

**THE TAX ASSESSMENT OF SOLE-PROPRIETORSHIP:**

**A CASE STUDY OF SUNYANI MUNICIPALITY**

**BY**

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**A THESIS SUBMITTED TO THE INSTITUTE OF DISTANCE LEARNING,  
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PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE**

**OF**

**COMMONWEALTH EXECUTIVE MASTERS IN BUSINESS ADMINISTRATION  
INSTITUTE OF DISTANCE LEARNING**

**APRIL 2009**

## DECLARATION

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

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## ABSTRACT

The Tax assessment of sole proprietorship is of great concern to the government for its developmental agenda as the government needs revenue for such purposes.

The fact is that majority of the Ghanaian population is in the informal sector and as such most of them do not pay tax. The sole proprietors especially the small scale entrepreneurs arguably form the largest group in this sector. They must pay tax so that the government can generate enough funds for its development.

The study revealed the challenges which militate against the assessment of Sole Proprietorship as Low Level of Education, Improper records keeping, Unsatisfactory time of payment, Low knowledge of uses of tax, Logistical and Administrative issues. In order to solve these problems the study suggested that brochures and pamphlets on compliance of tax laws should be made available. Furthermore to enhance records keeping, a simpler record book could be design for the traders so that their business transaction would be recorded. The Internal Revenue Service could collaborate with the Non-formal education division to teach basic book keeping during their classes. The time of payment could be fix by the Internal Revenue Service and the tax payers to coincide with festive occasion to ease convenience.

Administratively, logistics such as computers and vehicles could be provided for the staff and their capacity must also be built through in-service training.

In view of the many challenges encountered in assessing of their tax liability

It must be emphasized that the various recommendation given in this study may not solve all the problems but will serve as a complement in finding antidotes to the challenges highlighted by the study.

## **DEDICATION**

This work is dedicated to my Wife and my Daughter, Rosemary Anoah and Louisa Nana Owusu Amankwah whose support, prayers, and best wishes have seen me through.

Special dedication also goes to my friends and colleagues and Mr. Enoch who typed most of my work.

KNUST



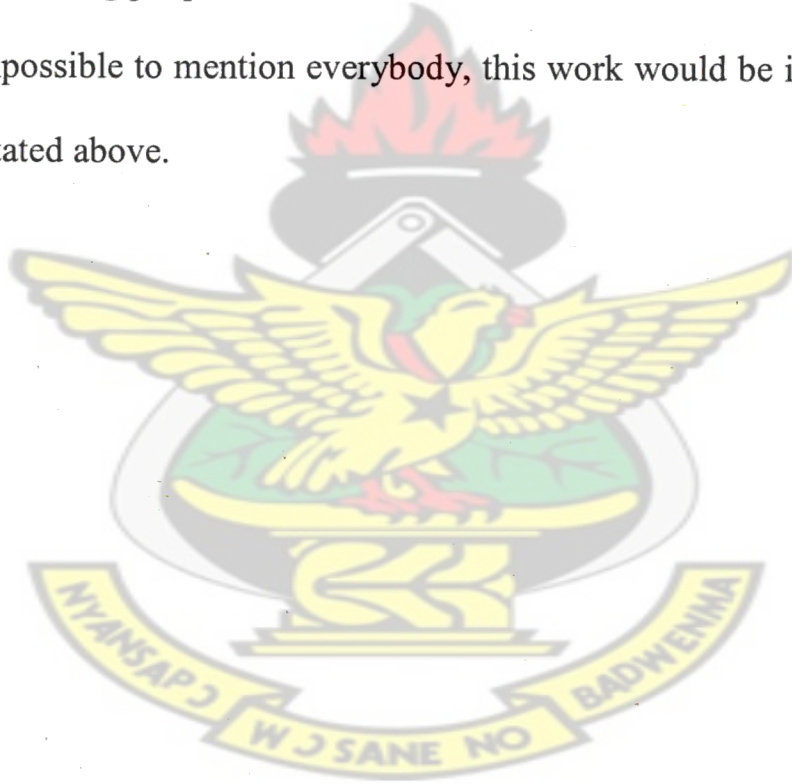


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Whilst it would be impossible to mention everybody, this work would be incomplete without mentioning some as stated above.



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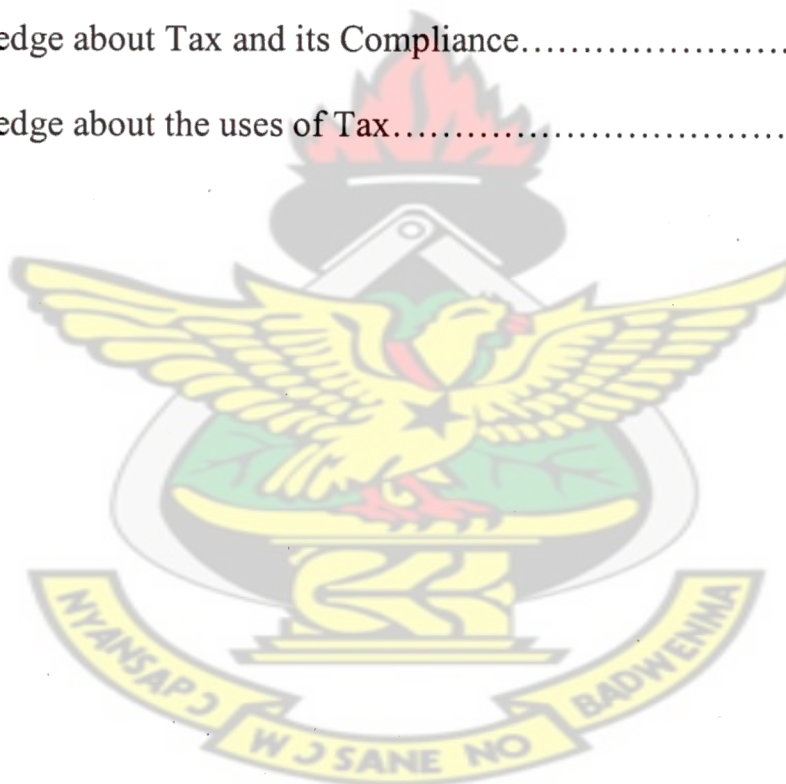
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# CHAPTER ONE

## BACKGROUND OF THE STUDY

### 1.0 INTRODUCTION

All over the world, tax helps governments to raise adequate revenue to perform various functions to raise the standard of living of their citizens. Tax therefore, in simple terms is a compulsory payment by individuals and corporate entities to the state.

Tax could be direct or indirect. Examples of indirect tax are sales tax and consumption tax whilst that of direct tax is Income tax.

The principal reason for tax imposition is to raise revenue; however, there are other reasons, which include the following:

- Control of the economy
- Means of checking inflation
- Correction of balance of payment deficit
- Protection of local industries
- Redistribution of income among the citizens

The most prominent form of taxes in Ghana among others are PAYE, company tax, and value added tax. Institutions charged to administer taxes for the government are INTERNAL REVENUE SERVICE, VALUE ADDED TAX SERVICE (VAT), and CUSTOMS EXERCISE AND PREVENTIVE SERVICE (CEPS).

Tax is therefore the life wire of every country. The ability of every country to generate more revenue would go a long way to determine its level of development. In developing countries and

for that matter Ghana, only few recognized citizens pay tax to the government in order to meet its numerous developmental activities.

In this direction the government has to make sure that, all and sundry pay tax no matter how small their activities are. To address this concern, attention has to be directed towards identifying all potential tax payers in every corner of the country for them to contribute their quota towards this argust national agenda.

### **1.1 PROBLEM STATEMENT**

The majority of the Ghanaian population is in the informal sector as Ghana is a developing country. Not withstanding this, they must meet their tax obligation. No matter how limited economic activities that go on in this sector, they must pay tax so that government can generate enough funds for its development. The tax net must therefore be widened to cover this sector. The sole proprietors which arguably form the largest part of the informal sector however face problems of tax assessment which normally generate confrontations.

This study therefore aims at examining the system of assessing the tax liability of sole proprietors.

