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**AN ASSESSMENT OF THE LEVEL OF TAX COMPLIANCE AMONG SMALL
AND MEDIUM ENTERPRISES IN THE CAPE COAST METROPOLIS**

BY

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DECLARATION

I hereby declare that this submission is my own and to the best of my knowledge it contains no material previously by another person or material which has been accepted for the award of any other degree of the university except where that material is duly acknowledged in the text.

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DEDICATION

I dedicate this work to the memory of my mother, the late Veronica Korshiwor Deku, The late Thomas Kodjo Attitsogbi who always admonished me to strive for higher heights but could not live to see this day; Mary Adzo Abotsi my lovely sister whose constant prayers and support encouraged me to attain this academic glory.



ABSTRACT

The purpose of the study is to assess the level of tax compliance amongst Small and Medium Enterprise in The Cape Coast Metropolis. The study utilized the quantitative method. Two hundred (200) business owners and attendants of the Cape Coast Metropolis were sampled using the simple random sampling technique. Descriptive statistics, correlation and regression were employed in the analysis of data. The study found low knowledge level of business owners and attendants of SMEs in Cape Coast regarding tax compliance and obligation issues. The study found that the most dominant indicator underscoring factors causing non-compliance of SMEs to tax laws and obligations is digital economy, followed by level of education, next is attitudes of SME operators, behaviour of tax administrators, structure of the tax system and the least being the rate of taxes. The study found that tax education exerts significant effects on tax compliance behaviour of SMEs. It was discovered that improving tax compliance comes with adopting strategies that can target some specific tax areas namely tax education, tax system, tax administration, tax payers, and digitization or technology issues. It was concluded that adequate knowledge, education, training on tax laws, compliance would improve amongst SMEs in Cape Coast. The study recommended that adequate tax education is required in order to improve the work of SMEs on regular basis in relation to tax compliance.

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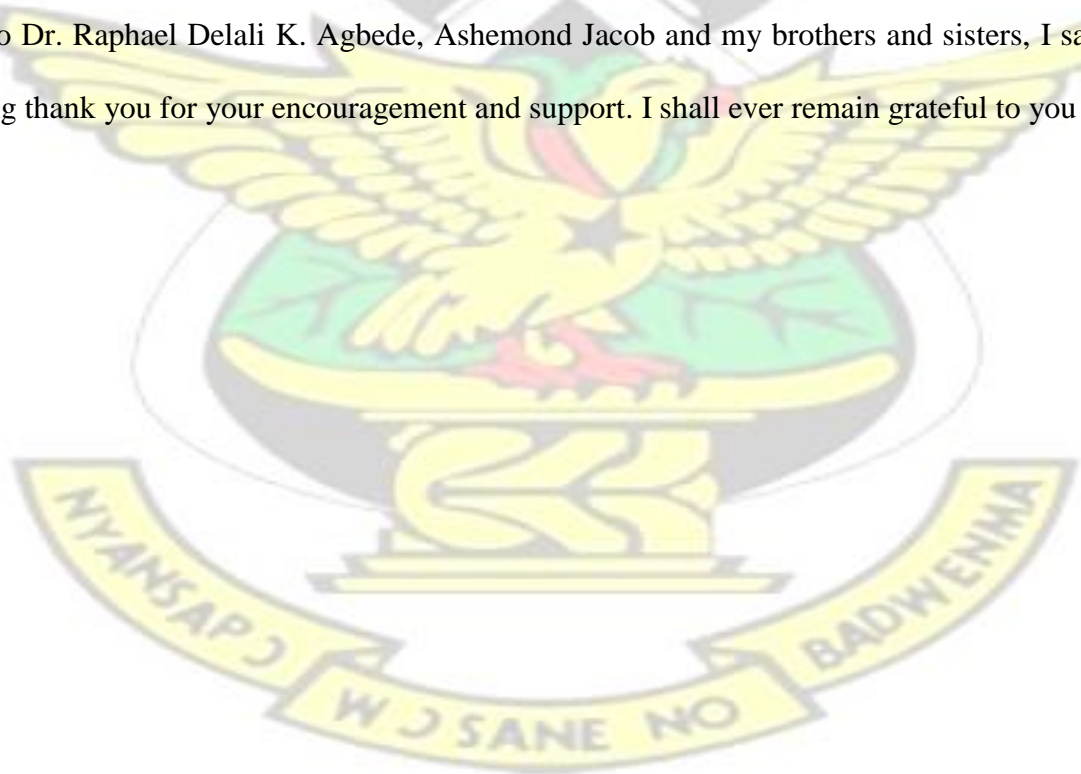
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LIST OF ABBREVIATIONS



CEPS	Customs Excise and Preventive Service
DPs	Depository Participant
GDP	Gross Domestic Product
GRA	Ghana Revenue Authority
GSS	Ghana Statistical Service
IRS	Internal Revenue Service
LTU	Large Taxpayer Unit
NRS	National Revenue Secretariat
NBSSI	National Board for Small Scale Industries
NHIL	National Health Insurance Levy
PAYE	Pay-As-You-Earn
SMCD5	Supreme Military Council Decree 5
SMEs	Small and Medium-Sized Enterprises
TIN	Tax Identification Number
UNCTAD	United Nation Conference on Trade and Development
VAT	Value Added Tax

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Governments, especially developing ones, rely on fiscal policies specifically taxation to raise the revenue needed to meet its current and non-current expenditures. Taxation has no single definition or meaning, many individuals have attempted to describe it in different angles depending on how they see it. According to Asante and Seidu (2011) and Kim (2014), tax is the percentage or rate established by law which citizens who own assets in the form of land, building among others and undertake economic activities must honor. From the definition stated above, it can be said that tax is a structured system, tool and culture, designed to achieve state requirements. The definition of Lymer and Hasseldine (2012) shows that, tax is a policy of a government, which workers of different kind, owners of all sort of firms and consumers cannot run away from, the government sees it as a source of income whereas those who honor it regards it as a norm, expense and bad debt. It can be deduced from the definition that those who pay tax see no “value for money”, in the sense that they pay for something that they do not get anything in return either immediately or in the long run.

Also, Abdallah (2014), defined tax as the legitimate right, authority and power solely in the hands of the government to authorize the private sector business or owners to transfer resources to the government in order to achieve its developmental objectives and provide free goods to the citizenry. From the definitions captured above, tax can be regarded as a form of “tithing” not on the aspect of the religious outlook but on the aspect of economic obligations.

Tax compliance cannot be ignored when the subject matter of tax is being discussed. It is one of the fundamental aspects of taxation, which describes the situation whereby the person who is supposed to honor his or her tax responsibilities actually does so by following the necessary and required stages. Also, it can be defined as the process of fulfilling the tax payer's civil obligation for tax payment and filing of tax returns including the provision of necessary documents and explanations required by the tax authority in a timely manner (Otieku, 2013). The implication of these definitions is that individuals have different conceptualization of tax and as how its essence in the business parlance.

It is vital to establish that achieving high levels of voluntary tax compliance and maintaining compliance rates as well as increasing the marginal levels are issues of concern to fiscal policy makers in developed and developing countries. This is because the principal objective of taxation is to raise revenue towards the financing of public goods and services and funding of governments (Alm & McKee, 2018). According to Palil (2015), the government generates tax revenue for public expenditure and helps in reducing inequalities through a policy of redistribution of income. Similarly, Bird and Wallace (2013) indicates that tax revenue ensures the attainment of economic goals through allocation of resources. Furthermore, Mukasa (2011) argues that tax revenues are used to finance the national budget and control the economy and protection of local industries. Notwithstanding, tax revenues are used to redistribute income to help the less well-off and also used to restrain the consumption of certain types of products (Wang, 2015).

Palil (2015) asserts that taxation is one of the important elements in managing national income, especially in developed countries. Raising more domestic revenue is a priority for most sub-Saharan African countries (Drummond, Daal, Srivastava & Oliveira, 2012). Taxation has played an important role in civilized societies since their birth thousand years ago (Lymer & Oats, 2009; Hyman, 2015). It is a well-known fact that the revenue generated from the taxation of individuals and businesses is an important stream of income for the government (Atawodi & Ojeka, 2012). Bird and Wallace (2013), further argues that “No one likes taxes; people do not like to pay them and governments do not like to impose them”. However, taxes are necessary to finance desired public spending to ensure that the burden of paying for such spending is fairly distributed (Mukasa, 2011). In view of the importance of tax revenue to governments, compliance with tax laws is very important in generating the required revenue. Tax compliance is a tax payer’s ability and willingness to comply with tax laws, filing appropriate returns, stating the actual income earned, claiming appropriate relief and rebates and paying all taxes due on time.

In developing countries, income tax compliance has been constrained by the significant number of changes to the tax laws that are now so complex and only a handful of tax experts can understand them. This creates additional problems for compliance by different categories of taxpayers’ who do not have access to sophisticated tax specialists (Hyman, 2015). The problem of tax compliance is as old as taxes themselves. Tax administrations are challenged with finding ways of minimizing tax non-compliance and eventually reduce it. Getting tax payers to comply with the necessary tax laws has been and is still a major concern for most tax administrators around the world since it is

not easy to convince taxpayers to comply with tax requirements. Silvani (2012) asserts the objective of most tax administrations is to increase voluntary tax compliance thereby reducing 'tax gap' and 'compliance gap'. Silvani further added that it is in the quest of encouraging voluntary compliance that the self-assessment basis was introduced so that taxpayers could calculate their own tax obligations and pay voluntarily whatever they are supposed to pay. Every economy recognises the significance of businesses since they have become the mainstay and a proven engine of economic growth (Chau & Leung, 2009). However, the presence of businesses in Ghana shows the potential to create wealth capable of driving growth.

According to Asante and Seidu (2011), businesses form the foundation on which indigenous entrepreneurship is able to generate and facilitate all kinds of investments in the country. It is therefore imperative that developing economies like Ghana further enhance the growth of the micro-enterprises through favorable macroeconomic environments (Chau & Leung, 2009). As noted by Evans (2013), small businesses contribute about 36.1 percent of GDP and create employment avenues for more than 80 percent of labour supply in developing economies (Evans, 2013; Terkper, 2017; Smulders, Stiglingh, Franzsen & Fletcher, 2012). However, evidence from prior studies indicates that several small and medium enterprises are non-tax compliant despite reforms that have gained roots in emerging economies (Ayoki, Obwona & Ogwapus, 2015; Ali-Nakyea, 2014).

1.2 STATEMENT OF THE PROBLEM

In developing countries, tax evasion is a serious challenge facing income tax administration and hindering tax revenue performance. Tax non-compliance is a serious challenge facing income tax administration and hindering tax revenue performance. Despite the various tax reforms undertaken by successive governments to increase tax revenue over the years, the numbers on tax exemptions and non-compliance in Ghana's economy are disturbing. As an illustration, in the last eight (8) years, tax exemptions (import duty, import VAT, import NHIL and domestic VAT and corporate tax) in the economy have grown from GH¢391.90 million (0.9% of GDP) in 2010 to GH¢5,269.99 million (2.6% of GDP) in 2017 (Ministry of Finance, 2019; Alabede, Ariffin & Idris, 2011). One of the main barriers to implementing government programs and activities is the generation of the required tax revenue for the state. To achieve this requires compliance with the tax law and regulations.

Asante and Seidu (2011), posit that the problem of tax non-compliance is as old as tax itself. The level of tax compliance of small and medium-sized enterprises is critical in achieving the needed tax revenue. According to Terkper (2017), there is a very high rate of tax evasion in the Ghana informal sector. Terkper further argued that since most of SMEs' are not registered by the authorities as required, they remain hidden and undetected. Otieku (2013) argued that tax evasion is a universal and growing phenomenon. Naomi and Joel (2009), assert that the tax system that is perceived unfair by the citizens will encourage them to engage in the non-compliant behaviour. However, in Ghana tax compliance among SMEs is perceived to be poor (Acheampong, Debrah & Yeboah, 2016). It is believed that high tax rates and complex filing procedures, multiple

taxations and lack of proper enlightenment are the most crucial factors causing non-compliance of SMEs (Acheampong et al., 2016).

However, Chen (2016) indicates that taxpayers' decision to comply or not to comply is determined by the complexity of the tax system and taxpayers' confidence in government. Singh (2013), in his study on reasons for low tax compliance in Tamale, concludes that the culture of entitlements contributed to non-tax compliance. Singh's study focused on general taxpayers unlike this study which narrows the study to SMEs. Stephen, Abdallah and Hamza (2015) in their article on the effect of demographic characteristics of SMEs on tax compliance in Tamale, posit that women and younger entrepreneurs were more non-compliant to tax laws and rules. Stephen et al. (2015) covered only 80 SMEs and the study also limited the tax compliance factors to only demographic variables. Similarly, Yakubu (2015) conducted a study on Promoting Income Tax Compliance among the Self-employed in Tamale and concludes that the self-employed with no or less education are highly income tax non-compliant.

