ACCOUNTING and FINANCE DEPARTMENT**

*Questionnaire for data collection from the Sekondi-Takoradi Metropolitan Assembly*  
(PURPOSELY FOR ACADEMIC WORK)

**Topic:**

**DETERMINANTS OF TAX EVASION BEHAVIOUR AMONG TRADERS IN  
TAKORADI MARKET CIRCLE**

**Instructions:** This questionnaire provided to you is designed to collect data for the purposes of academic research in partial fulfilment for the award of an MSc degree in Accounting and Finance. The information you will provide will be treated with the utmost confidentiality and used for the intended purpose only. You are kindly entreated to answer the questions as truthfully

as possible. Please provide the information that appropriately reflects your present circumstances. Please Tick (✓) at the appropriate response spaces provided or provide your answers by filling in the appropriate spaces provided where you are requested to do so.

**SECTION A: DEMOGRAPHIC CHARACTERISTICS**

- 1) Gender: a. Male [ ] b. Female [ ]
- 2) Age (in complete years).....
- 3) Marital Status a. Married [ ] b. Unmarried [ ]
- 4) Level of education? a. No Education [ ] b. Basic/ Secondary [ ] c. Tertiary [ ]
- 5) Type of business engaged in
  - a. Services [ ] b. Distribution [ ] c. Manufacturing [ ]
  - d. Construction [ ] e. Others (please specify) [ ]
  - .....
- 6) What is your religion? a. Christianity [ ] b. Islam [ ] c. Traditional Religion [ ]
- 7) Income per annum a. BelowGHC2,000.00 [ ] b. Between GHC2000 - GHC4000.00 [ ] c. Above GHC4,000.00 [ ]

**SECTION B: TAX STRUCTURE/SYSTEM**

For each of the following given statements, please tick: 1 - if you **strongly disagree (S.D)**  
 2- If you are **disagree (D)**, 3 – **Indifferent (I)**, 4 – **Agree (A)**, 5 – **Strongly Agree (S.A)**

S/N		1. S.D	2. D	3 I	4. A	5. S.A
8	Tax laws in Ghana are difficult to understand					
9	I find the filing and payment processes convenient					

10	The filing and payment processes have a bearing on my attitude towards taxation					
11	I am satisfied with the tax system and work of tax authorities					
12	Tax is very complicated-I do not know how to calculate my own tax liability					
13	In case the tax authorities would improve their services, it would be easier for me to fulfil my tax responsibilities					
14	The imposition of sanctions deters non- compliance					
15	The imposition of penalties alone would serve as a sufficient deterrent from income tax non-compliance					
16	The current VAT rate of 17.5% is fair					

### SECTION C: TAXPAYER ATTITUDES AND PERCEPTION

For each of the following given statements on **TAX FAIRNESS**, please tick: please tick: 1 - if you **strongly disagree (S.D)** 2- If you are **disagree (D)**, 3 – **Indifferent (I)**, 4 – **Agree (A)**, 5 – **Strongly Agree (S.A)**

S/N		1. S.D	2. D	3 I	4. A	5. S.A
17	Current tax laws don't require me to pay more than my fair share of income taxes					
18	On the whole the burden of income taxes is fairly distributed					
19	benefits I receive from the government in exchange for my income-tax payments are reasonable					
20	Compared to the amount paid by more wealthy taxpayers, I pay more than my fair share of income taxes					

21	It is fair that high-income earners pay proportionately more tax than low income earners					
22	People whose income is about the same as mine should pay the same amount					
23	A fair tax rate should be the same for everyone, regardless of their income					

24. How do you view the attitude of people not paying taxes on their income?

- a. Not wrong at all [ ]    b. Wrong but understandable [ ]    c. Wrong and punishable [ ]

#### D. TAX KNOWLEDGE

For each of the following given statements, please tick: 1 - if you **strongly disagree (S.D)** 2- If you are **disagree (D)**, 3 – **Indifferent (I)**, 4 – **Agree (A)**, 5 – **Strongly Agree (S.A)**

S/N		1. S.D	2. D	3 I	4. A	5. S.A
25	Ghana Revenue Authority ( GRA) collects taxes on behalf of central government					
26	The Government does not provide enough information about the use of tax payers' money					
27	There are no penalties for failure to pay taxes					
28	Small business taxpayers have no special provisions for taxing them					
29	All income earners are charged the same tax rate regardless of the amount of income earned					
30	Taxpayers cannot object to or make appeal against Ghana Revenue Authority.					
31	It is the taxpayer's obligation to file					

tax returns					
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### SECTION E: NON-COMPLIANCE OPPORTUNITY

32. Have you ever filed returns? Yes [ ] 2. No [ ]

If no, indicate the extent to which the following factors influence your decision not to file returns for any year.

Scale: **Strongly not influenced=1, Not influenced =2, 3 = Neutral, Influenced=4, Strongly Influenced = 5**

a	Complex income tax returns procedure	1	2	3	4	5
b	Accountants advice	1	2	3	4	5
c	Ignorance	1	2	3	4	5
d	Lazy accounting	1	2	3	4	5
e	Taxes not beneficial or fair	1	2	3	4	5
f	Associate or friends advice	1	2	3	4	5
g	Maintain the status quo of not filing	1	2	3	4	5

### SECTION F: TAX EVASION

For each of the following given statements, please tick: 1 - if you **strongly disagree (S.D)** 2- If you are **disagree (D)**, 3 – **Indifferent (I)**, 4 – **Agree (A)**, 5 – **Strongly Agree (S.A)** I wish to **comply** with tax laws for the following reasons:

33	I always file tax returns	1	2	3	4	5
34	I pay all taxes on time	1	2	3	4	5

34	I keep records to ensure transparency in tax affairs	1	2	3	4	5
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