## 1.2 THE OBJECTIVES OF THE STUDY:

The study is aimed at achieving the following:

1. To evaluate the current system of assessing the tax liability of sole proprietors
2. To identify problems associated with tax assessment of sole proprietors

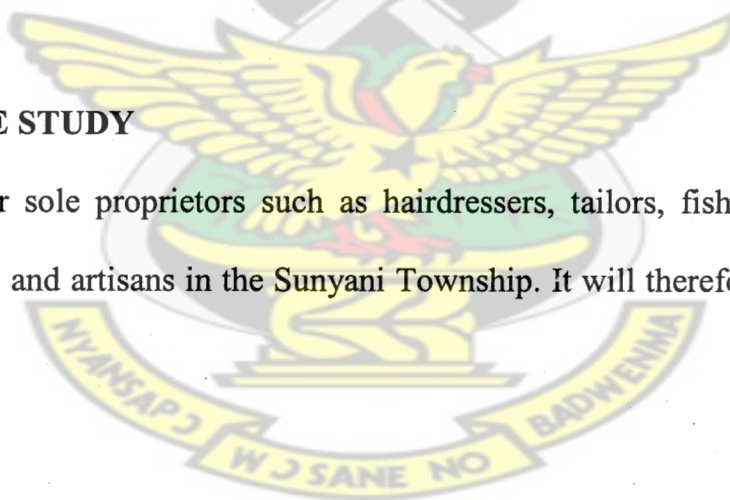
## 1.3 RESEARCH QUESTIONS TO BE ADDRESSED

Stemming from the above, the following questions would be investigated

1. Do sole proprietors keep proper books of account for tax assessment purposes
2. Do sole proprietors understand why they should pay tax
3. is the timing of tax payment convenient to sole proprietors
4. Are sole proprietors well educated enough about tax laws and their compliance
5. Do sole proprietors think they derive any benefit from the payment of tax

## 1.4 SCOPE OF THE STUDY

The study will cover sole proprietors such as hairdressers, tailors, fish mongers, small shop keepers, petty traders and artisans in the Sunyani Township. It will therefore cover the period of 2005 – 2008.



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## **1.5 ORGANIZATION OF THE STUDY**

The study is organized into five (5) chapters. Chapter one deals with background of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study.

Chapter two covers the literature review; in this chapter, books, articles and other works that have been done by some people or researchers are reviewed.

Chapter three also deals with the methodology of the study. In this chapter, the instrument of data collection, the population and sample size are discussed. It deals with the instrument of data collection of questionnaire, observations and interviews conducted in the Sunyani Municipality for the sixty-five small scale sole proprietors and the internal revenue staff.

Chapter four focuses on the main findings of the study. Chapter five on the hand covers the summary of the findings, conclusions and recommendation made from the study.

## **1.6 JUSTIFICATION OF THE STUDY**

Taxation in no small terms is the major way of raising revenue to meet every government's numerous agenda. However, over the years only few people in the formal sector pay tax. In view of this, it could be arguably stated that the sole proprietors form the largest part of the informal sector and as such they should be made to pay tax.

The benefit of this is that, if the tax net is widened to cover this group of tax payers, the internally generated revenue would be increased. This would also help the government to raise the enough revenue needed for its activities and improve the welfare and standard of living of its citizens. The problem facing this group of tax payers would come to light for these problems to be addressed.

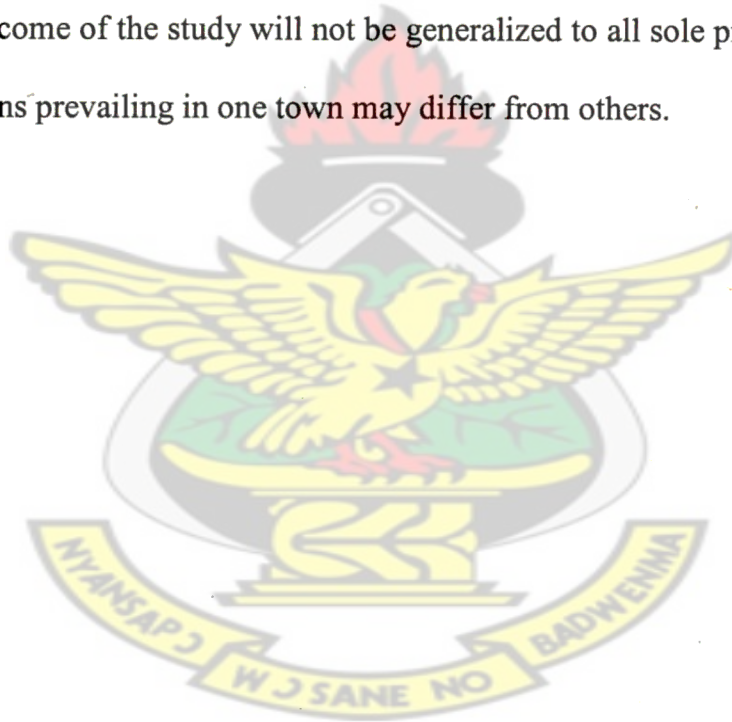


## 1.7 LIMITATIONS OF THE STUDY

The study will be limited to small scale sole proprietorship such as hairdressers, artisans, fishmongers, small shop keepers and petty traders.

This is so, for most sole proprietors businesses are of large establishment in nature.

The choice of Sunyani Township is not based on any merit but because the problems associated with tax assessment of sole proprietors in Sunyani Township may not be different from those in other towns. Again, time and financial constraints may also limit the number of respondents to be reached. However, it is my hope that, the outcome of the study would reflect true and fair view of assessment of tax of small scale sole proprietorship. Not withstanding, it must be accepted that the outcome of the study will not be generalized to all sole proprietors in every part of Ghana as conditions prevailing in one town may differ from others.



## **CHAPTER TWO**

### **LITERATUER REVIEW**

#### **2.0 Introduction**

#### **2.1 Sole proprietorship / Small Scale Enterprise**

Sole proprietorship is a kind of business organization where the owner provides both financial and managerial resources and as such enjoys all the profits accrued to the business and bears losses alone as well. The sole proprietor therefore has control over his business and as such has unlimited liability as stated by Appleby (1987) in his book "modern business administration". Since sole proprietorship could be a large establishment, in this study, it would be limited to only small scale businesses. It is therefore prudent to explain what is meant by small scale business in the scope of this study.

According to Yankson and Thomi, (1985) small scale enterprise is any organization established by individuals in their locality. Small scale enterprise by Encyclopedia Britannica's definition is any enterprise that produces non durable products and very small amount of capital is needed. Small scale enterprises therefore cover individuals with small amount of capital to start up businesses on their own. Sole proprietorship would therefore be used interchangeably with small scale business because of the above premise.

It is important to know that, many authors' definition of sole proprietorship is based on the structure and the organization of small scale enterprise. According to Longemecker and Moore (1987) characterized small scale enterprise by the following;

- (i) Individual or small group provide finance for the business
- (ii) Employees normally do not exceed fifteen (15)
- (iii) The organization's operations are localized.



However, the National Board for Small Scale Industries in Ghana limits the number of employees that could work in a small-scale enterprise to nine (9).

The main constraints of small scale enterprise as pointed out by Yankson and Thomi (1985) in their book “small industries and decentralization in Ghana” are as follows;

1. Credit is not adequate
2. Depressed domestic demand for their products and services
3. Supply of inputs not reliable

It must be noted that, within the small-scale enterprises, only the very small ones would be covered by this study.

## **2.2 Income Definition**

Sole proprietors perform various economic activities from which they get income. This category of business organization is required by law to pay taxes on their income.

SMCD5 income tax decree (1975) section 1(2) and IRS Act 2000 as amended states that “ tax shall be payable upon the income of any person accrued in, derived from, brought into or received in Ghana in respect of trade, business, profession or vocation.

The law however does not clearly define what income comprises of. It would therefore be of greater importance to sole proprietors who can not afford the services of lawyers and tax professional if what constitutes income was clearly defined. This problem was cited in the “taxation for African economic development)” edited by Taylor. It is therefore difficult in assessing one’s income even if individual knows how to define income in general terms, Priest pointed out in an article on “the role of direct taxes” that, there are problems of what constitutes

income. In view of the above problems, it would be proper to look at some definitions that would serve as a guide.

Income was defined as “a periodic monetary return coming in with some sort of regularity from a definite source”. This was given during ruling of CIT vrs SHAW WALLACE, 6 ITC 178. On this premise, it was ruled that one – off inflow does not qualify as an income.

The main reason for tax imposition is to raise revenue for government to embark on developmental projects. Taxes, as a matter of fact, could also be used as one of the weapons by the government to manage the economy. In their book, “income tax” 1988-1989 (7<sup>th</sup> ed), Pitchard and Murphy explicitly stated that, taxation may be used together with monetary policy to fight inflation, correct balance of payment and stimulate economic growth.