Evidence suggests that other studies on tax compliance among SMEs have been focused on countries such as Indonesia (Hanum & Hasibuan, 2019; Inasius, 2019; Mukhlis & Simanjuntak, 2016) and South Africa (Wadesango et al., 2018). Few other Ghanaian studies have given little attention to the issue of tax compliance among SMEs (Abdul-Razak & Adafula, 2013; Agbadi, 2011; Okpeyo et al., 2019; Kuug, 2016). Understanding the compliance with income tax administration and associated challenges among SMEs is critical to informing policymakers in the design of strategies to improve revenue mobilization for development in Ghana. In the light of the gaps, this study seeks to

examine tax compliance among Small and Medium Enterprises in Cape Coast Metropolis.

1.3 OBJECTIVE OF THE STUDY

The objectives of this research are categorized under two main sub-heading, the general objective and the specific objectives. The general objective provides a broader view of this study's research topic, and the specific objective highlights the subdivision of the general objective which the study seeks to achieve.

1.3.1 General Objective

The purpose of the study is to assess the level of tax compliance amongst small and medium enterprises in the Cape Coast Metropolis.

1.3.2 Specific Objective

Specifically, the study sought to achieve the following objectives;

- (i) To ascertain knowledge level of small businesses on tax obligations and compliance among the SMEs in the Cape Coast Metropolis.
- (ii) To analyze the Small Business owners opinions on factors causing non-compliance with tax obligation by SMEs in the Cape Coast Metropolis.

1.4 RESEARCH QUESTIONS

The study was guided by the following research questions:

- (i) What is the level of knowledge on tax obligations and compliance among the SMEs in the Cape Coast Metropolis?

- (ii) What are the factors that encourage non-compliance with tax obligation by SMEs in the Cape Coast Metropolis?

1.5 SIGNIFICANCE OF THE STUDY

Due to current macroeconomics instabilities in Ghana, the private sector is incapable of making its obligations to the state in terms of tax compliance. Hence, policy issues in line with tax compliance in the private sector for small businesses are imperative for the short and long term economic sustainability of the country. Taxation has been the mainstream policy alternative for revenue mobilization in Ghana. Therefore, this study would provide a guide to assist policy makers including tax administrators on compliance related policies that will help in overcoming current challenges in tax compliance that exist amongst small businesses in the private sector.

This study would further serve as a scholarly material in taxation issues in Ghana. Finally, the study seeks to bridge the revenue gap through recommendation of major policies initiatives for tax administrators and benefits to small business from compliance to tax systems.

1.6 SCOPE OF THE STUDY

The study covers all small businesses in Cape Coast in the Central Region of Ghana. Due to time and financial constraints, the current study is limited to small and medium businesses operating in the Cape Coast Metropolis. This is to provide intuitive understanding into issues hovering tax administration in the Cape Coast Metropolis since it houses the third largest number of small businesses operating in Ghana.

1.7 OVERVIEW OF THE METHODOLOGY

The study focuses on assessing the level of tax compliance amongst small and medium enterprises in the Cape Coast Metropolis. This study also follows the quantitative research method, where probability sampling technique (simple random) was used to ascertain the sample size. The researcher seeks to use this approach or method because the population for the study is known. The cross sectional survey design was utilized. The overall sample size for the study was 200. The study utilises both closed-ended and open-ended type of questionnaires which is distributed to the respondents who formed the sample size. The data collected was coded using Statistical Package for the Social Sciences and analyzed using descriptive statistics, correlation and regression tools.

1.8 LIMITATION OF THE STUDY

The study seeks to assess the level of tax compliance amongst small and medium enterprise in the Cape Coast Metropolis. Despite the reliability and credibility of the findings of this research, there are some limitations. The study is however limited in the following ways;

First of all, the study used a sample size of less than 500 which limited the generalization of findings. Future studies should try using a sample size of more than 500 to increase the generalizability of the findings.

Secondly, due to the limited time nature of this study, the researcher used the case study research design. The researcher could not use the longitudinal research approach which is important in determining changes over time concerning the following organizational practices, top management support, professional proficiency, organizational

independence and internal audit-auditee relationship hence; future researchers should try adopting the longitudinal research design.

Thirdly, this study only used structured and closed ended questionnaires in acquiring data from the respondents which some pertinent information might have captured. Future researchers should try adopting both questionnaires and interviews or open ended questionnaires to obtain valuable data.

Finally, due to the financial constraint of this research, the researcher could not use more than one country for the study. Future researchers should focus on assessing the effect of tax compliance amongst small and medium enterprises among African countries to widen the generalizability of results.

1.9 ORGANIZATION OF THE STUDY

The research was structured into five chapters; the rest of the chapters are as follows. Chapter two reviews the extant theoretical and empirical literature on conducted studies in the areas of tax compliance and cost. Further, chapter three examines the research methodology to be employed in the study including sources and method of data collection, population and sample size, data analysis and profile of the jurisdiction from which the study will be conducted. Chapter four discusses the result from the data analysis. Finally, chapter five highlights the summary of main research findings and suggests possible policy implications for the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

Taxation in Ghana has come a long way since its introduction in 1943. The country has relied imperatively on taxation as the major source of developmental revenue. In this regard, successive governments have instituted various tax administrations to manage and enhance the compliance of the firms operating in the real sector to the tax regime of the country. Notwithstanding, the concept of taxation is very broad and hence its issues need critical understanding. Therefore, this chapter reviews the numerous theoretical and empirical literatures on tax compliance on small and medium enterprises in Ghana.

2.1 THEORETICAL FRAMEWORK FOR TAX COMPLIANCE

Various theories have been formulated to assess tax non-compliance. However, these concepts are grouped under two classes' including economic and psychology. These are primarily based on the fact that assuming that payment is motivated by incentives. While some are of the opinion that, ensuring compliance entails increasing incentives, others advocate for increase in sanctions or punishments (Feld & Frey, 2010).

2.1.2 Economic Based Theories

This theory classifies taxpayers into two categories. That is, the habitual compliers—taxpayers who report their incomes truthfully regardless of their pecuniary interest (Inasius, 2019) and secondly, taxpayers who act strategically, that is, they examine their incentive carefully and act accordingly to maximize their expected utility, given the

probability of audit associated with the income they choose to report (Atawodi & Ojeka, 2012). The economic-based theory explains that taxpayers are unethical and would always want to maximize their expected utility by “playing the audit lottery”. They are manipulated by monetary benefits such as enhancing their profit and explore the likelihood of detection. As such they analyze alternative compliance paths (whether or not to evade tax), the possibility of being detected, and the resulting consequences. They then select the alternative path that maximizes their expected after-tax returns after adjusting for risk (Ayee, 2017).

2.1.3 The social psychological theory

The social psychology theory which is in contrast with the first two theories holds the view that, in evaluating the citizen’s tax compliance behaviour, one must start answering the question: how is the taxpayer viewing or considering the state in mind? (Wadesango, Mutema, Mhaka & Wadesango, 2018). According to this theory, the way people think concerning the occurrences in society influences their way of values, reaction, interaction, behaviour, and attitude rather than the truth and realism towards tax compliance (Lewis, 1978). Meaning that the impression people get in mind when issues concerning tax policies and regulations are mentioned is made up of the social-psychological determinant of tax compliance behaviour (Lewis, 1978; Wadesango et al., 2018). The theory also posits that the taxpayer’s propensity to react favourably or otherwise to a tax situation depends largely on his attitude, moral and ethical values as influential factors (Ajzen, 2011; Lee, 2017). Also, it clear that there are various ways an individual’s attitude can be measured concerning taxation. That is, the individual’s way of judging the state and the government policies, his prejudiced appraisal of the tax

evasion, and then concludes with a moral and ethical attitude towards tax evasion (Lederman, 2013). Loo and Ho (2015) observed that personal norms are seen as the interior and typical way of behaviour such as unselfishness, norm-dependency, or religious beliefs which is generally associated with high tax ethics and readiness to obey or conform. Generally, this theory believes that noncompliance will be high if individuals get the information or clue that, justices are tempered with mercy when people evade tax (Cullis & Lewis, 2017).

From the perspective of the psychological theorist, the influence for tax compliance or non-compliance stems from a host of psychological factors. These theories makes the morals and the ethics of taxpayers issues worth consideration. According to the proponents of this theory a taxpayer will comply with the demands associated with paying taxes whether there are avenues of evading taxes. This phenomenon was noted to be based on the moral obligations that are supposed to fulfill their tax obligation. Comparing this to that of the economic theorists, this theory does not talk of increasing penalties and sanctions or incentives. The final decision in this theory rests with the individual who decides based on psychological grounds whether to comply or evade taxes (Pratt & Zeckhauser, 2016).

2.2 TAX COMPLIANCE

The concept of tax compliance denotes how the taxpayers accommodate rules and regulations bordering the tax system in a country. Although the concept of tax compliance connotes different viewpoints, Prior studies postulates that tax compliance involves the willingness of taxable entities to act in line with tax laws and administration without coercion (James & Alley, 2014). Palil and Mustapha (2011)

observed that compliance is the reporting and payment of all incomes in line with tax laws, regulations and court judgments. Singh (2013) also argues tax compliance to be the process of satisfying the tax system by declaring accurately taxable income as well as disbursing taxes within the given time frame without any follow-up actions from the authority. On the other hand, tax avoidance occurs when a taxpayer arranges his or her tax affairs in such a way as to take advantage of weakness or ambiguity in the tax law to reduce his or her tax liabilities, without really breaking the law.

Research has identified numerous factors that influence taxpayers' compliance. Accordingly, Richardson and Sawyer (2011) noted the existence of two major theories that underpin taxpayers' compliance behaviour. These they examine to be economic and psychological. The economic theory emphasizes on incentives that motivate the taxpayer to comply with tax administrators whilst the psychology-based theory connotes attitudinal behaviours associated with compliance. Although, literature provide empirical evidence on behavioural factors that influence tax compliance, scholarly articles including Kirchler (2017) and Devos (2010) reveal that aside economic and psychological factors, social factors also pose significant problems on the way taxpayers assimilate tax reforms as well as its compliance in a country. Hence to resolve the concomitant issues associated with tax noncompliance, Kirchler (2017) illustrates that it is imperative to put into consideration major factors that influence individuals' behaviour towards their decisions to comply with tax laws. For instance, Evans (2013) examine cases where there are sanctions to tax evasions, taxpayers readily comply without coercion from tax administrators.

Further findings from Allingham and Sandmo (2012) suggest that noncompliance on the side of taxpayers' mostly emanates from their belief that tax auditing of their activities will lead to disclosure of misappropriations which will cause an imposition of severe legal penalties. Although levies imposed generally are convenient means of meeting governments' costs, taxpayers' however, opinions appear contrary to this notion, hence, the increase in non-compliance to tax laws in developing countries (Coskun & Savasan, 2009). This has generated huge global worries for officials and decision makers since evasion remains a threat to governments' ability to raise needed revenue for infrastructural development (Terkper, 2017).

2.3 THE DEFINITION AND CONCEPT OF TAXATION

Taxation as seen in empirical literature connotes different meanings, however, most jurists and academicians including D'Ascenzo (2014) specifically, define tax as a "compulsory levy paid to the state or local authorities on property and business activities". Lymer and Hasseldine (2012) concurrently examine tax as a compulsory levy, imposed by government on income, expenditure or capital assets for which the citizen receives specifically nothing in return. Accordingly, Abdallah (2016) assesses taxation as a "sovereign right of the state used to transfer resources from private to public use in order to achieve the economic and political goals of society". In line with Abdallah's assertion, Poutziouris, Chittenden and Michaelas (2011) examine taxation as an obligatory levy contributed by individuals, institutions or groups to the government. Therefore, it can be deduced that tax is a compulsory levy that an individual pays to

the state to enable the government undertake productive activities in the form of public goods and services (Abdallah, 2016).

Thus, the aim behind the institution of tax clarifies the earnestness of the government to attain enough revenue, the purpose to which it will be put, as well as the appropriateness of the collection mechanism of the taxes. Thus, the collection of taxes addresses the basic policy perspective that upholds the government aim to accomplish its social and economic objectives to the benefit of its citizens. The goals are comparable to those of other government policy initiatives in developing countries and significantly overlap the fundamental purposes of most governments.