### 2.3 Canons of Taxation

For taxation to be fair, all over the world, good tax system should have the following canons;

- (i) Equity
- (ii) Certainty
- (iii) Convenience
- (iv) Economy

Wilkinson (1992) writing on equity, clearly pointed out that, equity is fairness in payments. On the economy, the administrative mechanism for tax collection should therefore not utilize an unnecessarily greater portion of what is collected. The tax payer must be certain of his/her tax liability at any point in time and must be convenient to him.

Stanford (1971) however pointed out that, there would be the possibility of some of the principles conflicting with others. He cited as an example, how the need for simplicity of tax

laws to allow for certainty and convenience may conflict. There is the need for comprehensive laws to ensure wider coverage and thus achieve equity. Such conflict are bound to come however when they arise, there should be trade-off between the principles.

## 2.4 The History of Tax Legislation in Ghana

The first piece of tax legislation in the Gold Coast (now Ghana) was income tax ordinance (1943), Ordinance No. 27 as pointed out by Vol. 1 of Andah (1987). Many amendments however were made to Income Tax Decree (1975) SMCD 5 to the present internal revenue act 2000 as amended.

Profession and vocation should be construed in their ordinary meaning.

Profession refers to intellectual or specialized skills such as Law, Medicine and Accountancy whilst vocation is the semi-skilled or the way a person earns his living such as carpentry, dressmaking, traditional healing and photography. The above was cited in Aryee's "Notes on Ghana income tax (15<sup>th</sup> ed)".

Citizens all over the world have to meet their tax obligations and for that matter, sole proprietors, though confronted with many problems have to pay tax.

In "Taxation in Sub-Saharan Africa", Aguirre et al observed that, tax laws in Sub-Saharan Africa are based on European models that often have erroneous implicit assumptions regarding the structures of society and economy and capabilities of tax payers and tax administrators. It is therefore of immense interest for tax laws to be made taking into consideration the society aspirations, understanding and educational background for easy collection.

The Income tax decree (1975) states that, gain or profit from any trade, business, profession or vocational practiced or carried out among others are subject to tax.



Andah in "Ghana income tax law and practice" admitted that it is difficult to define accurately expression of trade. He however, gave a list of issues that have to be examined before concluding whether a trade has taken place or not. Some are;

- a) The number of transactions
- b) The interval between purchase and sale
- c) The income of the asset
- d) The existence of a profit seeking motive

He however said that, the above issue is not conclusive on its own and have to be guided by case laws before conclusions are drawn. He however called them badges of trade.

## 2.5 The Badges of Trade

The six badges of trade were set up to solve this problem. It must be emphasized that, the word "badge" is used here in its sense of "mark" or "indication"

### a) The Subject matter of Realization

A taxpayer might find it easier to argue against the contention that he/she is conducting trade if there could be other reasons such as personal enjoyment for the purchase and sale. This argument was established in the rule in a classic case: RUTLEDGE VRS CIR (1929) in which the purchase and sale of £1.2m toilet rolls at a profit of £ 10,000 was held to be trading even though it was an isolated transaction.

### b) Length of Period of Ownership

The longer an item is retained before its sale, the less likely that the court will regard the operation as trading.

### c) Frequency of similar Transaction

The more often you engage in similar transactions, the more likely it is that you would be held in trading

d) Supplementary Work

If you repair or improve the goods engaged in marketing or advertisement or open up offices, you are more likely to be conducting a trade.

e) Circumstances Responsible for Realization

If one can show special reason for the transaction apart from the wish of making profit, you have more chance of making the assessment as not a trade

f) Evidence as a Motive

Evidence as to the motive of the purchase or sale either support or negate the assumption that a trade has been carried on.

It must be emphasized that one of these rules are not conclusive on their own, it helps in determining what constitutes a trade upon which one's tax liability would be based on.

In the case between Chamberlain vs. Wisdom, the court ruled that, a single transaction in silver billion was assessable. In this case, a short period of time between the acquisition and disposal and the fact that the transaction was financed by borrowed money led to the inferrent that the prime motive was profit.

Again, in the case between Pickford vs. Quirke, the taxpayer was the member of four syndicates, which purchase shares in milling companies. The company was liquidated and the assets were sold in piecemeal. The court held that although the transaction was of capital nature it was considered in isolation, the fact that the taxpayer had four transactions meant that the operations constituted a trade.

## 2.6 Withholding Tax

This is an amount of money that an employer takes out of somebody's income as tax and pays directly to the government. The income tax law of Ghana section 55(1) states categorically that, every employer shall make monthly deductions from the total emolument of each of his employees. In accordance of tax schedule rate for residence persons or a flat rate of 35% for non-resident persons which ever is the higher. It therefore behooves on every one who is responsible for paying of company, firm, deposits, stocks, bonds, treasury bills, discounts, annuity or similar to deduct tax at the rate of 10% of such payment on the account of the company or firm's tax liability for the year of assessment and the amount deducted paid to the commissioner.

It must however be noted that no deduction is made on interest earned by any individual. The section continues to say that any one responsible for the payment of a sum more than GH¢50.00 (¢ 500,000.00) to any person for any work done, either services rendered or goods sold in respect of a contract shall deduct from such payment tax at a rate of 5% of the sum and pay forthwith amount so deducted to the commissioner.

More so, every person who receives or is entitled to receive any dividend declared in any year of assessment shall pay a tax at the rate of 10% on any such dividends or such receipts of payments shall not be taken into account in computing his assessable income or for arriving at his tax liability for the year of assessment. This is because the 10% withholding tax is a final tax on dividend.

Lastly but not the least, the section states that, every person responsible for the payment of royalties, management fees, technical service fees, or technology transfer fees in any year of assessment at the rate of 15% from the amount or the payment and pay the amount deducted to



the commissioner. It must also be noted that, the 15% final withholding tax on royalties, management and technical fees is applicable to non-residents only.

In all the above discussion on withholding taxes, the amount so withheld shall be paid to the commissioner not later than the 15<sup>th</sup> day of the month of which the deduction was made. A 15% penalty on withholding tax is imposed on a company or self-employed persons for failing to release the amount deducted to the commissioner on the due date. In addition to this, an interest of the current interest rate is charged for each month the default continues.

## **2.7 Income Exempt from Tax**

It is worthy to mention that not all income is subject to tax. As matter of fact, some of incomes exempt from tax as outlined by section 3 of SMCD5 are interests on savings and the income from the sale of cocoa.

Peggy in "Taxation of foreign investment: An economic analysis" (1963) noted that several developing countries grant tax exemptions to attract private foreign investments from abroad. She justified such assertion as important to overcome the "risk illusion" of investors. She explained "risk illusion" as the tendency of investors to judge risks to be greater than they actually are. It has to be emphasized that, tax incentives such as exemptions can improve resource allocations. Thorough planning is required to avoid introduction of serious in-equities between individual tax payers and source.

It must be noted that, the following are also exempted from tax.

- i. The duty and responsibility allowance of the President and Vice President

- ii. The income of non-profit sporting, social bodies, charitable or educational institutions of public character in so far as such income are not derived from trade or business carried on by such institutions
- iii. The income of local authority
- iv. Capital sum received by way of retirement on account of sickness, as a compensation of death or injuries
- v. Any benefit received under Social Security law (1991 PNDCL 247) by a minor or anybody of or beyond retirement age
- vi. The income of rural banks for the first ten year
- vii. Anybody dealing in cash crops such as maize, rice, pineapple, cassava and yam for the first five years after commencement of the project

## 2.8 Assessable Income

As pointed out in income tax decree (SMCD 5) as amended by PNDC laws and Act 2003, section 11, sub-section 1 defines that assessable income shall be the full amount of one's income from each source for that year of assessment.

The table below shows the total Assessable Income for the year:

Table 2.1 Table Showing Total Assessable Income for the Year

SOURCE OF INCOME	AMOUNT (GH ¢)
EMPLOYMENT	20.00
RENT	5.00
SHOE REPAIR SHOP	2.00
TOTAL ASSESSABLE INCOME	27.00

Source: Research field, April 2009

## 2.9 Chargeable Income

Chargeable income on the other hand for the employee for any year of assessment shall be his total emolument paid to or on behalf of the employee including any allowances or benefits paid in cash or in kind by the employer less reliefs.

It must be noted however that, chargeable income for self-employed and for that matter sole proprietors, partnership and companies, for any year of assessment, shall be all income less any appropriate capital allowances computed in accordance with third schedule of SMCD5

## 2.10 Capital Allowance

Capital allowance as pointed out by the finance act is a form of tax legislation which enables companies to claim allowance on expenditure. As cited in Drury's book "Management and cost Accounting" 3<sup>rd</sup> edition. Companies rarely pay tax on the profits that are disclosed in their published profits and loss accounts since certain expenses which are deducted during the preparation of the accounts are not allowable deductions for taxation purposes. A clear example is depreciation and instead capital allowance is granted.

SMCD5 section 5(1) prohibits the deductions from taxable income depreciation of any fixed asset. It is therefore replaced by capital allowance which is a standardized system of depreciation for tax purposes granted by Internal Revenue Service. Capital allowances claims are governed by the third schedule of SMCD5 as amended.

Notwithstanding this, before one qualifies for the capital allowance, the following conditions must be fulfilled.

- a) The Tax payer must incurred a qualified expenditure of an acquisition of assets

- b) The tax payer must own the assets in respects of which qualify expenditure has been incurred. That is, there should be documents in respect of the assets which bears the name of the real owner
- c) The assets should be in use for the purpose of a trade, business, profession or vocation
- d) The assets should be in use at the end of the basis period

## 2.11 Penalty

There are two (2) main types of penalties:

- Criminal Penalties
- Administrative penalties

It must be emphasized that, criminal laws are enforced by the courts whilst that of administrative penalties are administered by the commissioner of the Internal Revenue Service. It must be noted as pointed out by the Internal Revenue Act that there is no penalty if one pays the right amount of tax. However there is penalty for not telling the tax officials about all of your taxable income.

## 2.12 Filling of Returns

The tax decree also provides for the submission of returns by any person chargeable with tax on the appropriate form to the commissioner.

A certified statement of turn over, a copy of certified accounts of the business and estimates of the tax due on the income must be attached. According to Andah (1987), the accounts are submitted to ensure that, it reflects all relevant transactions of the business so that necessary adjustments are made to bring the accounts in line with income tax laws and practice. It is



therefore important for the tax inspectors to be abreast with principles of accounts to enable them fully appreciate the returns.

### **2.13 Tax Reliefs**

The importance of returns in tax administration is to enable taxes to be assessed on “actual taxable bases”. Relief could be also granted. Reliefs are specific deductions from ones income before arriving at income chargeable to tax.

Aryee (1997) explained that, relief is an approved deductible allowance intended to reduce one’s taxable income (pg. 9). This therefore helps in cushioning the tax payer against the adverse effects of tax payment. It is therefore to lessen the tax burden.

Section 15 of SMCD5 (1975) therefore catalogue the relief available to the Ghanaian tax payer as personal, aged, dependants, marriage, children’s education, disability, life assurance, social security contributions and old age.

As Wilkinson (1992) noted, “Once all allowances are accounted for, income becomes taxable” (pg. 83). In a nutshell’ before income becomes taxable, all the above allowances one qualifies have to be deducted.

### **2.14 Tax Administration**

The low level of compliance of tax laws in Ghana and developing countries as a whole is attributable to factors such as laws difficult to comply with and poor understanding of administrative shortcomings. Some of the administrative shortcomings pointed out by Due (1970) in the book entitled “indirect taxation in developing economies” as shortage of trained staff, tradition of tax evasion with official connivance and lack of trained accountants. He noted

that, the shortage of skilled personnel is much more acute in tropical Africa than other places. As a result of this, businesses do not keep proper records and are thus unable to ascertain their tax liabilities correctly, even if they wish to do so. According to the author, one of the consequences of the lack of tax professionals is for tax inspectors to also act as tax accountants during their off hours. This therefore leads to conflict of interest. In "taxation for African economic development" edited by Tailor (1970) the tax structures of developing economies were indicted as being unsuited to a high degree of perfection of tax structures.

Aguirre and et al (1981) supporting this claim, gave some of the reasons for this state of affairs as poor staffing and lack of physical facilities among others. The authors also noted that tax policy planning is normally done in adhoc manner in developing countries rather than assigned to a specific body. As they put it "any change in tax law is usually designed based on expediency rather than on long range studies". They argued that for any corrections to be done, tax payers must be convinced that the tax system is being administered fairly and the money collected being spent wisely.

For any tax system to work effectively, it needs reliable and up to date information on its tax paying population. A world bank publication, "Tax Policy in developing Countries" edited by Rhahlzadeh-Shirazi and Shah (1991) indicated that developing countries lack the sort of "basic information on the tax paying population" that is needed to enforce taxes adequately and fairly. The development of better information management system, it was argued, can help improve tax administration. The publication also highlighted the importance of political support for effective tax administration.



It was indicated, without political support, the tax administration would be badly run and thus end up losing its credibility with the tax paying population to the detriment of political establishment

In the face of the low level of literacy, the technical nature of tax procedures and the dearth of trained staff, the authors recommended that, publication of booklets explaining tax procedure, withholding tax tables, and book keeping requirements for filing of returns (pg. 41). Though the picture of tax administration is gloomy as indicated by the review, it is hoped that the recommendations from this study would help improve the situation.



## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

The methodology of this study would basically involve the following;

- The scope of the population
- The design of an appropriate instrument for the study
- Data collection
- Analysis of data collected

#### **3.1 THE SCOPE OF THE STUDY POPULATION**

- The population of the study would be focused on the sole proprietors in the Sunyani township. As matter of fact, not all the sole proprietors would be covered.
- However, it would cover only small scale sole proprietors such as hairdressers, petty traders, fish mongers and artisans. The sample space would be sixty-five (65) small scale sole proprietors drawn from the population for the administration of questionnaire.
- Based on the responses, the findings would be analysed and recommendations and conclusions would be made.
- Interviews would also be conducted for the internal revenue staff and any observation made may also be included in the study.

### 3.2 SAMPLE SIZE AND SAMPLING TECHNIQUES

Population sample would be based on sixty-five (65) small-scale entrepreneurs drawn from the population and management and staff from the internal revenue service. Simple random sampling will be used as individuals in the population are homogeneous in nature. This tool of sampling is unbiased in the sense that, no member of the population has any more chance of being selected than any other member. It also achieves fair representation.

### 3.3 DATA COLLECTION INSTRUMENT

Questionnaires would be developed for the collection of information from the sample population. The questionnaire would include both open and closed ended questions. This instrument of data collection would be administered only to the small scale entrepreneurs. The choice of this survey method is based on the following:

- (i) It is less expensive as the questionnaire can be sent through mail
- (ii) Questionnaires would produce quick results and cut down time used for the study
- (iii) This instrument of data collection is very convenient as respondents could complete the questionnaire on his/her own convenient time
- (iv) It also ensures greater anonymity, thus the questionnaire has greater impersonality, elicit more candid and more objective response

Questionnaires however have limitations of not permitting probing, prompting and clarification of questions especially when respondent is in difficulty. Secondly, the identity of the respondents and conditions under which the questionnaire was answered are not known.

Aside using questionnaire as main instrument of data collection, interviews would be conducted for the internal revenue staff. Also observations would be taken into account where relevant. The

population sample would be visited and the purpose of the study explained to them. The questionnaires would be administered whilst interviews would also be conducted for the internal revenue staff at the appointed date.

### **3.4 METHOD OF ANALYSIS**

The analysis of the data would be presented in tabular form with the headings such as: ITEM, NUMBER OF RESPONSES, PERCENTAGE RESPONSE and REMARKS.

In this study,

ITEM refers to the questionnaire questions

NUMBER OF RESPONSES denotes the absolute number of respondents

PERCENTAGE RESPONSE refers to the number expressed as a percentage of the total number of responses received

A REMARK also represents any general observation or inference drawn from a particular response.

Data would therefore be analyzed in terms of tax payments, consistency of payments, level of education, convenience of payments, adherence to laid down tax procedures by sole proprietors, understanding of tax and its benefits and willingness to pay.

Based on the findings from the analysis, recommendations and conclusions would be made.



## CHAPTER FOUR

### ANALYSIS OF RESULTS

#### 4.0 Introduction

The data collected revealed the following on the main issues addressed in the questionnaires administered.

#### 4.1 EDUCATIONAL LEVEL

**Table 4.1 Educational Level of Respondents**

ITEM	NO. OF RESPONSES	PERCENTAGE OF RECONDENTS	REMARKS
What is your level of education?			
No Formal Education	5	7%	Vast majority have low level of education, hence hampering the level of understanding of tax procedures
Primary	36	55%	
Second Cycle	13	20%	
Tertiary	11	18%	

*Source: Research field, April 2009*

Table 4.1 above shows that, quite a number of respondents, that is, 75% had the basic and secondary levels of education, however, 7% did not have any formal education. The above respondents, which form the vast majority, explained that they do not have the capacity to understand how the tax system works due to their low level of education.