Prior studies argue that taxation in developing economies are imperative due to its relation to societal consciousness, improve growth and redistribute incomes (Edgar & Sandler, 2015). Consequently, Edgar and Sandler posit the objectives of taxation to encompass financing of government expenditure, promotion of savings and investment, directing investment into desirable activities as well as subjugating the problem of externalities and income inequality. Hence, taxation is viewed as a powerful policy instrument that serves dual role of transferring resource from private sector to the public sector for application as well as induce the private sector to operate in conformity to planned objectives of the state (Islam, 2011). Over the last three decades however, most tax proponents have focused on ways small firms within the private sector could be induced to comply with tax reforms and administration to help meet government revenue target while minimizing the associated cost created by the tax system (Nsor-Ambala, 2010; Agyeman, 2015; Hyman, 2015).

2.3.1 Types of Taxes

Prior studies including Melville (2015) denote taxes under direct and indirect taxes. However, direct taxes, according to Melville (2015) are levies deducted or paid directly to the tax authority on income, profit and capital gains. The main focus of direct taxes includes taxes on income, capital gains and gifts. Indirect taxes, on the other hand, are taxes made on expenditures (i.e. charged on purchases made by individuals). It was further noted that tax liabilities are to be credited to the authorities. Indirect taxes include value added tax (VAT), custom duties and excise duties levied on alcohol, tobacco and petrol. Consequently, the disparities between direct and indirect tax is that whilst the indirect taxes are levied on goods and services that of direct taxes are levied on income and earnings.

2.3.2 Principles of Taxation

In the "*Wealth of nations*" (1776), Adam Smith postulated that there exists four effective principles of taxation, he noted to include equity, economy, convenience and certainty. A good tax system is one that incorporates an appropriate set of principles. The tax is to differentiate between the interest of both the payee and the payer. However, the principles, based on the idea that precedents of taxation are only effective and efficient if voluntary compliance is encouraged rather than forceful adherence (Ali-Nakyea, 2015).

2.3.3 Equity

The principle of equity in taxation aims to accord both economic and social justice to the citizens. Accordingly, the principle recommends that taxation should depend on the abilities of the payee as well as proportional to the income earned from their

respective economic activities (Ali-Nakyea, 2015). Hyman (2015) also argues that widespread tax evasion experienced in developing economies is as a result of the unjustness of the tax system. This is seen as the outcome of an improper system and not the fault of the taxpayers.

2.3.4 Certainty

This principle emphasizes a tax system without ambiguities as well as the case where tax officials do not coerce taxpayers through discretionary powers to demand more than necessary from the taxpayer. Thus, this principle illustrates that the amount the individual taxpayer is required to pay must be certain and not arbitrary. Also, the taxpayer should envisage the amount in advance including the time he has to make the payment of the tax. Furthermore, taxpayers are encouraged to understand their liability and how their taxes should be paid through the appropriate authority. Also, AliNakyea (2015) examines that, all responsibilities in line with tax regulations are to be communicated to the authorities and the taxpayer.

2.3.5 Convenience

Here, the mode as well as payment should be to the convenience of the taxpayer. This will motivate as well as enhance the effectiveness at which taxpayers execute their obligations. The process of collection should not inconvenience the taxpayers. However, Hyman (2015) examines that the Pay-As-You-Earn (PAYE) system of tax collection is a convenient method of tax collection where there are no cumbersome processes of collecting tax.

2.3.6 Economy

The principle postulates that economy must exist in the administration of the tax, i.e. the tax should not increase the cost factor of its collection. This will not yield any purpose if the levy is difficult to administer hence the likelihood of the cost of administration being higher than the revenue that can be generated from the tax administration. Despite this, Hyman (2015) argues that the efficiency of a tax system encompasses the cost component incurred by tax authorities in the administration and retrieval of the levies from the payer as well as compliance costs on the part of the payer.

2.4 DETERMINANTS OF TAX COMPLIANCE

Various factors have been deemed to influence tax compliance however, factors well noted to influence the trend in compliance as noted by Mohani (2011) and Berhane (2011) include tax knowledge, ethics and attitudes towards tax compliance, awareness of offences and penalties, and tax education.

2.4.1 Tax knowledge

Accordingly, Berhane (2011) examines that tax related issues recount an individual or entities capability to comprehend taxation regulations and their readiness to oblige. However, the fundamental aspect of knowledge that communicates to amenableness is the general empathy about taxation procedures and information relating to the opportunity to evade tax. Taxation knowledge is therefore imperative to raise public awareness especially on taxation laws and its importance for national development (Acheampong, Debrah, & Yeboah, 2016). Also, it is important that taxpayers are

exposed to tax issues to aid the effectiveness of tax laws and reforms in developing countries through seminars, dialogue sessions, and workshops that will foster tax compliance issues (Carsamer & Abbam, 2020).

2.4.2 Tax Reliefs and Incentives

Generally, the tax reliefs and incentives are provided by the government to relief and motivate small businesses in their compliance to taxation. For instance, tax reliefs in the form of child education, old age are provided by the tax system. Most reliefs may take the form of individual or entity grants that lessen the tax burden of the SMEs. Three main categories of tax relief are normally applied and these include; personal reliefs which are normally awarded to achieve certain specific conditions of the law (Carsamer & Abbam, 2020).

- 1) The personal Reliefs are granted to individuals who satisfy one or more conditions as stated by the law such as marriage, child education, disability and aged reliefs. However, reliefs on aged dependant individuals undergoing training and life insurance are reliefs granted by the law upon filing of tax returns.
- 2) Reliefs from double taxation on the other hand take the form of foreign tax reliefs or takes reliefs emanating payments made outside the country of resident. This relief is both enjoyed by self-employed persons and entities in the country.
- 3) Roll over relief: here, both individuals and entities benefit as a results of disposing of an asset or property to another person or entity. The asset must be a business property with depreciable qualities.

2.4.3 Ethics and attitudes toward tax compliance

Here, the ethical nature of the system is imperative if the tax system is based largely on voluntary compliance (Song & Yarbrough, 2011). Ethics are idiosyncratic and the level education heavily influences the individual's perception and opinions as well as behaviour to comply. It is assumed that ethics inspire persons to perform accordingly since the society may frown on things such as tax evasion. However, Ajzen (2011) examines that the intention to evade tax system may inadvertently encourage a taxpayer to behave negatively toward taxation and thus attempt to under-report income. On the other hand, attitudinal behaviours towards the tax authorities are also important since these attitudes generally emanate from certain perceptions behind the use of the tax money (Song & Yarbrough, 2011).

Yunianti, Putri, Sudibyo and Rafinda (2019) conducted a survey in Germany which indicated that almost fifty percent of the respondents committed tax evasion offence. Ironically, only one-third perceived the tax evaders as criminals. This means that the ethics of taxation were low. Okpeyo et al., (2019) found that there was a significant but weak relationship between tax evasion and ethics. Earlier, Ibrahim, Musah, & Abdul-Hanan (2015) concluded that ethics, attitudes and moral beliefs impacted upon tax compliance behaviour. Carsamer and Abbam (2020) state that there is a positive relationship between attitudes and tax compliance. Ethics are subjective and the level of one's ethical behaviour is heavily reliant on how people perceive the behaviour being considered (Carsamer & Abbam, 2020).

2.4.4 Awareness of offences and penalties

Compliance in tax administration can be overcome using education as a means of influencing the taxpayer's judgment of his or her social responsibility to pay the tax. There are greater gains in assisting compliant taxpayers meet their fiscal obligations rather than spending more resources pursuing the minority of non-compliers. Assisting tax payers through information symmetry increases the taxpayers' potential to comply than being coerced (Berhane, 2011). Allingham and Sandmo (2012) conclude that penalties as well as audit probability have direct effect on tax compliance, suggesting that the higher the penalty as well as audit probability the greater discouragement for potential tax evasion.

Furthermore, researches of (Adhiambo & Theuri, 2019; Bernard, Memba, & Oluoch, 2018; Savitri & Musfialdy, 2016; Kamil, 2015) explain that taxpayer awareness influences taxpayer compliance. Awareness of taxpayers is that taxpayers know the procedures for implementing tax provisions correctly. If the taxpayer is aware of the importance of taxes and the procedures for implementation taxation, it can increase tax compliance (Kamil, 2015). In this study, the taxpayer awareness variable is explained in the attribution theory as an internal factor because before individuals do something, the individual will have confidence in the results that will be obtained. Then, the person will decide whether to do it or not.

Researches by (Erani & Meiliana, 2016; Siamena, Sabijono, & Warongan, 2017; Siregar, 2017) show that tax penalties in the form of fines affect taxpayer compliance. It is because of the realization of respondents that tax is a source of state revenue in financing state needs up to public facilities and infrastructure, in which it has increased the level of

tax compliance in financing the state. Therefore, if the imposition of tax penalties is executed regularly and in an orderly manner, tax penalties will increase the compliance of the corporate taxpayers themselves. In this case, attribution theory is related to tax penalties, because the behavior is caused externally, or behavior that is influenced from outside. Thus, the tax penalties in the form of fines have an important role in providing lessons for those who violate taxation rules and taxpayers will comply with taxes if the sanction is more inflicting the financial loss.

2.4.5 Tax Education

As noted, greater tax education improves the extent of taxpayer's compliance. Taxpayers with higher levels of education are seen to be more mindful of their obligation as well as the sanctions to be imposed if they go contrary to the laws. Education has become more important in the quest for increasing tax compliance across countries. One of such measures, according to Mohani (2011), includes the assurance that payees have a certain level of qualifications, ability and confidence to exercise their tax responsibility. Loo and Ho (2015) further note that taxpayers must be invariably competent to comprehend the income tax law and the administrative procedures, given the complexities, uncertainties and ambiguities of the tax law, rules and administrative procedures. Hence, individuals who are less inclined to tax systems may either be under-paying or overpaying taxes. As well, the revenue authority has to provide adequate resources to meet the needs of enhancing taxpayer functional literacy elements in terms of skills and knowledge required to deal with tax matters.

Ahmed and Braithwaite (2015) reveal that small business taxpayers in one or two cases admitted to having lower levels of competence and independence in dealing with tax

matters, and this has forced many of them to have tax agents who are creative and knowledgeable about aggressive tax planning. Contrary, Bertolini, Borgia and Siegel (2010), also conclude that small and medium enterprises are constrained by resources and cannot afford the services of the tax agents who are expensive hence, their failure for compliance is the resultant of lack of expertise and knowledge about the tax laws and procedures (Ayoki, Obwama & Ogwapus, 2015).

2.5 TAX COMPLIANCE AND SMALL BUSINESSES

Empirical studies such as Loo and Ho (2015) assert that tax administrators can realise high compliance from small business when taxpayer's liability including compliance cost are correctly accounted for. They further note that taxpayers must be invariably competent to comprehend the income tax law and the administrative procedures, given the complexities, uncertainties and ambiguities of the tax law, rules and administrative procedures. Hence, individuals who are less inclined to tax systems may either be under-paying or overpaying taxes. As well, the revenue authority has to provide adequate resources to meet the needs of enhancing taxpayer functional literacy elements in terms of skills and knowledge required to deal with tax matters. However, tax administrations in developing and transitional countries are generally severely constrained in terms of resources and skills, hence likelihood of going after larger firms already in the tax net, where the potential tax revenue payback may be higher, instead of the less lucrative small and medium taxpayers who are largely outside that net (Bird & Wallace, 2013).

This said, Pope and Abdul-Jabbar (2010) also argue that aspects like high compliance costs associated with taxes may lead to Small businesses avoiding taxes. Also, further

evidence suggests that costs associated with tax compliance invariably leads to evasion and fraud; this may restrain investment opportunities through diminishing competitiveness. However, James and Alley (2014), relates tax non-compliance to tax gap. They note that inaccurate presentation of firm revenue and expenses to achieve the correct income, not following the right procedures for filing returns and not filing returns at the appropriate time in accordance with applicable statute and court decisions at the period of filing leads to loss of tax revenue.

Several reasons have been identified to account for income tax non-compliance. For instance, Jackson and Milliron (2016), Richardson and Sawyer (2011), Tan and Sawyer (2013) postulate that factors including complexity of tax system, peer influence, income levels and weak enforcement of tax laws can cause non-compliance. Though sanctions have been and continue to serve as a major panacea to tax non-compliance, some researchers strongly think that dialogue and cooperation would result in much improved compliance to tax laws (Tan & Sawyer, 2003; Chau & Leung, 2009).

2.6 SANCTIONS AND TAX COMPLIANCE

Prior studies such as Beccaria (2012), Milne (2017) and Becker (2016) are credited with the measures to tax non-compliance. These studies examined the economic implications of sanction on unacceptable behaviour in the society. They noted that rational individual weigh his actions and inactions before proceeding. However, they argue that so far as the consequence of not paying tax does not outweigh the benefits associated with its payment, tax non-compliance is criminal hence must be treated

with criminal sanctions. This empirical study was refined by Allingham and Sando (2012) in the economics of crime as a solution to tax non-compliance.