Respondents of these categories thought that sometimes the tax authority capitalized on their weakness to exploit them and at times generate into confrontations.

The 18% of respondents who had tertiary education are also handicap with regards to how the tax system works in filing of returns. The levels of education of the respondents are too low and as such find it very difficult to understand tax laws. They said that their level of education does not help them to compute what they are expected to pay. They are of the view that even if they are charged high, due to their level of education they could not challenge them. Some of the respondents who could not even spell their name surprisingly could check their money correctly. They could remember the cost price and the selling price of each of the items in their shops. If there is a change to be given, it is done excellently for I personally observed it in the cause of administering the questionnaire. It would be therefore of great concern that a little education or insight into tax given to them, they would be able to comprehend the tax system with ease. The respondents complained bitterly about their inability to even attend primary school and played "blame game" on their parents. Some of them explained that they did not know how this would affect them in future. They said that they have learnt their lessons and would take keen interests in their wards education. They considered the procedure as cumbersome, time consuming and costly especially where experts are hired to prepare the returns for them. In view of this, the categories of these respondents normally accept what ever given to them to pay as their tax bill and let "sleeping dogs lie". They further stated that this acceptance of any figure given to them save them the trouble of following the tedious processes of filing of returns.

## 4.2 PAYMENT PERIOD (TIMING)

**Table 4.2 Time of Payment**

ITEM	NO. OF RESPONSES	PERCENTAGE OF REONDENTS	REMARKS
Is the period of payment satisfactory to you?			
Yes	14	21%	It is not satisfactory to them as they do not get prior notice
No	51	79%	

*Source: Research field, April 2009*

Table 4.2 shows that majority of the respondents, which is 79% pay tax only when the tax authorities come around to their shops or premises for that purpose. The respondents bemoaned the time for which the tax official come to collect taxes. The respondents said that, the tax authority does not give them advance information as to the time they would come for tax collection exercise. They explained that it would be appropriate to prepare their mind well for the day and the time that they would mount the operations. They explained that if the tax authority comes to them, they should sit them down and have a discussion as to how much they should pay and listen to their problems. They said that this would arguably result in peaceful co-existence and make the respondents see themselves as partners in the nation's development. The timing for collection of taxes should be of great concern, as one of the basic canons of taxation is convenience. This canon of taxation is closely linked with timing that is, the timing of making payment should not inconvenience them. It is therefore appropriate to find every possible means so that the timing of payment would be convenient to each of them. The little thing a taxpayer



would say make them hail insults on them that they (taxpayers) retaliate and often results in confrontations. They complained that it is not satisfactory to them. They explained that the time the officers may call on them they may have not sold any item but the officials insist that once they have come there, they have to pay.

They further stated that at times, if they don't have money on them, either some of their wares are taken or the shop is locked with keys and as such one has no option rather than to find or borrow money and pay. They wish that the time they are supposed to pay would be made known to them so they would prepare for them to avoid any embarrassment and confrontations, which come about as result of this kind of unannounced visits.

The artisans also intimated that, they have formed an association through which they pay their taxes on weekly basis. However, any time the tax officials call on them they insist on paying their taxes to avoid any confrontations, which lead to harassment and draw crowd's attention. They do pay to save them from this kind of trouble. In this case, they think that they pay double tax that is a worry to them.

The artisans such as dressmakers noted that their work is seasonal and because of this, at certain times of the year, they found it difficult to honor their taxes.



4.3 CONVENIENCE

Table 4.3 Conveniences in Payment of Tax

ITEM	NO. OF RESPONSES	PERCENTAGE OF REPPONDENTS	REMARKS
Is it convenient to you about the tax you pay?			It is not convenient to majority of them as the tax officials do not take into account the seasonal nature of their businesses
Yes	4	6%	
No	61	94%	

Source: Research field, April 2009

Table 4.3 above indicates that nearly 94% of the respondents stated that the timing of payment is not convenient to them. The taxpayers especially the market women bemoaned the manner and the number of times the tax authority staff mounted the tax collection operations in the markets. They complained that this makes them uncomfortable and feels apathy in payment of their taxes. It revealed that most of them think that they do not receive direct benefit from the taxes they pay and as such, the staff of the IRS should deal with them in their own time of convenience. The respondents who are assessed provisionally find it to be satisfactory as they claimed that they were allowed to pay it by installments. Vast majority of this category of respondents accepted that, this kind of arrangement is bestowed on them as a favor by the tax authorities. In fact, they said that, this kind of arrangement favors them and as such do not question the

assessments made by the tax authorities on them in order that the so-called “favor” would not be withdrawn.

The respondents however explained that the IRS should do something for them to come into compromise on the convenient time for honoring their taxes for them to contribute their quota in raising of funds for development of our dear nation Ghana.

The respondents said, they would be very grateful if the tax authority meets them for discussion on the convenient time of payment to avoid this kind of practice. They said that, this would bring harmony and would make them have a peace of mind to work well to build the economy. Pressed further on this issue, most traders suggested payment of fixed amount on weekly or monthly basis as other trade groups.

#### 4.4 ASSESSMENT OF TAX

**Table 4.4 Assessment of Tax Liability**

ITEM	NO. OF RESPONSES	PERCENTAGE OF REPOENDENTS	REMARKS
How do you arrive at the amount you pay?			They pay according to the tax officials' assessment for fear of being sanctioned
Through Negotiation	15	23%	
Imposed by I.R.S.	50	77%	

*Source: Research field, April 2009*

From Table 4.4 shown above, almost all the respondents with the exception of 23% stated that the tax inspectors determine what they pay as tax. They came out boldly that whatever figure the

tax inspectors gave them would be taken as final and unless one pleads before a revision is done downwards. As this is not enough, the assessment is also done arbitrary.

The traders said that the tax to be paid is determined by the stock size found in the shop at the time of their visit and they think that it is not the fair way of assessing tax.

The respondents said that the tax authority always revise the tax to be paid upwards and do not take into consideration the seasonal nature of their products.

They stated that whenever one complains about the increasing of tax liability then they compared it with what one paid the previous year forgetting the cyclical nature of the business. They complained that they do not know even how the tax is computed and the figures thereof were arrived at. Because of this, they considered the provisional assessment as too much.

On the contrary, the Internal Revenue staff Interviewed held a different opinion. The IRS staff said among other things that it is only those who do not keep proper books of accounts and records are given provisionary amount to be paid as tax. They further stated that even those who do not keep records they always negotiate with them for a compromise to be reached before they are allowed to pay but do not impose on them. The IRS staff however, admitted that it would be appropriate for them to keep proper books of accounts to avoid this kind of problem as this normally leads to either over payment or under payment of tax.



## 4.5 RECORDS KEEPING

Table 4.5 Records Keeping

ITEM	NO. OF RESPONSES	PERCENTAGE OF REpondENTS	REMARKS
Do you keep records of your activities?			Most of them do not keep records. The smaller portion who responded yes only keep rudimentary records
Yes	15	23%	
No	50	77%	
Do you maintain all necessary record books?			Not all proper records are kept
Yes	3	5%	
No	62	95%	

Source: Research field, April 2009

In Table 4.5 above, most of the respondents, precisely 95% have never put in place proper books of accounts to enable them keep track of transactions of their businesses activities. They explained that their businesses transactions are few and as such think that they can keep it in memory. Though some of the market women have notebooks and exercise books, which they keep some scanty records which an outsider and for that matter tax officials could not deduce any meaningful information from it.

Not with standing the above, it would interest you to know that the shopkeepers rather keep track of their business activities such as sales made, invoices containing the quantity of items purchased and their prices and those whose goods have been supplied to (debtors). However the



money taken from the business that is drawings are fused together with the actual expenses of the business. The respondents explained that this occurs, in that, they see their businesses and themselves as one and whether they make profits or losses they have to enjoy or bear it alone as the case may be.

In fact, the respondents who kept books of accounts were not the best but were an attempt in the right direction. Upon inspection of some of the records being kept, it could be said that some of the data could be relied upon as basis of preparing some accounts of their operations. The respondents however said that, they could not prepare accounts themselves at the end of the year but made their records available to the tax inspectors who drew their own conclusions from the records for tax purposes. The respondents however bemoaned their inability to prepare their own accounts and could not say with confidence as to whether they pay correct taxes.



## 4.6 COMPLIANCE WITH TAX LAW

**Table 4.6 Knowledge about Tax Law and its Compliance**

ITEM	NO. OF RESPONSES	PERCENTAGE OF RECONDENTS	REMARKS
Do you file Returns?			
Yes	4	6%	The respondents find it difficult to file returns due to many documents and inadequate records
No	61	94%	
Do you know something about Tax Relief?			
Yes	8	12%	Majority of them do not have any knowledge about tax relief
No	57	88%	

*Source: Research field, April 2009*

The data from Table 4.6 revealed that the knowledge and understanding of tax laws in the country concerning the respondents of tax are limited; hence, they find it difficult to file their returns. Most of the respondents have not heard about filing of returns and the smaller percentage who have small knowledge in filing of returns do not consider it as an obligation to do so. The respondents who have little knowledge in filling of returns stated that the processes involved in filling of returns are very cumbersome and time consuming.

Few respondents knew something about tax relief. This smaller proportion of the respondents however stated that they tried filling the returns in the past but never enjoyed any benefit for which they hoped. They mentioned that always so many documentary evidences are demanded

to support the relief one wants the tax authority to grant them. It came out that where one has knowledge about a relief; the particular documents to be provided and the cumbersome nature of the procedures scare them away from filing of the returns.

It was revealed that the respondents who voluntarily comply with tax laws were very few. They generally held a view that the tax authority had to come round to collect “their” money. It also came out that respondents could not substantiate the difference between tax and market toll as some always put it “we pay tax” to municipal assembly daily.

Overall, the respondents’ knowledge and compliance on tax laws in the country is very low. They therefore lamented that something should be done about it.

#### 4.7 KNOWLEDGE ABOUT USES OF TAX

**Table 4.7 Knowledge about the uses of Tax**

ITEM	NO. OF RESPONSES	PERCENTAGE OF REPDENDENTS	REMARKS
Why do you think it necessary to pay tax?			A small number of the respondents think that, it is used for nation building such as provision of infrastructural facilities whiles majority think that it is the duty of the government to provide these amenities
For national Development	20	31%	
Compulsory	45	69%	

*Source: Research field, April 2009*



As indicated by Table 4.7, 69% of the respondents said tax officials though explained to them that the taxes they pay go a long way for government to generate revenue for the development of the nation, they were however quick to add that they do not receive any direct benefit from the I.R.S. They said that even the little they pay to tax officials, they do not wholly believe that all is sent to the IRS.

Most of them said that, the tax officials said that they use the taxes collected for provision of amenities such as road construction, public toilet facilities and pipe-borne water yet anytime they use these facilities they are called to pay for it, and therefore do not know the kind of benefits the tax officials talk about. The respondents therefore held the view that, they should therefore come clear with exactly what the taxes are used for to serve as an encouragement. They even further stated that as it stands now they feel apathy to pay the tax but because of harassment and others, they pay it under duress as they think that they pay it to "some people". In fact, they strongly believe that there are some developmental projects going on in the country yet they are of the view that, it is the responsibility of the government to provide these amenities. Some said that the government has enough resources to provide these amenities. They said that in Ghana here, God has blessed the nation.

#### 4.8 ADMINISTRATIVE ISSUES

In the interviews granted to the internal revenue service staff, it came out that the service faces many problems in their work. The main among them was records keeping and filling. It was indicated that records are not kept and even where they are kept, they noted either they are kept poorly or falsified. They lamented that this kind of situation delays assessment of tax and at times the amount to be paid as tax are not accurate. The staff also mentioned inadequate



transportation, which normally frustrates their movements. This actually hampers their monitoring and educational campaigns. It was noticed that information flow is also a problem and as such, taxpayers do not get feedback on time to act on it.

It also became known that internal revenue service did not have adequate quantities of educational Brochures for public consumption. Furthermore, they complained about the staff strength. It was noted that since they were understaffed, they found it difficult covering the taxpayers' population.

They also complained about the attitudes of some of the taxpayers that normally generates into confrontations. The condition of the service is nothing to draw home about.

The staff stated that, apart from the salary, there are no other incentives, which can boost their morale. They believe that at least certain allowances could be granted to them, they said that the nature of their work is sometimes very risky. Some of the taxpayers at times hail insults on them calling them "names". They believe that if offices are opened near the market and where the taxpayers operate, they can easily go there and pay their taxes. They complained about some of the office equipments needed to facilitate their work such as computers to fast track their work. They said that though most of them are not conversant with the operations of computer however, training could be organized for them to build their capacity so that they would be able to be abreast with this computer age. They also believe that, motor cycles, bicycles could be provided to them to aid their movements. They also mentioned the need to provide them with raincoats to cover them up when it rains. They said that they would be grateful if in-service training would be organized for them to enhance their work. They complained that, sometimes, the senior officers do not seek the welfare of the junior staff. This is hampering the teamwork and harmonious co-

existence. They explained that, the work would go on smoothly if both junior and senior staff sees themselves as one people in the same boat.

Overall, the findings revealed the following problems, which militate against the assessment of sole proprietorship tax liability.

- a. Smuggle of goods into the country
- b. Lack of knowledge about tax since VAT, CEPS and IRS do not carry out the needed tax education to this category of tax payers, e.g. five percent (5%) withholding tax
- c. Some businesses are not registered and therefore do not have tax identification numbers that facilitates easy tracking and collection of taxes
- d. Some businesses do not have specific location so their documents are in their portfolios and move from one person to another to tell them about the existence of their businesses. This makes tax assessment impossible.
- e. The small-scale sole proprietors do not keep proper books of account, which would serve as a source document upon which tax assessment would be based.
- f. The small-scale sole proprietors do not understand how the tax system operates and at times feel empathy to pay, as they do not receive any direct benefit from their contribution by paying of tax.
- g. Most of the taxpayers assumed the interim tax paid to be the total tax to be paid for the whole period under consideration
- h. Only few people who are recognized pay their tax obligation hence hindering the government's ability to generate adequate revenue to meet its numerous developmental activities.

- i. There is likelihood that the taxpayers and the collectors of tax may condone and as such maximum revenue may not be realized.

Upon these findings that recommendations would be made to improve the tax system.

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## CHAPTER FIVE

### SUMMARY, RECOMMENDATIONS AND CONCLUSION

#### 5.0 Introduction

The findings and analysis made from the study under discussion, the following conclusions and recommendations could be resorted to for the correcting of some of the problems revealed by the study as presented in this chapter. It must be emphasized that, these suggestions are not the conclusive antidotes to the problems raised in this study; however, they are additions to complement other studies made on this subject.

#### 5.1 SUMMARY

The findings from the study on the tax assessment of sole proprietorship of small portion of the population under consideration were investigated through the administration of questionnaire, observation and interview of some personnel from the Internal Revenue Service. The findings are summarized as below:

##### 5.1.1 Low level of Education

The basic problem which came clear during the study is low level of education of many of the respondents, that is, sole proprietors in the Sunyani municipality. The outcome of this problem is that most of the sole proprietors could not understand how the tax system works. Such low level understanding of tax processes do not encourage them to voluntarily comply with tax laws.

It could be said that low level of education correlates with record keeping activities and filling of returns.



As matter of fact, aside these low levels of education, respondents therefore have knowledge of the importance of tax for nation building.

### **5.1.2 The Tax Net**

The study revealed that the tax net is not widened; only few people who are recognized pay their tax obligation hence hindering the government's ability to generate adequate revenue to meet its numerous developmental projects.

### **5.1.3 Records Keeping**

Since most of them have low level of education, it also leads to problem of not keeping proper records as envisaged by the analysis. It could therefore be said that, the absence of culture of keeping records among the small scale proprietors is closely linked with the low level of education. The study has revealed that, the records which are kept by most of them are not reliable and that makes it difficult to correctly determine an individual's tax liability.

The result is that, the tax officials devise any available method which they think fit at that particular moment for the assessment of the tax. This, which is purely guesswork invariably, leads to overcharge or undercharge of tax liabilities. Due to discretionally power welded by the tax officials it always leads to connivance with the tax payers and corrupt tax officials. With keen observation, it came out that quite a number of traders keep rudimentary records which can serve as a basis of the habit of keeping records.

The study also revealed that, the small scale entrepreneurs find it very difficult to access credit facilities hence hampering the expansion of their businesses. This makes it difficult for them to hire experts to help them in tax computation.