Studies by (Erani & Meiliana, 2016; Siamena, Sabijono, & Warongan, 2017; Siregar, 2017) show that tax penalties in the form of fines affect taxpayer compliance. It is because of the realization of respondents that tax is a source of state revenue in financing state needs up to public facilities and infrastructure, in which it has increased the level of tax compliance in financing the state. Therefore, if the imposition of tax penalties is executed regularly and in an orderly manner, tax penalties will increase the compliance of the corporate taxpayers themselves. In this case, attribution theory is related to tax penalties, because the behavior is caused externally, or behavior that is influenced from outside. Thus, the tax penalties in the form of fines have an important role in providing lessons for those who violate taxation rules and taxpayers will comply with taxes if the sanction is more inflicting the financial loss.

Wenzel (2014) identified a positive relationship between the severity of sanctions and the level of tax compliance. Emphatically, his empirical results have underpinned the basis of tax policies and procedures in most developing economies for which Ghana is no exception. For instance, Ghana's income tax acts, Act 592, section 141 to 153 suggest some acts that account to non-compliance behaviour with their corresponding sanctions. The sanctions are mostly associated with monetary or financial fines and various levels of prison sentences. Another sanction that the GRA (specifically IRS) gives out to people as a result of non-compliance is distress action. In this regard, the property or assets of those who refuse to pay their taxes are confiscated. In some instances these assets or properties are sold off to people who need them to defray the

indebtedness. Consequently, Murphy (2014) and Fehr and Rokenbach (2014) also reveal that instead of deterring non – compliance, sanctions rather can deepen the extent of non- compliance. Buttressing this argument, Tittle and Logan (2013) also acknowledge that sanctions do not guarantee that taxpayers will fulfill their tax obligation (Devos, 2015; Braithwaite, 2013).

2.7 CHALLENGES OF TAX ADMINISTRATION

Accordingly, Bird (2013) examines that though, obligatory laws are enforced on taxpayers to pay their quota to the national revenues schemes, and the quantum of revenues that will get to the government hinges on the attractiveness and effectiveness of the tax processes. Consequently, the leakages eminent in the revenue collection may lead to insufficient revenue collections. However, Kangaye (2015) posits that illiteracy; lack of logistics and reliable data to match the tax paying firms in the private sector of most developing economies makes it difficult in bringing to bear individuals and firms into the tax brackets.

Until recently, Tanzi and Zee (2010) note that inadequate resources to sustain and facilitate the operation of tax administration have constrained the process due to the increase in the size of the private sector of emerging economies. Resources for directing tax related issues are categorized into two including the human as well as the physical aspects. The human aspect, in line with prior studies, constitutes the quality and number of tax officials employed in the administration. Contrarily, the physical aspect of the resources is noted to encompass a wider range of resources including office buildings and office equipment as well as vehicles and communication systems for the

tax processes. As noted, these physical resources necessitate the activities of the human resources to ensure the highest level of obligation on the side of the law. As a result of financial difficulties, tax institutions lack essential concepts including the accounting principles to facilitate and analyze tax related proceeds hence worsening the non-compliance level. Most education and training of these officials are lacking in terms of modern technology principles to facilitate speed of processing.

The Ghana Revenue Authority until recently, have mainly depended on manual mode of capturing taxpayers relevant information through bookkeeping. However, the Ghana Statistical Service (2010), reveal that on a regional basis about 51.5 percent of the adult inhabitants are illiterate. This illiteracy, they noted, influence tax processes since they are unable to file tax returns as well as account for their income sources and expenditures adequately to the tax authorities (Bird, 2013). Tettey (2017) affirms that the institution of modern processes including information technology facilities for the tax officials resulted in mixed results since the facilities still employ the old and ineffective system of capturing information. However, the Internal Revenue Service had no proper databases for taxable persons, property or other possessions rendering it very difficult to mobilize taxes outside the formal sector.

According to Gray et al. (2011), a DFID-funded report revealed that though most employees of the VAT authorities have undergone some amount of training relevant for their positions, temporary inadequacies in terms of supervisory staff persists hence, rendering the field officers to operate with unskilled management capacity. Though difficult to recruit and retain professionals, this situation has broken the pace of effectiveness of technical support needed by the administration. A report by the GRA

Commissioner General (Sept, 2011) highlighted challenges faced by its implementation such as; conditionality associated with depository participants (DPs) support causing delays in release of funds; stringent procurement rules causing delay in project implementation by partner nations; disagreements among DPs on which project to support resulting in inefficient harmonization of projects and delay. Further evidence revealed that consolidation of the activities of the revenue authorities under one umbrella could lessen the burden of under-resourcing as the role of the revenue authorities must be well defined. Reforms require long term adjustment hence their ultimate implication on the stakeholders is very necessary since developing economies are to restructure their tax proceedings.

Notwithstanding, sincerity of payees in terms of their obligation has been questioned since it becomes very difficult to track down the accuracy of the information provided. This has since resulted in much reformation of the agencies (Rossotti, 2015). Further evidence from prior studies show that in spite of positive results, progress over the two decades in tax administration in developing countries have come with mixed results since revenue mobilization as a ratio of the national income still remain below the expectation hence has render most African countries to depend on supports and grants to support their budgetary allocations. Though, reforms have been serially conducted in some countries its outcome is yet to be envisaged (Kloeden, 2011).

In line with Kloeden (2011) arguments, most mobilization initiatives are linked to improving the proportion of tax to national income ratio as well as achieving development goals. These findings revealed that insufficient revenue mobilization influences the ability to improve welfare of the people negatively (Zaney, 2012).

Accordingly, Rossoti (2015) argues that on ethical and psychological grounds that revenue collection is important to enhance, improve and sustain welfare, growth and development of the economy.

Evan (2013) further reinforces the argument by concluding that cases where the institutions are obligated by law to mobilize levies, improper information as well as location of payee lead to low revenue to GDP. The Internal Revenue Service for instance is obligated to reconcile payees' financial records as well as meet necessary sanction where the payee's records do not meet the necessary requirements. Terkper (2017) examined that tax institutions in the United State tasked to scrutinize taxpayers' reports could not reconcile the amount of money collected each year.

Evans (2013), reiterated that such situations erode the potential for revenue mobilization and distort their impact on the efficiency of resource allocation and incentive for growth. These characteristics may encompass an excessive number of multiple nominal tariff rates, significant dispersion in the rates of effective protection and numerous exemptions. The obvious suggest that multiple incidence results in low revenue collection cases in developing countries. In line with Steenekamp (2012) deficiencies in tax policies and too many exemption avenues leads to problems of evasion hence breeds rent-seeking activities amongst irresponsible officials.

2.8 THE GHANA REVENUE AUTHORITY

The Ghana Revenue Authority (GRA) is a statutory public organization charged with the administration and mobilization of tax revenue for the state including Value Added Tax, Income Tax, Custom and Excise duties, and Communication Service Tax among

others. The Authority was established in the year 2009 under the Ghana Revenue Authority Act (Act 791). It is an amalgamation of the three revenue agencies namely Value Added Tax Service, Custom Excise and Preventive Service, and Internal Revenue Service. Prior to the setting up of the GRA, major strategies to restructure the tax collection institutions began in 1986 from which CEPS and IRS were absorbed and made autonomous of the Civil Service. In 1986, the National Revenue Secretariat (NRS) was established to oversee revenue implementation policies and supervise the activities of the tax agencies in the country. However, the VAT Service was formalized to oversee taxes including consumption taxes in 1998.

However, in 2011, the board formally started the supervision of the Revenue Agencies using the Taxpayer Identification Number to facilitate smooth exchange of information profiling of small and medium enterprises. Also, the Large Taxpayer Unit (LTU) came into operation in 2004 to survey on the possibility of amalgamation of tax administration. This further served as fertile grounds to assess how the agencies could internalize cost in the tax regime practiced in the country. In 2009, final preparations were made to merge the agencies to form one revenue authority in line with the current trends the world over. The structure drawn for the tax agency was to ensure the maximum efficiency in revenue mobilization from the merger process. According to Danquah, taxation in itself has been to appraising revenue to finance the cost of services provision. Compulsory nature of compliance cannot be guaranteed to be smooth amongst the small businesses operating in the private sector. Steenekamp (2012) argues that there is the need for tax collectors to be efficient enough to not compromise for personal gains.

2.9 TAX ADMINISTRATION IN GHANA

In Ghana, there are three main agencies responsible for the administration of taxes. They are jointly known as Ghana Revenue Authority (GRA). It comprises the Internal Revenues Service (IRS), The Customs Excise and Preventive Service (CEPS) and the Value Added Tax Service (VAT). The IRS is responsible for the assessment and collection of direct taxes on income, capital and gifts. CEPS, is also obligated to assess and mobilize indirect taxes such as excise duty, import and export duty. Lastly, VAT is also responsible for the assessment and collection of value added taxes. In Ghana, there are four main methods of assessing and collecting taxes from an eligible taxpayer as identified by Act 592.

The methods of tax assessment are Provisional assessment, Additional assessment, Self-assessment and Final Assessment (Nsor-Ambala, 2010). Nsor-Ambala (2010), defined assessment as a measurement or determination of a person's liability based on the information available, using sound commercial accounting principles, established principles of taxation and methods often prescribed by Act 592. William also defined assessment as the process of Internal Revenue Service fixing the size of liability. Hyman (2015), noted that assessment is the valuation of taxable wealth by government authorities.

The definition given by Nsor-Ambala (2010) is precise and gives an idea of the processes by which tax assessment is being done. However, Nsor-Ambala (2010) infers on the justification revolving adoption of tax regimes to suit private sector business. The ensuing issue looks at the primary costs of fulfilling tax and other regulatory burdens as they inexplicably fall on businesses with less expertise and time to deal

with multiple changing rules. Thus, Nsor-Ambala concludes that special tax provisions including optimistic allowances that offer a lower rate of taxation, an exemption or an accelerated deduction; and relieving tax reductions that excuse the taxpayer from requirements can be provided to enhance compliance as measure to tax fraud and evasion in developing economies.

To facilitate the smooth process of the tax administration, the GRA employs Tax Identification Number (TIN) that enables it to accurately classify payees. Each payee holds a unique number that mandates the user in his correspondence with the authority. Ghana's income tax act offers the payee a self-assessment opportunity on all liabilities (Bernard et al., 2018). Here, the laws confer on all limited liability firms, the self-assessment processes. Outside this process, all other payees are by law required to file their returns with necessary documents to the authorities for further review. After the receipt of the necessary documentations, the officials scrutinise the information to make the necessary informed decision of the chargeable incomes due. At the end of each accounting year, the businesses are obligated to provide their returns within three months. The filed documents should hold the necessary particulars including the TIN number of the business.

The tax auditors to determine the efficacy of the submitted documents to ward off any penalty examine the accuracy of the receiving returns. After this process, the assessment number is allocated and issued for payment. Payment of taxes is made on the authorisation of the tax auditors through Bank Payment Advice Form. Disbursements are either made through a bank or at the premises of the tax authorities. The consistency of the information is done through critical examinations of the tax audit. GRA's auditing

staff is made up of the simple field and desk audits to comprehensive audit staff. The authority employs an audit principle, which is not predetermined; hence issues for audit depend on the compliance records of the taxpayers, the quality of taxpayers' returns, and the size of the taxpayer (Ayee, 2017). Others including the field and desk audits are performed on a yearly basis to facilitate the smooth process of the examination from the private sector especially reaching the small businesses.

2.10 TAX COMPLIANCE AND SMES

In spite of assertions stipulating that the tax system and its associated compliance requirements are a stumbling block to the growth of small businesses in developing economies (Abrie & Doussy, 2016; Retief, 2011), research into tax compliance issues have remained inconclusive in the case of developing economies. For instance, most of these studies have focused on economic factors (Allingham & Sandmo, 2012; Alm & McKee, 2011; Tran-Nam, 2013); psychological and social factors (Cullis & Lewis, 2010); social norms (Lederman, 2013; Wenzel, 2015); and demographic factors (Birch, Peters & Sawyer, 2013; Loo & McKerchar, 2011; Trivedi & Shehata, 2015). However, gaps still remain for the apparent leakage in the tax system. Thus, how small businesses manage to avoid taxation and the deficiency in mapping out strategies in developing countries especially Ghana. The underlying difficulties that tax administrators' encounter with tax compliance in the informal sector have been attributed to two main challenges. Ayee (2017) reveals that the predominant use of cash in most business transactions aids most of the informal sector business to conceal or manipulate their taxable profits to avoid taxation. Secondly, he argued that businessmen and women in the informal

sector are indifferent to proper record keeping; a requisite for effective tax administration hence hinders the tax administrators' effort to assess tax from the small businesses.