#### **5.1.4 Convenience**

An important canon of tax which creates room for compliance is convenience. From the study, it was found that most of the respondents were not satisfied with the time they make payments of their tax. Most of the small scale enterprises visited explained that, the commercial activities follow a seasonal pattern. They admitted that, festive occasions are normally exhibits boom of their activities and the contrary holds, when such periods lapses and for that matter, commercial activities slack in such periods which are not in festive mood.

#### **5.1.5 Administrative Issues**

Furthermore it came out that the sole proprietors find it difficult to determine what they should pay as tax. These were attributed to some challenges of the IRS operations of attracting staff for managerial or senior positions. This was particularly very acute due to poor remuneration and working conditions, people with special or requisite skills feel reluctant to accept that kind of offer. The study showed that some businesses are not registered and therefore do not have tax identification numbers that facilitates easy tracking and collection of taxes. Aside this, some businesses do not have specific location so their documents are in their portfolios and move from one person to another to tell them about the existence of their business. There is inadequacy of the needed logistics which hampers the smooth work of the service. For instance, scientific calculators, motor vehicles, stationery and current model of computers have to be in place. It would amuse you to know that some of the long service staff find it difficult to operate the computer and are still using the type writer which does not allow faster and efficiency of work.

A major problem revealed by the survey and which does not make the tax authorities to collect maximum taxes is identification of tax payers.

This is very difficult to do as addresses given by these people do not show the exact location of the shops. The end result is that only few who are easily identified are always bombarded and harassed for payment of tax. Some of the traders even continue to shift their shops from one market to another.

#### **5.1.6 Tax Assessment**

Most of the sole proprietors think that they are paying more than what they are supposed to pay. This they say was due to the arbitrariness of tax assessment. The study revealed that the claim of IRS that they “negotiate” with tax payers for tax assessment is rejected by tax payers. It is therefore good for both of the tax payers and tax authorities to deepen the method of negotiation and mutual trust. Much as assessment is made based on guesswork and negotiations coupled with inadequate proper records, misunderstandings are bound to occur. It is envisaged that the arrangement that the officers who double as assessors and collectors is bound to result in corrupt practices.

#### **5.1.7 Knowledge about uses of Tax**

Another contributory factor with the assessment of small-scale businessmen is adequate knowledge about tax laws. It must be stated that knowledge is acquired through education and



because on the whole sole-proprietors have low level of education, it also presupposes that knowledge of tax laws by these sole proprietors is also very low.

### **5.1.8 Compliance of Tax Laws**

Generally, compliance of tax law is very low especially, voluntary compliance. The study revealed that currently, the number of documentary proofs needed to qualify people for reliefs actually disqualify them. It must be stated that these reliefs such as incentives can draw people to file their returns.

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## **5.2 RECOMMENDATION**

### **5.2.1 Low level of Education**

The problem of education could be tackled if keen consideration is given to it in tax system development. This therefore leads to tax system that is smooth by eliminating most of the technicalities, a system that is easy to understand and not complex for those with low level of education to comply. Easy to understand the laws which do not call for lawyers' explanations and interpretations since most of the sole proprietors could be considered as functional illiterates. The laws could be reduced to everyday English for their understanding to be easily assimilated.

There should be pamphlets or brochures which spell out clearly the step by step approach to complying with tax laws. This document should be available to all and sundry. It must be noted that the brochures should be in simple language terms. Furthermore, filing of returns should be designed to suit or match the level of education of each category of tax payer. The current filing of returns which is difficult for them to understand should be directed towards big business



organizations which have the ability to hire experts to do it for them. A tax form which could be filled by any person with basic level of education should be designed for small scale entrepreneurs to ease tax assessment. By this any market woman can call her J.H.S student to complete the form for her which would be easily done.

Due to their low level of education which made them suspect the tax officials of corruption, it would be suggested that the tax officials should take their time in explaining all the issues surrounding each tax they collect from the market woman. The tax officials should explain every bit of how the tax is assessed to the small scale sole proprietors to disabuse their mind from the notion they held that their counterparts with the same wares are charged less due to family affiliation or other relations.

If this suggestion is taken with keen interest, the confrontations which normally ensued between the tax payers and tax officials would be alienated for them to work peacefully.

Education plays a vital role in the life of everybody, it is therefore of paramount interest that, a way should be found out to educate all and sundry. The understanding of how tax system works by the tax payers would eliminate if not all, most of the problems and mistrust that always ensued between them. The Internal Revenue Service administration should make every effort to increase the tax revenue from the informal sector. In view of this, innovative strategies have to be developed. There should be a database for tax mobilization from this group of tax payers. This database would identify all the tax payers, the kind of business they transact and by so doing; many people would be captured in the tax net.

There should be sub structures of these tax payers to form groups according to their work and contribute the tax they are suppose to pay like the “susu” savings which they are used to. The service should increase supervision of tax inspectors and collectors so that some of them may not condone and connive with the tax payers and as such some of the monies may not find their way into the national kitty.

In addition to this, there should be an improvement of accounting practices and internal auditing to reduce leakages in tax collection. The tax payers must also be aware that they are not the only people who pay tax, but the tax officers and all those in tax management also honour their tax obligation.

Revenue mobilization has become crucial in this current situation of economic downturn all over the world. The Internal Revenue Service should therefore institute measures to make the evasion of tax unattractive and corrupt tax officials should be dealt with drastically. In doing this, incentives should be given to the tax officials. For instance, a bonus scheme could be instituted, that is, if a tax official exceeds his targets, the exceeded amount calculated as a percentage could be given to that official as a bonus. This would go a long way to encourage them to put up with their best. The same could be applied to tax payers. That is, those tax payers who pay their tax promptly and timely should also be rewarded.

As a matter of fact, it is not only the small portion in the urban centre alone that should pay tax but all citizens should also contribute their quota. The people could form groups and standard amount agreed with them should be paid when the amount is fixed depending upon their ability, each of them would contribute into the group’s account and when the time of payment is due, the

leader would then pay to the Internal Revenue Service. In taxing them, the benefits to be derived from paying of such taxes should be explained to them in order not to feel apathy in payment of such taxes.

### **5.2.2 Records Keeping**

With regards to the problem of records keeping, it is recommended that tax authorities together with other experts can group the sole proprietors according to their level of education and introduce them to basic book keeping records. A very simpler records book could be designed for the traders to which their business transactions would be tracked. In this book, sales made, purchases, expenses and drawings would be recorded which would aid tax officials in assessment of tax liabilities for individuals since the officers could read meaning from what is in the book since it was designed by them. It would be suggested that such records book should be given to all the sole proprietors if possible free of charge to ensure that all and sundry has one of such books.

It would be of great importance to know that tax authority (IRS) could also collaborate with the Non Formal Educational Division (NFED) to teach basic book keeping during their classes. This appears to be an economic dimension to record-keeping. Invariably, the small size it may be of these enterprises is the reason why they cannot afford the services of accountants. In view of this, many micro financing avenues should be opened to small-scale entrepreneurs for them to access credit facilities to expand their business for them to grow in order to afford the services of accountants and tax experts. The tax officers could also take it upon themselves and discuss it



with the tax payers and ensure that their books are updated to avert this problem of over estimation or under estimation and confrontations.

### 5.2.3 Convenience

With this as basis, it would be of paramount interest to the tax payers if structures could be put in place so that collection of taxes due coincides with the festive occasions when their commercial transactions are very brisk so that they can pay with convenience. At such times, funds would be readily available to pay the taxes they are expected to pay. Various occupational groups should be involved in tax collection to rapidly accelerate the improvement in tax payment by the members of these groups.

This kind of arrangement which involves paying of taxes on daily or weekly basis could be extended to other trade groups. At a start, these traders have to be identified and grouped so that it would be easy to deal with. Once most of the small-scale entrepreneurs are already used to the “susu” system of savings whereby they part with small amounts on daily basis, and they find it convenient, the same principle of parting with small convenient sums of money would be welcomed by the traders.

This system uses the same principle of paying daily or weekly income tax except that this is not savings.

In sum, most of the respondents affirm this type of tax payment as indicated by the responses given. It would be of much convenience if locking up of shops and seizure of wares are stopped and be used as the last resort to only the recalcitrant defaulters.



Currently, these actions which are applied arbitrarily have gone a long way to antagonize the IRS staff and most traders. At times, it generates into commotion, chaos, and anarchy. As matter of fact, the catch words should be co-operation, mutual trust, and friendliness. It is however noteworthy that convenience to the tax payer does not imply allowing them to pay up when one wants or chooses but as much as possible, a common ground of convenience should be found for the collector and the tax payer. The tax payers must be made aware that, the tax collectors are not collecting the money and “pocket” it and as such each of them, that is, the collector and the payer must play their part very well like a football team in order to score the goal which is the development we want in the country.