Lignier and Evans (2012) using cross-country data through a web-based questionnaire in 2010 show that the average cost of complying with all taxes during the income tax year was around \$28,000, representing a significant increase in real dollar terms, and in relative terms. However, further evidence from their study revealed that tax obligations were a very important reason for keeping accounting records, information from these records was also used for internal management and internal reporting purposes. A majority of respondent's to the survey believed that keeping tax records might have some benefits for their business as it was an incentive to maintain a computerised accounting system producing high quality accounting information. However, the findings revealed that respondents seemed to be unaware of the eligibility rules for the various concessions, which could explain the low take-up rates. This apparent indifference was compounded by a perception that most small business tax concessions were too complex and not worth the effort.

Using a baseline approach through electronic survey, Smulders, Stiglingh, Franzsen and Fletcher (2012) evaluate and compare the tax compliance costs affecting the small business sector in South Africa. Their findings revealed that tax compliance costs as well as core accounting costs are regressive with respect to business size, with the compliance burden being heavier for smaller businesses. However, the study concluded that the perception concerning the existence of managerial benefits were consequently established for the first time. Overall, small business tax concessions were perceived as

being more complex than useful. A reevaluation of these concessions or the introduction of a truly simplified tax system for small businesses is considered desirable.

In assessing the suitability and effectiveness of addressing compensation claims of business taxpayers, Bevacqua (2013) reveals that there are no broadly applicable judicial avenues of relief with any realistic prospects for recovery available to assist Australian business taxpayers. However, the study further shows that unlike other taxpayers, Australian business taxpayers often will have no appropriate, broadly applicable avenue for recovering compensation for tax official wrongs hence recommended for clarity and certainty to entitlements to compensation and reliefs for loss caused by the wrongs of tax officials. Simon (2012) examines the riskiness for tax non-compliance. Using a theoretical approach based, some assumptions of mainstream economics reveal that deviations from the standard model including the endowment effect, framing of decisions, limited attention, loss aversion and mental accounting have influenced the operation of the tax system in most developing economies.

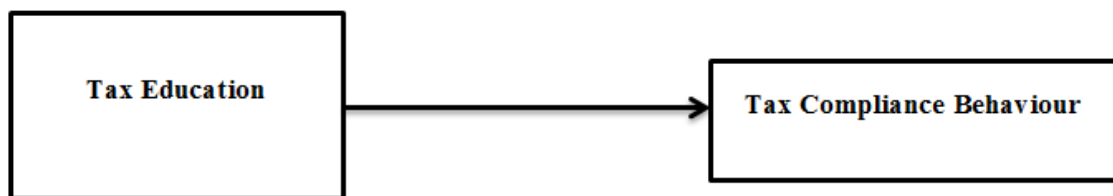
In investigating the factors that influence business taxpayers' decision on whether to report income and deductions, JoAnne, Neil and Charmine (2012) use the theory of planned behaviour based on Ajzen and Fishbein's model of reasoned action approach. Their findings reveal that intention to comply is not always a strong predictor of compliance behaviour. The majority of taxpayers, who wanted to comply, failed. As complexity and difficulty in performance increases, additional factors are required to predict compliance, such as awareness of the rules. Complexity also reduces the predictability of behaviour. Behaviour prediction can be enhanced by quantifying environmental complexity, providing performance support, and eliminating potential

obstacles. Intention can only be leveraged for compliance strategies when the tax system creates the optimal environment for taxpayers to successfully comply.

2.11 CONCEPTUAL FRAMEWORK

The conceptual framework shows the linkage between major variables of the study. The model is shown below;

Figure 4.1 Conceptual Model



(Source: Field Data, 2020)

The framework shows the relationship between tax education representing the independent variable and tax compliance behaviour representing the dependent variable. The model explains how tax education on the part of SMEs can improve their knowledge on the tax system and regime leading to improved level of tax compliance and alteration in compliance behaviour. This is supported by indications from a significant number of authors such as Lee (2017), who claimed that greater education improves the extent of taxpayer's compliance. Taxpayers with higher levels of education are seen to be more mindful of their obligation as well as the sanctions to be imposed if they go contrary to the laws. Education has become more important in the quest for increasing tax compliance across countries. One of such measures, according to Mohani (2011) includes the assurance that payees have a certain level of qualifications, ability and confidence to exercise their tax responsibility. Loo and Ho (2015) further note that

taxpayers must be invariably competent to comprehend the income tax law and the administrative procedures, given the complexities, uncertainties and ambiguities of the tax law, rules and administrative procedures. Hence, individuals who are less inclined to tax systems may either be under-paying or overpaying taxes. As well, the revenue authority has to provide adequate resources to meet the needs of enhancing taxpayer functional literacy elements in terms of skills and knowledge required to deal with tax matters.



CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

The study assesses the level of tax compliance of both micro and macro-business in Ghana as a case study of Cape Coast Metropolis. The study employs mainly primary data from questionnaires designed to cover major aspects of taxation, compliance and cost to small and medium enterprises in the municipality. Specifically, this chapter of the study captures the population, sample and sampling technique, data collection process and the method of analysis. The rest of the chapter proceeds as follows: section 3.2 examines the research design, sections 3.3 and 3.4 looked at the population, sample size and sampling technique used in the study. Section 3.5 and 3.6 discusses the data collection method and reliability of the study whilst section 3.7 covers the analysis section of the study.

3.1 RESEARCH DESIGN

The researcher utilized the quantitative research method to in order to address the underlying issues inherent in tax collection and compliance in Ghana. Further, the quantitative method was utilized in order to utilize numerical information and presentation for the purpose of achieving the overall purpose of the study. Moreover, the quantitative method was utilized in order to utilize greater sample size for the purpose of generalization.

In view of this, the study utilized the descriptive survey design specifically cross sectional survey type. The cross sectional descriptive survey design was utilized on a number of reasons. Firstly, the design was used in order to obtain information from respondents who have the capacity to provide answer to the slated questions on the questionnaire. The design was used in order to obtain information from respondents within a given period of time. Moreover, any information obtained outside the time frame was not considered.

3.2 RESEARCH POPULATION

The population of the study encompasses about 2,100 owners and attendants of small businesses in the Cape Coast area obtained from database of IRA of Cape Coast. This however, includes both male and females of all ages who are in the position to provide the research team with information relevant to the topic of study. However, the target were those who have registered and operate within the major business in the metro thus cape coast metropolis representing 416 as obtained from IRA database of Cape Coast. The rationale for the choice of target was based on the following reasons (1) to obtain information from respondents whose operation are in the metropolis conform to IRA and GRA standards (2) to obtain information from respondents who understand tax education and compliance issues (3) and (4) have the capacity responds to the issues presented in the questionnaire.

3.3 SAMPLE SIZE AND SAMPLING TECHNIQUE

The study utilized the simple random sampling technique in order to give owners and attendants equal chance of being represented in the study. The study obtains the sampling frame from IRA representing 416 respondents. This technique involves obtaining

responses from specific respondents from the sample frame deemed appropriate and reliable for the study. In order to achieve this, Daniel sample size determination formula introduced in 1999 was used. This is presented below;

This calculator uses the following formula for the sample size n:

$$n = N * X / (X + N - 1),$$

Where,

$$X = Z_{\alpha/2}^2 * p * (1-p) / MOE^2,$$

- $Z_{\alpha/2}$ is the critical value of the Normal distribution at $\alpha/2$ (e.g. for a confidence level of 95%, α is 0.05 and the critical value is 1.96)
- MOE is the margin of error = 5%
- p is the sample proportion,
- N is the population size = 416

Therefore from the formula in relation to sample proportion it is realized that the sample size $n = 200$. The size supports the indication by Creswell (2013); a sample size of over 50 is highly adequate for quantitative examination. This makes statistical sense in relation to the 200 respondents utilized by the study.

3.4 SOURCES OF DATA COLLECTION

Sources of data collection look at the procedure used by the researcher to attain data relevant for the study. Thus, both primary and secondary information were used for the study.

3.4.1 Primary Data Sources

Generally, primary sources of data collection were employed through the use of questionnaires. The questionnaires contained both open and closed ended questions. The respondents were assisted in the interpretation of the questions where difficulty existed after which a week was given for collection of the responses. This method helped to reduce the inconveniences associated with unfavorable times and busy schedules of the participants. Before questionnaires were administered, they were subjected to thorough testing and amendments before they were dispatched to respondents. The researcher further structured the questions in the forms of questions to ascertain objective responses of the participants. The open-ended questions provide other relevant information not captured in the structured questionnaires administered.

3.4.2 Secondary Data Sources

Also other information on tax reforms, tax systems, tax compliance issues, tax laws, tax payers' attitudes etc were obtained from reviewed published reports from journals as well as manuscripts from Ghana Revenue Authority. Further information sources such as the university library were used to supplement the study.

3.5 VALIDITY AND RELIABILITY

Since the researcher undertook a pilot survey of the study after which changes were made to the questionnaire due to the feedback from the pilot survey. The questions are structured in line with studies conducted in different countries.

3.6 DATA ANALYSIS AND PRESENTATION

To make informed decisions on the subject, an exploratory approach to research was utilized to describe the findings of the results. Data was coded using SPSS version 20. Tables, graphs, frequencies and percentages were used to demonstrate the response obtained from respondents. Quantitative method of investigation was used for the analysis and interpretation of the study data. Descriptive statistics, t test, correlation, regression were further used to model responses of participants to find the intuition behind their perceptions and tax compliance and became the basis for analysis. The analysis was conducted in relation to the study objectives. Base on the analysis and interpretations, conclusions were drawn and policy recommendations were made as well.

3.7 ETHICS

Ethics in the study such as confidentiality, anonymity, access, betrayal, informed content were critically addressed. During the study, high ethical standards were maintained to ensure that no harm is caused to any of the participants. Steps were taken to keep information provided confidentially and anonymous. Each questionnaire had an introductory paragraph explaining to participants the purpose of the study. It also stated emphatically and assured participants of confidentiality that were upheld by the

researcher in collecting data. In addition, the names of participants were not required during the data collection and participants had the opportunity to redraw from the study at any time without any further explanation.

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CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.0 INTRODUCTION

The overarching purpose of the study was to assess the level of tax compliance amongst small and medium enterprises in the Cape Coast Metropolis. This phase of the study provides the analysis of data and presentation of results. The analysis was carried on the basis of information provided to respondents through the questionnaire as well as on the information obtained from sampled respondents. The results were also presented in consistent with study objectives. The chapter also provides a thorough discussion of the findings by considering contributions made in literature in line with the study objectives. The literature becomes the basis for either supporting or rejecting a discovery made in this study.

4.1 RATE OF RESPONSE

The study in overall, distributed 205 questionnaires to top level managers or owners of small and medium scale enterprises in Cape Coast. On the basis of the distribution, 200 questionnaires that were non-defective were identified and used. Similarly, upon data management 200 questionnaires were suitable for analysis. This shows the rate of response to be 97.6% (200/205). This rate of response shows acceptability of the data for meaningful analysis and result presentation. According to Creswell (2013), response rate of at least 70% is acceptable for data examination and interpretation.

4.2 TESTING FOR RELIABILITY

In relation to the main data obtained from the respondents of the study. The study conducted the test of internal consistency of the data. The data developed on likert scale level were the ones that were tested. Cronbach's alpha for testing the reliability was used. The researcher utilized SPSS version 20 to compute the coefficients with regards to each of the latent variables for the study. The result covered indication such as knowledge on tax obligation and compliance,

Structure of tax system, level of education, rate of taxes, behaviour of tax administrators, digital economy, attitudes of operators of SMEs, tax education and tax compliance etc. The result is shown in the table below;

Table 4. 1: Testing For Reliability

Indicators/Items	No of Questions	Alpha
Knowledge on tax obligation and compliance	12	.764*
<i>Factors Causing Non-Compliance</i>		
Structure of tax system	3	.739*
Level of education	3	.723*
Rate of taxes	3	.725*
Behaviour of tax administrators	3	.752*
Digital economy	3	.718*
Attitudes of operators of SMEs	3	.793*
Tax Education	8	.753*
Tax Compliance	8	.764*
<i>Overall Scale</i>	46	0.951**

The reliability result is shown in Table 4.1. Carolyn et al. (2015), claimed that a coefficient value obtained through Cronbach's formula should be ≥ 0.70 . This according to the author is an acceptable indicator. From the table, it is clear that all the variables employed obtained a coefficient value of above 0.7. The overall coefficient for the whole scale was 0.951 indicating an acceptable coefficient value. This therefore shows that the adopted measures were consistent.

4.4 DISTRIBUTION OF BIO DATA OF RESPONDENTS

The distribution of bio data of respondents is presented in Table 4.2. It deals with items such as gender, age, education, number of employees, nature of business, years in business, ownership type, incorporation, annual turnover and management type. The result is presented as follows;

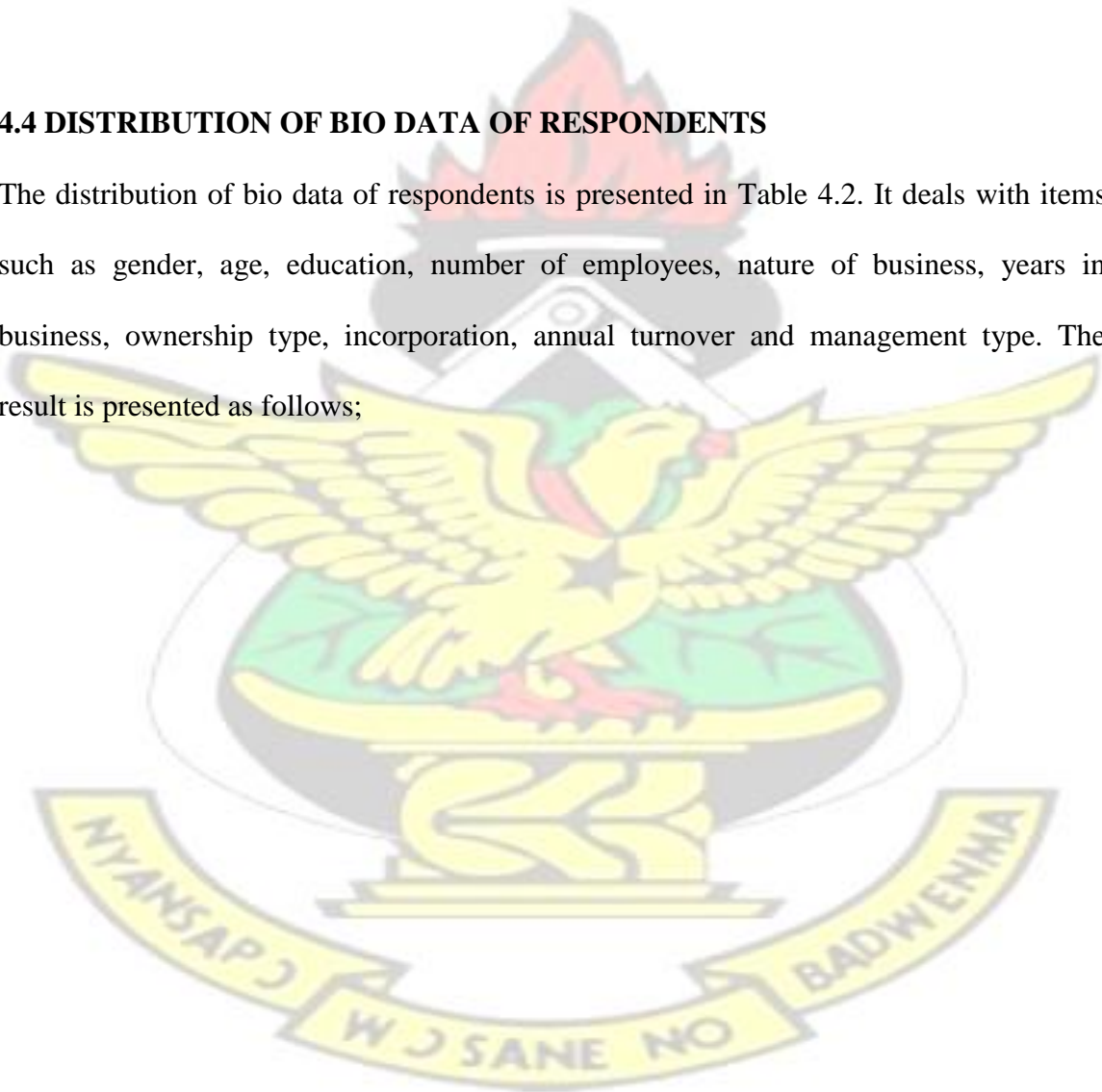


Table 4. 2: Distribution of Respondents Bio-Data

Indication		Frequency	Percent
Gender	Male	110	55.0
	Female	90	45.0
	Sub-Total	200	100.0
Age	21-30	10	5.0
	31 to 40	60	30.0
	41 to 50	100	50.0
	51-60 years	30	15.0
	Sub-Total	200	100.0
Educational Level	SHS	10	5.0
	Diploma	20	10.0
	HND	40	20.0
	Bachelor's	90	45.0
	Masters	40	20.0
	Sub-Total	200	100.0
Years in Business	1-5	-	-
	6-10	20	10.0
	10-15	60	30.0
	15-20	100	50.0
	21+	20	10.0
	Sub-Total	200	100.0
Ownership Type	Sole-proprietorship	140	70.0
	Partnership	50	25.0
	Limited Liability	10	5.0
	Sub-Total	200	100.0
No of Employees	1-50	160	80.0
	51-250	40	20.0
	Sub-Total	200	100.0
Nature of Business	Agriculture	60	30.0
	Trading	100	50.0
	Printing/secretarial	10	5.0
	Others	30	15.0
	Sub-Total	200	100.0

(Source: Field Data, 2019)

The demographic result shows 200 respondents selected for the study. Out of this, 110 (55.0%) were males whilst 90 (45.0%) were females. The result shows that half of the respondents were between 41 to 50 years representing 100 (50.0%), followed by those within 31 to 40 years representing 30% and the least represented are those 21 to 30 years representing 5%. With regards to education, the majority holds bachelor's degrees representing 45% whilst 20% have HND and master's degrees respectively. The result shows that most of the respondents have been in business for 15 to 20 years representing 50%. The ownership type has been mostly sole proprietorship. Trading dominates the business type followed by agriculture and others. Significant majority employs employees between 1 to 50 representing 80% and 20% employs those above 50.

4.5 KNOWLEDGE LEVEL OF SMES ON TAX OBLIGATIONS AND COMPLIANCE

The first objective of the study was to ascertain the level of knowledge of SMEs in Cape Coast in relation to tax obligations and compliance issues. Knowledge level of tax and obligation underscoring any tax system is very important to the country of business and the economy of any country. Knowledge level of tax obligation in any society most especially the business of SMEs has a great influence on tax collection and compliance issues. Therefore, with the crucial role of SMEs in Cape Coast, it became important that the study understand the level of knowledge or degree of knowledge of these SMEs in Cape Coast in relation to tax obligation and compliance issues. In order to achieve this objective, the study employed the descriptive statistics and t test. In addition with regards

to the open-ended questions, rank and content analysis were employed. The results are presented as follows;

Table 4. 3: Knowledge Level of SMEs on Tax Obligations/Compliance

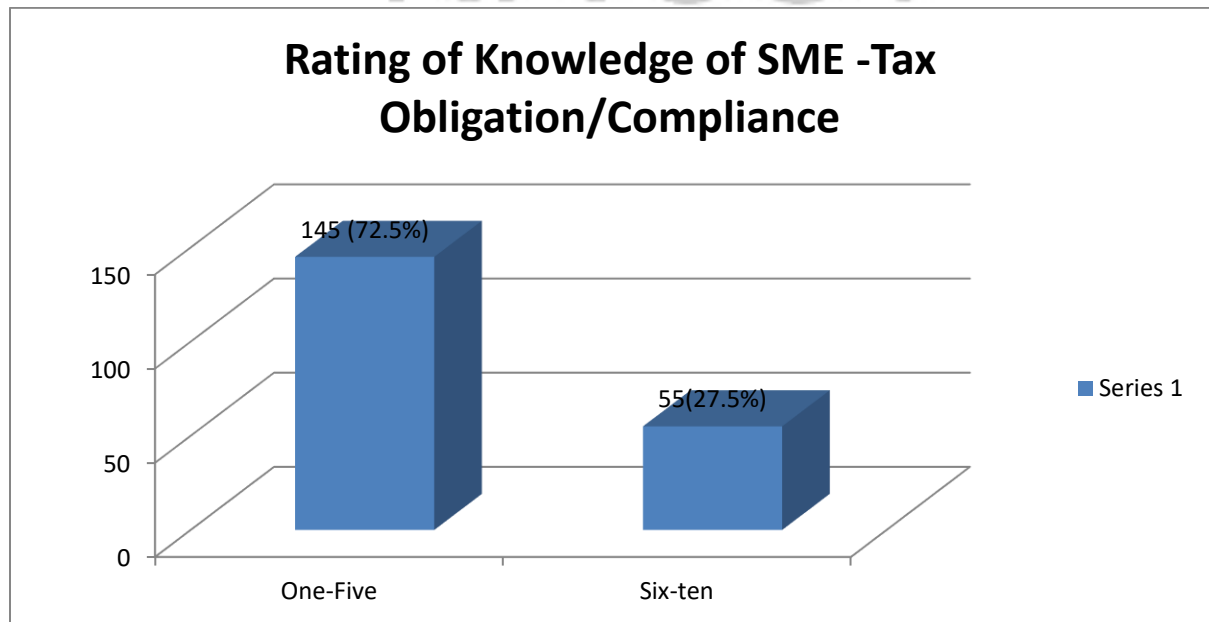
Knowledge Level of SMEs on Tax Obligations and Compliance	N	Mean	SD
A1: My enterprise is officially registered with tax authority(s) in Ghana such as GRA	200	5.35*	1.82
A2: In my enterprise, we understand the Ghanaian tax system and how its works	200	4.65*	1.93
A3: In my enterprise, we declare and pay the correct taxes all the time	200	4.90*	1.89
A4: In my enterprise, we know the type of taxes to be paid to relevant authorities (eg GRA, IRS, Metropolitan/District Assembly etc) all the time	200	5.15*	2.03
A5: In my enterprise, we have adequate knowledge on tax laws for operating SME in Ghana	200	4.50	1.83
A6: In my enterprise, we understand the difference between presumptive tax and income based tax in Ghana	200	4.25	1.64
A7: In my enterprise, we know the sanctions for non-compliance with tax laws	200	4.60*	1.63
A8: In my enterprise, we can interpret the tax laws and compute tax liabilities	200	4.25	1.82
A9: In my enterprise, we always plan towards tax payment	200	4.25	1.82
A10: In my enterprise, we understand tax incentives and reliefs	200	4.20	2.02
A11: My enterprise is officially registered with tax authority(s) in Ghana such as GRA	200	4.45	1.43
A12: In my enterprise, we understand the Ghanaian tax system and how its works	200	4.45	1.43
<i>Overall Mean</i>		4.58	

(Source: Field Data, 2020)

The result in relation to table 4.3 shows the knowledge level of SMEs on tax obligations and compliance. The knowledge level of respondents was assessed using 12 items. The N value which is the total number of observations was 200. In view of this, in order to effectively assess the knowledge level of respondents in relation to tax obligations/compliance from the perspective of SMEs, the overall mean score is compared with individual mean scores. On the basis of the scale used (strongly disagree = 1 to strongly agree = 7), any value [\geq or $>$] is regarded as an agreed item or statement and any indicator below or [$<$] is a disagreed indicator or statement. The result shows that the overall mean [$M = 4.58$]. Comparatively, the result shows that out of the 12 statements or items, five (5) were accepted or agreed items whilst seven (7) were disagreed items. The highest mean was recorded by ‘A1: My enterprise is officially registered with tax authority(s) in Ghana such as GRA’ [$M = 5.35$] and the lowest mean was recorded by “A10: In my enterprise, we understand tax incentives and reliefs” [$M = 4.20$]. By implication, the result suggests a low level of knowledge of SMEs in relation to tax obligation and tax compliance. This can be seen in the area of low mean scores including lack of adequate knowledge on tax laws for operating SMEs in Ghana, limited understanding of the difference between presumptive tax and income based tax, difficulty in interpreting the tax laws and compute tax liabilities, challenges in planning towards tax payment, difficulty in understanding tax incentives and reliefs, registration problems with tax authorities such as GRA, and difficulty in understanding tax system of Ghana and how it works. This shows difficulty in clear understanding of operations of tax authority and overall tax system of Ghana.