There should be a series of discussions to find the time which would be beneficial to both of them.

Furthermore, the canon of certainty has a role to play here. The tax payer should know of certainty how much he/ she would pay; this would give him the opportunity to work towards gathering of such needed funds to pay the tax. There should be an ample time between the time of assessment and the time of payment. This is the very reason why the daily or weekly payment is the most convenient as tax payers know what they are to pay daily or weekly in advance.

#### **5.2.4 Administrative Issues**

It is therefore of great importance for the authority to try as much as possible to put up an enviable kind of package to serve as incentive to attract a cream of personnel with the requisite skills. In the face of this, recruitment and training procedures of personnel of the IRS should be

strengthened. There should be proper programs to provide the tax officials themselves a better understanding of their organization and the relations and requirements of their individual jobs.

It is therefore imperative and behooves on the power that may provide these basic tools and equipments to enable the staff perform to its fullest capabilities. The convenient or prominent location of the office of the Internal Revenue office in the municipality is also of paramount interest. The offices should be located at prominent places so that any one with any explanation can easily locate it and lodge his/her complains for amicable solution. Many offices of IRS could also be opened like that of Volta River Authority (VRA) revenue sales point so that the sole proprietors can easily walk in and make good of their tax liabilities.

This would be in a walking distance and would urge and serve as motivation for tax payers to pay as soon as they have funds.

It would therefore do the country good if a method is devised to identify such tax payers no matter where they go in the country when this is done majority of the tax payers in this category would be covered for much revenue to be generated for the development of the country. A master file could be created by developing a software which would capture each tax payer's address all the necessary information needed for easy tracing of the tax payers. A unique identification number could then be given to each tax payer for easy identification. It must however call for an institution of an effective management information system. The tax authority should also institute bonuses and other incentives to boost the morale of IRS staff that goes round to collect taxes. Awards such as end of year party and recognition of services of all the staff.

### 5.2.5 Tax Assessment

It would be of great importance if the tax payers' inputs are considered in assessment of tax, that is, it should be transparent to both the tax payee and the tax authority.

It is therefore imperative to establish a complain unit or desk to iron out differences should disagreement occur. The tax laws in Ghana give room for the establishment of staff tribunals which are not thriving well. Even if these tribunals are functioning well, it would be faced with much legality. It would be therefore appropriate to establish a simple system whereby for example, once a week, a senior officer of IRS conducts "appraisal sessions" right in the market place or locality of the traders. At such appraisals, sessions and independent review of any disagreement that might have arisen would be discussed and iron out the differences. There is therefore the need for the creation of separation of powers and functions. The officers who are assessors should not be doubled as collectors. When this is done, the person who comes round to collect taxes would not have control over how much is to be paid. It could be admitted that collusion can erase the good intentions of this proposal.

### 5.2.6 Knowledge about uses of Tax

The challenge of knowledge about uses of tax could be surmounted through intensive public education campaigns. Public education must not only involve exhortations to pay taxes but must involve getting people to know how to go about paying their taxes. People should be taught about tax laws and the nitty-gritty on tax laws. The mass media especially television, cinema fairs is very suitable for such educational programs.

Interesting and educative dramatised series on complying with tax laws can be sponsored by the IRS.



People would therefore be entertained and therefore by so doing would understand the tax system. The sole proprietor should therefore be aware of the consequences in case they fail to honour their taxes; this would go a long way to serve as a deterrent to other sole proprietors who may make their mind not to comply with the tax laws. This is so, for ignorance of the law is no excuse and as such must be conversant with the tax laws.

Tax education should not only be informal, tax as a subject must be introduced in the curriculum of Junior and Secondary level of education so that citizens may understand it from their early stages of life, so that they may understand how tax help the economy and why citizens and for that matter, sole proprietors should honour their tax obligation.

This is also a subject that every body would be called upon to apply it one way or the other in ones life as tax payer. It must be emphasized that, children of today would be tax payers in tomorrow. It is therefore important to help the young to be abreast with taxation laws whilst in school to gain much knowledge in a tax system in a country.

Another major result of such a programme would be availability of scores of school children who can readily assist their parents file their returns and thus make the work of the IRS easier.

#### **5.2.7 Compliance of Tax Laws**

Simplification of processes is of paramount interest in enhancing tax laws compliance. A two or three steps procedure would be much easier understood and complied with than a ten-step procedure.

It would be appropriate for the level of complexity of the system to be in line with the level of education of the target group. Another issue worth of mention is how people would enjoy the relief when returns are filed and one also qualifies. This would boost their morale to file their



returns regularly. It is therefore of great importance that, a less demanding mechanism that suits our not-too-literate society must be put in place so that people can easily enjoy the reliefs.

It must be concluded that, the issues that goes with the assessment of tax with respect to sole-proprietorship are many. Whilst some of the issues came about from the side of the entrepreneurs, the tax laws and the operations of the Internal Revenue Service.

In making suggestions as to how these problems or issues could be solved, efforts were made to draw in all the major players.

This study shows that, much of the revenue is lost due to the aforementioned issues discussed. This should be of concern to all those who have the development of the nation at heart. It is a fact that the nation cannot sit down for the largest group of identifiable tax payers that is the small-scale sole proprietors to go scot free but to contribute their quota in paying of taxes.

It must be stated that if the tax net is widened to cover as much as possible all these people it would result in much greater revenue for national development.

### 5.3 CONCLUSION

There is no doubt that the sole proprietorship sector in Ghana arguably formed the larger portion of the tax payers in the informal sector. However, in assessing of their tax liabilities, numerous problems are encountered making it very difficult to assess correctly the tax due. This shows clearly that, much tax revenue is lost every year as a result of these problems identified in the study. It must be stated that, since the study covered only sixty-five (65) small scale sole proprietors in the Sunyani municipality, it cannot be generalized for all the sole proprietors in the country. It must be emphasized that the various recommendations given in the study can not solve all the problems but to some extent reduce the problems.

It therefore calls for other experts, students, researchers to go into this area of operation to come out with antidotes to the existing problems in this sector for revenue generation for the government.

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## APPENDIX A: QUESTIONNAIRE USED FOR THE STUDY

### KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

This questionnaire is designed to collect data on the topic: Tax Assessment of sole proprietorship, a case study of the Sunyani Municipality.

This study is only for academic work and no part of the data given would be used for private gains. Please give appropriate responses to the following questions

- 1) Date .....
- 2) Location of business.....
- 3) Type of business.....
- 4) What is your educational background?  
☐ Primary ☐ Middle/Junior ☐ Second Cycle ☐ Tertiary
- 5) How long have you been in business?.....
- 6) Do you pay Tax? ☐ Yes ☐ No
- 7) If yes, when did you start paying tax?.....
- 8) On what basis do you pay tax?  
☐ Randomly ☐ Daily ☐ Weekly ☐ Monthly ☐ Yearly
- 9) Is the timing of payment convenient to you? ☐ Yes ☐ No
- 10) If no, on what basis would you like to pay?.....
- 11) How do you arrive at the amount to pay?  
☐ Negotiable ☐ Imposed by I.R.S
- 12) Are you satisfied with the amount you pay? ☐ Yes ☐ No
- 13) If no, how much do you want to pay?.....
- 14) Where do you pay your tax?  
☐ Municipal Assembly ☐ Internal Revenue Service ☐ Both

15) Why do you think it is necessary to pay tax?

.....  
.....  
.....

16) Do you pay any other levies apart from taxes    ☐ Yes    ☐ No

17) Do you see these levies as different from the taxes paid to the Internal Revenue Service?

☐ Yes        ☐ No

18) Do you keep records of your activities?    ☐ Yes    ☐ No

19) Do you maintain all necessary books?    ☐ Yes    ☐ No

20) Do you file tax returns?    ☐ Yes    ☐ No

21) If yes, do you do it regularly?    ☐ Yes    ☐ No

22) Do you know something about tax reliefs?    ☐ Yes    ☐ No

23) If yes, have you ever enjoyed any tax relief?    ☐ Yes    ☐ No

24) On what basis were you granted the tax relief?

.....  
.....

25) What is your average daily sale?.....

26) Do you deduct tax from employees' salaries?    ☐ Yes    ☐ No

27) If yes, do you pay it to the Internal Revenue Service at the beginning of every    ☐

Month ☐ Quarterly ☐ Yearly