In order to also achieve the overall study objective one, respondents were asked to rate on a scale of 1 to 10 their level of knowledge regarding tax obligation and compliance. The result is shown below;

Figure 4. 1: Rating on Knowledge



(Source: Field Data, 2020)

The result regarding the rating or ranking of knowledge of SMEs in relation to their knowledge regarding tax obligations and compliance shows that majority of respondents rated the knowledge level between one to five (1 to 5) representing 72.5%, whilst 55(27.5%) rated the knowledge level between six to ten (6 to 10). This shows that the majority of the respondents rated the indication or knowledge level of SMEs as low.

The result also shows a significant number of reasons outlined by most of these respondents in relation to low level of their knowledge on tax obligation and tax system.

These reasons include;

- More tax education needed to improve knowledge of tax payers
- Inadequate knowledge on tax laws
- Inadequate education
- Not enough education on need to pay tax
- Inadequate sensitization by GRA
- High cost of operating business
- Most SMEs comply with their tax obligations
- Less knowledge about tax
- Less knowledge on tax obligation and compliance
- Less knowledge about how fees are fixed by assemblies
- Most SMEs don't understand tax and its computation
- No understanding of why they should pay tax
- Lack of education on the part of tax authorities
- Lack of understanding on the part of some SMEs
- Inadequate profit
- Improper education on benefit of tax
- Non accountability of tax revenues to tax payers
- Lack of proper accountability of tax revenues

The above was obtained from the open-ended questions posed to respondents. This can be observed in statement of a respondent;

“On the issue of low level of knowledge on tax obligation and tax system, I will say it include we have inadequate knowledge on most of the tax laws, level of education

is also a factor, tax education is also a factor etc” (Respondent 1, Business Owner, 2019)

4.6 FACTORS CAUSING NON-COMPLIANCE OF TAX OBLIGATIONS/LAWS

The second study objective was to examine the factors causing non-compliance of tax obligation or laws by SMEs in the Cape Coast metropolis. It is important to note that failure to act in accordance with specific obligation, regulation or laws underpins non-compliance. To comply or not with established laws or obligations is underscored by diverse factors. In view of this, the study sought to comprehend from the perspective of SMEs in relation to their non-compliance of tax obligations or laws. In order to achieve this objective, specific tools were employed including descriptive statistics, t test and rank order analysis. The result in relation to the second study objective is presented as follows;

Table 4. 4: Factors Causing Non-Compliance to Tax Obligations/Laws

Factors Causing Non-compliance to Tax Obligations/Laws	N	Mean	SD
Structure of Tax System			
B1: My enterprise fails to comply with tax laws because of the difficulty in understanding some of the tax laws in Ghana	200	4.20	1.83
B2: My enterprise fails to comply with tax obligations as a result of lack of simplicity and accuracy of tax legislation within the metropolitan assembly	200	4.30	1.73
B3: My enterprise fails to comply with tax laws because of difficulty in understanding promotional regimes (eg. tax incentives, exemptions and tax expenses).	200	4.15	1.65
Level of Education of Owners of SMEs			
B4: Most owners of SMEs in Cape Coast have low level of education on	200	4.90*	1.95

taxes leading to non-compliance of tax laws			
B5: Most owners of SMEs in Cape Coast do not attend tax seminars organized by GRA	200	4.20	1.63
B6: Most owners of SMEs do not understand the need and operation of tax laws leading to non-compliance	200	4.65*	1.93
Rate of Taxes			
B7: The rate of taxes is very high for my enterprise to pay leading to non-compliance	200	3.85	1.62
B8: The tax rate takes majority of my incomes any time leading to non-compliance	200	3.95	1.63
B9: The number of taxes paid (weekly or monthly, or yearly etc) are many making it difficult for my enterprise to comply	200	3.70	1.31
Behaviour of Tax Administrators			
B10: There is inefficiency on the part of most tax administrations of the Cape Coast Metro	200	4.25	1.51
B11: Difficulty in explaining tax regimes to SMEs owners on the part of tax administrators of the Cape Coast Metro	200	4.60*	1.46
B12: Negative attitude on the part of tax administrators of Cape Coast Metro towards SME operators/ owners	200	4.30	1.38
Digital Economy			
B13: The difficulty in understanding advanced tax technology used by revenue collection authorities in Cape Coast	200	4.70*	1.87
B14: Lack of training and seminar on new technologies used by GRA and other revenue authorities in Cape Coast	200	4.65*	2.06
B15: Lack of dissemination on the part of revenue collectors regarding the technological resources used by revenue collectors	200	4.70*	1.65
Attitude of Operators of SMEs			
B16: Negative attitude of SMEs operators towards tax payment	200	4.40*	1.32
B17: Lack of tax integrity on the part of SME operators	200	4.35*	1.31
B18: Lack of fairness and transparency (eg income) on the part of most SME operators	200	4.55*	1.16

(Source: Field Data, 2020)

Table 4.4 shows the result causing non-compliance to tax laws or obligations by SMEs. The factors in relation to tax non-compliance by SMEs in Cape Coast metropolis was assessed using 18 items or statements across six factors. The N value which is the total number of observations was 200. To effectively assess these factors in relation to tax obligations/laws from the perspective of SMEs, the overall mean score is compared with individual mean scores. On the basis of the scale used (strongly disagree = 1 to strongly agree = 7), any value [= or >] is regarded as an agreed item or statement and any indicator below or [<] is a disagreed indicator or statement. The result shows that the overall mean [M = 4.35]. Comparatively, the result shows that out of the 18 statements or items, nine (9) were accepted or agreed items whilst nine (9) were disagreed items. With most of the agreed indicators evolving from factors such as attitudes of operators of SMEs, digital economy, level of education and behaviour of tax administrators etc. Despite this, in order to ascertain whether these factors were significant factors the t test was employed. The result is shown below;

Table 4. 5: Result of T test on Tax Non-Compliance Factors

	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Structure of Tax System	35.529	199	.000	12.65000	11.9479	13.3521
Level of Education	37.976	199	.000	13.75000	13.0360	14.4640
Rate of taxes	38.835	199	.000	11.50000	10.9161	12.0839
Digital Economy	40.334	199	.000	14.05000	13.3631	14.7369
Behaviour of Tax Administrators	50.068	199	.000	13.15000	12.6321	13.6679
Attitudes of SME operators	56.037	199	.000	13.30000	12.8320	13.7680

(Source: Field Data, 2020)

Table 4.5 presents the result regarding factors of tax non-compliance by SMEs in Cape Coast metropolis. The analysis on the basis of six factors or indicators including structure of the tax system, level of education, rates of taxes, digital economy behaviour of tax administrators and attitudes of operators of SMEs. The result shows that all these factors are significant factors causing non-compliance at $p < 0.05$. This is shown as structure of tax system[$df = 199, t = 35.525, sig = 0.000, p < 0.05$]; education: [$df = 199, t = 37.976, sig = 0.000, p < 0.05$]; tax rates: [$df = 199, t = 38.835, sig = 0.000, p < 0.05$]; digital economy: [$df = 199, t = 40.334, sig = 0.000, p < 0.05$]; Behaviour of tax administrators [$df = 199, t = 50.068, sig = 0.000, p < 0.05$] and attitude of SME operators[$df = 199, t = 56.037, sig = 0.000, p < 0.05$]. Despite this, the mean difference result shows that the most dominant indicator underscoring factors causing non-compliance of SMEs to tax laws and obligations is digital economy, followed by level of education, next is an attitude of SME operators, Behaviour of tax administrators, structure of the tax system and the least being the rate of taxes. The evidence clearly shows that technology or digitization and education as well as attitudes are paramount indicators causing non-compliance issues. It is clear that most of these operators of SMEs do not fully have knowledge on most advanced technologies in recent times making it difficult for them to adhere to these tax laws and obligations. This is also attributed to their level of knowledge or education regarding technology use in Ghana.

The study asked respondents to outline factors within the open-ended level that causes non-compliance to tax obligations or laws in SME within the Cape Coast metropolis. The study discovered significant number of factors including

- Over burden of tax obligation
- Inadequate education on tax laws
- Outrageous tax rating mechanism, improper use of taxes by government
- Not enough education on benefit of paying tax
- Unable to meet sales target
- Negative attitude towards tax payment by SMEs
- No benefit for paying the tax
- Low income/profit
- High cost of doing business
- Difficulty in filing for tax returns
- Poor sensitization by tax officials
- Ignorance of tax obligations and compliance
- Lack of understanding
- High tax rates
- Negative attitude by some tax officials towards tax payers

The above was obtained from the open-ended questions posed to respondents. This can be observed in statement of a respondent;

“On the issue of causes non-compliance to tax obligations or laws, I will say significant number of factors comes to play including high tax burden of tax , inadequate education on tax laws, not able to meet my sales target and many more etc”
(Respondent 6, Business Owner, 2019)

4.9 DISCUSSION OF FINDINGS

The traditional way of doing business has changed the face of informal sector leading a clear understanding of the sector's involvement in the contribution to tax revenue in Ghana. In view of this, diverse tax laws have been introduced to ensure enough revenue generation for government and development of the country Ghana. Although its enforcement has broadened the tax base or revenue base of the country, compliance to tax obligations and laws has been faced with diverse challenges. Notwithstanding this, it was important to understand these indications from the perspective of some SMEs.

The first objective of the study was to ascertain the level of knowledge of SMEs in Cape Coast in relation to tax obligations and compliance issues. Knowledge level of tax and obligation underscoring any tax system is very important to the country of business and the economy of any country. Knowledge level of tax obligation in any society, most especially SMEs has a great influence on tax collection and compliance issues. The study found a low level of knowledge of SMEs in relation to tax obligation and tax compliance. This can be seen in the area of low mean scores including lack of adequate knowledge on tax laws for operating SMEs in Ghana, limited understanding of the difference between presumptive tax and income based tax, difficulty in interpreting the tax laws and compute tax liabilities, challenges in planning towards tax payment, difficulty in understanding tax incentives and reliefs, registration problems with tax authorities such as GRA, and difficulty in understand tax system of Ghana and how it works. This shows difficulty in clear understanding of operations of tax authority and overall tax system of Ghana. The findings also show that knowledge level of top officials or owners of SMEs in Cape Coast is significantly low. This by implication indicates limited knowledge of SMEs in

relation to tax laws or obligations as well as compliance in Ghana. The low level of knowledge in relation to tax obligation and laws underscore the very reason why most of SMEs fail to pay taxes. This is supported by GIZ (2010) that argues that high tax evasion among the private sector in the case of developing countries especially in Africa still renders developmental programmes of governments vulnerable since they cannot raise the necessary revenue to cushion their spending hence resort to aids and grants with serious implications for the economy. This is attributed to lack or inadequate level of knowledge on the part of taxpayers.

Additionally, a significant number of reasons underscore low level of knowledge of SMEs in relation to tax obligation and compliance. These factors include more tax education needed to improve knowledge of tax payers, inadequate knowledge on tax laws, not enough education on need to pay tax, inadequate sensitization by GRA, high cost of operating business, most SMEs comply with their tax obligations, less knowledge about tax, less knowledge on tax obligation and compliance, less knowledge about how fees are fixed by assemblies, most SMEs don't understand tax and its computation, no understanding of why they should pay tax, lack of education on the part of tax authorities, lack of understanding on the part of some SMEs, inadequate profit, improper education on benefit of tax, non-accountability of tax revenues to taxpayers and lack of proper accountability of tax revenues. These support the indication by Naomi and Joel (2009), who indicated willingness, tax education, and attitude that taxpayers demonstrate and the purpose or what the tax seeks to achieve in the long run for the state are some reasons why people will want to pay tax.

The second study objective was to examine the factors causing non-compliance of tax obligation or laws by SMEs in the Cape Coast metropolis. It is important to note that failure to act in accordance with specific obligation, regulation or laws underpins non-compliance. The findings shows that the most dominant indicator underscoring factors causing non-compliance of SMEs to tax laws and obligations is digital economy, followed by level of education, next is attitudes of SME operators, Behaviour of tax administrators, structure of the tax system and the least being the rate of taxes. By implication, the findings show succinctly that technology or digitization and education as well as attitudes are paramount indicators causing non-compliance issues. It is clear that most of these operators of SMEs do not fully have knowledge on most advanced technologies in recent times making it difficult for them to adhere to these tax laws and obligations. This also attributed to their level of knowledge or education regarding technology use in Ghana. This confirms the indication by Allingham and Sandmo (2012) suggest that non-compliance on the side of taxpayers' mostly emanates from their belief that tax auditing of their activities will lead to disclosure of misappropriations which will cause an imposition of severe legal penalties. Although levies imposed generally are convenient means of meeting governments' costs, taxpayers' however, opinions appear contrary to this notion, hence, the increase in non-compliance to tax laws in developing countries (Coskun & Savasan, 2009).

Other factors discovered include over burden of tax obligation, inadequate education on tax laws, outrageous tax rating mechanism, improper use of taxes by government, not enough education on benefit of paying tax, unable to meet sales target, negative attitude

towards tax payment by SMEs, no benefit for paying the tax, low income/profit, high cost of doing business, difficulty in filing for tax returns, poor sensitization by tax officials, ignorance of tax obligations and compliance, lack of understanding, high tax rates and negative attitude by some tax officials towards tax payers. This by implication shows that factors causing non-compliance of tax obligations/laws are numerous thereby affecting how taxes are paid by SMEs.



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter of the study provides the summary of findings, conclusion and recommendations. The summary covers a brief presentation of the discoveries made in relation to the study objectives. The summary shows the findings made from the information or data analyzed and is projected in this chapter. Additionally, the chapter also draws conclusions on the basis of references made in relation to the overall study discoveries. The chapter also provides recommendations at the practical or policy level as well as future research areas of the study.

5.1 SUMMARY OF FINDINGS

The findings in relation to the slated objectives of the study are briefly presented in this chapter.

5.1.1 Knowledge Level of SMEs on Tax Obligations and Compliance

The first objective of the study was to ascertain the level of knowledge of SMEs in Cape Coast in relation to tax obligations and compliance issues. The study found a low level of knowledge of SMEs in relation to tax obligation and tax compliance. In fact, over 72% of the respondents rated the knowledge level of tax obligations and tax compliance as low. This can be seen in the area of low mean scores including lack of adequate knowledge on tax laws for operating SMEs in Ghana, limited understanding of the difference between

presumptive tax and income based tax, difficulty in interpreting the tax laws and compute tax liabilities, challenges in planning towards tax payment, difficulty in understanding tax incentives and reliefs, registration problems with tax authorities such as GRA, and difficulty in understanding tax system of Ghana and how it works. This shows difficulty in clear understanding of operations of tax authority and overall tax system of Ghana. The findings also show that knowledge level of top officials or owners of SMEs in Cape Coast is significantly low.

5.1.2 Factors Causing Non-compliance of Tax Obligations/Laws

The second study objective was to examine the factors causing non-compliance of tax obligation or laws by SMEs in the Cape Coast metropolis. It is important to note that failure to act in accordance with specific obligation, regulation or laws underpins non-compliance. The findings shows that the most dominant indicator underscoring factors causing non-compliance of SMEs to tax laws and obligations is digital economy, followed by level of education, next is attitudes of SME operators, behaviour of tax administrators, structure of the tax system and the least being the rate of taxes. Other factors discovered include over burden of tax obligation, inadequate education on tax laws, outrageous tax rating mechanism, improper use of taxes by government, not enough education on benefit of paying tax, unable to meet sales target, negative attitude towards tax payment by SMEs, no benefit for paying the tax, low income/profit, high cost of doing business, difficulty in filing for tax returns, poor sensitization by tax officials, ignorance of tax obligations and compliance, lack of understanding, high tax rates and negative attitude by some tax officials towards tax payers.

5.2 CONCLUSION

The study sought to assess the level of tax compliance amongst small and medium enterprises in the Cape Coast Metropolis. The study adopted simple random sampling technique in order to select 416 respondents, which was determined using Daniel sample size determination formulae. The descriptive survey design specifically cross sectional survey type was used to achieve the objectives of the study. Thus, data collected with the aid of a structured questionnaire was analysed quantitatively and the results presented in tables and charts using percentages and frequencies. Based on the findings of the study, it can be concluded that the knowledge level of SMEs operators and tax administrators in the Cape Coast metropolis is low thus influencing tax compliance behaviour in the metropolis. Again, it can be concluded that the top most causes of non-compliance of tax obligations/ laws is non-digital economy in the Metropolis, low level of education, and poor attitudes of SME operators towards tax obligations.

5.3 RECOMMENDATION

On the basis of the discoveries made, the following practical or policy level recommendations are provided. Similarly, future study recommendations are also provided in this section of the study;

Firstly, the result shows low level of knowledge of SMEs in relation to tax obligation and compliance among SME operators as well as Tax administrators. To adequately deal with this challenge, the study recommends that Tax administrators such as GRA are provided with regular training in a form of workshops and seminars. This will ensure that Tax administrators are equipped with the requisite knowledge to enable them train SME

operators. The GRA should provide platforms that will provide training support to SMEs on regular basis, allow them to ask questions in relation to tax obligations as well as receive prompt answers on issues raised by SME operators.

The study identified non-digitization of the economy as a major hindrance to tax compliance in the Cape Coast metropolis. It is recommended that the efforts been made to digitize the Ghanaian economy should be given the needed urgency to ensure that majority of SMEs are captured in the tax system. The study suggest that this digitization of the tax system is done at the local level so that Metropolitans, Municipals and Districts that are in the position to implement digitized systems are encourage to do so immediately. This will improve on information flow between tax administrators and SMEs and ensure real time tracking of SMEs that do not comply to tax obligations.

Furthermore, attitude of SME operators was identified as a major reason for non-compliance of tax obligations. It is thus recommended that beyond the training, adequate sanctions should be handed to SMEs that evade taxes to serve as a deterrent to others. The issuance of sanctions should be in real time and should be made public to serve as a notice to SMEs that may want to go the same way.

Finally, the study recommends that future studies can investigate challenges faced by SMEs in tax payment and its effect on compliance behaviour. It also recommends that further studies be conducted to examine how culture moderates the linkage between tax education and tax compliance behaviour in Ghana.

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Appendix: QUESTIONNAIRE

The study is aimed at assess the level of tax compliance amongst small and medium enterprise in the Cape Coast Metropolis. Please this questionnaire seeks to gather information for an academic research on the above topic. This research work is purely academic and confidential hence information you offer will be treated as such. It is also in partial fulfillment for the award of master’s degree from the Kwame Nkrumah University of Science and Technology. Will be very grateful if you can fill out the below questionnaire for me. Any information provided will ONLY be used for general information, and it will be treated as HIGHLY CONFIDENTIAL.

INSTRUCTIONS: Please kindly write in ink in the box which corresponds to the statement, which in your opinion is the most appropriate answer to the related question. For the following questions, kindly select by checking (✓) all that apply.

Name of Enterprise:	Level of Education <input type="checkbox"/> None ; <input type="checkbox"/> SHS; <input type="checkbox"/> HND ; <input type="checkbox"/> Bachelors; <input type="checkbox"/> Masters ; <input type="checkbox"/> Others (specify)----- -----
Location of Enterprise in Cape Coast Metro:	
Gender: <input type="checkbox"/> Male <input type="checkbox"/> Female	
Age [] < 30 years; [] 31-40 years; [] 41-50 years; [] 51-60 years; [] 60+ years	Years In Business: <input type="checkbox"/> < 1 year ; <input type="checkbox"/> 1-5 years; <input type="checkbox"/> 6-10 years ; <input type="checkbox"/> 11-15 years; <input type="checkbox"/> > 15 years
Number of Employees: <input type="checkbox"/> 1-50 employees <input type="checkbox"/> 51-250 employees	Ownership Type: Sole proprietorship [] Partnership [] Limited Liability []
Nature of Business: Agriculture [] Trading and Commerce [] Printing and Secretarial Service [] Tourism and Hospitality [] Others (please specify).....	Is the business officially incorporated? Yes [] No []
Annual Turnover: Less than GH¢1000 [] GH¢1000 - GH¢ 5000 [] GH¢ 6000 + []	What management type is practiced: Owner manager [] Employed manager [] Family management [] Other (specify).....

Instructions: Indicate your opinion for the following statement by placing a checkmark (✓) in the right column under the 7-point Likert Scale.

	7-point Likert Scale						
	Strongly Disagree	Moderately Disagree	Disagree	Neither Agree nor Disagree	Agree	Moderately Agree	Strongly Agree
Knowledge Level of SMEs on Tax Obligations and Compliance							
A1: My enterprise is officially registered with tax authority(s) in Ghana such as GRA							

A2: In my enterprise, we understand the Ghanaian tax system and how its works							
A3: In my enterprise, we declare and pay the correct taxes all the time							
A4: In my enterprise, we know the type of taxes to be paid to relevant authorities (eg GRA, IRS, Metropolitan/District Assembly etc) all the time							
A5: In my enterprise, we have adequate knowledge on tax laws for operating SME in Ghana							
A6: In my enterprise, we understand the difference between presumptive tax and income based tax in Ghana							
A7: In my enterprise, we know the sanctions for non-compliance with tax laws							
A8: In my enterprise, we can interpret the tax laws and compute tax liabilities							
A9: In my enterprise, we always plan towards tax payment							
A10: In my enterprise, we understand tax incentives and reliefs							
A11A: Please in your opinion on a scale of 1-10, can you rate the level of knowledge of SMEs in Cape Coast metro on tax obligation and compliance -----							
A11B: Can you give reasons for your rating -----							
Factors Causing Non-compliance of Tax Obligations/Laws							
	Strongly Disagree	Moderately Disagree	Disagree	Neither Agree nor Disagree	Agree	Moderately Agree	Strongly Agree
Structure of Tax System							
B1: My enterprise fails to comply with tax laws because of the difficulty in understanding some of the tax laws in Ghana							

B2: My enterprise fails to comply with tax obligations as a result of lack of simplicity and accuracy of tax legislation within the metropolitan assembly							
B3: My enterprise fails to comply with tax laws because of difficulty in understanding promotional regimes (eg. tax incentives, exemptions and tax expenses).							
Level of Education of Owners of SMEs							
B4: Most owners of SMEs in Cape Coast have low level of education on taxes leading to non-compliance of tax laws							
B5: Most owners of SMEs in Cape Coast do not attend tax seminars organized by GRA							
B6: Most owners of SMEs do not understand the need and operation of tax laws leading to non-compliance							
Rate of Taxes							
B7: The rate of taxes is very high for my enterprise to pay leading to non-compliance							
B8: The tax rate takes majority of my incomes any time leading to non-compliance							
B9: The number of taxes paid (weekly or monthly, or yearly etc) are many making it difficult for my enterprise to comply							
Behaviour of Tax Administrators							
B10: There is inefficiency on the part of most tax administrations of the Cape Coast Metro							
B11: Difficulty in explaining tax regimes to SMEs owners on the part of tax administrators of the Cape Coast Metro							
B12: Negative attitude on the part of tax administrators of Cape Coast Metro towards SME operators/ owners							
Digital Economy							

B13: The difficulty in understanding advanced tax technology used by revenue collection authorities in Cape Coast							
B14: Lack of training and seminar on new technologies used by GRA and other revenue authorities in Cape Coast							
B15: Lack of dissemination on the part of revenue collectors regarding the technological resources used by revenue collectors							
Attitude of Operators of SMEs							
B16: Negative attitude of SMEs operators towards tax payment							
B17: Lack of tax integrity on the part of SME operators							
B18: Lack of fairness and transparency (eg income) on the part of most SME operators							
B16: Please can you outline some of the factors that causes non-compliance of tax obligations/laws in your enterprise ----- ----- -----							

Instructions: Indicate your opinion for the following statement by placing a checkmark (✓) in the right column under the 7-point Likert Scale

Tax Education	Strongly Disagree	Moderately Disagree	Disagree	Neither Agree nor Disagree	Agree	Moderately Agree	Strongly Agree
C1: GRA and Cape Coast metro revenue authorities most often organize training on the reasons for tax paying and sanctions for non-compliance							
C2: I most often attend tax seminars organized by GRA and Cape Coast metropolitan assembly							
C3: I most often participate in tax discussions organized by Cape Coast metro revenue authorities							
C4: I understand the language used by tax administrators during seminars/training							
C5: I understand the tax system and reporting requirements							
C6: Revenue authorities in Cape Coast metro address Issues affecting SMEs on tax payment and compliance on regular basis							

C7: The training seminars organized by GRAs are done on personal levels							
C8: I most often receive live feedback on specific tax issues from tax authorities							
Tax Compliance Behaviour							
D1: I have positive attitude towards tax payment							
D2: I pay all my taxes of my enterprise on regular basis							
D3: I consider tax non-compliance as a serious offense							
D4: I always adhere to tax compliance requirements from GRA							
D5: I always declare and report all my income or earnings from investment in my enterprise to tax authorities							
D6: I always avoid tax evasion							
D7: Reduction in tax amount and the number of taxes would motivate me to pay all my taxes							
D8: In order to avoid tax penalties and sanctions I fully pay my tax on time							

Strategies to Improve Tax Compliance Among SMEs

E1: In your opinion what strategies should the GRA and other metropolitan revenue authorities put in place to improve tax compliance among SMEs -----

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Thank you. Your participation is greatly appreciated.

